# CADAN RESOURCES CORPORATION

**Consolidated Financial Statements**
**Years ended December 31, 2012 and 2011**
**(Expressed in Canadian Dollars)**

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF CADAN RESOURCES CORPORATION

We have audited the accompanying consolidated financial statements of Cadan Resources Corporation, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of net income (loss), comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cadan Resources Corporation as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
April 9, 2013





7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

Tel: 604 687 1231
Fax: 604 688 4675
smytheratcliffe.com

**CADAN RESOURCES CORPORATION**
**Consolidated Balance Sheets**
**As at December 31,**
**(Expressed in Canadian dollars)**

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash and cash equivalents | $ | 298,436 | $ | 3,584,642 |
| Amounts and advances receivable (note 4) | | 1,157,789 | | 120,231 |
| Prepaid expenses | | 221,462 | | 307,686 |
| | | 1,677,687 | | 4,012,559 |
| **Exploration and evaluation assets** (notes 8, 13 and 14) | | 28,025,990 | | 30,609,015 |
| **Investment in Mining Group Ltd.** (note 6) | | 557,805 | | - |
| **Investment in Philco Mining Corporation** (note 5) | | 1,198,185 | | - |
| **Loan to Philco Mining Corporation** (note 5) | | 10,307,538 | | - |
| **Property, plant and equipment** (note 9) | | 2,545,308 | | 2,598,970 |
| | $ | 44,312,513 | $ | 37,220,544 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | 1,980,508 | $ | 674,700 |
| Secured loan (note 10) | | - | | 1,044,190 |
| Convertible notes (notes 7 and 11) | | 720,008 | | 2,449,076 |
| Due to related parties (note 13) | | 300,000 | | - |
| | | 3,000,516 | | 4,167,966 |
| **Retirement benefit obligation** (note 14) | | 208,212 | | 279,219 |
| | | 3,208,728 | | 4,447,185 |
| **Shareholders' equity** | | | | |
| **Share capital** (note 12) | | 55,286,616 | | 50,278,839 |
| **Reserves** | | 3,840,484 | | 4,553,870 |
| **Deficit** | | (17,585,281) | | (21,648,598) |
| **Equity attributable to owners of the company** | | 41,541,819 | | 33,184,111 |
| **Non-controlling interest** | | (438,034) | | (410,752) |
| | | 41,103,785 | | 32,773,359 |
| | $ | 44,312,513 | $ | 37,220,544 |

Approved on behalf of the Board:

*"John Anderson"*
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John Anderson, Director

*"Doug Evans"*
……………………………………………………
Doug Evans, Director

See notes to consolidated financial statements

## CADAN RESOURCES CORPORATION
**Consolidated Statements of Net Income (Loss)**
**Years ended December 31,**
**(Expressed in Canadian dollars)**

| | 2012 | 2011 |
|---|---|---|
| **Expenses** | | |
| Consulting fees (note 13) | $ 1,666,092 | $ 1,231,934 |
| Share-based payments | 624,672 | 667,423 |
| Bank charges and interest | 426,173 | 17,450 |
| Legal and professional | 374,983 | 691,502 |
| Loss on settlement of arbitration (note 4) | 321,988 | - |
| Office and miscellaneous | 191,928 | 96,817 |
| Rent | 119,535 | 96,127 |
| Travel and accommodation | 81,415 | 106,594 |
| Regulatory and shareholder costs | 52,489 | 55,734 |
| Reorganization costs | 49,557 | 122,165 |
| Amortization | 4,571 | - |
| Website | 1,800 | 1,627 |
| Licenses and taxes | - | 150,693 |
| | (3,915,203) | (3,238,066) |
| Gain on sale of subsidiary (note 4) | 5,142,189 | - |
| Change in fair value of contingent consideration (note 4) | 1,033,580 | - |
| Share of loss in equity accounted investment (note 5) | (33,175) | - |
| Unrealized gain on derivative (note 6) | 120,139 | - |
| Loss on retirement of assets | - | (3,168) |
| Interest income | 7,299 | 17,217 |
| Foreign exchange loss | (170,186) | (259,683) |
| **Net Income (Loss)** | $ 2,184,643 | $ (3,483,700) |
| **Net Income (Loss) attributed to:** | | |
| Owners of the company | $ 2,334,489 | $ (3,118,410) |
| Non-controlling interest | (149,846) | (365,290) |
| | $ 2,184,643 | $ (3,483,700) |
| **Income (Loss) Per Share** – basic | $0.025 | ($0.058) |
| **Income (Loss) Per Share** – diluted | $0.013 | ($0.058) |
| **Weighted average number of common shares outstanding** | 86,537,931 | 60,178,742 |

