**St. Augustine Gold and Copper Limited**

# Management's Discussion and Analysis

Year ended December 31, 2012
Expressed in U.S. dollars

Dated as of March 22, 2013

## Table of Contents

Introduction ... 2
Forward-looking information ... 2
Overview ... 2
  Background ... 2
  Financial condition ... 3
  Qualified person ... 3
  Project ... 4
  Market trends ... 6
Current highlights ... 6
Results of operations ... 7
Selected annual information ... 7
  Investment in mining property ... 8
Selected quarterly information ... 8
  Historical trends and changes in quarterly results ... 8
  Three months ended December 31, 2012 and 2011 ... 9
Capital resources and liquidity ... 9
Contractual obligations ... 10
  NADECOR Memorandum of Understanding ... 10
Transactions with related parties ... 11
  Legal services ... 11
  Officers and directors ... 11
  Rental agreements ... 11
Off balance sheet arrangements ... 11
Financial instruments and other instruments ... 11
Other MD&A requirements ... 12
  Outstanding share data ... 12
  Risks and uncertainties ... 12
Critical accounting policies and estimates ... 16
  Statement of compliance ... 16
  Investment in mining property ... 17
  Impairment of non-financial assets ... 17
  Significant accounting estimates, judgments and assumptions ... 18
General business commentary, outlook and accomplishments ... 18

*The following discussion and analysis should be read in conjunction with the Technical Report dated October 12, 2010, entitled "King-king Copper-Gold Project, Mindanao, Philippines" (the "Technical Report"), Annual Information Form for the year ended December 31, 2012, the audited consolidated financial statements of St. Augustine Gold and Copper Limited (the "Company") for the years ended December 31, 2012 and 2011, and all of the notes, risk factors and information contained therein. These are all available at www.sedar.com.*

## Introduction

This Management's Discussion and Analysis ("MD&A") is dated March 22, 2013, and is in respect of the year ended December 31, 2012. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars. References to "CDN$" mean Canadian dollars.

The following section contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from those described in forward-looking statements as a result of various factors, including those described under "Forward-Looking Information."

## Forward-looking information

Certain statements contained in this MD&A constitute forward-looking statements within the meaning of applicable securities laws including, among others, statements made or implied relating to the Company's objectives, strategies to achieve those objectives, management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by words such as "objective", "may", "will", "expect", "likely", "intend", "estimate", "anticipate", "believe", "should", "plans" or similar expressions suggesting future outcomes or events. Such forward-looking statements are not guarantees of future performance and reflect management's current beliefs based on information currently available. Such statements involve estimates and assumptions that are subject to a number of known and unknown risks, uncertainties and other factors inherent in the business of the Company and the risk factors described in the Company's 2012 Annual Information Form dated March 22, 2013, and other materials filed with the securities regulatory authorities from time to time which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Those risks and uncertainties include, but are not limited to: the mining industry (including operational risks; risks in exploration, and development; the uncertainties involved in the discovery and delineation of mineral deposits, resources or reserves; and the uncertainty of mineral resource and mineral reserve estimates); the risk of gold, copper and other commodity price and foreign exchange rate fluctuations; the ability of the Company to fund the capital and operating expenses necessary to achieve the business objective of the Company; the uncertainty associated with commercial negotiations and negotiating with foreign governments; the risks associated with international business activities, including nationalism efforts by governments of developing countries; the risks associated in dealing with a joint venture partner; risks related to the Company's operations in the Philippines; environmental risk; the dependence on key directors and officers; and the ability to access capital markets.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks set forth above. Except as required by law, the Company assumes no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of future events or circumstances.

## Overview

### Background

St. Augustine Gold and Copper Limited ("SAGC" or "the Company") was incorporated as Ratel Gold Limited ("Ratel") in the British Virgin Islands on October 18, 2010. Upon completion of the acquisition of St. Augustine Mining Inc. ("SAMI") and its subsidiary St. Augustine Mining Limited ("SAML") by Ratel in January 2011, Ratel changed its name to St. Augustine Gold and Copper Limited.

The Company is engaged in the business of mineral property exploration; currently, its only activity is the exploration and development of the King-king copper-gold property ("King-king" or the "Project") in the Philippines.

The Company is in the process of earning up to a 60% interest in the Project from Nationwide Development Corporation ("NADECOR").

The Company's operating subsidiaries were formed for the purpose of advancing the Project, one of the largest undeveloped copper-gold projects in the world. The Company's objective is to bring the Project into commercial production in a timely and cost effective fashion. Management believes that due to past and expected strength in the markets for gold and copper, the Project represents an opportunity to generate a superior return on investment for the Company's shareholders.

### Financial condition

The Company had working capital at December 31, 2012, of approximately $6,100,000. Approximately $4,600,000, net of issue costs, was raised through a private equity placement during the year ended December 31, 2012, (2011 - $72,000,000); in January 2013, approximately $1,000,000 was raised through a warrant exercise. Management has strategically limited cash outlay during the year toward activity that advanced an Environmental Impact Statement ("EIS"), a Declaration of Mining Project Feasibility ("DMPF"), a Pre-feasibility Study ("PFS") and a Bankable Feasibility Study ("BFS").

