St. Augustine Gold and Copper Limited

Condensed Interim Consolidated Financial Statements

Six months ended June 30, 2013 and 2012
Unaudited and presented in U.S. dollars

Dated as of August 8, 2013

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Notes to the consolidated financial statements

(Unaudited and presented in U.S. dollars)

	Notes	June 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		$ 12,956,914	$ 7,117,302
Restricted cash		250,000	250,000
Advances to NADECOR	4(a)	-	1,137,512
Prepaids and other current assets	10(b)	482,107	248,879
Total current assets		13,689,021	8,753,693
Non-current assets			
Investment in mining property	5	53,966,565	81,347,929
Investment in NADECOR	6	33,525,165	-
Investment in KGCMI	7	752,913	-
Notes receivable	3	856,170	914,040
Property and equipment	8	715,366	848,541
Other non-current assets		650,000	500,000
Total non-current assets		90,466,179	83,610,510
Total assets		**$104,155,200**	**$ 92,364,203**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued wages		$ 2,559,651	$ 1,846,503
Warrant liability	9	-	755,509
Due to related parties	10(b)	15,946	20,167
Total current liabilities		2,575,597	2,622,179
Shareholders' equity			
Share capital	11(a)	106,717,784	92,399,045
Share option reserves	11(b)	10,640,643	9,921,503
Warrant reserves	11(c)	-	1,695,517
Accumulated deficit		(15,692,532)	(14,321,960)
Accumulated other comprehensive income (loss)		(86,292)	47,919
Total shareholders' equity		101,579,603	89,742,024
Total liabilities and shareholders' equity		**$104,155,200**	**$ 92,364,203**

Commitments and contingencies	14
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The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved on behalf of the Board of Directors:

"SIGNED" *"SIGNED"*

Terry Krepiakevich
Director

Max V. Anhoury III
Director

St. Augustine Gold and Copper Limited
Interim consolidated statements of comprehensive loss
For the three and six months ended June 30, 2013 and 2012
(Unaudited and presented in U.S. dollars)

		Three months ended June 30,		Six months ended June 30,	
	Notes	**2013**	**2012**	**2013**	**2012**
Operating expenses					
Wages and share-based payments	11(b), 10	$ 516,209	$ 406,698	$ 1,193,630	$ 1,416,041
Stock listing and transfer fees		60,292	11,630	135,721	102,477
General and administrative costs	10	239,214	373,424	632,889	1,002,979
Total operating expenses		$ 815,715	$ 791,752	$ 1,962,240	$ 2,521,497
Other income and expense					
Interest income		$ 7,821	$ 3,630	$ 9,600	$ 11,515
Change in fair value of warrant liability	9	41,252	150,500	755,509	316,267
Foreign exchange gain (loss)		(37,371)	(9,044)	(83,441)	980
Total other income		$ 11,702	$ 145,086	$ 681,668	$ 328,762
Net loss before income tax expense		**$ 804,013**	**$ 646,666**	**$ 1,280,572**	**$ 2,192,735**
Income tax expense		80,000	-	90,000	-
Net loss		**$ 884,013**	**$ 646,666**	**$ 1,370,572**	**$ 2,192,735**
Foreign exchange translation loss		177,648	19,717	134,211	52,988
Total comprehensive loss		**$ 1,061,661**	**$ 666,383**	**$ 1,504,783**	**$ 2,245,723**
Net loss per common share, basic and diluted		$ 0.00	$ 0.01	$ 0.00	$ 0.01
Weighted average common shares outstanding, basic and diluted		454,994,445	325,258,334	441,438,890	325,258,334

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

(Unaudited and presented in U.S. dollars)

