St. Augustine Gold and Copper Limited

Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2012 and 2011
Unaudited and expressed in U.S. dollars

Dated as of May 8, 2012

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St. Augustine Gold and Copper Limited
Consolidated Statements of Financial Position
Unaudited, expressed in U.S. dollars

	Notes	March 31, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		$ 15,785,205	$ 24,656,885
Restricted cash	10(a)	250,000	943,697
Advances to related party	6(c)	704,277	-
Prepaids and other current assets		287,714	319,021
Total current assets		17,027,196	25,919,603
Non-current assets			
Investment in mining property	5	71,372,890	64,651,019
Notes receivable	3	900,810	882,360
Property and equipment	4	888,402	866,423
Other non-current assets		607,152	177,687
Total non-current assets		73,769,254	66,577,489
Total assets		**$ 90,796,450**	**$ 92,497,092**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		$ 3,937,016	$ 4,894,324
Warrant liability	7	150,499	316,267
Due to related parties	6(b)	43,713	51,283
Total current liabilities		4,131,228	5,261,874
Shareholders' equity			
Share capital	8(a)	86,077,399	86,077,399
Share option reserves	8(b)	7,710,491	6,701,148
Shares to be issued	9(c)	3,425,408	3,425,408
Accumulated deficit		(10,514,805)	(8,968,737)
Accumulated other comprehensive deficit		(33,271)	-
Total shareholders' equity		86,665,222	87,235,218
Total liabilities and shareholders' equity		**$ 90,796,450**	**$ 92,497,092**
Commitments and contingencies	9		
Subsequent events	12		

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

Approved on behalf of the Board of Directors:

"SIGNED"
Andrew Russell
Director

"SIGNED"
Terry Krepiakevich
Director

(Unaudited, expressed in U.S. dollars except for per share data)

	Notes	Three months ended March 31, 2012	Three months ended March 31, 2011
Operating expenses			
Share-based payments	6(a)	$ 1,009,343	$ 3,174,688
Stock listing and transfer fees		90,847	248,450
General and administrative costs		629,555	26,748
Total operating expenses		1,729,745	3,449,886
Other income and expense			
Interest income		7,885	187,779
Gain on warrant liability	7	165,768	-
Foreign exchange gain		10,024	-
Total other income		183,677	187,779
Net loss		**1,546,068**	**3,262,107**
Foreign exchange translation loss		33,271	-
Total comprehensive loss		**$ 1,579,339**	**$ 3,262,107**
Net loss per common share, basic and diluted		$ 0.01	$ 0.01
Weighted average common shares outstanding, basic and diluted		325,258,334	277,350,185

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

(Unaudited, expressed in U.S. dollars)

	Notes	Three months ended March 31, 2012	2011
Cash flows from operating activities			
Net loss		$ (1,546,068)	$ (3,262,107)
Stock based compensation expense		1,009,343	3,174,688
Non-cash fair value adjustment of warrant liability	7	(165,768)	-
Effects of foreign currency		(43,295)	3,769
Changes in assets and liabilities			
Decrease (increase) in prepaids and other current assets		31,307	(140,048)
Increase in other non-current assets		(429,465)	-
Net cash used by operating activities		(1,143,946)	(223,698)
Cash flows from investment activities			
Increase in investment in mining property		(6,663,100)	(6,445,314)
Decrease in restricted cash		693,697	-
Increase in advances to related party	6(c)	(704,277)	-
Purchase of property and equipment	4	(80,750)	(663,307)
Changes in non-cash investing working capital		(974,352)	(3,255,588)
Net cash used by investing activities		(7,728,782)	(10,364,209)
Cash flows from financing acitvities			
Net cash from reverse acquisition and recapitalization		-	7,210,251
Repayments to related parties		-	(2,000,000)
Proceeds attributed to common stock and warrants		-	53,429,508
Increase in due to related party		-	5,892
Net cash provided by financing activities		-	58,645,651
Effect of exchange rate changes on cash		1,048	-
Net increase (decrease) in cash and cash equivalents		(8,872,728)	48,057,744
Cash and cash equivalents, beginning of period		24,656,885	583,603
Cash and cash equivalents, end of period		**$ 15,785,205**	**$ 48,641,346**
Comprised of:			
Cash		1,502,117	48,641,346
Cash equivalents		14,283,088	-
Total cash and cash equivalents, end of period		**$ 15,785,205**	**$ 48,641,346**

