St. Augustine Gold and Copper Limited

Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2013 and 2012
Unaudited and presented in U.S. dollars

Dated as of May 15, 2013

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(Unaudited and presented in U.S. dollars)

	Notes	March 31, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		$ 3,958,668	$ 7,117,302
Restricted cash	10	250,000	250,000
Advances to NADECOR	4(a)	1,095,000	1,137,512
Prepaids and other current assets		447,872	248,879
Total current assets		5,751,540	8,753,693
Non-current assets			
Investment in mining property	5	84,261,374	81,347,929
Notes receivable	3	878,310	914,040
Property and equipment	6	776,224	848,541
Other non-current assets		575,000	500,000
Total non-current assets		86,490,908	83,610,510
Total assets		**$ 92,242,448**	**$ 92,364,203**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued wages		$ 1,481,256	$ 1,846,503
Warrant liability	7	41,252	755,509
Due to related parties	8(b)	15,703	20,167
Total current liabilities		1,538,211	2,622,179
Shareholders' equity			
Share capital	9(a)	94,183,901	92,399,045
Share option reserves	9(b)	10,389,740	9,921,503
Warrant reserves	9(c)	847,759	1,695,517
Accumulated deficit		(14,808,519)	(14,321,960)
Accumulated other comprehensive income		91,356	47,919
Total shareholders' equity		90,704,237	89,742,024
Total liabilities and shareholders' equity		**$ 92,242,448**	**$ 92,364,203**
Commitments and contingencies	12		
Subsequent events	13		

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

Approved on behalf of the Board of Directors:

"SIGNED" *"SIGNED"*

Terry Krepiakevich
Director

Max V. Anhoury III
Director

(Unaudited and presented in U.S. dollars)

	Notes	Three months ended March 31, 2013	2012
Operating expenses			
Wages and share-based payments	9(b)	$ 677,421	$ 1,009,343
Stock listing and transfer fees		75,429	90,847
General and administrative costs		393,675	629,555
Total operating expenses		$ 1,146,525	$ 1,729,745
Other income and expense			
Interest income		$ 1,779	$ 7,885
Change in fair value of warrant liability	7	714,257	165,768
Foreign exchange gain (loss)		(46,070)	10,024
Total other income		$ 669,966	$ 183,677
Net loss before income tax expense		**$ 476,559**	**$ 1,546,068**
Income tax expense		10,000	-
Net loss		**$ 486,559**	**$ 1,546,068**
Foreign exchange translation loss (gain)		(43,437)	33,271
Total comprehensive loss		**$ 443,122**	**$ 1,579,339**
Net loss per common share, basic and diluted		$ 0.00	$ 0.01
Weighted average common shares outstanding, basic and diluted		427,870,694	325,258,334

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

(Unaudited and presented in U.S. dollars)

	Notes	Three months ended March 31, 2013	2012
Cash flows from operating activities			
Net loss		$ (486,559)	$ (1,546,068)
Share-based compensation expense	9(b)	217,472	1,009,343
Non-cash fair value adjustment of warrant liability	7	(714,257)	(165,768)
Effects of foreign currency changes		78,168	(43,295)
Deduct interest income (reported under investing activities)		(1,779)	(7,885)
Changes in assets and liabilities			
Decrease (increase) in prepaids and other current assets		(198,993)	31,307
Increase in other non-current assets		(75,000)	(429,465)
Income tax payments		(10,000)	-
Net cash used by operating activities		(1,190,948)	(1,151,831)
Cash flows from investment activities			
Increase in investment in mining property		(2,589,753)	(6,663,100)
Decrease in restricted cash		-	693,697
(Increase) decrease in advances to NADECOR		42,512	(704,277)
Purchase of property and equipment	6	(610)	(80,750)
Changes in non-cash investing working capital		(359,711)	(974,352)
Interest income		1,779	7,885
Net cash used by investing activities		(2,905,783)	(7,720,897)
Cash flows from financing acitvities			
Proceeds attributed to common stock and warrants	9	937,098	-
Net cash provided by financing activities		937,098	-
Net decrease in cash and cash equivalents		(3,159,633)	(8,872,728)
Effect of exchange rate changes on cash		999	1,048
Cash and cash equivalents, beginning of period		7,117,302	24,656,885
Cash and cash equivalents, end of period		**$ 3,958,668**	**$ 15,785,205**
Comprised of:			
Cash		$ 635,982	$ 1,502,117
Cash equivalents		3,322,686	14,283,088
Total cash and cash equivalents, end of period		**$ 3,958,668**	**$ 15,785,205**