	Notes	Six months ended June 30, 2013	2012
Cash flows from operating activities			
Net loss		$ (1,370,572)	$ (2,192,735)
Share-based compensation expense	11(b)	380,638	541,041
Non-cash fair value adjustment of warrant liability	9	(755,509)	(316,267)
Effects of foreign currency changes		41,197	(30,153)
Deduct interest income (reported under investing activities)		(9,600)	(19,636)
Changes in assets and liabilities			
Decrease (increase) in prepaids and other current assets		(225,446)	27,730
Increase in other non-current assets		(150,000)	(172,313)
Income tax payments		(50,000)	-
Net cash used by operating activities		(2,139,292)	(2,162,333)
Cash flows from investment activities			
Increase in investment in mining property		(5,261,601)	(10,077,643)
Increase in investment in NADECOR	6	(33,525,165)	-
Reimbursement of invested amounts	6	33,525,165	-
Decrease in restricted cash		-	693,697
Increase in investment in KGCMI	7	(56,913)	-
Increase in advances to related parties		-	(720,871)
Purchase of property and equipment	8	(11,523)	(95,327)
Changes in non-cash investing working capital		758,927	(2,972,975)
Interest income		9,600	19,636
Net cash used by investing activities		(4,561,510)	(13,153,483)
Cash flows from financing acitvities			
Proceeds attributed to common stock and warrants	11	12,623,222	-
Net cash provided by financing activities		12,623,222	-
Net increase (decrease) in cash and cash equivalents		5,922,420	(15,315,816)
Effect of exchange rate changes on cash		(82,808)	(15,941)
Cash and cash equivalents, beginning of period		7,117,302	24,656,885
Cash and cash equivalents, end of period		**$ 12,956,914**	**$ 9,325,128**
Comprised of:			
Cash		$ 11,343,453	$ 1,073,645
Cash equivalents		1,613,461	8,251,483
Total cash and cash equivalents, end of period		**$ 12,956,914**	**$ 9,325,128**

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

(Unaudited and presented in U.S. dollars)

	Notes	Shares	Share capital	Share option reserves	Warrant reserves	Shares to be issued	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2012		325,258,334	$ 86,077,399	$ 6,701,148	$ -	$ 3,425,408	$ (8,968,737)	$ -	$ 87,235,218
Share-based compensation		-	-	1,555,360	-	-	-	-	1,555,360
Foreign exchange transation loss for the period		-	-	-	-	-	-	(52,988)	(52,988)
Net loss for the period		-	-	-	-	-	(2,192,735)	-	(2,192,735)
Balance, June 30, 2012		325,258,334	$ 86,077,399	$ 8,256,508	$ -	$ 3,425,408	$ (11,161,472)	$ (52,988)	$ 86,544,855
Balance, January 1, 2013		425,258,334	$ 92,399,045	$ 9,921,503	$ 1,695,517	$ -	$ (14,321,960)	$ 47,919	$ 89,742,024
Warrant exercises	11(c)	7,500,000	3,617,767	-	(1,695,517)	-	-	-	1,922,250
Share-based compensation		-	-	719,140	-	-	-	-	719,140
Private placement of shares	11(a)	55,000,000	10,700,972	-	-	-	-	-	10,700,972
Foreign exchange transation gain for the period		-	-	-	-	-	-	(134,211)	(134,211)
Net loss for the period		-	-	-	-	-	(1,370,572)	-	(1,370,572)
Balance, June 30, 2013		487,758,334	$ 106,717,784	$ 10,640,643	$ -	$ -	$ (15,692,532)	$ (86,292)	$ 101,579,603

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

1. Organization and description of business

St. Augustine Gold and Copper Limited (the "Company" or "SAGC") was incorporated on January 27, 2010, in the British Virgin Islands. The address of the Company's corporate office is 601 West Main Avenue, Suite 600, Spokane, Washington 99201. The registered address of the Company in the British Virgin Islands is Jayla Place, Wickham's Cay 1, Road Town, Tortola VG 1110, British Virgin Islands.