Cash on hand at December 31, 2012 ($7,100,000) is expected to be sufficient for the Company to complete and publish, at a minimum, a PFS. Cash management and additional fundraising over the next several months is an important factor affecting management's ability to complete the BFS, build and ultimately put the Project into production.

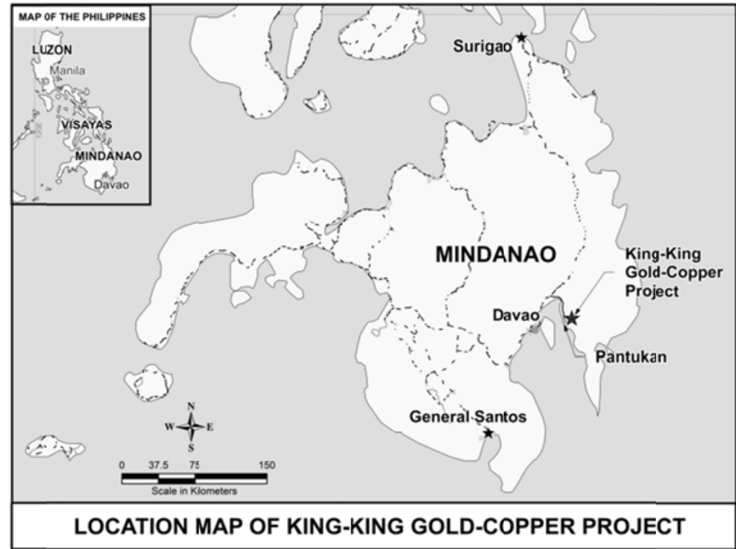
The Company has no long-term debt or other restrictive covenants with respect to its liabilities. Agreements with vendors are typically arranged as short-term cancellable contracts, such that management is able to respond quickly to new developments and opportunities; approximately two years remain on its non-cancellable office lease, with remaining payments totaling approximately $350,000.

### Qualified person

Disclosure of a scientific or technical nature in this MD&A with respect to the Project was prepared by, or under the supervision of James Moore, P.E., the Company's Vice President, Technical. Mr. Moore is a "qualified person" for the purposes of National Instrument 43-101 of the Canadian Administrators ("NI 43-101").

**Project**

The King-king property is centered at approximate geographical coordinates 7°11'31"N Latitude and 125°58'40"E Longitude on the Philippine Island of Mindanao. The project site is located at Sitio Gumayan, Barangay King-king, Municipality of Pantukan, Province of Compostela Valley, in Mindanao.



LOCATION MAP OF KING-KING GOLD-COPPER PROJECT

The King-king property is one of the largest undeveloped copper-gold deposits in the world, with a measured and indicated equivalent copper-gold resource of 962.3 million tonnes at 0.254% copper and 0.334 gram per tonne gold (containing 5.4 billion pounds of copper and 10.3 million troy ounces of gold). On an equivalent gold basis this equates to 0.660 grams gold per tonne of ore containing 20.4 million troy ounces of equivalent gold. There is additionally an inferred resource of 188.8 million tonnes at 0.215% copper and 0.265 grams gold per tonne of ore. The equivalent troy ounces of gold in this resource are 3.6 million.

Equivalent g/t gold (Eq Au) levels are used to illustrate the combined effect of copper and gold in the Project in one metal. The following calculations were applied to calculate the Eq Au in the oxide and sulfide resource:

Eq Au (Oxide) = Gold + 0.714 x Total Copper

Eq Au (Sulfide) = Gold + 1.458 x Total Copper

These equations were derived from the parameters listed in the table below that was developed by Independent Mining Consultants ("IMC") during the update of the King-king mineral resource in August 2011.

**Economic parameters for King-king**

| Parameter | Units | Oxide Mill | Sulfide Mill |
|---|---|---|---|
| Copper price per pound | (US$) | 2.50 | 2.50 |
| Gold price per troy ounce | (US$) | 1,100 | 1,100 |
| Base mining cost per tonne material | (US$) | 1.250 | 1.250 |
| Mine replacement capital per tonne | (US$) | 0.100 | 0.100 |
| Cost per tonne processed | (US$) | 5.000 | 5.000 |
| General and administrative cost per tonne processed | (US$) | 0.270 | 0.270 |
| Process recovery of copper (average) | (%) | 37.8% | 77.2% |
| Process recovery of gold (average) | (%) | 75.0% | 75.0% |
| Smelting/refining payable for copper | (%) | 96.4% | 96.4% |
| Smelting/refining payable for gold | (%) | 95.0% | 95.0% |
| SRF (or SXEW) cost per pound copper (i) | (US$) | 0.260 | 0.260 |
| Gross royalty (ii) | (%) | 3.0% | 3.0% |
| NSR factor for total copper (iii) | (US$) | 17.4550 | 35.6490 |
| NSR factor for gold | (US$) | 24.4430 | 24.4430 |
| Gold factor for copper equivalent | (none) | 1.4 | 0.7 |
| Total copper equivalent cutoff grades | | | |
| Breakeven (without lift) | (%Cu) | 0.38 | 0.19 |
| Internal | (%Cu) | 0.30 | 0.15 |
| Copper factor for gold equivalent | (none) | 0.714 | 1.458 |
| Gold equivalent cutoff grades | | | |
| Breakeven (without lift) | (g/t) | 0.27 | 0.27 |
| Internal | (g/t) | 0.22 | 0.22 |

i) SRF represents smelting, refining and freight; SXEW represents solvent extraction-electrowinning
ii) The project will be required to pay a 2% Philippine excise tax and a minimum 1% royalty to the Indigenous People affected by the project
iii) NSR represents net smelter return

