St. Augustine Gold and Copper Limited

Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2013 and 2012
Unaudited and presented in U.S. dollars

Dated as of November 12, 2013

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Consolidated statements of financial position
As at September 30, 2013 and December 31, 2012
(Unaudited and presented in U.S. dollars)

	Notes	September 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		$ 9,339,011	$ 7,117,302
Restricted cash		250,100	250,000
Advances to NADECOR	4(a)	-	1,137,512
Prepaids and other current assets	10(b)	580,625	248,879
Total current assets		10,169,736	8,753,693
Non-current assets			
Investment in mining property	5	55,920,196	81,347,929
Investment in NADECOR	6	33,500,165	-
Investment in KGCMI	7	728,913	-
Notes receivable	3	875,070	914,040
Property and equipment	8	645,019	848,541
Other non-current assets		885,172	500,000
Total non-current assets		92,554,535	83,610,510
Total assets		**$ 102,724,271**	**$ 92,364,203**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued wages		$ 2,008,891	$ 1,846,503
Warrant liability	9	-	755,509
Due to related parties	10(b)	20,770	20,167
Total current liabilities		2,029,661	2,622,179
Shareholders' equity			
Share capital	11(a)	106,693,756	92,399,045
Share option reserves	11(b)	10,877,777	9,921,503
Warrant reserves	11(c)	-	1,695,517
Accumulated deficit		(16,470,478)	(14,321,960)
Accumulated other comprehensive income (loss)		(406,445)	47,919
Total shareholders' equity		100,694,610	89,742,024
Total liabilities and shareholders' equity		**$ 102,724,271**	**$ 92,364,203**
Commitments and contingencies	14		
Subsequent events	15		

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

Approved on behalf of the Board of Directors:

"SIGNED"
Terry Krepiakevich
Director

"SIGNED"
Max V. Anhoury III
Director

(Unaudited and presented in U.S. dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Notes	**2013**	**2012**	**2013**	**2012**
Operating expenses					
Wages and share-based payments	11(b), 10	$ 512,109	$ 686,750	$ 1,705,739	$ 2,102,791
General and administrative costs	10	264,353	310,909	1,032,963	1,416,365
Total operating expenses		$ 776,462	$ 997,659	$ 2,738,702	$ 3,519,156
Other income and expense					
Interest income		$ 16,044	$ 3,726	$ 25,644	$ 15,241
Change in fair value of warrant liability	9	-	-	755,509	316,267
Foreign exchange gain (loss)		47,472	41,971	(35,969)	42,951
Total other income		$ 63,516	$ 45,697	$ 745,184	$ 374,459
Loss from investment in Nadecor	6	25,000	-	25,000	-
Loss from investment in KGCMI	7	24,000	-	24,000	-
Net loss before income tax expense		**$ 761,946**	**$ 951,962**	**$ 2,042,518**	**$ 3,144,697**
Income tax expense		16,000	-	106,000	-
Net loss		**$ 777,946**	**$ 951,962**	**$ 2,148,518**	**$ 3,144,697**
Foreign exchange translation loss (gain)		320,153	(79,797)	454,364	(26,809)
Total comprehensive loss		**$ 1,098,099**	**$ 872,165**	**$ 2,602,882**	**$ 3,117,888**
Net loss per common share, basic and diluted		$ 0.00	$ 0.01	$ 0.00	$ 0.01
Weighted average common shares outstanding, basic and diluted		487,758,334	325,258,334	457,105,760	325,258,334

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

(Unaudited and presented in U.S. dollars)

