St. Augustine Gold and Copper Limited

Condensed Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and 2013
Unaudited and presented in U.S. dollars

Dated as of MAY 14, 2014

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(Presented in U.S. dollars)

	Notes	March 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		$ 3,343,612	$ 6,293,357
Restricted cash		150,100	250,100
Prepaids and other current assets		384,050	433,515
Total current assets		3,877,762	6,976,972
Non-current assets			
Investment in mineral property	4	$ 49,532,546	$ 48,045,958
Investment in NADECOR	5.D	40,165,514	40,487,609
Note receivable from NADECOR	5.C	365,889	350,194
Investments in joint ventures	6	811,619	811,619
Notes receivable	7	814,230	846,180
Property and equipment	8	491,100	543,526
Other non-current assets		939,878	937,078
Total non-current assets		$ 93,120,776	$ 92,022,164
Total assets		**$ 96,998,538**	**$ 98,999,136**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued wages		$ 1,557,744	$ 2,643,026
Due to related parties	9.B	35,344	27,267
Total current liabilities		$ 1,593,088	$ 2,670,293
Shareholders' equity			
Share capital	10.A	$ 106,693,756	$ 106,693,756
Share option reserves	10.B	11,170,188	10,990,066
Accumulated deficit		(18,187,393)	(17,593,396)
Accumulated other comprehensive loss		(4,271,101)	(3,761,583)
Total shareholders' equity		$ 95,405,450	$ 96,328,843
Total liabilities and shareholders' equity		**$ 96,998,538**	**$ 98,999,136**
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The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Approved on behalf of the Board of Directors:

"SIGNED"
Terry Krepiakevich
Director

"SIGNED"
Max V. Anhoury III
Director

(Presented in U.S. dollars)

	Notes	Three months ended March 31, 2014	Three months ended March 31, 2013
Operating expenses			
Wages and share-based payments	9.A	$ (125,467)	$ 677,421
General and administrative costs		679,065	469,104
Total operating expenses		$ 553,598	$ 1,146,525
Other income and expense			
Interest income		$ 5,148	$ 1,779
Change in fair value of warrant liability		-	714,257
Foreign exchange loss		(30,547)	(46,070)
Total other income (loss)		$ (25,399)	$ 669,966
Loss from investment in Nadecor	5.D	-	-
Loss from investments in joint ventures	6	-	-
Net loss before income tax expense		**$ 578,997**	**$ 476,559**
Income tax expense		15,000	10,000
Net loss		**$ 593,997**	**$ 486,559**
Foreign exchange translation loss (gain)		509,518	(43,437)
Total comprehensive loss		**$ 1,103,515**	**$ 443,122**
Net loss per common share, basic and diluted		$ 0.00	$ 0.00
Weighted average common shares outstanding, basic and diluted		487,758,334	427,870,694

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

(Presented in U.S. dollars)

	Notes	Three months ended March 31, 2014	2013
Cash flows from operating activities			
Net loss		$ (593,997)	$ (486,559)
Share-based compensation expense, net of capitalized amounts	10.B	84,615	217,472
Non-cash fair value adjustment of warrant liability		-	(714,257)
Effects of foreign currency changes		(109,321)	78,168
Deduct interest income (reported under investing activities)		(5,148)	(1,779)
Changes in assets and liabilities			
Decrease (increase) in prepaids and other current assets		49,465	(198,993)
Increase in other non-current assets		(2,800)	(75,000)
Accounts payable		(520,081)	-
Income tax payments		-	(10,000)
Net cash used by operating activities		$ (1,097,267)	$ (1,190,948)
Cash flows from investment activities			
Increase in investment in mining property		$ (2,071,476)	$ (2,589,753)
Note receivable from NADECOR	5.C	(15,695)	-
Advances to NADECOR		-	42,512
Purchase of property and equipment	8	-	(610)
Changes in non-cash investing working capital		175,697	(359,711)
Interest income		5,148	1,779
Reduction of restricted cash		100,000	-
Net cash used by investing activities		$ (1,806,326)	$ (2,905,783)
Cash flows from financing activities			
Proceeds from common stock and warrants, net of issuance costs	10.A	-	937,098
Net cash provided by financing activities		-	937,098
Net decrease in cash and cash equivalents		$ (2,903,593)	$ (3,159,633)
Effect of exchange rate changes on cash		(46,152)	999
Cash and cash equivalents, beginning of period		6,293,357	7,117,302
Cash and cash equivalents, end of period		**$ 3,343,612**	**$ 3,958,668**
Comprised of:			
Cash		$ 3,033,568	$ 635,982
Cash equivalents		310,044	3,322,686
Total cash and cash equivalents, end of period		**$ 3,343,612**	**$ 3,958,668**