<u>History and current developments of the King-king property</u>

The King-king tenement comprises 184 mining claims that are owned by NADECOR under Mineral Production Sharing Agreement #009-92-XI (the "MPSA"), which was approved by the Government of the Philippines on May 27, 1992, and amended December 11, 2002. The MPSA grants NADECOR the exclusive right to explore, develop and exploit minerals within the area comprising the King-king deposit. The King-king mineral anomaly was originally discovered in 1966.

In April 2010, NADECOR, Russell Mining and Minerals, ULC, ("RMMU"; formerly Russell Mining and Minerals Inc. "RMMI"), the Company and shareholders of NADECOR entered into a Memorandum of Understanding, which was subsequently amended, ("MOU," inclusive of amendments) to develop the King-king property. The MOU addresses the formation of a joint venture to develop the King-king property.

The MOU gives the Company the exclusive option to earn-in up to an aggregate 60% equity interest in the Project through either direct or indirect equity interests in the joint venture corporation and/or the companies in the joint venture structure. The earn-in by the Company is based on funding and preparing a BFS with respect to the development of the King-king property, a disproportional contribution to fund any development capital expenditure and direct payments to NADECOR. The commitment to fund the completion of a BFS for the King-king property is $43,500,000. Direct payments to NADECOR and capital expenditures ("CapEx") will bring the Company's expenditures to a minimum aggregate amount of $83,000,000 in order to earn-in the full 60% interest. Details of the earn-in schedule are described under the section "Contractual obligations" in this MD&A.

During 2010 and 2011, the Company settled with other parties which held an interest in the Project, such that only the Company and NADECOR have rights to develop and place the Project into production. In particular, Benguet Corp. relinquished its rights to the Project following a 2011 settlement with the Company.

In October 2012, the Company formed a strategic alliance with Queensberry Mining and Development Corp. ("Queensberry"), a Philippine controlled company. Queensberry's investment in the Company provides operating capital, a prominent local presence in the Philippines, and brings congruency to major stakeholders' incentives to move the Project into construction and production.

**Market trends**

Copper prices increased significantly between late 2003 and mid-2008, and after a steep decline in late 2008 and early 2009, have been generally increasing since that time.

Although the gold price has dropped from time to time, over the past five years the average annual price has steadily increased. This upward trend accelerated in 2009 during the period of global economic uncertainty that began in mid-2008.

Average annual prices as well as the 2013 average price through the date of this document, for copper and gold are summarized in the table below:

**Average annual market prices (US$)**

| Year | Copper (lb) | Gold (oz) |
|---|---|---|
| 2008 | 3.11 | 880 |
| 2009 | 2.41 | 981 |
| 2010 | 3.45 | 1,233 |
| 2011 | 4.02 | 1,568 |
| 2012 | 3.63 | 1,681 |
| 2013* | 3.70 | 1,665 |

*Source: Monthly spot prices per London PM Fix – Kitco (Gold) and London Metal Exchange (Copper) and indexmundi.com.*

** Most current data available through the date of this MD&A.*

## Current highlights

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 MPSA.

A draft Environmental Impact Statement ("EIS") developed in accordance with the Philippine national requirements was submitted for comments to the Department of Environment and Natural Resources in the second quarter of 2012.

In March 2012, the Company announced receipt of historical records obtained from Benguet Corp. of exploration programs demonstrating significant copper and gold drill intercepts in three exploration areas of the Project. The information included favorable items which support additional exploration at the Project site.

In May 2012, the Company announced completion and submittal of the Declaration of Mine Project Feasibility (DMPF) by NADECOR and the Company. The DMPF is a regulatory requirement that includes a combination of plans, certifications and other documents required to obtain approval from the Philippine government to develop King-king. This submittal began the process of permitting of the Project.

In June 2012, a Memorandum of Agreement between the Company and the Technical Educational and Skills Development Authority of the Philippines was executed. The agreement will facilitate the training and preparation of the local workforce for mine operations, and represents a commitment to benefitting the local community through future Project operations.

In October 2012, the Company announced the release of 75 million shares to RMMU in accordance with the Company's recapitalization agreements effected January 7, 2011. 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."

