**St. Augustine Gold and Copper Limited**

# Management's Discussion and Analysis

Six months ended June 30, 2013
Expressed in U.S. dollars

Dated as of August 8, 2013

## Table of Contents

*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, the interim consolidated financial statements for the six months ended June 30, 2013, 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 August 8, 2013, and is in respect of the six months ended June 30, 2013. All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars. References to "CDN$" mean Canadian dollars and "₱" refers to Philippine pesos.

This document 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 in the British Virgin Islands on January 27, 2010. 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 June 30, 2013, of approximately $11,100,000. Approximately $12,600,000, net of issue costs, was received from warrant exercises and a private placement of shares during the six months ended June 30, 2013, (2012 - nil). The warrant exercises were executed by Queensberry Mining and Development Corp. ("Queensberry"), which acquired the warrants in a private placement in 2012. On May 15, 2013, the Company signed a subscription agreement with Queensberry under which Queensberry has subscribed for 55 million shares in a private placement with the Company at $0.20 per share, raising $11,000,000 before costs.

Management has strategically limited cash outlay, focusing on activity that advanced an Environmental Impact Statement ("EIS"), a Declaration of Mining Project Feasibility ("DMPF"), a Preliminary feasibility Study ("PFS"), and a Bankable Feasibility Study ("BFS"). Progress on these items is discussed in other sections of this MD&A.

Cash on hand at June 30, 2013, approximately $13,000,000, is expected to be sufficient for the Company to fund operations over the next 12 months. Beyond that, a combination of debt and equity will be necessary to build and ultimately bring the Project into production.

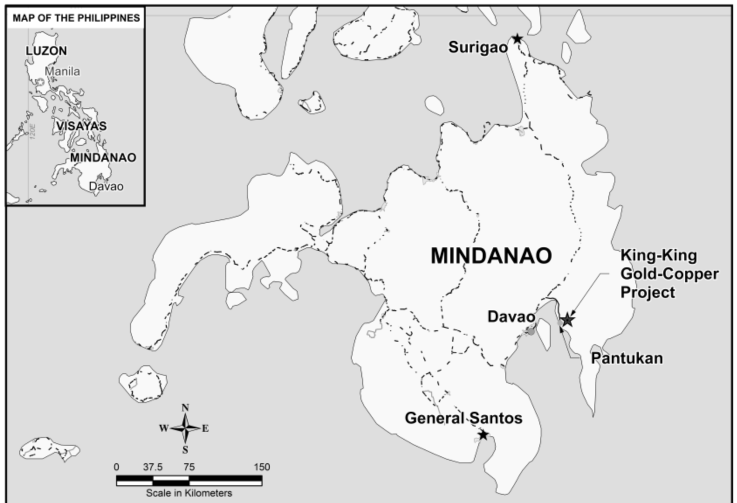
The Company has no long-term debt or other restrictive covenants with respect to its liabilities. Agreements with vendors are typically arranged as short-term cancellable contracts, such that management is able to respond quickly to new developments and opportunities; approximately two years remain on its non-cancellable office lease, with remaining payments totaling approximately $270,000.

**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°58'24"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 copper-gold resource. The measured mineral resources are 120.3 million tonnes at 0.315% total copper, 0.112 soluble copper and 0.816 grams per tonne (g/t) gold. The indicated mineral resources are 841.9 million tonnes at 0.245% total copper, 0.054% soluble copper, and 0.316 grams per tonne (g/t) gold. The inferred mineral resources are an additional 188.8 million tonnes at 0.215% total copper, 0.048% soluble copper, and 0.265 g/t gold. The measured and indicated mineral resource consists of 5.4 billion pounds of contained copper and 10.3 million troy ounces of contained gold.

<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, amended December 11, 2002 and is due for renewal in 2017. 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 or other project-related activities 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.

## Market trends

Since 2008, annual average per-pound copper price ranged from approximately $2.41 to $4.02; the average price in 2013 through the date of this document was approximately $3.36. Since 2008, annual average per-troy ounce gold prices ranged from approximately $880 to $1,681; the average price through the date of this document in 2013 was approximately $1491.

Although the gold price has dropped from time to time, over the past five years the average annual price has trended upward. This trend accelerated in 2009 during the period of global economic uncertainty that began in mid-2008. Gold and copper prices declined in the second quarter of 2013, which brought the 2013 average prices down.

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* | 3.36 | 1,491 |

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

** Most current data available through the date of this MD&A, noting that the gold London PM Fix (Kitco) was $1315 on July 31, 2013, and averaged $1287 during July 2013. The LME copper spot price as of July 31, 2013 was $3.16.*

## Current highlights

In January 2013, the Company issued 3,750,000 shares to Queensberry from a warrant exercise for proceeds of approximately $940,000, net of issue costs.