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

(Unaudited and presented in U.S. dollars)

	Notes	Shares	Share capital	Share option reserves	Warrant reserves	Shares to be issued	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2012		325,258,334	$ 86,077,399	$ 6,701,148	$ -	$ 3,425,408	$ (8,968,737)	$ -	$ 87,235,218
Share-based compensation		-	-	1,009,343	-	-	-	-	1,009,343
Foreign exchange transation 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	$ 7,710,491	$ -	$ 3,425,408	$ (10,514,805)	$ (33,271)	$ 86,665,222
Balance, January 1, 2013		425,258,334	$ 92,399,045	$ 9,921,503	$ 1,695,517	$ -	$ (14,321,960)	$ 47,919	$ 89,742,024
Warrant exercise	9(c)	3,750,000	1,784,856	-	(847,758)	-	-	-	937,098
Share-based compensation		-	-	468,237	-	-	-	-	468,237
Foreign exchange transation gain for the period		-	-	-	-	-	-	43,437	43,437
Net loss for the period		-	-	-	-	-	(486,559)	-	(486,559)
Balance, March 31, 2013		429,008,334	$ 94,183,901	$ 10,389,740	$ 847,759	$ -	$ (14,808,519)	$ 91,356	$ 90,704,237

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

1. Organization and description of business

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

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

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

These condensed interim consolidated financial statements ("Financial Statements") were authorized for issue by the Board of Directors on May 15, 2013.

2. Significant accounting policies

(a) Statement of compliance

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

(b) Basis of presentation

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

(c) Basis of consolidation

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

(d) Segment reporting

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

(e) Significant accounting estimates, judgments and assumptions

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

There were no changes in key estimates, judgments or assumptions since the year ended December 31, 2012.

(f) Recent accounting pronouncements

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

Management is currently evaluating the impact of the changes to result from the adoption of IFRS 9 and IAS 32 and does not expect a material impact to the Company's financial statements.

(g) Application of new and revised accounting standards

1. IFRS 7 – Financial Instruments Disclosures requires adoption of amendments for annual periods beginning January 1, 2013. These amendments require an entity to disclose information about rights to set-off and related arrangements.
2. IFRS 10 - Consolidated Financial Statements supersedes the consolidation requirements in SIC-12 - Consolidation – Special Purpose Entities and IAS 27 - Consolidated and Separate Financial Statements effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.
3. IFRS 11 - Joint Arrangements supersedes the existing standard IAS 31 - Joint Ventures effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.
4. IAS 27 – Consolidation and Separate Financial Statements is required to be adopted for periods beginning January 1, 2013. IAS 27 applies in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent and in accounting for investments in subsidiaries, jointly controlled entities, and associates when an entity presents separate financial statements.
5. IAS 28 - Investments in Associates and Joint Ventures is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. It describes the application of the equity method to investments in joint ventures in addition to associates.
    a. IFRS 7, 10 and 11 and IAS 27 and 28 were adopted without impact to the Financial Statements.

6. IFRS 12 - Disclosure of Interests in Other Entities is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. Limited improvements to the Company's disclosures have been implemented in these Financial Statements upon the Company's adoption of the standard on January 1, 2013.
7. IFRS 13 - Fair Value Measurement sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company's adoption of this standard impacted, in principle, the valuation of the Company's warrant liability measured at fair value through profit and loss. As the Company measures the fair value of the warrant liability using the Black-Scholes methodology, there was no impact to the Financial Statements upon adoption of this pronouncement.
8. IAS 1 – Presentation of Items of Other Comprehensive Income – Amendments to IAS 1. The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment became effective for annual periods beginning on or after 1 July 2012. As the Company has only one component of other comprehensive income, the impact was adopted with limited impact to the Financial Statements.

3. Notes receivable

The Company holds notes receivable from former employees of the Company (under prior management), which were exchanged for 2 million shares of the Company. The notes are denominated in Canadian dollars and are reported at the translated U.S. dollar amount of $878,310 (2012 - $914,040). The notes are non-interest bearing and payable to the Company upon the earlier of the sale of the shares by the debtor or December 31, 2015.