Also in October, 2012, the Company announced the formation of a strategic partnership with Queensberry through a private placement of equity and option agreements to acquire secondary shares. The private placement, which closed October 16, 2012, consisted of the issuance of 25 million units ("Units") at a price of $0.19 per Unit. Each Unit is comprised of one common share and .3 of one common share purchase warrant for a total of 7.5 million warrants; one whole warrant is exercisable at a price of $0.2563 for one year. Additionally, Queensberry may acquire 4.65 million shares prior to July 15, 2013, at $0.75 per share, a portion of which were subsequently exercised, as discussed below. Queensberry could acquire up to 37,150,000 shares in total under the agreement. In addition, Queensberry's President and CEO, Manuel Paolo A. Villar, succeeded Andrew Russell as a Director of the Company. Additional details are set out in the material change report dated October 10, 2012, which describes the transaction with the Company and RMMU. Under the transactions with SAGC and RMMU, Queensberry currently has the ability to acquire approximately 22% of the Company on a fully diluted basis.

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

In January 2013, the Company issued 3,750,000 shares to Queensberry from a warrant exercise for proceeds of $961,125.

## Results of operations

The selected financial information below has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee and are expressed in U.S. dollars unless otherwise noted.

The Company's operations and business are not driven by seasonal trends, but by efforts to achieve project milestones such as the achievement of various technical, environmental, socio-economic and legal objectives, including obtaining the necessary permits, completion of a PFS, a BFS and preparation of engineering designs, as well as receipt of financings to fund these objectives along with future mine construction.

Management limited expenditures during 2012 in order to concentrate on critical objectives.

## Selected annual information

| | December 31, | |
|---|---|---|
| **Annual result** | **2012** | **2011** |
| Net loss | $ 5,353,223 | $ 7,179,346 |
| Net loss per common share (i) | 0.02 | 0.02 |
| Total assets | 92,364,203 | 92,497,092 |
| Total non-current liabilities | - | - |

*(i) Basic and diluted loss per share were equal for both annual periods presented.*

*Net loss and operating expenses*

The primary components of operating expenses for both years were share-based compensation expense and cash wages, stock listing and transfer fees, and general and administrative expense. The decrease in operating expenses and net loss from the comparative period in 2011 is attributable primarily to decreased share-based payments expense as fewer grants were made in 2012, coupled with less expense associated with the grants,

primarily driven by the Company's lower share price. The decrease in 2012 operating expenses was also affected by having fewer employees during the last six months of 2012, and management's cash conservation strategy, which limited expenditures unrelated to feasibility work.

General and administrative costs increased from approximately $1,100,000 in 2011 to approximately $1,900,000 in 2012 due to increases in professional fees, fundraising and promotional expenses. Professional fee increases resulted from increased legal and administrative costs for strategic corporate planning, tax compliance and consulting after the first year of operations, and foreign regulatory maintenance. In addition, director fees increased due to the appointment of new board members and increased strategic planning.

### Investment in mining property

The Investment in mining property increased by approximately $16,700,000 from December 31, 2011 to December 31, 2012, which includes both cash expenses and non-cash items. The following table summarizes the primary components of additions to the investment in mining property and comparable amounts:

**Primary components of expenditures capitalized to investment in mining property**

| | Year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| General and administrative | $ 4,530,000 | $ 5,230,000 |
| Engineering | 4,500,000 | 5,100,000 |
| Benguet Settlement | - | 16,250,000 |
| Permitting and site costs | 7,670,000 | 19,320,000 |
| Total | $ 16,700,000 | $ 45,900,000 |

Management focused efforts on feasibility and technical studies during the year ended December 31, 2012; during 2011 efforts were more broadly focused on total project development, which included diamond core drilling, higher site maintenance, security, payments to NADECOR, and a final settlement of the Benguet rights.

Benguet settlement costs during 2011 included the costs of causing Benguet to release its rights to the Project. These payments included costs of settling debt owed to the Company by Benguet and direct payments to Benguet. Aggregate Benguet payments include two cash payments to Benguet totaling $16,250,000, payments to acquire and settle with Benguet's former creditors of approximately $6,000,000 and earn-in credit to the Company for payments made on NADECOR's behalf.

## Selected quarterly information

A summary of selected financial information is as follows:

| Quarterly result | Dec 31, 2012 | Sep 30, 2012 | Jun 30, 2012 | Mar 31, 2012 | Dec 31, 2011 | Sep 30, 2011 | Jun 30, 2011 | Mar 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| Net loss | $ 2,208,526 | $ 951,962 | $646,667 | $ 1,546,068 | $ 1,591,997 | $ 384,537 | $1,940,705 | $ 3,262,107 |
| Net loss per common share (i)(ii) | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | - | 0.01 | 0.01 |

*(i) Basic and diluted losses per share were equal in all periods presented*
*(ii) No significant income was earned in any of the periods presented*

### Historical trends and changes in quarterly results

Operating expenses are attributable primarily to cash wages and share-based payments and general and administrative costs. Cash operating expenses were limited in 2012 to focus on activities necessary for feasibility work and permitting activities. Share-based payment expense was larger in early 2011 due to a higher number of grants and a higher average market price of the underlying shares on the grant dates as compared to 2012. Employee and officer compensation and general and administrative costs are the primary components of net loss. The Company uses the Black-Scholes model to value share-based payments, and the value of options granted and vested has a significant influence on each period's net loss. Professional fees and the costs of marketing and

fundraising can also significantly impact operating expenses and net loss; these costs are generally incurred as needed or as management's operating strategies change and do not follow a cyclical pattern.