	Notes	Nine months ended September 30, 2013	2012
Cash flows from operating activities			
Net loss		$ (2,148,518)	$ (3,144,697)
Share-based compensation expense	11(b)	535,367	752,791
Non-cash fair value adjustment of warrant liability	9	(755,509)	(316,267)
Effects of foreign currency changes		53,291	(1,822)
Deduct interest income (reported under investing activities)		(25,644)	-
Loss from investment in Nadecor	6	25,000	-
Loss from investment in KGCMI	7	24,000	-
Changes in assets and liabilities			
Decrease (increase) in prepaids and other current assets		(298,268)	17,947
Increase in other non-current assets		(385,172)	(247,313)
Increase in advances to related party		(33,478)	-
Income tax payments		(50,000)	-
Net cash used by operating activities		(3,058,931)	(2,939,361)
Cash flows from investment activities			
Increase in investment in mining property		(7,060,927)	(12,809,990)
Investment in NADECOR	6	(33,525,165)	-
Reimbursement of invested amounts	6	33,525,165	-
Decrease (increase) in restricted cash		(100)	693,697
Increase in investment in KGCMI	7	(56,913)	-
Increase in advances to related parties		-	(1,085,598)
Purchase of property and equipment	8	(11,523)	(212,241)
Changes in non-cash investing working capital		212,991	(2,767,889)
Interest income		25,644	-
Net cash used by investing activities		(6,890,828)	(16,182,021)
Cash flows from financing acitvities			
Proceeds from common stock and warrants	11	12,599,194	-
Net cash provided by financing activities		12,599,194	-
Net increase (decrease) in cash and cash equivalents		2,649,435	(19,121,382)
Effect of exchange rate changes on cash		(427,726)	(9,007)
Cash and cash equivalents, beginning of period		7,117,302	24,656,885
Cash and cash equivalents, end of period		**$ 9,339,011**	**$ 5,526,496**
Comprised of:			
Cash		$ 8,804,441	$ 600,406
Cash equivalents		534,570	4,926,090
Total cash and cash equivalents, end of period		**$ 9,339,011**	**$ 5,526,496**

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
For the nine months ended September 30, 2013 and 2012
(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		-	-	2,063,594	-	-	-	-	2,063,594
Foreign exchange transation gain for the period		-	-	-	-	-	-	26,809	26,809
Net loss for the period		-	-	-	-	-	(3,144,697)	-	(3,144,697)
Balance, September 30, 2012		325,258,334	$ 86,077,399	$ 8,764,742	$ -	$ 3,425,408	$ (12,113,434)	$ 26,809	$ 86,180,924
Balance, January 1, 2013		425,258,334	$ 92,399,045	$ 9,921,503	$ 1,695,517	$ -	$ (14,321,960)	$ 47,919	$ 89,742,024
Warrant exercises	11(c)	7,500,000	3,569,711	-	(1,695,517)	-	-	-	1,874,194
Share-based compensation		-	-	956,274	-	-	-	-	956,274
Private placement of shares	11(a)	55,000,000	10,725,000	-	-	-	-	-	10,725,000
Foreign exchange translation loss for the period		-	-	-	-	-	-	(454,364)	(454,364)
Net loss for the period		-	-	-	-	-	(2,148,518)	-	(2,148,518)
Balance, September 30, 2013		487,758,334	$ 106,693,756	$ 10,877,777	$ -	$ -	$ (16,470,478)	$ (406,445)	$ 100,694,610

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 (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 Intent 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 MOU will be superseded following fulfillment of the terms of a new agreement executed subsequent to September 30, 2013 (Note 15(a)).

The Project is a copper-gold mineral reserve 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 have been completed by various parties. A draft Environmental Impact Statement and a draft Declaration of Mining Project Feasibility were completed and submitted to regulatory agencies for review and a NI 43-101-compliant Preliminary Feasibility Technical Report has been completed and published on SEDAR.

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 November 12, 2013.

2. Significant accounting policies

(a) Statement of compliance

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

(b) Basis of presentation

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

(c) Basis of consolidation

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

(d) Segment reporting

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

(e) Significant accounting estimates, judgments and assumptions

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

Note 2(h) describes newly applied accounting standards.

(f) Investments in other entities

The Company accounts for investments below the threshold of having significant influence either at fair value or at amortised cost, depending on the nature of the investment. If the Company moves beyond the threshold of having significant influence, the cost of the investment is deemed to be the initial cost as the basis for the use of the equity method of accounting for 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' comprehensive profit or loss through the Company's statement of comprehensive profit or loss. The Company's share of profit or loss of an associate is shown on the face of the statement of comprehensive loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of losses of an associate' in the statement of comprehensive profit or loss.