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

(Presented in U.S. dollars)

	Notes	Shares	Share capital	Share option reserves	Warrant reserves	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
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		3,750,000	1,784,856	-	(847,758)	-	-	937,098
Share-based compensation		-	-	468,237	-	-	-	468,237
Foreign exchange translation gain		-	-	-	-	-	43,437	43,437
Net loss		-	-	-	-	(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
Balance, January 1, 2014		487,758,334	$ 106,693,756	$ 10,990,066	$ -	$ (17,593,396)	$ (3,761,583)	$ 96,328,843
Share-based compensation	10.B	-	-	180,122	-	-	-	180,122
Foreign exchange translation loss		-	-	-	-	-	(509,518)	(509,518)
Net loss		-	-	-	-	(593,997)	-	(593,997)
Balance, March 31, 2014		487,758,334	$ 106,693,756	$ 11,170,188	$ -	$ (18,187,393)	$ (4,271,101)	$ 95,405,450

The accompanying notes are an integral part of these interim condensed 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 focused on the acquisition, development and exploration of mineral properties. The Company (through a related party company, prior to the Company's incorporation) 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 an agreement executed during 2013 (Note 5.B).

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 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.

These consolidated financial statements ("Financial Statements") were authorized for issue by the Board of Directors on May 14, 2014.

2. Going concern

These consolidated financial statements, prepared at and for the three months ended March 31, 2014 and 2013 ("Financial Statements") have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and discharge of liabilities in the normal course of business. The Company earns no operating revenues and has incurred an accumulated deficit of over $18 million through March 31, 2014 (December 31, 2013- $17.6 million). The Company had working capital of approximately $2.3 million at March 31, 2014 (December 31, 2013 – $4.3 million); however, additional funds must be raised in order to further develop the Project and ultimately realize a positive economic return. These and other factors represent a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon obtaining necessary financing to complete permitting activities and placement of the mineral property into commercial production. There can be no assurance that it will be able to complete additional financing. The Financial Statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

3. 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, 2014. 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, 2013. 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, 2014, which is part of the period to be covered by the Company's annual financial statements for the year ending December 31, 2014.

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.

There were no changes in key estimates, judgments or assumptions since the year ended December 31, 2013.

F. New or revised pronouncements and amendments

Pronouncement	Effective date	Adoption date	Summary of impact
IFRS 9 Financial Instruments This guidance 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 and new rules for hedge accounting; as a result of amendments in the current year there is no set date for adoption, however, early adoption is 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.	No stated effective date		No material impact
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.	Annual periods beginning on or after January 1, 2014	January 1, 2014	No material impact

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

G. Application of new and revised accounting standards

Pronouncement	Effective date	Adoption date	Summary of impact
International Financial Reporting Interpretations Committee (“IFRIC”) Interpretation 21 - Levies In May 2013, the IASB issued IFRIC 21 – Levies (“IFRIC 21”), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.	Annual periods beginning on or after January 1, 2014	January 1, 2014	No material impact

4. Investment in mineral property

The Company’s investment in mineral property is secured under its rights under the MOU. Additionally, the Company owns 25% of NADECOR directly (Note 5.D). Management expects to fulfill the terms of the Project Framework Agreement (“PFA”) (Note 5.B), which will supersede the terms of the MOU. However, until the PFA is substantially enacted, the MOU is the current contract in force underlying this asset at March 31, 2014.

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. In the event that the Company’s minimum commitment increases, 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	March 31, 2014	December 31, 2013
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
Payments to NADECOR (v)	4,000,000	1,231,000	1,231,000
CapEx funding (vi)	32,000,000	6,922,487	5,621,614
Totals	$ 83,000,000	$ 55,153,487	$ 53,852,614

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 in 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 following the PSIA;

(v) The timing of direct payments to NADECOR is contingent on events contemplated in the MOU. During 2011, $981,000 was paid, $250,000 was paid during 2013, and the balance is expected to be paid if the terms of the PFA are not fulfilled; 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 not be completed.