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

(a) Advances to NADECOR

Date of advance	March 31, 2013	December 31, 2012
February and March 2012 (i)	$ 696,000	$ 738,512
July 2012 (ii)	360,000	360,000
October 2012 (ii)	39,000	39,000
Total	$ 1,095,000	$ 1,137,512

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

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

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

5. Investment in mining property

The Company has committed to spend $43,500,000 to complete a BFS for the Project, for which the Company earns a 45% interest in the Project; the underlying earn-in accumulates as expenditures are made, as with other milestones and earn-in commitments. An additional 6% can be earned through interim payments to NADECOR and an additional 9% can be earned by funding a minimum of $32,000,000 in capital development expenditures ("CapEx"), subject to adjustment according to outcomes contemplated in the MOU. To earn the full 60% potential interest in the Project, the Company will spend, or pay to NADECOR, a minimum of $83,000,000, as outlined by the agreement summarized below and subject to adjustments for outcomes contemplated in the MOU. A significant variable which can change this minimum commitment is the planned tonnage throughput of mine operations, which has not been finalized. In the event that the Company's minimum commitment increases due to increased tonnage, the Company and NADECOR share in the economic benefit of cost savings against CapEx at the ratio of the earn-in. The Company also incurs costs related to the project which do not qualify for progress towards the earn-in. The expenditure requirements 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 %
$	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%

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

i. Direct payment to NADECOR made in 2009;

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

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

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

v. The timing of direct payments to NADECOR is contingent on events contemplated in the MOU. During the third quarter of 2011, $981,000 was paid, $250,000 was paid during the first quarter of 2013, and the balance is expected to be paid during 2013 or 2014; and

vi. Total capital expenditures based on planned mine throughput. The minimum commitment is $32,000,000, which was fulfilled prior to March 31, 2013, and is subject to adjustment depending on the planned throughput of the mine.

The following table summarizes the primary categories of accumulated earn-in expenditures as of March 31, 2013 and December 31, 2012:

Category	BFS	CapEx	Acquisition payments to NADECOR	March 31, 2013	December 31, 2012
Project expenditures	$ 43,179,321	$ 19,195,027	$ 1,731,000	$ 64,105,348	$ 60,818,370
Benguet settlement expenditures	-	25,031,312	-	25,031,312	24,898,458
Total	**$ 43,179,321**	**$ 44,226,339**	**$ 1,731,000**	**$ 89,136,660**	**$ 85,716,828**

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

A reconciliation of the progress made towards the earn-in to the amounts invested in mining properties included on the accompanying statements of financial position is as follows:

Reconciliation of Investment in mining property to earn-in	March 31, 2013	December 31, 2012
Investment in mining property	$ 84,261,374	$ 81,347,929
Depreciable property (earn-in in full on purchase)	878,687	951,004
Qualifying fundraising costs	1,812,391	1,788,363
Interest earned on Nadecor advances	1,068,159	1,068,159
Disallowed/reserved expenditures and other book to earn-in differences	1,116,049	561,373
Estimated earn-in balance	**$ 89,136,660**	**$ 85,716,828**

Pursuant to MOU terms, NADECOR has a right to audit all expenditures reported by the Company towards earn-in. NADECOR has elected to audit all amounts expended and submitted for approval through September 30, 2012; expenditures for the six months ended March 31, 2013, are pending submission. Approximately $49,000,000 of the earn-in balance in the above table was approved by NADECOR. Approximately $40,100,000 is currently under audit or within NADECOR’s right to audit.

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

6. Property and equipment

		Vehicles		Furniture and fixtures		Equipment		Buildings and leasehold improvements		Totals
Cost balance, January 1, 2012	$	637,383	$	-	$	245,183	$	121,618	$	1,004,184
Additions		-		141,221		91,411		8,638		241,270
Disposals		-		-		(1,564)		-		(1,564)
Balance, December 31, 2012		637,383		141,221		335,030		130,256		1,243,890
Additions		-		-		610		-		610
Disposals		-		-		-		-		-
Balance, March 31, 2013		637,383		141,221		335,640		130,256		1,244,500
Accumulated depreciation, January 1, 2012		95,791		-		34,465		7,505		137,761
Additions		110,888		21,226		97,366		28,194		257,674
Disposals						(86)				(86)
Balance, December 31, 2012		206,679		21,226		131,745		35,699		395,349
Additions		28,821		10,808		26,276		7,022		72,927
Disposals		-		-		-		-		-
Balance, March 31, 2012		235,500		32,034		158,021		42,721		468,276
Net book value, December 31, 2012	**$**	**430,704**	**$**	**119,995**	**$**	**203,285**	**$**	**94,557**	**$**	**848,541**
Net book value, March 31, 2013	**$**	**401,883**	**$**	**109,187**	**$**	**177,619**	**$**	**87,535**	**$**	**776,224**