Upon loss of significant influence over the associate, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(g) Recent accounting pronouncements

1. *IAS 32 - Financial Instruments Offsetting Financial Assets and Financial Liabilities*. The amendment provides further clarification on the application of the offsetting requirements. The Company will adopt the amendments to IAS 32 in the financial statements effective January 1, 2014. Management is currently evaluating the impact of the changes to result from the adoption of IAS 32 and does not expect a material impact to the Company's financial statements.

2. *IAS 36 Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36.* The amdendments are effective for annual periods beginning on or after January 1, 2014. The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair valueless costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets within definite useful lives. This requirement has been deleted by the amendment. Management is currently evaluating the impact of the changes to result from the adoption of IAS 32 and does not expect a material impact to the Company's financial statements.

3. *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.

(h) Application of new and revised accounting standards

1. *IFRS 7 – Financial Instruments Disclosures* requires adoption of amendments for annual periods beginning January 1, 2013. These amendments require an entity to disclose information about rights to set-off and related arrangements.

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

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

4. *IAS 27 – Consolidation and Separate Financial Statements* is required to be adopted for periods beginning January 1, 2013. IAS 27 applies in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent and in accounting for investments in subsidiaries, jointly controlled entities, and associates when an entity presents separate financial statements.

5. *IAS 28 - Investments in Associates and Joint Ventures* is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. It describes the application of the equity method to investments in joint ventures in addition to associates.

6. IFRS 7, 10 and 11 and IAS 27 and 28 were adopted without impact to the Financial Statements.

7. *IFRS 12 - Disclosure of Interests in Other Entities* is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. Limited improvements to the Company's disclosures have been implemented in these Financial Statements upon the Company's adoption of the standard on January 1, 2013.

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

3. Notes receivable

The Company holds notes receivable from former employees of the Company (under prior management), which were exchanged for 2 million shares of the Company. The notes are denominated in Canadian dollars and are reported at the translated U.S. dollar amount of $875,070 (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	September 30, 2013		December 31, 2012	
February and March 2012 (i)	$	-	$	738,512
July 2012 (ii)		-		360,000
October 2012 (ii)		-		39,000
Total	$	-	$	1,137,512

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

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

(b) Reimbursement Agreement

In April 2013, the Company and NADECOR executed an agreement (the "Reimbursement Agreement") whereby NADECOR would reduce the Company's earned-in amounts classified as CapEx expenditures which were made by the Company in advance of or in excess of the schedule contemplated in the MOU. NADECOR agreed to remit approximately $40.7 million, payable in tranches. As at September 30, 2013, approximately $33.5 million had been reimbursed to the Company (Note 15(a)).

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

5. Investment in mining property

The Company has committed to spend $43,500,000 to complete a BFS for the Project, for which the Company earns a 45% interest in the Project. The underlying earn-in accumulates as expenditures are made, along with other milestones and earn-in commitments. An additional 6% can be earned through interim payments to NADECOR and an additional 9% can be earned by funding a minimum of $32,000,000 in capital development expenditures ("CapEx"), subject to adjustment according to outcomes contemplated in the MOU. To earn the full 60% potential interest in the Project, the Company will spend, or pay to NADECOR, a minimum of $83,000,000, as outlined by the agreement summarized below and subject to adjustments for outcomes contemplated in the MOU. A significant variable which can change this minimum commitment is the planned tonnage throughput of mine operations, which is planned at 73,615 tonnes per day over the life of the mine. In the event that the Company's minimum commitment increases due to increased tonnage, the Company and NADECOR share in the economic benefit of cost savings against CapEx at the ratio of the earn-in. The Company also incurs costs related to the project which do not qualify for progress towards the earn-in. The expenditure requirements and progress towards the payments are summarized as follows:

Item	Earn-in amount	September 30, 2013	December 31, 2012
Exclusivity payment to NADECOR (i)	$ 400,000	$ 400,000	$ 400,000
Initial payment to NADECOR (ii)	3,100,000	3,100,000	3,100,000
Initial BFS funding (iii)	30,000,000	30,000,000	30,000,000
Incremental BFS funding (iv)	5,000,000	5,000,000	5,000,000
Incremental BFS funding (iv)	8,500,000	8,500,000	8,500,000
Payment to NADECOR (v)	4,000,000	1,231,000	1,878,000
CapEx funding (vi)	32,000,000	12,726,965	36,838,828
Totals	$ 83,000,000	$ 60,957,965	$ 85,716,828

The Company's earn-in decreased from December 31, 2012 to September 30, 2013 due to amounts reimbursed to the Company under the Reimbursement Agreement (Note 4(b)).