**Three months ended December 31, 2012 and 2011**

*Net loss and operating expenses*

Operating expenses for the three months ended December 31, 2012, were approximately $1,200,000 and approximately $700,000 lower than comparable expenses in 2011 of approximately $1,900,000. The primary reason for the decrease is a smaller employee base and lower Black-Scholes valuations of share-based payments. Black-Scholes valuations were lower in 2012 due to the Company's lower share price and fewer grants.

## Capital resources and liquidity

At December 31, 2012, the Company had cash and cash equivalents of approximately $7,100,000 (December 31, 2011 – $24,600,000). Working capital at December 31, 2012 was $6,100,000 (December 31, 2011 - $20,600,000). Decreases in cash and working capital are due to cash outlay for technical work and other operating expenses which supported the Company's primary objectives.

During the year ended December 31, 2012, approximately $4,600,000 was raised through the issuance of common shares and warrants, net of issuance costs (2011 - $65,000,000). Also during 2011, the Company acquired $7,200,000 in cash through a recapitalization. An additional $960,000 was raised subsequent to December 31, 2012, when a holder exercised 3,750,000 warrants with a strike price of $0.2563. With its cash resources on hand, management anticipates that it will have sufficient resources to finish the PFS.

The Company manages liquidity risk through maintaining sufficient cash or credit terms with its suppliers to meet the operating requirements of the business and investing excess funds in highly liquid short-term cash deposits. Maintaining surplus working capital in highly liquid short-term deposits allows the Company to meet its primary objectives by being able to fund new development and acquisition opportunities at short notice.

Cash flows of approximately $3,900,000 were used by operating activities during the year ended December 31, 2012 (2011 - $930,000). The increase is attributable primarily to an increase in professional fees, marketing and fundraising-related expenses.

Cash proceeds of approximately $15,500,000 could be raised under instruments convertible into common shares, calculated as follows:

| Potential source of funding | Number | Exercise price | Proceeds |
|---|---|---|---|
| Warrants from November 2011 private placement | 14,737,500 | $ 0.75 | $ 11,053,125 |
| Warrants from October 2012 private placement (i) | 3,750,000 | 0.26 | 975,000 |
| Additional private placement available to warrant holder | 4,650,000 | 0.75 | 3,487,500 |
| Totals | 23,137,500 | | $ 15,515,625 |

i. Balance of original 7,500,000 warrants after 3,750,000 were exercised in January 2013.

Cash used by investing activities during the year ended December 31, 2012 was $18,300,000 (2011 - $34,800,000). The decrease is attributable to the Company's cash management strategy, which limited expenditures that did not advance completion of a PFS.

The Company had no long-term debt as of December 31, 2012 (December 31, 2011 – nil) and had 425,258,334 common shares issued and outstanding at December 31, 2012 (December 31, 2011 – 325,258,334).

The Company has raised funds primarily through equity issuances, though management will consider all sources of finance reasonably available to it, including but not limited to issuance of new capital, issuance of new debt and the sale of assets in whole or in part, including mineral property interests. There can be no assurance of continued access to finance in the future, and an inability to secure such finance may require the Company to substantially curtail and defer its planned exploration and development activities. Management will continue to

manage cash outlay carefully in order to optimize the timing of completion of a PFS and completion of the Company's earn-in to the Project.

## Contractual obligations

### NADECOR Memorandum of Understanding

Under the terms of the MOU between the Company and NADECOR, the Company can earn up to an aggregate 60% interest in the Project by making the following payments totaling a minimum of $83,000,000:

**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, pursuant to the first Amendment to the MOU. The remaining $100,000 was paid in June 2012;
iii. Direct project expenditures made during 2011 by the Company pursuant to the Preferred Shares Investment Agreement. 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.

Completion of a BFS is a MOU milestone which, with related expenditures, will achieve 45% of the Company's potential 60% earn-in. The Company has a commitment to spend a minimum of $32,000,000 in CapEx under the MOU. The actual CapEx expenditure will be calculated using the following formula: 0.457 X Planned Tonnage (to be determined) X 1,000; or 5% of capital cost, whichever is less. The CapEx expenditures contribute 9% of the total potential 60% earn-in. The remaining 6% is earned by direct payments to NADECOR.

As at December 31, 2012, the Company had expended an aggregate of approximately $1,900,000 in direct payments to NADECOR and an aggregate of approximately $83,800,000 in BFS and CapEx expenditures, such that the Company's earn-in related expenditures totaled approximately $85,700,000.

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, have not yet been submitted. Approximately $49,000,000 was approved for earn-in as at December 31, 2012. Approximately $36,700,000 is currently under audit or within NADECOR's right to audit.

## Transactions with related parties

**Legal services**

The Company receives advice from a securities counsel firm which is considered a related party. Services rendered during the year ended December 31, 2012, totaled $220,954 (2011 – $197,846) and $20,167 was outstanding at December 31, 2012 (December 31, 2011 – $16,346).