The Company has earned no revenues since its recapitalization in 2011 and is 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, through direct and indirect investments, in the King-king Joint Venture envisioned in the MOU. The earn-in is based on expenditures made to benefit the King-king copper gold project (the "Project") as well as direct payments to NADECOR. The Project is a copper-gold mineral resource located at Sitio Gumayan, Barangay King-king, Municipality of Pantukan, Province of Compostela Valley, on Mindanao Island, Philippines. Several years of exploration, including drilling and baseline studies were completed by various parties.

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

These condensed interim consolidated financial statements ("Financial Statements") were authorized for issue by the Board of Directors on August 8, 2013.

2. Significant accounting policies

(a) Statement of compliance

These Financial Statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting period ending December 31, 2013. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2012. Accounting policies applied are the same as those applied in the Company's annual financial statements which are filed under the Company's profile on SEDAR at www.sedar.com, except as discussed at Note 2(h). The Financial Statements are prepared as at and for the six months ended June 30, 2013, which is part of the period to be covered by the Company's annual financial statements for the year ending December 31, 2013.

(b) Basis of presentation

The Financial Statements have been prepared using historical costs and fair values of certain items. Items measured at fair value include cash held in foreign currencies, warrant valuations, share-based payments and investments. The use of "₱" refers to Philippine pesos and "CDN$" refers to Canadian dollars.

(c) Basis of consolidation

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

(d) Segment reporting

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

(e) Significant accounting estimates, judgments and assumptions

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

Note 2(h) describes newly applied accounting standards, which includes the adoption of standards regarding the Company's investments in KGCMI (Note 7) and NADECOR (Note 6).

(f) Investments in other entities

The Company accounts for investments below the threshold of having significant influence either at fair value or at amortised cost, depending on the nature of the investment.

If the Company has significant influence over an investee as defined under IAS 28 – Investments in Associates and Joint Ventures, the investment is initially recognized at cost and is adjusted periodically to reflect the Company's portion of the investees' profit or loss.

(g) Recent accounting pronouncements

1. 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.
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.

Management is currently evaluating the impact of the changes to result from the adoption of IAS 32 and does not expect a material impact to the Company's financial statements.

(h) Application of new and revised accounting standards

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 10 - Consolidated Financial Statements* supersedes the consolidation requirements in SIC-12 - Consolidation – Special Purpose Entities and IAS 27 - Consolidated and Separate Financial Statements effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.
3. *IFRS 11 - Joint Arrangements* supersedes the existing standard IAS 31 - Joint Ventures effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.
4. *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.

5. *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.
6. IFRS 7, 10 and 11 and IAS 27 and 28 were adopted without impact to the Financial Statements.
7. *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. Limited improvements to the Company's disclosures have been implemented in these Financial Statements upon the Company's adoption of the standard on January 1, 2013.
8. *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. The Company's adoption of this standard impacted, in principle, the valuation of the Company's warrant liability measured at fair value through profit and loss. As the Company measures the fair value of the warrant liability using the Black-Scholes methodology, there was no impact to the Financial Statements upon adoption of this pronouncement.
9. *IAS 1 – Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*. The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment became effective for annual periods beginning on or after 1 July 2012. As the Company has only one component of other comprehensive income, the amendment was adopted with limited impact to the Financial Statements.

3. Notes receivable

The Company holds notes receivable from former employees of the Company (under prior management), which were exchanged for 2 million shares of the Company. The notes are denominated in Canadian dollars and are reported at the translated U.S. dollar amount of $856,170 (2012 - $914,040). The notes are non-interest bearing and payable to the Company upon the earlier of the sale of the shares by the debtor or December 31, 2015.

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

(a) Advances to NADECOR

Date of advance	June 30, 2013	December 31, 2012
February and March 2012 (i)	$ -	$ 738,512
July 2012 (ii)	-	360,000
October 2012 (ii)	-	39,000
Total	$ -	$ 1,137,512

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

i. In May 2011, the Company advanced ₱30,000,000 (approximately $696,000) to a bank account which is in NADECOR's name but was controlled by the Company to fund future operating expenses. During 2012, the funds were transferred to an account in the name of King-king Gold and Copper Mines Inc. ("KKGCMI"), a future joint venture entity that is wholly owned by NADECOR. During 2013, the Company secured an equity interest in KGCMI (Note 7), and the advance was reclassified to the Company's investment in KGCMI.