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

Reconciliation of Investment in mineral property to earn-in	**March 31, 2014**	**December 31, 2013**
Investment in mining property	$ 49,532,546	$ 48,045,958
Depreciable property (earn-in in full on purchase)	474,051	500,611
Qualifying fundraising costs	1,788,362	1,788,362
Other (i)	3,358,528	3,517,683
Estimated earn-in balance	**$ 55,153,487**	**$ 53,852,614**

(i) Other items include disallowed earn-in expenditures, non-cash items and other differences due to accounting guidance and differences between the Company's accounting policies and earn-in calculations.

NADECOR audited earn-in expenditures and amounts remitted under the Reimbursement Agreement (Note 5.A) prior to the execution of the PFA (Note 5.B). The provisions of the Reimbursement Agreement and the PFA included NADECOR's recognition of a minimum of $47,000,000 of the Company's expenditures as valid and NADECOR's waiver and/or expiration of its right to further expenditure audits thereon. In addition, only those expenditures made by the Company following the signing of the PFA could be subject to further audit by NADECOR, should the terms of the PFA not be fulfilled.

There were no indicators of impairment identified and no impairment loss recognized during the three months ended March 31, 2014, or the year ended December 31, 2013, with respect to the investment in mineral property.

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

A. 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 for approximately $40.7 million. The agreement terms have been fulfilled.

B. Project Framework Agreement ("PFA")

On October 3, 2013, the Company, NADECOR and Queensberry Mining and Development Corp. ("Queensberry") executed the PFA. In November 2013 NADECOR's shareholders ratified the execution and implementation of the PFA. The Company received shareholder approval and conditional Toronto Stock Exchange approval in December 2013. 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 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. MillingCo was incorporated February 7, 2014;
    - provide funding to build the mill facility;
- NADECOR established a mining company (King-king Mining Corporation; “KMC”) owned 60% by NADECOR and 40% by the Company (in accordance with Philippine nationality requirements). NADECOR is required to transfer the MPSA into KMC (Note 6.B);
- MillingCo and KMC will execute an ore sales agreement, making MillingCo the exclusive buyer of KMC’s ore;
- MillingCo will lend KMC 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 reimbursed $2.8 million in Project expenditures to the Company under terms similar to the terms of the Reimbursement Agreement (Note 5.A);
- 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 (cash or share settlement is at NADECOR shareholders’ discretion), 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.

C. Note receivable from NADECOR

At March 31, 2014, the Company has advanced $365,889 to NADECOR under the terms of the credit facility established by the PFA (December 31, 2013 – $350,194).

D. Investment in NADECOR

On March 15, 2013, the Company executed an agreement with NADECOR (the “NADECOR Subscription”) whereby the Company acquired 25% of NADECOR’s common shares for ₱1.8 billion (approximately $43.5 million). The terms of this agreement were fully executed in 2013 and the Company holds 25% of NADECOR’s issued and outstanding common stock.

The Company accounts for its investment in NADECOR as an investment in an associate using the equity method.

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. The law does not have significant restrictions on NADECOR`s ability to repay Philippine loans or advances made by the Company.

Summarized below is the summarized financial information of NADECOR for the period ended March 31, 2014, to December 31, 2013, acknowledging fair value adjustments made at the date of the acquisition.

Item	March 31, 2014	December 31, 2013
Current assets	$ 261,813	$ 503,366
Non-current assets	165,922,625	167,052,892
Current liabilities	(2,725,136)	(2,786,038)
Non-current liabilities	(2,797,247)	(2,819,786)
Net assets	$ 160,662,055	$ 161,950,434
Share of net assets	25%	25%
Carrying amount on statement of financial position	$ 40,165,514	$ 40,487,609
Net loss	$ -	$ 200,000
Foreign exchange translation loss	1,288,380	11,931,194
Comprehensive loss	$ 1,288,380	$ 12,131,194
Share of comprehensive loss	25%	25%
Proportionate share of net loss	$ -	$ 50,000
Proportionate share of comprehensive loss	$ 322,095	$ 2,982,798

6. Investments in joint ventures

The Company is invested in two joint ventures.

A. King-king Gold and Copper Mines, Inc. ("KGCMI")

The Company has invested cash totaling $752,913 in KGCMI as at March 31, 2014, in exchange for 40% of KGCMI's voting common shares. The Company has also appointed 2 of 6 board seats of KGCMI.