See notes to consolidated financial statements

## CADAN RESOURCES CORPORATION

**Consolidated Statements of Comprehensive Income (Loss)**
**Years ended December 31,**
**(Expressed in Canadian dollars)**

| | 2012 | 2011 |
|---|---|---|
| **Net Income (Loss)** | $ 2,184,643 | $ (3,483,700) |
| **Other Comprehensive loss** | | |
| Unrealized loss on shares held for resale (note 6) | (1,463,196) | - |
| **Comprehensive Income (Loss)** | $ 721,447 | $ (3,483,700) |
| **Comprehensive Income (Loss) attributed to:** | | |
| Owners of the company | $ 871,293 | $ (3,118,410) |
| Non-controlling interest | (149,846) | (365,290) |
| | $ 721,447 | $ (3,483,700) |

See notes to consolidated financial statements

## CADAN RESOURCES CORPORATION
### Consolidated Statements of Changes in Shareholders' Equity
### (Expressed in Canadian dollars)

| | Number of shares issued | Share capital | Share-based payments reserve | Revaluation reserve | Deficit | Equity attibutable to owners of the Company | Non-controlling interest | Shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2010** | 57,179,608 | $ 46,717,626 | $ 4,538,214 | $ - | $ (19,470,964) | $ 31,784,876 | $ (36,847) | $ 31,748,029 |
| Share-based payments | - | - | 667,423 | - | - | 667,423 | - | 667,423 |
| Reclassification of the fair value of options and warrants upon expiry | - | - | (940,776) | - | 940,776 | - | - | - |
| Issued for private placement (note 12(b)) | 20,930,667 | 3,595,667 | 228,033 | - | - | 3,823,700 | - | 3,823,700 |
| Issued due to options exercised (notes 12(b) and (c)) | 100 | 50 | - | - | - | 50 | - | 50 |
| Issued to finders | 259,140 | 77,742 | - | - | - | 77,742 | - | 77,742 |
| Share issue costs | - | (112,246) | - | - | - | (112,246) | - | (112,246) |
| Discount on convertible debt | - | - | 60,976 | - | - | 60,976 | - | 60,976 |
| Shares in affiliate returned to treasury | - | - | - | - | - | - | (8,615) | (8,615) |
| Net loss for the year | - | - | - | - | (3,118,410) | (3,118,410) | (365,290) | (3,483,700) |
| **Balance at December 31, 2011** | 78,369,515 | 50,278,839 | 4,553,870 | - | (21,648,598) | 33,184,111 | (410,752) | 32,773,359 |
| Share-based payments | - | - | 624,672 | - | - | 624,672 | - | 624,672 |
| Unrealized loss on shares held for resale | - | - | - | (1,463,196) | - | (1,463,196) | - | (1,463,196) |
| Net assets disposed of in Philco Mining Corporation | - | - | - | - | (122,424) | (122,424) | - | (122,424) |
| Reduction of non-controlling interest on sale of subsidiary | - | - | - | - | - | - | 122,564 | 122,564 |
| Discount on convertible debt | - | - | 1,517,516 | - | - | 1,517,516 | - | 1,517,516 |
| Discount attributed to the convertible note conversion feature | - | - | 76,521 | - | - | 76,521 | - | 76,521 |
| Common shares issued to settle dispute (note 12(b)) | 2,000,000 | 220,000 | | - | - | 220,000 | - | 220,000 |
| Common shares issued for cash ($0.15 per share) (note 12(b)) | 33,380,069 | 4,426,621 | 382,353 | - | - | 4,808,974 | - | 4,808,974 |
| Common shares issued for mineral property (note 12(b)) | 125,000 | 13,750 | - | - | - | 13,750 | - | 13,750 |
| Common shares issued for cash ($0.20 per share) (note 12(b)) | 2,625,000 | 525,000 | - | - | - | 525,000 | - | 525,000 |
| Share issue costs | - | (177,594) | - | - | - | (177,594) | - | (177,594) |
| Reclassification of the fair value of options and warrants upon expiry | - | - | (1,851,252) | - | 1,851,252 | - | - | - |
| Net income (loss) for the year | - | - | - | - | 2,334,489 | 2,334,489 | (149,846) | 2,184,643 |
| **Balance at December 31, 2012** | 116,499,584 | $ 55,286,616 | $ 5,303,680 | $ (1,463,196) | $ (17,585,281) | $ 41,541,819 | $ (438,034) | $ 41,103,785 |