**Officers, directors and employees**

The aggregate value of transactions with officers and directors during the year ended December 31, 2012, including salaries, benefits and other compensation and share-based compensation, totaled approximately $6,000,000 (2011 - $8,300,000). The Company has certain managers and directors who are also officers and directors of Josephine Mining Corp., a Toronto Venture Exchange issuer, and Russell Mining Corporation, a private corporation. In addition, these related companies utilize the services of some employees, including engineering and administrative staff, which are reimbursed to the Company at cost.

**Rental agreements**

The Company and Russell Mining Corp. ("RMC") are lessees under a three year lease agreement for office space. The Company's monthly payment under the agreement is approximately $13,000 and a total of approximately $350,000 is due through the end of the lease in March 2015.

Common management

The Company has management in common with Josephine Mining Corp., a Toronto Venture Exchange issuer, and Russell Mining Corporation, a private corporation.

## Off balance sheet arrangements

As of December 31, 2012, the Company had no material off balance sheet arrangements (2011 – none).

## Financial instruments and other instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, commodity price and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. At December 31, 2012, there was no material difference in the carrying values and fair values of the Company's financial instruments. The warrant liability at December 31, 2012, had a value of approximately $760,000 (2011- $316,000).

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 Company's liability for outstanding warrants is the only financial instrument measured using Level 3 inputs, and has no financial instruments measured using Level 2 inputs.

The financial risk arising from the Company's operations are interest rate risk, 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. 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 other transactions of financial instruments, including derivative financial instruments for trade or speculative purposes.

## Other MD&A requirements

### Outstanding share data

At the date of this document, the Company's outstanding equity securities are described as follows:

**Outstanding share data at the date of this MD&A**

| Securities | Outstanding |
|---|---|
| Voting equity securities issued and outstanding | 432,758,334 common shares |
| Securities convertible or exercisable into voting equity securities | |
| Stock options | 27,201,167 stock options |
| Warrants | 14,737,500 warrants |
| Private placement available at subscriber's option | 4,650,000 shares available |

*Internal controls over financial reporting and disclosure controls and procedures*

Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, requires an evaluation of the effectiveness of the Company's disclosure controls and procedures ("DC&P") and its internal control over financial reporting ("ICFR"). The Chief Executive Officer and the Chief Financial Officer have overseen the process of designing and implementing DC&P and ICFR. Their conclusions with respect to ICFR and DC&P are described below.

*Internal controls over financial reporting*

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

An effective ICFR design provides reasonable assurance that the Company's financial information is reliable and that its financial statements have been prepared, for the purpose of publishing financial information, in accordance with applicable reporting requirements. Management believes its system of internal controls over financial reporting was effective as at December 31, 2012.

*Disclosure controls and procedures*

An effective DC&P system provides reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information. Management believes its disclosure procedures in place as at December 31, 2012, were effective.

### Risks and uncertainties

In addition to the risk factors listed below, please see the risk factors listed in the Company's annual information form for the year ended December 31, 2012 (available at www.sedar.com).

*Adverse fluctuations in currency exchange rates*

The Company will be subject to fluctuations in the rates of currency exchange between the Canadian dollar, United States dollar, and the Philippine peso, and these fluctuations could materially and adversely affect the Company's financial position and results of operations. The costs of goods and services could increase due to changes in the value of these currencies. Consequently, operation and development of the Company's properties might be more costly than the Company anticipates.

*Competition*

The mining industry is intensely and increasingly competitive in all its phases, and the Company will compete with other companies that have greater financial and technical resources. Competition in the precious metals mining industry is primarily for mineral rich properties which can be developed and produced economically. In addition, businesses compete for the technical expertise to find, develop, and produce such properties, the skilled labor to operate the properties and the capital for the purpose of financing development of such properties. Such competition could adversely affect the Company's ability to acquire suitable producing properties or prospects for mineral exploration, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties.

*Conflicts of interest*

Certain directors and officers of the Company will and may continue to be involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of the Company. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers may conflict with the interests of the Company. Directors and officers of the Company with conflicts of interest will be subject to and follow procedures set out in applicable corporate and securities legislation, regulation, rules and policies.

*Current global economic conditions*

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, could impede the Company's access to capital or increase its cost of capital. The failure to raise capital when needed or on reasonable terms would likely have a material adverse effect on the Company's business and its financial condition and results of operations.

Governmental response to current global economic conditions in developing countries is trending towards nationalism of natural resources. The Company's risk with respect to governmental nationalization of assets or significant changes in the tax regime is in the Philippines. Management currently has no reason to expect the Philippine government to take full or partial control of the Project; however, this is a risk beyond the Company's control. In addition, the Philippine Government is undergoing a review of the tax and royalty regime which is expected to be completed in 2013.

*Dependence on directors and officers*

The Company is largely dependent on the performance of its directors and officers. There is no assurance the Company will be able to maintain the services of its directors and officers or other qualified personnel required to operate its business. The loss of the services of these persons could have a material adverse effect on the Company and its prospects.

*Dividends*

The Company has never paid a dividend on its common shares. It is not anticipated that the Company will pay any dividends on its common shares in the foreseeable future.