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 6.B), 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. As a Project site operating entity, KGCMI's expenses are capitalized, and the Company did not report loss attributable to KGCMI in the Financial Statements.

At March 31, 2014, had approximately $200,000 in cash and approximately $185,000 in liabilities at March 31, 2014.

B. King-king Mining Corporation ("KMC")

KMC was incorporated on October 30, 2013, to take KGCMI's (Note 6.A) role as the entity which will hold the rights to develop and operate the Project. The Company had invested $58,706 in KMC at March 31, 2014 (December 31, 2013 - $58,706).

KMC is the primary joint venture entity, through which most expenditures are capitalized.

The total amount receivable from KGCMI and KMC at March 31, 2014 was $121,274 (December 31, 2013 - $121,274).

7. 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 $814,230 (2013 - $846,180). 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 23, 2015.

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

8. Property and equipment

	Vehicles	Furniture and fixtures	Equipment	Buildings and leasehold improvements	Totals
Cost balance, January 1, 2013	$ 637,383	$ 141,221	$ 335,030	$ 130,256	$ 1,243,890
Additions	-	-	11,242	-	11,242
Disposals	-	(1,930)	(23,720)	(44,514)	(70,164)
Balance, December 31, 2013	$ 637,383	$ 139,291	$ 322,552	$ 85,742	$ 1,184,968
Balance, March 31, 2014	$ 637,383	$ 139,291	$ 322,552	$ 85,742	$ 1,184,968
Accumulated depreciation, January 1, 2013	$ 206,679	$ 21,226	$ 131,745	$ 35,699	$ 395,349
Additions	112,291	43,353	105,033	26,908	287,585
Disposals	-	(892)	(20,847)	(19,753)	(41,492)
Balance, December 31, 2013	$ 318,970	$ 63,687	$ 215,931	$ 42,854	$ 641,442
Additions	18,601	7,463	21,948	4,414	52,426
Disposals	-	-	-	-	-
Balance, March 31, 2014	$ 337,571	$ 71,150	$ 237,879	$ 47,268	$ 693,868
Net book value, December 31, 2013	**$ 318,413**	**$ 75,604**	**$ 106,621**	**$ 42,888**	**$ 543,526**
Net book value, March 31, 2014	**$ 299,812**	**$ 68,141**	**$ 84,673**	**$ 38,474**	**$ 491,100**

There were no indicators of impairment identified and no impairment loss recognized during the three months ended March 31, 2014, or the year ended December 31, 2013, with respect to property and equipment.

9. 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	**2014**	**2013**
Officer salaries and director compensation	$ 730,112	$ 772,800
Share-based compensation	166,526	417,046
Total	**$ 896,638**	**$ 1,189,846**

(i) During April 2014, management determined that bonuses of approximately $1.2 million accrued for work performed during 2013 would not be paid, given the current financing status of the Company. Accordingly, the previously expensed portion of bonuses, $520,081, was credited to wage expense, and $732,821 was credited to investment in mineral properties. Share-based compensation expense of $84,614 and other wages of $310,000, net of the bonus accrual reversal, comprise the credit balance of wages and share-based payments of $125,467. Approximately $1 million of the bonus accrual reversal was attributable to officers and directors, is not deducted from this amount, which represents compensation attributable to work performed during 2014.

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

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		**2014**		**2013**
Services rendered:				
Norton Rose Canada LLP (i)	$	15,603	$	26,870
Reimbursement of third party expenses incurred on the Company's behalf:				
Russell Mining Corporation (ii), (iii)		50,795		44,926
Total	**$**	**66,398**	**$**	**71,796**

	Three months ended March 31,			
Transactions		**2014**		**2013**
Charges for reimbursement from:				
Russell Mining Corporation (ii), (iii)	$	15,427	$	41,773
Josephine Mining Corp. (iii)		2,810		39,240
Casa Grande Resources LLC (iii)		10,526		-
Total	**$**	**28,763**	**$**	**81,013**

Related party receivable	**March 31, 2014**		**December 31, 2013**	
Josephine Mining Corp. (iii)	$	175,266	$	177,451
Russell Mining Corporation (ii), (iii)		-		41,347
Casa Grande Resources LLC (iii)		10,526		-
Total	**$**	**185,792**	**$**	**218,798**

Related party balances payable	**March 31, 2014**		**December 31, 2013**	
Norton Rose Canada LLP (i)	$	9,598	$	27,267
Russell Mining Corporation (ii), (iii)		25,746		-
Total	**$**	**35,344**	**$**	**27,267**

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 Russell Mining and Minerals ULC ("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.