See notes to consolidated financial statements

## CADAN RESOURCES CORPORATION
**Consolidated Statements of Cash Flows**
**Years ended December 31,**
**(Expressed in Canadian dollars)**

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net income (loss) for the year | $ | 2,184,643 | $ | (3,483,700) |
| Items not involving cash | | | | |
| Share-based payments | | 624,672 | | 667,423 |
| Amortization | | 4,571 | | - |
| Change in fair value of contingent consideration | | (1,033,580) | | - |
| Unrealized gain on derivative | | (120,139) | | - |
| Gain on sale of subsidiary | | (5,142,189) | | - |
| Loss on settlement of arbitration | | 220,000 | | - |
| Share of loss in equity accounted investment | | 33,175 | | - |
| Unrealized gain on foreign exchange | | (182,636) | | - |
| Interest on convertible debt | | 156,969 | | 10,052 |
| | | (3,254,514) | | (2,806,225) |
| Changes in non-cash working capital | | | | |
| Amounts and advances receivable | | (3,978) | | (68,794) |
| Prepaid expenses | | 86,224 | | (275,397) |
| Accounts payable and accrued liabilities | | 1,305,808 | | 18,052 |
| Due to related parties | | 300,000 | | (196,932) |
| **Cash used in operating activities** | | (1,566,460) | | (3,329,296) |
| **Cash flows from investing activities** | | | | |
| Investment in exploration and evaluation assets | | (8,556,728) | | (6,213,864) |
| Proceeds on sale of Philco Mining Corporation | | 2,106,410 | | - |
| Purchase of investment in Mining Group Ltd. | | (126,024) | | - |
| Purchase of property, plant and equipment | | (199,784) | | (678,064) |
| **Cash used in investing activities** | | (6,776,126) | | (6,891,928) |
| **Cash flows from financing activities** | | | | |
| Proceeds from issuance of common shares | | 5,333,974 | | 3,823,750 |
| Proceeds from secured loan | | - | | 1,044,190 |
| Proceeds from issuance of convertible notes | | 2,400,000 | | 2,500,000 |
| Repayment of convertible notes | | (2,500,000) | | - |
| Share issuance costs paid | | (177,594) | | (34,504) |
| Shares in affiliate returned to treasury | | - | | (8,615) |
| **Cash provided by financing activities** | | 5,056,380 | | 7,324,821 |
| **Decrease in cash and cash equivalents** | | (3,286,206) | | (2,896,403) |
| **Cash and cash equivalents, beginning of year** | | 3,584,642 | | 6,481,045 |
| **Cash and cash equivalents, end of year** | $ | 298,436 | $ | 3,584,642 |
| **Cash and cash equivalents are comprised of:** | | | | |
| Cash | $ | 298,436 | $ | 1,084,642 |
| Cash equivalents | | - | | 2,500,000 |
| | | 298,436 | | 3,584,642 |

See notes to consolidated financial statements

## 1. GOING CONCERN AND NATURE OF OPERATIONS

Cadan Resources Corporation (the “Company” or “Cadan”) is incorporated under the laws of British Columbia. The Company’s principal business activity is natural resource exploration and development, focusing on resources located in the Philippines.