*Environmental risks, health and safety regulations, permits and licenses and other regulatory requirements*

Operations will be subject to health, safety and environmental regulations and legislation. The Company must comply with current, new and upcoming laws. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas that would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The Company's operations, including development activities and commencement of production on its properties, require permits from various federal, provincial or territorial and local governmental authorities, and such operations are and will be governed by laws, and regulations governing prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Such operations and exploration activities are also subject to substantial regulation under applicable laws by governmental agencies that may require that the Company obtains permits from various governmental agencies. There can be no assurance, however, that all permits that the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which it might undertake.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

*Exploration and development*

Resource exploration and development is a highly speculative business activity, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals the Company may acquire or discover may be affected by numerous factors that are beyond its control and that cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, the import and export of minerals and environmental protection, the combination of such factors may result in the Company not receiving an adequate return of investment capital.

The King-king property is an advanced stage exploration property and is without a known commercially-mineable ore body.

There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of its operations will in part be directly related to the costs and success of its development programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

The Company is required to obtain required permits from various government departments to carry out its work programs. There is no guarantee all required permits will be granted on terms satisfactory to the Company, or at all. If such permits are not received, the Company may not be able to carry out or complete its business objectives.

*Fluctuating mineral prices*

The mining industry is heavily dependent upon the market price of metals or minerals being mined. There is no assurance that, even if commercial quantities of mineral resources are discovered, a profitable market will exist at the time of sale. Factors beyond the Company's control may affect the marketability of metals or minerals discovered, if any. Metal prices have fluctuated widely, particularly in recent years, and the Company will be affected by numerous factors beyond the control of the Company. The effect of these factors on the Company's operations cannot be predicted. If mineral prices decline significantly, it could affect the Company's decision to proceed with further exploration and development of its property.

*Foreign operations and joint venture risk*

The Company's operations are in the Philippines, and it is subject to operational and economic risks, such as the effects of local unrest due to small-scale mining, corruption, demands for improper payments and physical security. Consequently, the Company's exploration, development and production activities outside of the United States and Canada may be substantially affected by factors beyond the Company's control, any of which could materially adversely affect the Company's financial condition or results of operations.

The Company's interest in the Project is held through its future joint venture partner by way of a series of agreements. The Company is relying upon its joint venture partner to fulfill its obligations under these agreements. If it should fail to do so, the Company's first level of recourse is through arbitration in Singapore. One of the Company's other recourse options is to the Philippine courts, which may not operate in the same manner as those in Canada and the United States.

*Social and community*

Our operations and the development of our project will impact local communities, and a portion of communities will need to be resettled or local infrastructure moved. The Project could be delayed without broad local community support, impacting future profit and development costs. There may also be local opposition to mining activities. The EIS contemplates the resettlement activities which will be approved by the MGB.

*Security of energy supplies*

Increasing global demand and limited new supplies impacts the price and availability of energy. Many factors that reduce the reliability of energy supply or increase energy prices are beyond our control. These include strong demand from the Asia Pacific region; political, regulatory and economic uncertainties; and costs associated with emissions from fossil fuels. While we will enter into long term supply contracts when beneficial to the Company, the availability of energy supplies may have a material impact to the Company's operations.

*Emissions and climate change regulations*

We operate in a jurisdiction in which legislation to limit or reduce emissions is being considered. Climate change related legislation could lead to increased costs for fossil fuels, electricity and transmission, restricted industrial emissions, the imposition of charges for emissions and increased expenditures on monitoring, reporting and accounting.

*Future acquisitions*

As part of the Company's business strategy, it may seek to grow by acquiring companies or assets, or establishing joint ventures that it believes will complement its current or future business. The Company may not effectively select acquisition candidates or negotiate or finance acquisitions or integrate the acquired businesses and their personnel or acquire assets for its business. The Company cannot guarantee that it can complete any acquisition it pursues on favorable terms, or that any acquisitions competed will ultimately benefit its business.

*Future financing*

The Company's continued operation will be dependent upon its ability to procure additional financing and eventually generate revenues. There can be no assurance that any such revenues can be generated or that other financing can be obtained on acceptable terms to the Company, if at all. Failure to obtain additional financing on a timely basis may result in delay or indefinite postponement of further exploration and development or forfeiture of some rights in some or all of the Company's properties. If additional financing is raised by the issuance of shares from treasury, control of the Company may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to further explore and develop its properties, take advantage of other opportunities, or otherwise remain in business. Events in the equity market may impact the Company's ability to raise additional capital in the future.

*No history of earnings*

The Company has no history of earnings. Additional external financing will be required to develop the King-king property further. There can be no assurances that any of the Company's properties will ever contain an economic ore body.

*Operating hazards and risks*

Mineral exploration and development involves risks which even a combination of experience, knowledge and careful examination may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to hazards and risks normally incidental to exploration, developments and production of minerals, any of which could result in work stoppages, damage to or destruction of property, loss of life and environmental damage. The nature of these risks is such that liabilities might exceed insurance policy limits, the liabilities and hazards might not be insurable or the Company may elect not to insure itself against such liabilities due to high premium costs or other factors. Such liabilities may have a materially adverse effect upon the Company's financial condition.