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

St. Augustine Gold and Copper Limited
Interim Consolidated Statements of Changes in Shareholders' Equity
Unaudited, expressed in U.S. dollars

	Shares	Share Capital	Warrants	Shares to be issued	Share option reserves	Accumulated other comprehensive deficit	Accumulated deficit	Total
Balance, January 1, 2011	10,000,001	$ 2,069,664	$ 1,739,000	$ -	$ -	$ -	$ (1,789,391)	$ 2,019,273
Ratel shares outstanding upon recapitalization	90,000,000	-	-	-	-	-	-	-
Prior outstanding shares/warrants eliminated	(10,000,001)	1,739,000	(1,739,000)	-	-	-	-	-
Shares issued on recapitalization	80,000,000	3,653,795	-	-	-	-	-	3,653,795
Shares to be issued	-	-	-	3,425,408	-	-	-	3,425,408
Additional capital contributed	-	1,462,593	-	-	-	-	-	1,462,593
Shares issued for notes receivable	3,000,000	904,159	-	-	-	-	-	904,159
Options exercised concurrent with recapitalization	4,700,000	920,735	-	-	-	-	-	920,735
Private placement concurrent with recapitalization	83,333,334	25,196,041	-	-	-	-	-	25,196,041
Private placement at $CDN 1.22, net	32,800,000	38,918,800	-	-	-	-	-	38,918,800
Exercise of share options	450,000	88,533	-	-	-	-	-	88,533
Share-based payments	-	-	-	-	3,174,688	-	-	3,174,688
Net loss for the period	-	-	-	-	-	-	(3,262,107)	(3,262,107)
Balance, March 31, 2011	294,283,334	74,953,320	-	3,425,408	3,174,688	-	(5,051,498)	76,501,918
Balance, January 1, 2012	325,258,334	86,077,399	-	3,425,408	6,701,148	-	(8,968,737)	87,235,218
Share based compensation	-	-	-	-	1,009,343	-	-	1,009,343
Foreign exchange translation loss for the period	-	-	-	-	-	(33,271)	-	(33,271)
Net loss for the period	-	-	-	-	-	-	(1,546,068)	(1,546,068)
Balance, March 31, 2012	325,258,334	$86,077,399	$ -	$ 3,425,408	$ 7,710,491	$ (33,271)	$ (10,514,805)	$86,665,222

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

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

St. Augustine Gold and Copper Limited ("SAGC" or the "Company") was originally incorporated as Ratel Gold Limited ("Ratel"), a British Virgin Islands corporation. The Company's name was changed following a recapitalization completed during 2011. The address of SAGC's corporate office is 601 West Main Avenue, Suite 600, Spokane, Washington 99201. The registered address of the Company in the British Virgin Islands is Jayla Place, Wickham's Cay 1, Road Town, Tortola VG 1110, British Virgin Islands.

The Company has earned no revenues since its recapitalization in 2011 and is currently focusing its efforts on the acquisition, development and exploration of mineral properties. The Company and Nationwide Development Corporation ("NADECOR"), a Philippine corporation, entered into a Letter of Understanding dated November 10, 2009, and executed a Memorandum of Understanding on April 27, 2010. Under these agreements, subsequent amendments and related agreements, the Company became responsible for providing technical assistance for operations and acquired the right to earn-in an aggregate 60% equity position in the King-king Joint Venture ("KKJV") envisioned in the Memorandum of Understanding ("MOU"). The earn-in is based on expenditures made to benefit the King-king copper gold project (the "Project") as well as direct payments to NADECOR. The Project is a copper-gold mineral resource located at Sitio Gumayan, Barangay King-king, Municipality of Pantukan, Province of Compostela Valley, on Mindanao Island, Philippines. The Project is an advanced stage exploration property without a known commercially mineable ore body. Several years of exploration, including drilling and baseline studies were completed by Benguet Corporation ("Benguet"), the party which held an interest in the King-king Project with NADECOR prior to September 2011.

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 from related parties and other private parties in the past, there is no assurance that it will be able to do so in the future.

The Consolidated Financial Statements were authorized for issue by the Board of Directors on May 8, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These condensed consolidated interim financial statements ("Financial Statements"), including comparatives, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting period ending December 31, 2012. 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, 2011. Accordingly, 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. When policies have changed from prior annual financial statements the policies are described below.

The Financial Statements are prepared as at and for the three months ended March 31, 2012, which is part of the period to be covered by the Company's annual financial statements for the year ending December 31, 2012.