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 if the PFA (Note 15(a)) is not executed; 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. PFS results indicate throughput would increase the Company's CapEx commitment should the terms of the PFA (Note 15(a)) not be completed.

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:

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

Reconciliation of Investment in mining property to earn-in	**September 30, 2013**	**December 31, 2012**
Investment in mining property	$ 55,920,196	$ 81,347,929
Depreciable property (earn-in in full on purchase)	747,482	951,004
Qualifying fundraising costs	2,111,419	1,788,363
Interest earned on Nadecor advances	1,068,159	1,068,159
Disallowed/reserved expenditures and other book to earn-in differences	1,110,709	561,373
Estimated earn-in balance	**$ 60,957,965**	**$ 85,716,828**

Approximately $49,000,000 of the earn-in balance in the above table has been approved by NADECOR to date. 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. NADECOR's audit rights under the MOU are waived under the terms of the PFA (Note 15(a)).

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

6. Investment in NADECOR

On March 15, 2013, the Company executed an agreement with NADECOR (the "NADECOR Subscription") whereby the Company may acquire 25% of NADECOR's common shares for ₱1.8 billion (approximately $43.1 million). The subscription required the Company to pay a first tranche ("Initial Amount") of ₱40.56 million, dependent on NADECOR's provision of certain documents ("Initial Conditions Precedent"). The Initial Conditions Precedent was satisfied in April 2013, and the Company remitted payment for the Initial Amount to NADECOR of approximately $960,000 (approximately ₱41.2 million). As at September 30, 2013, the Company had remitted $33,525,165 (approximately ₱1.4 billion) to NADECOR, which entitles the Company to approximately 18% of NADECOR's common shares.

The investment was accounted for at fair value at June 30, 2013. The Company appointed two executive officers of the Company as NADECOR board members following NADECOR's August 2013 Annual General Meeting. This event caused the Company's investment in NADECOR to be classified as an investment in an associate using the equity method; accordingly, the Company recorded its pro-rata share of NADECOR's comprehensive loss during the period ended September 30, 2013 of $25,000.

NADECOR is a privately held Philippine entity. Prior to SAGC's investment in NADECOR, a third party Philippine investor publicly announced a purchase of 25% of NADECOR common shares for ₱1.8 billion (approximately $43.1 million). This investment by the third party was nullified by local courts, and SAGC agreed to purchase the same share ownership percentage (25%), for the same price. Accordingly, at the conclusion of the Company's subscription to NADECOR, the Company will have remitted ₱1.8 billion (approximately $43.1 million) to NADECOR for 25% of NADECOR's issued and outstanding common shares.

NADECOR's ability to transfer funds to the Company in the form of cash dividends is limited by law while NADECOR has an accumulated deficit does not have significant restrictions on its ability to repay loans or advances made by the Company.

NADECOR's primary asset is the Project MPSA and also has limited cash on hand. NADECOR has one significant long-term debt obligation which is expected to be repaid during the four years following commercial production from the Project, and trade payables for ongoing general and administrative costs.

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

The Company has invested cash totaling $752,913 in KGCMI as at September 30, 2013, representing 40% of KGCMI's voting common shares; the Company has also appointed 2 of 6 board seats of KGCMI. Of this amount, $696,000 was previously classified as an advance to NADECOR (Note 4), and was reclassified into an investment account upon the Company's execution of the NADECOR Subscription (Note 6) and securing the

Company's interest in both entities. The Company's investment cost basis of $752,913 was adjusted for the Company's share of KGCMI's net loss of $24,000, resulting in the September 30, 2013, balance of $728,913.

KGCMI was incorporated to become the joint venture entity which will hold the rights to develop and operate the Project. However, NADECOR is arranging for a new entity, King King Mining Corporation (Note 15(c)), to hold the rights to develop and operate the Project. The assets and liabilities of KGCMI will be distributed to the newly formed entity. The Company accounts for this investment using the equity method; accordingly, the investment will be adjusted for the Company's share of profit and loss at each reporting period.