*Reliability of historical information*

The Company has relied, and the King-king Technical Report is based upon historical data compiled by previous parties involved with the Property. To the extent that any of such historical data is inaccurate or incomplete, the Company's exploration plans may be adversely affected.

*Title risks*

Although the Company has exercised due diligence with respect to determining title to the properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interest may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Until competing interests, if any, in the mineral lands have been determined, the Company can give no assurance as to the validity of title to those lands or the size of such mineral lands.

*Uninsured or uninsurable risks*

Exploration, development and production of mineral properties is subject to certain risks, and in particular, unexpected or unusual operating conditions including open pit slope failures, fires, flooding and earthquakes may occur. It is not always possible to insure fully against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or for other reasons. Should such liabilities arise, they could have a material adverse impact on the Company's operations and could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

*Volatility of share price*

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the shares will be subject to market trends and conditions generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings.

## Critical accounting policies and estimates

The Company's significant accounting policies, including critical accounting policies and estimates, are presented in Note 2 to the annual consolidated financial statements for the year ended December 31, 2012. An analysis of the Company's critical accounting policies and estimates follows.

### Statement of compliance

The Company's financial statements, including comparatives, for the year ended December 31, 2012, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board effective for the Company's reporting year ending December 31, 2012.

*Statement of compliance analysis*

Management has implemented internal controls over financial reporting and disclosure controls and procedures which management believes operate effectively. In addition to performing a rigorous period end review of the close and financial reporting process, management analyzes its financial statements and related disclosures in

relation to IFRS guidance effective for the reporting period. As at December 31, 2012, management determined that the financial statements, notes to the financial statements, and this MD&A are in compliance with IFRS and applicable regulations.

**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 has the right to audit the underlying expenditure.

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.

*Analysis of investment in mining property*

Management has performed a rigorous review of its contractual commitments and rights and IFRS 6 - *Exploration for and Evaluation of Mineral Resources*. The Company's expenditures included in the Company's investment in mining property are those which have directly benefited the Project and which management has determined, based on an impairment analysis, to be recoverable; and expenses which qualify for shares in its joint venture partner's capital accounts under its contractual arrangements.

The impact of the Company's treatment of capitalized expenses in respect of the Company's financial statements has been to increase the Company's assets and decrease net loss, as compared to a policy which expensed a higher proportion of Project expenditures.

**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.

*Analysis of impairment of non-financial assets*

The Company's non-financial assets include investment in mining property (described above) and property and equipment. Management's policy is to analyze its investment in mining property and property and equipment for impairment at each reporting period and as circumstances and events warrant. Management has recognized no impairment losses against property and equipment or investment in mining property since significant activity began in 2011, which it believes is appropriate.

### Significant accounting estimates, judgments and assumptions

The preparation of 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 share-based payments; fair value of derivative warrant liability; impairment assessment of investment in mining property; and depreciation and impairment of 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.

*Analysis of accounting estimates and judgments*

Management has performed a rigorous review of inputs to share-based payment valuations. The most significant inputs affecting recognition of stock option expense include estimated volatility and forfeiture rate. Volatility was estimated using a comparison of peer companies' volatility and the Company's historical volatility, and forfeiture rate was estimated based on historical experience. The inputs used to value the warrant liability are similar to those used for calculation share-based payment expense, as the Black-Scholes methodology is used for both. Accordingly, management has performed a rigorous review of inputs to the valuation of the warrant liability as described for inputs to share-based payment valuations.

The useful lives of assets are generally determined by a categorical assignment of fixed asset purchases. In general, management uses a 3, 5, or 10 year depreciation life for vehicles and equipment purchased. Its judgments in analyzing fixed assets for impairment include whether events and circumstances are significant enough to warrant an impairment analysis and its selection of financial data used in calculating the effects of external variables.

Management's judgment as to the recoverability of capitalized amounts is closely tied to management's impairment analysis. A significant difference arises in determining the economic viability of a project, in which case management relies on internal and contracted experts. As of the date of this MD&A, the economic viability of the Company's only mineral asset has not been determined by way of a BFS.

## General business commentary, outlook and accomplishments

The Company met DMPF and EIS deadlines and substantially completed a PFS in 2012, which is expected to be published during 2013. Management's long-term outlook for copper and gold is positive and consistent with the five-year trends in spot prices. Cash outlay for operating and investing activities in 2012 was reduced by over $13 million dollars as compared to 2011.

A strategic partnership with Queensberry, a Philippine based corporation, was established in the last quarter of 2012. Queensberry's participation brought funding to the Project and is anticipated to support stronger relationships in the business and political communities in the Philippines and contribute to more cohesive progress toward joint venture partner goals.

The most important goals and milestones for the fiscal year ending December 31, 2013 include the following:

- Publish a PFS study;
- Structure project financing arrangement(s) through strategic advisors or engagement of major financial institution(s);
- Continue to strategically deploy capital, which includes limiting or deferring expenditures;
- Obtain joint venture equity to secure the Company's interest in the Project.

The momentum gained during the latter part of 2012 has continued during early 2013, and management believes these goals are achievable in 2013, and have set them as corporate priorities.