In March 2013, the Company and NADECOR executed an agreement whereby the Company would acquire up to 25% of NADECOR's common shares (the "NADECOR Subscription") and NADECOR. As of June 30, 2013, the Company has subscribed to 25% of NADECOR's common shares for ₱1.8 billion (approximately $44 million), of which approximately 18%, or ₱1.3 billion (approximately $33.5 million) was paid.

In April 2013, the Company issued an additional 3,750,000 shares to Queensberry from a warrant exercise for additional net proceeds of approximately $940,000. After this exercise, Queensberry had no warrants remaining from the warrants it acquired in an October 2012 private placement.

In April 2013, the Company and NADECOR executed the Reimbursement Agreement whereby NADECOR would reimburse the Company for approximately $40.7 million in Project expenditures for costs paid by the Company in excess of or ahead of the terms outlined in the MOU. As of June 30, 2013, NADECOR had reimbursed approximately $33.5 million to the Company.

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 costs will be used for general working capital of the Company. The subscription increased Queensberry's ownership in the Company to 21%.

## 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. These milestones include various technical, environmental, socio-economic and legal objectives, including obtaining the necessary permits; publishing of a PFS; completion and publishing of a BFS; and preparation of engineering designs.

Management has limited expenditures during 2012 and early 2013 in order to concentrate on critical objectives.

Financial information is presented in U.S. dollars

## Selected financial information

| | Six months ended June 30, | |
|---|---|---|
| **Interim result** | **2013** | **2012** |
| Net loss | $ 1,370,572 | $ 2,192,735 |
| Net loss per common share (i) | 0.00 | 0.01 |
| **Balance** | **June 30, 2013** | **December 31, 2012** |
| Total assets | $ 104,155,200 | $ 92,364,203 |
| Total non-current liabilities | - | - |

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

*Net loss and operating expenses*

The primary components of operating expenses for both periods presented were employee compensation expense and general and administrative expense. The decrease in operating expenses and net loss from the comparative period in 2012 is attributable primarily to decreased share-based payments expense, driven by fewer grants and the Company's lower share price (as compared to 2011), and a decreased labor base.

General and administrative costs decreased from approximately $1,000,000 in 2012 to approximately $630,000 in 2013 due to decreases in professional fees and fundraising and promotional expenses. Professional fee decreases resulted primarily from fees in 2012 for business strategy consulting which did not reoccur in 2013.

### Investment in mining property

The investment in mining property asset increased by approximately $6,100,000 due to ongoing activity during the six months ended June 30, 2013, and then decreased by approximately $33.5 million due to transactions executed under the Reimbursement Agreement.

| **Primary components of expenditures capitalized to investment in mining property** | Six months ended June 30, | |
|---|---|---|
| | **2013** | **2012** |
| Permitting, site costs and other | $ 2,630,000 | $ 3,600,000 |
| Engineering | 1,070,000 | 3,540,000 |
| General and administrative and labor | 790,000 | 2,410,000 |
| Direct payments to NADECOR | 550,000 | - |
| Community development, security and public affairs | 310,000 | 600,000 |
| Geology | 170,000 | 1,120,000 |
| Other | 580,000 | - |
| Total | $ 6,100,000 | $ 11,270,000 |

Engineering charges decreased significantly, as PFS work was substantially completed prior to 2013. Permitting, site and other charges decreased due to savings on site security, completion of site improvement for immediate needs and maintenance work and deferral of site maintenance projects. Geology charges were significantly lower due to the stage of the technical work coupled with management's efforts to conserve cash.

Financial information is presented in U.S. dollars

## Selected quarterly information

A summary of selected financial information is as follows:

| Quarterly result | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 |
|---|---|---|---|---|---|---|---|---|
| Total assets | $ 104,155,200 | $92,242,448 | $ 92,364,203 | $ 88,358,642 | $88,517,487 | $90,796,450 | $ 92,497,092 | $ 98,324,509 |
| Operating expenses | 815,715 | 1,146,525 | 1,276,724 | 997,659 | 791,752 | 1,729,745 | 1,955,635 | 630,327 |
| Net loss | 884,013 | 486,559 | 2,208,526 | 951,962 | 646,667 | 1,546,068 | 1,591,997 | 384,537 |
| Net loss per share (i)(ii) | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.00 |

*(i) Per common share; 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 has trended downward because there have been fewer grants over time, coupled with the Company's lower share price. 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.

## Capital resources and liquidity

At June 30, 2013, the Company had cash and cash equivalents of approximately $13,000,000 (December 31, 2012 – approximately $7,100,000) and working capital of $11,100,000 (December 31, 2012 - $6,100,000). During the six months ended June 30, 2013, approximately $12,600,000 (net of issue costs) was raised through the issuance of 62,500,000 common shares.