(b) Basis of presentation

The Financial Statements have been prepared using historical costs and fair values of certain items. Items measured at fair value include cash held in foreign currencies, warrant liability and share-based payments.

(c) Basis of consolidation

These Financial Statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions are eliminated on consolidation. The acquisition method of accounting is used to account for acquisitions of companies and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

(d) 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 revenues 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.

(e) Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board or International Financial Reporting Issues Committee that are mandatory for accounting periods beginning after January 1, 2012 or later periods. The standards impacted that are applicable to the Company are as follows:

- IFRS 7 – *Financial Instruments Disclosures* requires adoption of amendments for annual periods beginning January 1, 2013.

- IFRS 9 - *Financial Instruments* was issued 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.

- IFRS 10 - *Consolidated Financial Statements* will supersede the consolidation requirements in SIC-12 - Consolidation – Special Purpose Entities and IAS 27 - Consolidated and Separate Financial Statements effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.

- IFRS 11 - *Joint Arrangements* will supersede the existing standard IAS 31 - *Joint Ventures* effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.

- IFRS 12 - *Disclosure of Interests in Other Entities* 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.

- 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.

- IAS 28 - *Investments in Associates and Joint Ventures* is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Amendments to IAS 28 provide additional guidance applicable to accounting for interests in joint ventures or associates when a portion of an interest is classified as held for sale or when an entity ceases to have joint control or significant influence over an associate or joint venture. When joint control or significant influence over an associate or joint venture ceases, the entity will no longer be required to re-measure the investment at that date. When a portion of an interest in a joint venture or associate is classified as held for sale, the portion not classified as held for sale shall be accounted for using the equity method of accounting until the sale is completed at which time the interest is reassessed for prospective accounting treatment.

- IAS 1 - *Presentation of Items of OCI: Amendments to IAS 1 Presentation of Financial Statements* stipulates the presentation of net earnings and OCI and also require grouping of items within OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective beginning on January 1, 2012, with retrospective application and early adoption permitted.

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

- 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.

- IAS 32 - *Financial Instruments Offsetting Financial Assets and Financial Liabilities.* The amendment provides further clarification on the application of the offsetting requirements. The Company will start the application of IAS 32 in the financial statements effective January 1, 2014.

3. NOTES RECEIVABLE

The Company holds notes receivable from former employees of the Company (under prior management), which were exchanged for shares in the Company. The notes are denominated in Canadian dollars and are reported at the translated U.S. dollar amount of $900,810 (2011 - $882,360). The notes are payable to the Company upon the earlier of the sale of the shares by the debtor or December 31, 2015.

Financial information is unaudited and expressed in U.S. dollars unless otherwise noted

4. PROPERTY AND EQUIPMENT

	Vehicles	Furniture & Fixtures	Equipment	Buildings	Total
Cost					
Balance, December 31, 2011	$ 637,383	$ -	$ 245,183	$ 121,618	$ 1,004,184
Acquisitions	-	12,238	59,928	8,584	80,750
Disposals	-	-	-	-	-
Balance, March 31, 2012	637,383	12,238	305,111	130,202	1,084,934
Accumulated depreciation					
Balance, December 31, 2011	95,791	-	34,465	7,505	137,761
Disposals	-	-	-	-	-
Depreciation expense	28,685	1,020	22,572	6,495	58,771
Balance, March 31, 2012	124,476	1,020	57,037	14,000	196,532
Net book value, December 31, 2011	$ 541,592	$ -	$ 210,718	$ 114,113	$ 866,423
Net book value, March 31, 2012	$ 512,907	$ 11,218	$ 248,074	$ 116,202	$ 888,402

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

5. INVESTMENT IN MINING PROPERTY

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

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

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

i. Direct payment to NADECOR made in 2009.

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

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

Financial information is unaudited and expressed in U.S. dollars unless otherwise noted

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

v. The timing of direct payments to NADECOR is contingent on events contemplated in the MOU. $981,000 was paid during the third quarter of 2011 pursuant to the third amendment to the MOU, and the balance is expected to be paid in 2012.

vi. Capital expenditures based on planned mine throughput. The minimum commitment is $32,000,000 and is subject to adjustment depending on the final planned throughput of the mine.

The Company has committed to spend $43,500,000 to complete a BFS for the Project, for which the Company earns an aggregate 45% interest in the Project. An additional 6% can be earned through interim payments to NADECOR and an additional 9% can be earned by funding a minimum of $32,000,000 in capital development expenditures, subject to adjustment according to outcomes contemplated in the MOU. To earn the full 60% interest in the Project, the Company will spend, or pay to NADECOR, a total of $83,000,000, as outlined by the agreement summarized above and subject to adjustments for outcomes contemplated in the MOU. The Company also incurs costs related to the project which do not qualify for progress towards the earn-in.