KGCMI's primary asset was approximately $800,000 in cash as at September 30, 2013, and its liabilities consist of approximately $300,000 in trade payables for ongoing general and administrative functions.

8. Property and equipment

	Vehicles	Furniture and fixtures	Equipment	Buildings and leasehold improvements	Totals
Cost balance, January 1, 2012	$ 637,383	$ -	$ 245,183	$ 121,618	$ 1,004,184
Additions	-	141,221	91,411	8,638	241,270
Disposals	-	-	(1,564)	-	(1,564)
Balance, December 31, 2012	637,383	141,221	335,030	130,256	1,243,890
Additions	-	-	13,076	-	13,076
Disposals	-	-	-	-	-
Balance, September 30, 2013	637,383	141,221	348,106	130,256	1,256,966
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	84,535	32,526	79,083	20,454	216,598
Disposals	-	-	-	-	-
Balance, September 30, 2013	291,214	53,752	210,828	56,153	611,947
Net book value, December 31, 2012	**$ 430,704**	**$ 119,995**	**$ 203,285**	**$ 94,557**	**$ 848,541**
Net book value, September 30, 2013	**$ 346,169**	**$ 87,469**	**$ 137,278**	**$ 74,103**	**$ 645,019**

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

9. Warrant liability

The Company issued 14,737,500 whole warrants as part of a 2011 private placement of equity; they were deemed a derivative liability under IAS 32 because they were exercisable in Canadian dollars, while the Company's functional currency is the U.S. dollar. The information in this note relates only to warrants treated as a derivative liability and not warrants recorded into shareholders' equity (Note 11(c)).

The warrants expired unexercised in July 2013.

The assumptions used to calculate the value of the liability at December 31, 2012, were as follows:

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

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

10. Related party transactions

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

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

(a) Transactions with Officers and Directors

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

	Three months ended September 30,		Nine months ended September 30,	
Compensation	**2013**	**2012**	**2013**	**2012**
Officer salaries and director compensation	$ 724,733	$ 599,028	$ 2,267,375	$ 1,750,990
Share-based compensation	225,134	459,907	885,815	1,656,160
Total	**$ 949,867**	**$ 1,058,935**	**$ 3,153,190**	**$ 3,407,150**

(b) Transactions with Other Related Parties

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

	Three months ended September 30,		Nine months ended September 30,	
Transactions	**2013**	**2012**	**2013**	**2012**
Services rendered:				
Norton Rose Canada LLP (i)	$ 43,931	$ 29,312	$ 112,050	$ 122,725
Reimbursement of third party expenses incurred on the Company's behalf:				
Russell Mining Corporation (ii)	48,064	100,046	139,567	299,958
Total	**$ 91,996**	**$ 129,358**	**$ 251,618**	**$ 422,683**

	Three months ended September 30,		Nine months ended September 30,	
Transactions	**2013**	**2012**	**2013**	**2012**
Charges for reimbursement from:				
Russell Mining Corporation (ii)	$ 23,322	$ 97,420	$ 166,089	$ 144,777
Josephine Mining Corp. (iii)	2,427	117,503	44,384	119,192
Casa Grande Resources LLC (iii)	74,613	-	174,700	-
Total	**$ 100,362**	**$ 214,923**	**$ 385,173**	**$ 263,969**

Related party receivable	**September 30, 2013**	**December 31, 2012**
Josephine Mining Corp. (iii)	$ 175,266	$ 136,026
Russell Mining Corporation (iii)	47,517	2,904
Casa Grande Resources LLC (iii)	174,700	-
Total	**$ 397,483**	**$ 138,930**

Related party balances payable	**September 30, 2013**	**December 31, 2012**
Norton Rose Canada LLP (i)	$ 20,770	$ 20,167

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

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

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

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

(c) Parties related due to investment relationship

i. KGCMI

As at September 30, 2013, KGCMI owed the Company approximately $28,000 (December 31, 2012 – nil) for cash advanced to KGCMI and for expenses paid on behalf of KGCMI for general operating expenses. The amount is not secured and is payable under normal trade account terms.

ii. NADECOR

During the nine months ended September 30, 2013, the Company advanced NADECOR $365,838 (nine months ended September 30, 2012 - $460,000) for sustaining operating capital. The amount is secured by the MOU and was scheduled to be settled in earn-in credit. The earn-in is expected to be superseded by the PFA described at Note 15(a).