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 used by investing activities reflects the deferral of significant site work (2013 – approximately $4,600,000; 2012 - $13,200,000) as well as the substantial completion of technical and preliminary feasibility study work. Cash flows used by investing activities is primarily driven by expenses capitalized into the Company's mineral asset. Accordingly, as additional funds are raised and various potential work initiatives begin, cash flows used by investing activities will increase accordingly. During the six months ended June 30, 2013, cash flows used by investments in the mineral asset were driven by work on permitting and site maintenance costs and labor; this is likely to continue in the short-term, until additional capital is raised and work on the BFS increases.

Other than employee options, no instruments are convertible into common shares at the date of this document.

The Company had no long-term debt as of June 30, 2013 or 2012.

The Company has raised funds primarily through equity issuances, though management will consider all sources of finance reasonably available, 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 and royalties. 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 feasibility work and completion of the Company's earn-in to the Project.

Financial information is presented in U.S. dollars

## 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, $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.

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.

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 nine months following September 30, 2013, have not yet been submitted.

## 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 six months ended June 30, 2013, totaled approximately $68,000 (2012 – approximately $93,000) and approximately $16,000 was outstanding at June 30, 2013 (2012 – approximately $20,000).

#### Officers, directors and employees

The aggregate value of transactions with officers and directors during the six months ended June 30, 2013, including salaries, benefits and other compensation and share-based compensation, totaled approximately $2,200,000 (2012 - $2,300,000).

#### Entities with common management

The Company has certain managers and directors who are also officers and directors of Josephine Mining Corp., a TSX Venture Exchange issuer, Casa Grande Resources LLC, a private company, and Russell Mining Corporation, a private corporation and significant shareholder of the Company. These related companies utilize the services of some employees, including engineering and administrative staff, which are reimbursed to the Company. Charges for reimbursement to the Company during the six months ended June 30, 2013 totaled approximately $285,000 (2012 – approximately $50,000). The amount receivable from these entities was approximately $285,000 at June 30, 2013 (December 31, 2012 – approximately $140,000).

#### 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 $268,000 is due through the end of the lease in March 2015.

## Off balance sheet arrangements

As of June 30, 2013, the Company had no material off balance sheet arrangements (December 31, 2012– 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 June 30, 2013, there was no material difference in the carrying values and fair values of the Company's financial instruments. The warrant liability at June 30, 2013, had a value of nil (December 31, 2012 – approximately $755,000).

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 and investments 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.

Financial information is presented in U.S. dollars

## 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 | 487,758,334 common shares |
| Securities convertible or exercisable into voting equity securities | |
| Stock options | 23,750,168 stock options |

*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 June 30, 2013.

*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 June 30, 2013, 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 to its common shareholders 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*

The Company's operations and the development of the 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 Philippine Mines and Geosciences Bureau.

*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 the Company's control. These include strong demand from the Asia Pacific region; political, regulatory and economic uncertainties; and costs associated with emissions from fossil fuels. While it 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*

The Company operates 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.

*Partner risk*

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.

The Company has also 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.

*Philippine tax incentives*

The Philippine government offers tax incentives, including periods of tax-free operations early in the life of mines, to mining businesses to encourage economic development. These incentives have a significant impact on the financial metrics used to evaluate the Project. Should these incentives be withdrawn or reduced, material changes in Project economics could occur. As of the date of this document, the Philippine government is evaluating its current tax incentive regulations.

*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 ended 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 June 30, 2013, 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 required expenditures and completion of certain milestones. 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.

**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.

*Analysis of Investments in other entities*

The Company's investments in other entities include its investment in NADECOR and King-king Gold and Copper Mines Inc. ("KGCMI"). The investment in NADECOR was accounted for under IAS 39 as at June 30, 2013. Should the terms of agreements currently in place be completed, the Company's investment in NADECOR is expected to be accounted for under IAS 28. When or if this change occurs, the impact to the Company's financial statements will be impacted directly by the operating results of NADECOR, which operates at a loss.

The investment in KGCMI was accounted for under IAS 28 as at June 30, 2013, and no changes to the accounting treatment of the investment are expected in the next 12 months. KGCMI currently incurs limited losses and is expected to continue generating small losses for the next 12 months.

**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.

**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. The Company's subscription to a 25% interest in NADECOR represents an important milestone with respect to the cooperative development of the Project and further aligns both parties' goals. Management continues to drive expenditure reductions while optimizing technical studies.

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) in coordination with NADECOR; and
- Continue to strategically deploy capital, which includes limiting or deferring expenditures.