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

Category	BFS	CapEx	Acquisition payments to NADECOR	March 31, 2012	December 31, 2011
Project expenditures	$ 30,770,115	$ 16,538,909	$ 1,381,000	$ 48,690,024	$ 41,622,987
Benguet settlement expenditures	-	20,524,033	3,000,000	23,524,033	23,183,344
Total	**$ 30,770,115**	**$ 37,062,942**	**$ 4,381,000**	**$ 72,214,057**	**$ 64,806,331**

The Community Relations and Security Agreement and the Joint Venture Coordinating Committee Agreement, were both terminated during the three months ended March 31, 2012. The agreements ended pursuant to termination clauses in the agreements triggered by the Company’s fulfillment of planned CapEx expenditures.

On January 19, 2012, the Company and NADECOR executed an agreement (the “Subscription Agreement”) which will result in the issuance of equity in King-king Gold & Copper Mines, Inc. (“KKGCMI”), the joint venture which will hold the Mineral Production Sharing Agreement relevant to the Project. The Subscription Agreement will cause the Company to own 30% of the issued and outstanding equity of KKGCMI. The agreement modifies the $30 million PSIA investment agreement.

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	March 31, 2012	December 31, 2011
Earn-in balance (i)	72,214,057	64,806,331
Depreciable property (earn-in in full on purchase)	(888,402)	(866,423)
Qualifying fundraising costs	(1,670,625)	(1,670,625)
Interest earned on Nadecor advances	(340,689)	-
Disallowed/reserved expenditures	2,058,549	2,381,736
Investment in mining property	71,372,890	64,651,019

Financial information is unaudited and expressed in U.S. dollars unless otherwise noted

i. 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 expenditures through June 30, 2011. Approximately $28,800,000 of the amount at (i) in the above table at December 31, 2011 has been approved for earn-in by NADECOR and approximately $43,400,000 is currently under audit or within NADECOR's right to audit.

6. 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:

	Three months ended March 31,	
Compensation	**2012**	**2011**
Salaries	$ 582,894	$ 562,417
Share-based compensation (i)	809,925	2,862,843
Total	$ 1,392,819	$ 3,425,260

i. The balances of share-based payment expense in excess of these values are attributable to share-based payments made to other employees and contractors for the three month periods ended March 31, 2012 and 2011 (2012 - $1,009,343; 2011 - $3,174,688).

(b) Transactions with Other Related Parties

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

Related party receivable	**March 31, 2012**	**December 31, 2011**
Gold Coast Mining, Inc. (i)	$ 16,834	$ 16,834

	Three months ended March 31,	
Transactions	**2012**	**2011**
Services rendered:		
Norton Rose Canada LLP (ii)	$ 57,213	$ 66,425
Reimbursement of third party expenses incurred on the Company's behalf:		
Russell Mining and Minerals, Inc. (iii)	112,826	21,046
Total	$ 170,039	$ 87,471

Related party balances payable	March 31, 2012	December 31, 2011
Norton Rose Canada LLP	$ 11,416	$ 16,346
Russell Mining and Minerals, Inc.	32,297	34,937
Total	$ 43,713	$ 51,283

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

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

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

(c) Advances to related party

The Company has advanced the U.S. dollar equivalent of $704,277 to KKGCMI, which is the joint venture company established to hold the rights to the Project.

7. WARRANT LIABILITY

Warrants issued during 2011 were deemed a derivative liability under IAS 32 because they are exercisable in Canadian dollars while the Company's functional currency is the U.S. dollar. The warrants are therefore required to be revalued at fair value through net loss at each reporting date. At March 31, 2012, the value of the warrant liability was $150,499, a change of $165,768 from December 31, 2011, which was recognized during the three months ended March 31, 2012. The assumptions used to value the liability at March 31, 2012 were as follows:

Black Scholes assumptions - valuation of derivative warrant liability at March 31, 2012	
Risk free interest rate (i)	1.19%
Expected volatility (ii)	86%
Expected life, years (iii)	0.63
Exercise price ($CDN)	0.75
Expected dividend yield (iv)	0%

All 14,737,500 warrants underlying the derivative warrant liability remained outstanding and exercisable at March 31, 2012 and expire November 17, 2012.