During the year ended December 31, 2011, the Company reorganized the ownership of its 40% holdings in its Philippine affiliates. The Company transferred its 40% ownership in its Philippine affiliates, Philco Mining Corporation (“Philco”) and Batoto Resources Corporation (“Batoto”), from its Australian subsidiaries to its wholly-owned Canadian subsidiaries, Philco Holdings Inc. and Batoto Holdings Inc. The Company transferred its 40% ownership in its Philippine affiliate TMC Tribal Mining Corporation (“TMC”) from Cadan to its wholly-owned Canadian subsidiary, Tribal Holdings Inc., and its 40% ownership in its Philippine affiliate Tribal Processing Corporation (“Tribal Processing”) (formerly Sunbird Philippines Holdings Inc. (“Sunbird”)) from Cadan to its wholly-owned Canadian subsidiary, Tribal Holdings Inc. In addition, Tribal Processing sold its interests in TMC and Cadan increased its holdings in Tribal Processing to 100%. On January 17, 2012, the Company sold 80% of its interest in Philco (notes 4, 5 and 6).

In October 2012, TMC received the Mines and Geosciences Bureau’s (“MGB’s”) Declaration of Mining Project Feasibility, enabling the Company to commence commercial mining production at the T'Boli gold-silver mine and CIL gold-silver processing plant. To December 31, 2012, the Company had commenced processing “incidental ore”, which it stockpiled during exploration, to help determine the ability of the CIL plant to enter production; the Company has not yet entered commercial production.
The head office, principal and registered address and records office of the Company is Suite 1720, 1111 West Georgia Street, Vancouver, British Columbia, V6E 4M3.

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated financial statements do not give effect to any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Adverse conditions cast significant doubt on the Company’s ability to continue as a going concern. For the year ended December 31, 2012, the Company reported net income of $2,184,643 (2011 – net loss of $3,483,700). At December 31, 2012, the Company had an accumulated deficit of $17,585,281 (2011 - $21,648,598). The Company has not yet demonstrated an ability to produce a sustained source of revenue to satisfy its significant cash requirements to conduct its planned exploration and development, meet its administrative overhead and maintain its resource interests. The Company has relied principally upon the issuance of securities and debt for financing. The Company’s ability to continue as a going concern is dependent on its ability to bring the Tribal Processing T’Boli gold processing plant to full production, and secure additional financing to fund the remaining development of the T’Boli mine and gold processing plant and planned exploration and development, and fund its ongoing administrative expenditures. While it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

Mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the Company’s investment in, and expenditures on, exploration and evaluation assets is dependent on several factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of resource interests.

## 2. BASIS OF PRESENTATION

(a) Statement of Compliance

The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

(b) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the years ended December 31, 2012 and 2011, were reviewed by the Audit Committee, and approved and authorized for issue by the Board of Directors on April 9, 2013.

(c) New accounting pronouncements and interpretations not yet adopted

At the date of authorization of these consolidated financial statements, the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of new and revised standards and interpretations, which are not yet effective for the relevant reporting periods.

The Company has not early-adopted these standards, amendments and interpretations. The Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company. The new accounting standards and interpretations that will be adopted in future years are as follows:

**IAS 27 *Separate Financial Statements* (2011)**

This amended version of IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.

Applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

**IAS 28 *Investments in Associates and Joint Ventures (2011)***

This standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The standard defines "significant influence" and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

**2. BASIS OF PRESENTATION** (Continued)

(c) New accounting pronouncements and interpretations not yet adopted (continued)

**IFRS 9 *Financial instruments - Classification and Measurement***

This standard on classification and measurement of financial instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement*. There are two categories into which all financial instruments are classified: fair value through profit or loss (“FVTPL”) or amortized cost. All financial instruments are initially measured at fair value, plus or minus transaction costs if the instrument is not FVTPL, otherwise the transaction costs are expensed as incurred.