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

10. Shareholders' equity

A. Share capital

In January 2013, the warrant holder from the Company's common share unit issuance in October 2012, 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.

In May 2013, the Company and Queensberry executed an agreement whereby Queensberry increased its investment in the Company by subscribing for 55,000,000 treasury shares at $0.20 per share, for gross proceeds of $11,000,000; 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 $11,170,188 at March 31, 2014 (December 31, 2013 - $10,990,066), equalling charges of $180,122 during the three months ended March 31, 2014 (2013 - $468,237); of this amount, $84,615 was expensed and $95,507 was capitalized to the investment in mineral property (2013 - $217,472 and $250,765 respectively).

On March 11, 2014, 2,780,000 stock options were granted to employees and directors of the Company. One third of the options vested on the grant date, one third will vest on March 11, 2015 and the final third will vest on March 11, 2016. The options are exercisable at CDN$0.20 and expire on March 11, 2019.

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

	Exercise price range	Number of options outstanding	Weighted average exercise price
Balance, January 1, 2013		27,201,167	$ 0.88
Grants	$0.20 - 0.30	400,000	0.24
Forfeitures	$0.25 - 1.54	(6,972,333)	1.32
Balance, December 31, 2013		**20,628,834**	**$ 0.72**
Grants	$0.20 - 0.30	2,780,000	0.20
Forfeitures	$0.40 - 0.42	(133,334)	0.41
Balance, March 31, 2014		**23,275,500**	**$ 0.66**

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, 2014, and the year ended December 31, 2013:

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

Black Scholes assumptions - share options		
Input	**2014**	**Basis of input**
Risk free interest rate	1.21%	Bank of Canada's published bond yields
Expected volatility	103%	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

ii. Summary of share options outstanding and exercisable as at March 31, 2014 (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	14,250,500	$ 0.33	3.66	9,773,679	$ 0.33	3.43
$0.51 to $0.75	2,000,000	0.59	2.40	2,000,000	0.59	2.40
$0.76 to $1.00	2,225,000	0.97	2.01	2,225,000	0.97	2.01
$1.54	4,800,000	1.54	1.87	4,800,000	1.54	1.87
Totals	**23,275,500**	**$ 0.66**	**3.02**	**18,798,679**	**$ 0.74**	**2.76**

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, 2014 and 2013; 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. Capital management

The following table summarizes the accounts under the Company's capital management program as of March 31, 2014, and December 31, 2013:

	March 31, 2014	**December 31, 2013**
Cash and cash equivalents	$ 3,343,612	$ 6,293,357
Restricted cash	150,100	250,100
Share capital	106,693,756	106,693,756
Share option reserves	11,170,188	10,990,066

At March 31, 2014, approximately $2.7 million (December 31, 2013 - $5.9 million) was held in banks in the Philippines denominated in the Philippine Peso. The balance of cash and cash equivalents at March 31, 2014 and December 31, 2013, was held in USA and Canadian banks.

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 construction stage financing can be raised at the lowest possible cost.

13. Commitments and contingencies

A. NADECOR

i. Commitments related to NADECOR

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

ii. NADECOR shareholder dispute

There is an internal dispute between two distinct shareholder groups of NADECOR which continues to exist as of the date these financial statements were authorised for issue. The dispute pertains to many issues including the validity of the 2011 annual stockholders' meeting of NADECOR where the NADECOR majority shareholder group nominees were 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 nominated by 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.

B. Investments in joint ventures

i. 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 has been incorporated to take the place of KGCMI's business purpose (Note 6.B).

ii. KMC

King-king Mining Corporation (Note 6.B), the entity to which NADECOR's shareholders have approved the transfer of the MPSA, was incorporated in October 2013.

C. Office lease agreement

The Company's office lease commitment to RMC (Note 9), 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, 2014, total approximately $150,000.

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.

14. Subsequent events

On April 2, 2014, a pool of 409,500 stock options, with exercise prices of CDN$0.175, was granted to employees of the Company. The options vested one third upon grant, an additional third will vest on April 2, 2015, and the final third will vest on April 2, 2016.