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

7. Warrant liability

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

The assumptions used to calculate the value of the liability of $41,252 and $755,509 at March 31, 2013, and December 31, 2012, respectively, were as follows:

Black Scholes assumptions - derivative warrant		
Input	**March 31, 2013**	**December 31, 2012**	**Basis of input**
Risk free interest rate	1.00%	1.14%	Bank of Canada's published bond yields
Expected volatility	104%	135%	The Company's historical volatility
Expected life, years	0.29	0.63	Contract terms
Exercise price ($CDN)	$ 0.75	$ 0.75	Contract terms
Expected dividend yield	0%	0%	Management's expectation over the remaining term of the warrants

8. Related party transactions

Certain key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

The following related parties transacted with the Company in the reporting period of these Financial Statements. The terms and conditions of the transactions with key management personnel and their related parties are made at terms equivalent to those that prevail on similar transactions to non-key management personnel related entities at an arm's length basis.

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

(a) Transactions with Officers and Directors

The aggregate value of transactions with officers and directors was as follows:

	Three months ended March 31,	
Compensation	**2013**	**2012**
Officer salaries and director compensation	$ 772,800	$ 582,894
Share-based compensation	417,046	809,925
Total	**$ 1,189,846**	**$ 1,392,819**

(b) Transactions with Other Related Parties

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

	Three months ended March 31,	
Transactions	**2013**	**2012**
Services rendered:		
Norton Rose Canada LLP (i)	$ 26,870	$ 57,213
Reimbursement of third party expenses incurred on the Company's behalf:		
Russell Mining Corporation (ii)	44,926	112,826
Total	**$ 71,796**	**$ 170,039**

	Three months ended March 31,	
Transactions	**2013**	**2012**
Charges for reimbursement from:		
Russell Mining Corporation (ii)	$ 41,773	$ 12,035
Josephine Mining Corp. (iii)	39,240	-
Total	**$ 81,013**	**$ 12,035**

Related party receivable	**March 31, 2013**	**December 31, 2012**
Josephine Mining Corp. (iii)	$ 177,451	$ 136,026
Russell Mining Corporation (iii)	41,347	2,904
Total	**$ 218,798**	**$ 138,930**

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

Related party balances payable	**March 31, 2013**	**December 31, 2012**
Norton Rose Canada LLP (i)	$ 15,703	$ 20,167

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

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

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

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

9. Shareholders' equity

(a) Share capital

In January 2013, the warrant holder from the Company's common share unit issuance in October 2012 (Note 12(c)), Queensberry Mining and Development Corp. ("Queensberry"), exercised 3,750,000 whole warrants at $0.2563 per share for proceeds to the Company of $937,098, net of issue costs of $24,027.

(b) Share option reserves

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

Share option reserves totalled $10,389,740 at March 31, 2013 (2012 - $9,921,503). Cash-based and option-based expenses comprise the total wages and share-based payments expense for the three months ended March 31, 2013 of $677,421 (2012 - $1,009,343).

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

	Exercise price range	Number of options outstanding	Weighted average exercise price
Balance, January 1, 2012		16,958,334	$ 1.16
Grants	$0.20 - 1.54	13,559,500	0.44
Expirations	0.20	(1,850,000)	0.20
Forfeitures	0.28 - 1.54	(1,466,667)	0.82
Balance, December 31, 2012		**27,201,167**	**$ 0.88**
Grants	$0.20 - 1.54	250,000	0.26
Forfeitures	1.54	(1,166,667)	1.54
Balance, March 31, 2013		**26,284,500**	**$ 0.85**

The fair value of options granted are estimated using the Black-Scholes option pricing model. The assumptions in the table below are based on the weighted average of grants issued during the three months ended March 31, 2013:

Black Scholes assumptions - share options		
Input	**2013**	**Basis of input**
Risk free interest rate	1.05%	Bank of Canada's published bond yields
Expected volatility	102%	The Company's historical volatility
Expected life, years	3	Contract terms
Expected forfeiture rate	10%	Contract terms
Expected dividend yield	0%	Management's expectation over the remaining term of the options

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

2. *Summary of share options outstanding and exercisable as at March 31, 2013 (dollars in CDN$)*