Financial assets are measured at either amortized cost or fair value. All equity instruments are measured at fair value, but if the instrument is not held-for-trading an irrevocable election can be made to measure the changes in fair value through other comprehensive income. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is at FVTPL. Any financial asset may be designated as FVTPL if it eliminates or significantly reduces a measurement or recognition inconsistency. All derivatives are at FVTPL.

Financial liabilities held-for-trading (including all derivatives) are measured at FVTPL, all others are measured at amortized cost unless the fair value option is applied. The fair value option permits a financial liability to be designated as FVTPL if it eliminates or significantly reduces a measurement or recognition inconsistency, or if it is managed and performance is evaluated internally on a fair value basis.

Applies to annual periods beginning on or after January 1, 2015.

**IFRS 10 *Consolidated Financial Statements***

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

**IFRS 11 *Joint Arrangements***

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

## 2. BASIS OF PRESENTATION (Continued)

(c) New accounting pronouncements and interpretations not yet adopted (continued)

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

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- **Significant judgments and assumptions -** such as how control, joint control, significant influence has been determined;
- **Interests in subsidiaries -** including details of the structure of the group, risks associated with structured entities, changes in control, and so on;
- **Interests in joint arrangements and associates** - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information); and
- **Interests in unconsolidated structured entities -** information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures, which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

**IFRS 13 *Fair Value Measurement***

Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a “fair value hierarchy” based on the nature of the inputs:

- **Level 1** - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2** - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- **Level 3** - unobservable inputs for the asset or liability.

**2. BASIS OF PRESENTATION** (Continued)

(c) New accounting pronouncements and interpretations not yet adopted (continued)

**IFRS 13 *Fair Value Measurement*** *(continued)*

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

Applicable to annual reporting periods beginning on or after January 1, 2013.

**IAS 19 *Employee Benefits (2011)***

This is an amended version with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes.

The key amendments include:

- Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the “corridor approach” permitted by the existing IAS 19)
- Introducing enhanced disclosures about defined benefit plans
- Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits
- Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features
- Incorporating other matters submitted to the IFRIC.

Applicable to annual reporting periods beginning on or after January 1, 2013.

**IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine***

Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognized as an asset, how the asset is initially recognized, and subsequent measurement.

The Interpretation requires stripping activity costs which provide improved access to ore are recognized as a non-current “stripping activity asset” when certain criteria are met. The stripping activity asset is depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

Applies to annual periods beginning on or after January 1, 2013.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements.

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company (the ultimate parent company), its wholly-owned subsidiaries, Exploradora La Esperanza S.A. (a Colombian company); Sabena Limited and its subsidiaries (Australian companies); Tribal Holdings Inc., Batoto Holdings Inc., and Philco Holdings Inc. (Canadian companies), and Tribal Processing (Philippine company); and the accounts of its partially-owned (40%) Philippine affiliates, Batoto and TMC, referred to throughout the consolidated financial statements as the “Philippine companies”. The Company owns 40% of each of the Philippine companies, which have been consolidated as they meet the criteria under SIC 12. The Company’s ownership percentage in the Philippine companies is a result of Philippine laws restricting foreign ownership, but the Company is acting as operator of the Philippine companies. The remaining 60% ownership of each of the Philippine companies is owned by the two respective presidents of those companies. Each president has signed an option agreement allowing the Company to acquire control in certain circumstances. All significant intercompany balances and transactions have been eliminated on consolidation.

The Company sold 80% of Philco, which was consolidated as a Special Purpose Entity for the year ended December 31, 2011, during the year ended December 31, 2012 (note 4). As the Company has retained a 20% interest and is able to exert significant influence, Philco is considered to be an associate as at December 31, 2012 and for the year then ended.