Financial information is unaudited and expressed in U.S. dollars unless otherwise noted

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

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

iii. Based on contractual terms

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

8. EQUITY

(a) Share capital

There were no share issuances during the three months ended March 31, 2012.

(b) Share option reserves

The issued and outstanding options as at March 31, 2012, were as follows:

	Number of options		Weighted average exercise price		Share option reserves
Balance at January 1, 2012	16,958,333	$	1.16	$	6,701,148
Share options granted to officers, directors and employees	4,600,000		0.55		1,020,419
Share options forfeited by officers, directors, and employees	(266,666)		0.91		(11,076.00)
Balance at March 31, 2012	21,291,667	$	1.03	$	7,710,491
Options exercisable at March 31, 2012	11,833,335	$	1.08	$	5,179,317

The fair value of options granted during the period ended March 31, 2012, was estimated using the Black-Scholes option pricing model with the following weighted assumptions:

Black Scholes assumptions - share options issued during three months ended March 31, 2012	
Risk free interest rate (i)	1.06%
Expected volatility (ii)	79%
Expected life, years (iii)	3
Expected forfeiture rate (iv)	10%
Expected dividend yield (v)	0%

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

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

iii. Based on contract terms.

iv. Management's estimate based on past forfeitures.

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

The following share options were outstanding and exercisable as of March 31, 2012:

Financial information is unaudited and expressed in U.S. dollars unless otherwise noted

Exercise Price	Number Outstanding	Weighted Average Life (Years)	Number Exercisable	Weighted Average Exercise Price
$ 1.54	11,025,000	3.96	7,050,000	$ 1.54
0.98	2,100,000	4.01	700,000	0.98
0.80	125,000	4.06	41,667	0.80
0.73	200,000	4.18	66,667	0.73
0.68	200,000	4.20	66,667	0.68
0.64	500,000	4.25	250,000	0.64
0.66	200,000	4.27	66,667	0.66
0.53	1,100,000	4.53	366,667	0.53
0.29	525,000	4.70	175,000	0.29
0.28	3,466,667	4.83	1,200,000	0.28
0.20	1,850,000	0.25	1,850,000	0.20
	21,291,667	**3.84**	**11,833,335**	$ **1.08**

9. COMMITMENTS AND CONTINGENCIES

(a) NADECOR

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

(b) Rental agreement

The Company and RMMI are lessees in a three year office lease agreement, ending March 2015. Monthly payments of $16,000 are due through the term of the agreement.

(c) Shares contingently issuable to RMMI

75,000,000 shares are issuable to RMMI contingent upon completion of a feasibility study on the Project or a change in control. These shares were valued at $3,425,408 on January 7, 2011, the date on which the Company was recapitalized.

(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 condensed consolidated interim 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.

10. CAPITAL MANAGEMENT

The following table summarizes capital under the Company's capital management program:

Financial information is unaudited and expressed in U.S. dollars unless otherwise noted

	March 31, 2012	December 31, 2011
Cash and cash equivalents	$ 15,785,205	$ 24,656,885
Restricted cash (a)	250,000	943,697
Warrant liability	150,499	316,267
Share capital	86,077,399	86,077,399
Share option reserves	7,710,491	6,701,148
Shares to be issued	3,425,408	3,425,408

Approximately $2,100,000 and $300,000 was held in foreign banks in the Netherlands and the Philippines at March 31, 2012, respectively. As of December 31, 2011, approximately $285,000 and $244,000 was held in the Netherlands and the Philippines bank accounts, respectively.

(a) Restricted cash

The Company has $250,000 (December 31, 2011 - $943,697) held by a large banking institution as collateral for lines of credit. The decrease from December 31, 2011 was the result of the transfer of cash held in Philippine bank accounts to KKGCMI (Note 6(c)).

The Company's objectives and continued financing of its commitments under its agreements with NADECOR (Note 5) are dependent on the ability to raise funds until mineral production commences. The Company is currently developing plans to address future liquidity and capital management risks.

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.

11. EARNINGS PER SHARE ("EPS")

(a) Basic EPS

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

(b) Diluted EPS

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

The Company reported net losses for the three months ended March 31, 2012 and 2011; the Company has accordingly presented basic and diluted EPS, which are the same, on a single line in the statements of comprehensive loss. Diluted loss per share did not include the effect of share purchase options and warrants as they were anti-dilutive.

12. SUBSEQUENT EVENTS

On May 2, 2012, the Company granted 1,000,000 stock options with an exercise price of $0.20 (CDN).