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

(b) Reimbursement Agreement

In April 2013, the Company and NADECOR executed an agreement (the "Reimbursement Agreement") whereby NADECOR would reduce the Company's earned-in amounts classified as CapEx expenditures which were made by the Company in advance of or in excess of the schedule contemplated in the MOU. NADECOR agreed to remit approximately $40.7 million, payable in tranches. As at June 30, 2013, approximately $33.5 million had been reimbursed to the Company.

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; the underlying earn-in accumulates as expenditures are made, along with other milestones and earn-in commitments. An additional 6% can be earned through interim payments to NADECOR and an additional 9% can be earned by funding a minimum of $32,000,000 in capital development expenditures ("CapEx"), subject to adjustment according to outcomes contemplated in the MOU. To earn the full 60% potential interest in the Project, the Company will spend, or pay to NADECOR, a minimum of $83,000,000, as outlined by the agreement summarized below and subject to adjustments for outcomes contemplated in the MOU. A significant variable which can change this minimum commitment is the planned tonnage throughput of mine operations, 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 and progress towards the payments are summarized as follows:

Item	Earn-in amount	June 30, 2013	December 31, 2012
Exclusivity payment to NADECOR (i)	$ 400,000	$ 400,000	$ 400,000
Initial payment to NADECOR (ii)	3,100,000	3,100,000	3,100,000
Initial BFS funding (iii)	30,000,000	30,000,000	30,000,000
Incremental BFS funding (iv)	5,000,000	5,000,000	5,000,000
Incremental BFS funding (iv)	8,500,000	8,500,000	8,500,000
Payment to NADECOR (v)	4,000,000	1,231,000	1,878,000
CapEx funding (vi)	32,000,000	10,289,058	36,838,828
Totals	$ 83,000,000	$ 58,520,058	$ 85,716,828

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

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 $30 million required to be expended under the PSIA; the full amount has been expended and 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, $250,000 was paid during the first quarter of 2013, 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, and is subject to adjustment depending on the planned throughput of the mine.

The earn-in summary as of June 30, 2013, reflects the full effect of the Reimbursement Agreement (Note 4(b)).

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	**June 30, 2013**	**December 31, 2012**
Investment in mining property	$ 53,966,565	$ 81,347,929
Depreciable property (earn-in in full on purchase)	817,829	951,004
Qualifying fundraising costs	2,111,419	1,788,363
Interest earned on Nadecor advances	1,068,159	1,068,159
Disallowed/reserved expenditures and other book to earn-in differences	556,087	561,373
Estimated earn-in balance	**$ 58,520,059**	**$ 85,716,828**

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 following nine months are pending submission. Approximately $49,000,000 of the earn-in balance in the above table has been approved by NADECOR to date.

There were no indicators of impairment identified and no impairment loss recognized during the six months ended June 30, 2013 or the year ended December 31, 2012, with respect to the investment in mineral property.

6. Investment in NADECOR

On March 15, 2013, the Company executed an agreement with NADECOR (the “NADECOR Subscription”) whereby the Company may acquire 25% of NADECOR’s common shares for ₱1.8 billion (approximately $44 million). The subscription required the Company to pay a first tranche (“Initial Amount”) of ₱40.56 million, dependent on NADECOR’s provision of certain documents (“Initial Conditions Precedent”). The Initial Conditions Precedent was satisfied in April 2013, and the Company remitted payment for the Initial Amount to NADECOR of approximately $960,000 (approximately ₱41.2 million). As at June 30, 2013, the Company had remitted $33,525,165 (approximately ₱1.4 billion) to NADECOR, representing approximately 18% of NADECOR’s common shares.

As the Company’s ownership of NADECOR is below the threshold presuming significant influence (20%) and the Company has not appointed any directors or officers of NADECOR, the Company accounts for this investment at fair value. The transaction value approximated the fair value of the investment as at June 30, 2013.