Non-controlling interest in the net assets of consolidated partially-owned Philippine companies are identified separately from the Company’s equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest’s share of changes in equity since the date of acquisition.

(b) Use of judgments and estimates

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. In particular, significant judgments made by management in the application of IFRS during the preparation of the consolidated financial statements and estimates with a risk of material adjustment are:

(i) Realization of assets

The investments in Philco Mining, Mining Group Ltd. (“Mining Group”) and exploration and evaluation assets, and the loan to Philco Mining comprise a significant portion of the Company’s assets. Realization of the Company’s investments and loan receivable are dependent upon the Company or Mining Group obtaining permits for exploration or development of resource claims, the satisfaction of governmental requirements, satisfaction of possible aboriginal claims, the attainment of successful production from the properties, or from the proceeds upon disposal of the Company’s interests therein. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines.

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(b) Use of judgments and estimates (continued)

(ii) Environmental

Environmental legislation is becoming increasingly stringent and the costs of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development of mineral resource properties, the potential for production on the properties may be diminished or negated.

The Company is subject to laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation.

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations, are initially recognized and recorded as a liability based on estimated future cash flows discounted at a credit-adjusted risk-free rate.

The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

(iii) Valuation of receivables

The loan to Philco Mining has no stated terms of repayment or interest rate attached to it. The amount receivable from Mining Group (notes 4 and 18(d)) is due to the Company in March 2013. Management must make judgments about the valuation and recoverability of these receivables. Events and circumstances arising during the year or that are foreseeable at year-end are reflected in the valuation of these amounts receivable in the consolidated balance sheets and reflect management's best estimate of the fair value of these financial instruments. However, these receivables are tied to resource exploration and development, which is highly speculative and involves inherent risks.

(iv) Impairment assessment

Annually, the Company assesses whether its assets' carrying values are greater than their recoverable values. The recoverable value is the higher of an assets' fair value, less costs to sell, and its value in use. Given the nature of the Company's assets, generally their recoverable values are their value in use. The Company generally estimates value in use using a discounted cash flow model. Management has assessed its cash generating units as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets. The Company has reviewed its most recent economic models and forecasts in assessing whether a potential impairment has occurred. The assumptions that the calculation of value in use is most sensitive to are production volume, metal prices, discount rates, operating costs, and development and construction costs.

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(b) Use of judgments and estimates (continued)

(v) Contingencies

By their nature, contingencies, including the retirement benefit obligation, will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events, including the use of actuarial assumptions.

(vi) Fair value hierarchy

Where the fair value of financial assets and financial liabilities recorded in the balance sheets cannot be derived from active markets, their fair value is determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Significant areas requiring the use of management judgments and estimates include: fair value of financial instruments; recoverability of investment in and expenditures on exploration and evaluation assets and property, plant and equipment; rates of amortization; balances of accrued liabilities; determination of provision for reclamation liability; the determination of the variables used in the calculation of share-based payments; and actuarial assumptions for retirement benefit obligations. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated amortization and accumulated impairment losses. Amortization is recorded using the straight-line method at the following annual rates:

| | |
|---|---|
| Buildings | - 4% |
| Vehicles and exploration equipment | - 20 to 50% |
| Office furniture and equipment | - 10 to 33% |
| Leasehold improvements | - 20% |

(i) Subsequent costs

The cost of replacing part of an item within property, plant and equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the group and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is expensed. All other costs are recognized as an expense as incurred.

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(c) Property, plant and equipment (continued)

(ii) Impairment

The Company's tangible assets are reviewed for indications of impairment at each balance sheet date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss for the year.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(iii) Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

(d) Cash and cash equivalents

Cash and cash equivalents is comprised of funds on deposit with banks and cash held in lawyers' trust accounts, which will be released to the Company within three months or less.

(e) Foreign currency translation

The Company's functional and reporting currency is the Canadian dollar. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary assets and liabilities are translated using the period-end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

(f) Investments in associates

Investments in which the Company exerts significant influence are accounted for using the equity method whereby the original cost of the investment is adjusted for the Company's share of earnings, losses and dividends during the current period. The Company's share of earnings and losses of such investments are included in the statements of comprehensive income (loss).