The Company's other related party transactions with NADECOR are described at Notes 5, 6 and 14.

11. Shareholders' equity

(a) Share capital

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

In April 2013, the Company issued 3,750,000 shares pursuant to a warrant exercise by Queensberry for gross proceeds of $937,098, net of issue costs of $24,027. This exercise and Queensberry's January 2013 exercise represent all 7 million warrants issued to Queensberry in the October 2012 private placement.

In May 2013, the Company and Queensberry executed an agreement whereby Queensberry increased its investment in the Company by 55,000,000 shares at $0.20 per share. The related issuance costs were $275,000.

(b) Share option reserves

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

Share option reserves totalled $10,877,777 at September 30, 2013 (December 31, 2012 - $9,921,503). Cash-based and option-based expenses comprise the total wages and share-based payments expense for the nine months ended September 30, 2013 of $1,705,739 (2012 - $2,102,791), and $512,109 for the three months ended September 30, 2013 (2012 - $686,750).

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

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

	Exercise price range	Number of options outstanding	Weighted average exercise price
Balance, January 1, 2012		16,958,334	$ 1.16
Grants	$0.20 - 1.54	13,559,500	0.44
Expirations	0.20	(1,850,000)	0.20
Forfeitures	0.28 - 1.54	(1,466,667)	0.82
Balance, December 31, 2012		**27,201,167**	**$ 0.88**
Grants	$0.20 - 0.30	400,000	0.24
Forfeitures	$0.25 - 1.54	(6,239,000)	1.45
Balance, September 30, 2013		**21,362,167**	**$ 0.70**

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 nine months ended September 30, 2013:

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

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

	Outstanding				Exercisable		
Exercise prices	Number outstanding		Weighted average exercise price	Weighted average remaining years	Number outstanding	Weighted average exercise price	Weighted average remaining years
$0.20 to $0.50	12,337,167	$	0.35	3.83	6,465,170	$ 0.32	3.67
$0.51 to $0.75	2,000,000		0.59	2.90	1,633,334	0.60	2.87
$0.76 to $1.00	2,225,000		0.97	2.51	2,225,000	0.97	2.51
$1.54	4,800,000		1.54	2.37	4,800,000	1.54	2.37
Totals	**21,362,167**	**$**	**0.70**	**3.28**	**15,123,504**	**$ 0.83**	**3.00**

(c) Warrant reserves

During the six months ended June 30, 2013, all outstanding warrants classified as equity were exercised (Note 11(a)), which reduced warrant reserves to a nil balance. Warrant reserves exclude the warrants described at Note 9. No new warrants were issued during the three months ended September 30, 2013.

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

12. Capital management

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

	September 30, 2013	December 31, 2012
Cash and cash equivalents	$ 9,339,011	$ 7,117,302
Restricted cash	250,100	250,000
Warrant liability	-	755,509
Share capital	106,693,756	92,399,045
Share option reserves	10,877,777	9,921,503
Warrant reserves	-	1,695,517

At September 30, 2013, approximately $38,000 (December 31, 2012 - $9,000) was held in banks in the Netherlands and $8.8 million (December 31, 2012 - $404,000) was held in banks in the Philippines. The Company has $250,000 held by a large United States of America ("USA") banking institution as collateral for the Company's credit cards. The balance of cash and cash equivalents at September 30, 2013, and December 31, 2012, was held in USA and Canadian banks.

The Company's objectives and continued financing of its commitments under its agreements with NADECOR (Notes 4, 5 and 6) are dependent on the ability to raise funds until mineral production commences. The Company is currently developing plans to address future liquidity and capital management risks.

No funding since inception has been raised through debt issuances. Management strategically times and limits equity issuances in order to limit the cost of capital until a BFS has been completed. Upon completion of a BFS, management intends to raise a significant amount of funds through a combination of debt and equity.