7. Investment in King-king Gold and Copper Mines Inc. (“KGCMI”)

As at June 30, 2013, the Company had invested $752,913 in KGCMI. Of this amount, $696,000 was previously classified as an advance to NADECOR (Note 4), and was reclassified into an investment account upon the Company’s execution of the NADECOR Subscription (Note 6) and securing the Company’s interest in both entities. The Company had invested a total of $752,913 in KGCMI as at June 30, 2013, representing 40% of KGCMI's voting common shares.

KGCMI is intended to become the joint venture entity which will hold the rights to develop and operate the Project. As the Company's ownership and level of management are within the scope of having significant influence, the Company accounts for this investment under IAS 28; accordingly, the investment will be adjusted for the Company's share of profit and loss at each reporting period.

8. Property and equipment

	Vehicles	Furniture and fixtures	Equipment	Buildings and leasehold improvements	Totals
Cost balance, January 1, 2012	$ 637,383	$ -	$ 245,183	$ 121,618	$ 1,004,184
Additions	-	141,221	91,411	8,638	241,270
Disposals	-	-	(1,564)	-	(1,564)
Balance, December 31, 2012	637,383	141,221	335,030	130,256	1,243,890
Additions	-	-	11,523	-	11,523
Disposals	-	-	-	-	-
Balance, June 30, 2013	637,383	141,221	346,553	130,256	1,255,413
Accumulated depreciation, January 1, 2012	95,791	-	34,465	7,505	137,761
Additions	110,888	21,226	97,366	28,194	257,674
Disposals	-	-	(86)	-	(86)
Balance, December 31, 2012	206,679	21,226	131,745	35,699	395,349
Additions	56,811	21,615	52,547	13,725	144,698
Disposals	-	-	-	-	-
Balance, June 30, 2013	263,490	42,841	184,292	49,424	540,047
Net book value, December 31, 2012	**$ 430,704**	**$ 119,995**	**$ 203,285**	**$ 94,557**	**$ 848,541**
Net book value, June 30, 2013	**$ 373,893**	**$ 98,380**	**$ 162,261**	**$ 80,832**	**$ 715,366**

There were no indicators of impairment identified and no impairment loss recognized during the year ended December 31, 2012 or the six months ended June 30, 2013, with respect to property and equipment.

9. Warrant liability

The Company issued 14,737,500 whole warrants as part of a 2011 private placement of equity; they were deemed a derivative liability under IAS 32 because they are exercisable in Canadian dollars, while the Company's functional currency is the U.S. dollar. Accordingly, the warrants are fair-valued at each reporting date. The original expiration of the warrants was November 17, 2012; in 2012, the expiration date was extended to July 15, 2013. This date was reached and the warrants expired subsequent to June 30, 2013 (Note 15).

The assumptions used to calculate the value of the liability of $nil and $755,509 as at June 30, 2013, and December 31, 2012, respectively, were as follows:

Black Scholes assumptions - derivative warrant			
Input	**June 30, 2013**	**December 31, 2012**	**Basis of input**
Risk free interest rate	1.22%	1.14%	Bank of Canada's published bond yields
Expected volatility	120%	135%	The Company's historical volatility
Expected life, years	0.04	0.63	Contract terms
Exercise price ($CDN)	$ 0.75	$ 0.75	Contract terms
Expected dividend yield	0%	0%	Management's expectation over the remaining term of the warrants

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

10. 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:

	Six months ended June 30,		Three months ended June 30,	
Compensation	**2013**	**2012**	**2013**	**2012**
Officer salaries and director compensation	$ 1,542,642	$ 1,151,962	$ 769,842	$ 569,068
Share-based compensation	660,681	1,196,253	243,635	386,328
Total	**$ 2,203,323**	**$ 2,348,215**	**$ 1,013,477**	**$ 955,396**