	Outstanding			Exercisable		
Exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining years	Number outstanding	Weighted average exercise price	Weighted average remaining years
$0.20 to $0.47	12,634,500	$ 0.35	4.31	6,128,172	$ 0.33	4.16
$0.48 to $0.74	2,000,000	0.59	3.40	1,500,002	0.60	3.38
$0.75 to $1.01	2,225,000	0.97	3.01	1,483,335	0.97	3.01
$1.02 to $1.55	9,425,000	1.54	2.87	9,425,000	1.54	2.87
Totals	**26,284,500**	**$ 0.85**	**3.61**	**18,536,509**	**$ 1.02**	**3.35**

(c) *Warrant reserves*

1. *Summary of warrants outstanding and exercisable at March 31, 2013*

Exercise price	**Number outstanding**	**Remaining years**
CDN$0.75 (Note 7)	14,737,500	0.29
$0.2563	3,750,000	0.29
Total outstanding / weighted average remaining life	**18,487,500**	**0.29**

During the three months ended March 31, 2013, 3,750,000 warrants were exercised; the remaining 3,750,000 warrants were exercised subsequent to March 31, 2013 (Note 13). Of the total outstanding warrants, 3,437,500 are held by insiders and were not exercisable at March 31, 2013. The extension of the warrants held by insiders is subject to disinterested shareholder approval at the Company's next shareholder meeting.

10. Capital management

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

	March 31, 2013	**December 31, 2012**
Cash and cash equivalents	$ 3,958,668	$ 7,117,302
Restricted cash	250,000	250,000
Warrant liability	41,252	755,509
Share capital	94,183,901	92,399,045
Share option reserves	10,389,740	9,921,503
Warrant reserves	847,759	1,695,517

At March 31, 2013, approximately $60,000 (December 31, 2012 - $9,000) was held in banks in the Netherlands and $230,000 (December 31, 2012 - $404,000) was held in banks in the Philippines. The Company has $250,000 held by a large United States of America ("USA") banking institution as collateral for the Company's credit cards. The balance of cash and cash equivalents at March 31, 2013, and December 31, 2012, was held in USA and Canadian banks.

The Company's objectives and continued financing of its commitments under its agreements with NADECOR (Notes 4 and 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 include the effects of instruments, such as share options and warrants, which could cause the number of common shares outstanding to increase.

The Company reported net losses for the three months ended March 31, 2013 and 2012; the Company has accordingly presented basic and diluted EPS, which are the same, on a single line in the statements of comprehensive loss. Diluted loss per share did not include the effect of share purchase options and warrants as they were anti-dilutive.

12. Commitments and contingencies

(a) NADECOR

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

(b) Rental agreement

The Company's office lease commitment to RMC (Note 8), ending March 2015, is approximately $13,000 per month. The total remaining payments through the end of the lease, all payable within three years from March 31, 2013, total $307,974.

(c) Contingent private placement

A private placement, which closed October 16, 2012, consisted of the issuance of 25 million common share units ("Units") at a price of $0.19 per Unit for proceeds of $4,709,493, net of issue costs of $117,738. Each Unit was comprised of one common share and 0.3 of one common share purchase warrant (for a total of 7.5 million whole warrants); one whole warrant is exercisable at a price of $0.2563 until October 16, 2013. Additionally, the subscriber of this private placement, Queensberry, may acquire up to 4.65 million shares prior to July 15, 2013 for $0.75 per share in a separate transaction.

(d) Other

Due to the nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the opinion of management, there are no matters that could have a material effect on these consolidated financial statements which require additional disclosure. The Company is party to several consulting agreements with third parties, but does not have non-cancellable contractual commitments other than the office lease agreement described above.

13. Subsequent events

In April 2013, the Company issued 3,750,000 shares pursuant to a warrant exercise by Queensberry for gross proceeds of $961,125. This exercise and Queensberry's January 2013 exercise represent all 7 million warrants issued to Queensberry in the October 2012 private placement (Note 12(c)). The issuance increased the number of shares outstanding to 432,758,334 and reduced warrants outstanding to 14,737,500 (Note 7).

In May 2013, the Company and Queensberry Mining & Development Corp. ("Queensberry") executed an agreement whereby Queensberry will increase its investment in the Company by 55,000,000 shares at $0.20 per share. The proceeds of $11 million before issue costs will be used for general working capital of the Company. After this May issuance there are 487,758,334 shares outstanding.