13. Earnings per share ("EPS")

(a) Basic EPS

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

(b) Diluted EPS

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

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

14. Commitments and contingencies

(a) NADECOR

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

<u>NADECOR Stockholder Dispute</u>

There is an internal dispute between 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 each side of the NADECOR shareholder groups during 2011 and 2012; on February 18, 2013, the Philippine Court of Appeals ruled that the board of directors elected during the August 15, 2011 meeting was validly elected; as a consequence, the directors belonging to the NADECOR majority shareholder group constituted majority of the lawful board of NADECOR. 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 Company and NADECOR. Accordingly, as the Company would view 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. The Company's management believes the agreements protecting the Company's investment in the project would be upheld in arbitration; however, it cannot provide absolute assurance as to the ultimate arbitration results.

Investment in KGCMI

The Company has subscribed to 40% of KGCMI. At this time, the Company has not yet received the share certificates as a result of the above referred NADECOR internal board dispute, as NADECOR is a 60% owner of KGCMI. The Company has received legal advice that their rights to the shares of KGCMI are protected by the share subscription agreement between the Company and KGCMI. A new entity is expected to take the place of KGCMI's business purpose (Note 7).

(b) Rental agreement

The Company's office lease commitment to RMC (Note 10(b)), ending March 2015, is approximately $13,000 per month. The total remaining payments through the end of the lease, all payable within three years from September 30, 2013, total $228,870.

(c) 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.

(d) Consolidation of NADECOR and Company interests in the Project

See description at Note 15(a).

15. Subsequent events

(a) Agreement with NADECOR

On October 3, 2013, the Company, Nadecor and Queensberry executed an agreement (the "Project Framework Agreement," or "PFA"). The PFA's purpose is to restructure and align NADECOR and the Company's financial interests in the Project. Upon completion of the PFA's terms, it will supersede the MOU and related agreements. The primary terms of this agreement, which is subject to exchange and shareholder approval, include the following:

- The Company will:
    - acquire 100% of a newly created milling company (King King Milling Corporation; "MillingCo") from Nadecor by issuing debt payable to NADECOR;
    - provide funding to build the mill facility;
- NADECOR will establish a mining company (King King Mining Corporation; "MiningCo") owned 60% by NADECOR and 40% by the Company (in accordance with Philippine nationality requirements). NADECOR is required to transfer the MPSA into MiningCo (Note 15(c) and (d));

- MillingCo and MiningCo will execute an ore sales agreement, making MillingCo the exclusive buyer of MiningCo's ore;
- The Company will lend MiningCo the funds necessary to build mining operation facilities;
- The Company will extend a credit facility to NADECOR of up to ₱860 million (approximately $20 million), subject to available funds;
- NADECOR will reimburse $2.8 million in Project expenditures to the Company under terms similar to the terms of the Reimbursement Agreement (Note 4(b));
- NADECOR's shareholders will acquire the receivable from the Company as a dividend;
- The Company will settle its payable to NADECOR's shareholders in exchange for cash or Company shares from treasury, up to a maximum issuance of 324,568,751 shares;
- NADECOR acknowledges that the Company has earned-in to a 50% economic interest in the Project, which is held through direct and indirect interests compliant with Philippine laws; and
- The PFA proposes for the Company to apply for a secondary public listing of its shares on the Philippine Stock Exchange in 2014.

(b) Fulfillment of 25% subscription to NADECOR

In October 2013, the Company remitted the balance of the ₱1.8 billion share subscription described in Note 6 to NADECOR, such that the full 25% of the subscription was paid up. The amount remitted in October was ₱0.4 billion, or approximately $9.6 million.

(c) Incorporation of MiningCo

On October 30, 2013, King King Mining Corporation (Note 15(a)), the entity to which NADECOR transferred the MPSA (Note 15(d)), was incorporated. The Company has remitted the capital required to gain rights to 40% of MiningCo.

(d) NADECOR transfer of MPSA to MiningCo

On November 4, 2013, NADECOR's shareholders approved the transfer of the Project MPSA to the King King Mining Corporation, in accordance with the PFA (Note 15(a)) terms.

(e) NADECOR shareholder approval of PFA

Also On November 4, 2013, NADECOR's shareholders ratified the execution and implementation of the PFA (Note 15(a)).