(b) Transactions with Other Related Parties

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

	Six months ended June 30,		Three months ended June 30,	
Transactions	**2013**	**2012**	**2013**	**2012**
Services rendered:				
Norton Rose Canada LLP (i)	$ 68,119	$ 93,413	$ 41,249	$ 36,200
Reimbursement of third party expenses incurred on the Company's behalf:				
Russell Mining Corporation (ii)	91,503	199,912	46,577	
Total	**$ 159,622**	**$ 293,325**	**$ 87,826**	**$ 36,200**

	Six months ended June 30,		Three months ended June 30,	
Transactions	**2013**	**2012**	**2013**	**2012**
Charges for reimbursement from:				
Russell Mining Corporation (ii)	$ 142,767	$ 47,357	$ 100,994	$ 35,322
Josephine Mining Corp. (iii)	41,957	1,689	2,717	1,689
Casa Grande Resources LLC (iii)	100,087	-	100,087	-
Total	**$ 284,811**	**$ 49,046**	**$ 203,798**	**$ 37,011**

Related party receivable	**June 30, 2013**	**December 31, 2012**
Josephine Mining Corp. (iii)	$ 156,036	$ 136,026
Russell Mining Corporation (iii)	29,317	2,904
Casa Grande Resources LLC (iii)	100,087	-
Total	**$ 285,440**	**$ 138,930**

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

Related party balances payable	**June 30, 2013**	**December 31, 2012**
Norton Rose Canada LLP (i)	$ 15,946	$ 20,167

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

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

ii. Russell Mining Corporation ("RMC") is the parent of RMMU, the Company's largest shareholder, which is party to several of the Company's agreements and has key managers in common with the Company. RMC has assumed RMMU's former role in general and administrative activities at the Company's corporate headquarters. The Company is a sub-lessee to RMC's office lease.

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

11. Shareholders' equity

(a) Share capital

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

In April 2013, the Company issued 3,750,000 shares pursuant to a warrant exercise by Queensberry for gross proceeds of $961,125. This exercise and Queensberry's January 2013 exercise represent all 7 million warrants issued to Queensberry in the October 2012 private placement.

In May 2013, the Company and Queensberry executed an agreement whereby Queensberry increased its investment in the Company by 55,000,000 shares at $0.20 per share. The proceeds of $11 million before issue costs of $275,000 will be used for general working capital of the Company.

(b) Share option reserves

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

Share option reserves totalled $10,640,643 at June 30, 2013 (December 31, 2012 - $9,921,503). Cash-based and option-based expenses comprise the total wages and share-based payments expense for the six months ended June 30, 2013 of $1,193,630 (2012 - $1,416,041), and $516,209 for the three months ended June 30, 2013 (2012 - $406,698).

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

	Exercise price range	Number of options outstanding	Weighted average exercise price
Balance, January 1, 2012		16,958,334	$ 1.16
Grants	$0.20 - 1.54	13,559,500	0.44
Expirations	0.20	(1,850,000)	0.20
Forfeitures	0.28 - 1.54	(1,466,667)	0.82
Balance, December 31, 2012		**27,201,167**	**$ 0.88**
Grants	$0.20 - 0.30	400,000	0.24
Forfeitures	1.54 - 0.25	(3,850,999)	1.52
Balance, June 30, 2013		**23,750,168**	**$ 0.77**

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

The fair value of options granted are estimated using the Black-Scholes option pricing model. The assumptions in the table below are based on the weighted average of grants issued during the six months ended June 30, 2013:

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

2. *Summary of share options outstanding and exercisable as at June 30, 2013 (dollars in CDN$)*

	Outstanding			Exercisable		
Exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining years	Number outstanding	Weighted average exercise price	Weighted average remaining years
$0.20 to $0.42	12,725,168	$ 0.34	4.09	6,519,838	$ 0.32	3.94
$0.53 to $0.73	2,000,000	0.59	3.15	1,566,668	0.60	3.12
$0.80 to $0.98	2,225,000	0.97	2.76	2,225,000	0.97	2.76
$1.54	6,800,000	1.54	2.62	6,800,000	1.54	2.62
Totals	**23,750,168**	**$ 0.77**	**3.47**	**17,111,506**	**$ 0.92**	**3.19**

(c) Warrant reserves

1. *Summary of warrants outstanding and exercisable at June 30, 2013*

Exercise price	**Number outstanding**	**Remaining years**
CDN$0.75 (Note 9)	14,737,500	0.04

During the six months ended June 30, 2013, 7,500,000 warrants were exercised. Of the total outstanding warrants, 3,437,500 were held by insiders and were not exercisable at June 30, 2013. The warrants in the table above expired subsequent to June 30, 2013 (Note 15).

12. Capital management

The following table summarizes the accounts under the Company's capital management program as of June 30, 2013 and December 31, 2012:

	June 30, 2013	**December 31, 2012**
Cash and cash equivalents	$ 12,956,914	$ 7,117,302
Restricted cash	250,000	250,000
Warrant liability	-	755,509
Share capital	106,717,784	92,399,045
Share option reserves	10,640,643	9,921,503
Warrant reserves	-	1,695,517

At June 30, 2013, approximately $7,000 (December 31, 2012 - $9,000) was held in banks in the Netherlands and $5.8 million (December 31, 2012 - $404,000) was held in banks in the Philippines. The Company has $250,000 held by a large United States of America ("USA") banking institution as collateral for the Company's credit cards.

The balance of cash and cash equivalents at June 30, 2013, and December 31, 2012, was held in USA and Canadian banks.

The Company's objectives and continued financing of its commitments under its agreements with NADECOR (Notes 4, 5 and 6) 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.

13. Earnings per share ("EPS")

(a) Basic EPS

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

(b) Diluted EPS

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

The Company reported net losses for the six months ended June 30, 2013 and 2012; the Company has accordingly presented basic and diluted EPS, which are the same, on a single line in the statements of comprehensive loss. Diluted loss per share did not include the effect of share purchase options and warrants as they were anti-dilutive.

14. Commitments and contingencies

(a) NADECOR

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

<u>NADECOR Internal Board Dispute</u>

There has been an internal dispute amongst two distinct shareholder groups of NADECOR which continues to exist as of the date of this document. The dispute pertains to many issues including the validity of the 2011 annual stockholders' meeting of NADECOR where the NADECOR majority shareholder group was appointed as the lawfully elected board of directors.

Several court actions were lodged by both sides of the NADECOR shareholder group during 2011 and 2012, and ultimately, the Philippine Court of Appeals confirmed the NADECOR majority shareholder group on February 18, 2013, was the lawful board. The NADECOR minority shareholder group has filed an appeal with the Philippines Supreme Court. The Company's view, based on external legal counsel advice is the likelihood of the NADECOR minority shareholder group successfully appealing is remote.

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

<u>Investment in NADECOR</u>

As disclosed in Note 6, the Company has subscribed to 18% of the issued and outstanding shares of NADECOR. At this time, the Company has not yet received the share certificates as a result of the above referred NADECOR Internal Board Dispute. The Company has received legal advice that their rights to the shares of NADECOR are protected by the share subscription agreement.

(b) Rental agreement

The Company's office lease commitment to RMC (Note 10(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 June 30, 2013, total $268,422.

(c) Contingent private placement

A private placement, which closed October 16, 2012, consisted of the issuance of 25 million common share 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, all of which were exercised prior to June 30, 2013 (Note 11(c)). Additionally, the subscriber of this private placement, Queensberry, may acquire up to 4.65 million shares prior to July 15, 2013 for $0.75 per share in a separate transaction. This option expired subsequent to June 30, 2013 (Note 15).

(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. Subsequent events

On July 15, 2013, 14,737,500 warrants (Note 9) expired. On the same date, Queensberry's option to purchase up to 4.65 million shares from treasury through a private placement expired (Note 14(c)).