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(g) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods using the graded vesting method. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. Non-vesting conditions are considered in making the assumption about the number of awards that are expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the recorded value in share-based payments reserve is transferred to share capital. Upon expiry, forfeiture or cancellation, the recorded value is transferred to deficit.

(h) Equity units

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

(i) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on per share amounts is calculated presuming the exercise or conversion of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise or conversion would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(j) Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under this method of tax allocation, deferred tax assets and liabilities are determined based on differences between the consolidated financial statement carrying values and their respective income tax basis (temporary differences). Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in profit or loss in the period in which the change is enacted or substantively enacted. Deferred tax assets are recognized to the extent that it is probable that the benefits associated with them will be recognized in the future.

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(k) Financial instruments

(i) Financial assets

Financial assets are classified into one of four categories: FVTPL, held-to-maturity ("HTM"), available-for-sale ("AFS"), and loans and receivables. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

*FVTPL financial assets*

Financial assets classified as FVTPL are stated at fair value with any resultant change in fair value recognized in profit or loss. The net income or loss recognized incorporates any dividend or interest earned on the financial asset.

*HTM financial assets*

HTM financial assets are initially measured on a trade date basis at fair value, including transaction costs, and are subsequently adjusted using the effective interest rate method.

*AFS financial assets*

Short-term investments and other assets not otherwise designated are classified as AFS and stated at fair value on the date of acquisition and each subsequent balance sheet date. Any change in fair value is recognized as other comprehensive income (loss).

*Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at period-end. Bad debts are written off during the period in which they are identified. Interest income is recognized by applying the effective interest rate method.

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(k) Financial instruments (continued)

(ii) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

*Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

*Derecognition of financial liabilities*

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(l) Exploration and evaluation assets

Once a permit or license to explore an area has been secured, acquisition costs, and expenditures for exploration and evaluation are capitalized on a property-by-property basis. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Management reviews the carrying value of capitalized costs at least annually. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to mine development assets, which is a component of property, plant and equipment.

The Company considers a project to be in commercial production following a reasonable period of testing of the production processes, and when the mine and processing plant are in the location and condition necessary to operate at their anticipated full capacity.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Exploration and evaluation assets (continued)

Subsequent recovery of the carrying value of exploration and evaluation assets depends on successful development or sale of the undeveloped project. If a project does not prove viable, all capitalized costs associated with the project, net of any impairment provisions, are written off.

(m) Provision for reclamation liability

The Company records a liability based on the best estimate of costs for site reclamation activities that the Company is legally or constructively required to remediate and the liability is recognized at the time environmental disturbance occurs. The resulting costs are capitalized to the corresponding asset. The provision for reclamation liabilities is estimated using expected cash flows, discounted at a pre-tax rate specific to the liability.

The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future reclamation cash flows.

Changes in closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost.

Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred.

## 4. SALE OF PHILCO MINING

On January 17, 2012, the Company completed the sale of 80% of the Company's interests in Philco Mining and granted Mining Group (the purchaser) an option to acquire an 80% interest in Batoto. The Company received cash consideration of $3,150,600 (AUS$3,000,000) and 2,600,000 Mining Group common shares with a fair value, on January 17, 2012, of $1,774,838 (AUS$1,690,000). The Company has the right to receive an additional 2,600,000 Mining Group common shares if the trading price of Mining Group common shares is above AUS$1 for 30 consecutive days, expiring January 17, 2014. No value has been ascribed to the additional 2,600,000 Mining Group common shares due to their contingent nature.

The Company retains a 20% investment in Philco Mining (note 5). The retained investment was revalued to its fair value of $1,231,360 (note 5), resulting in a revaluation gain of $1,106,360.

The Company recorded a gain of $5,142,189 arising from the sale and revaluation of its remaining investment in Philco.

The Company also had the right to contingent consideration of $1,033,580 (AUS$1,000,000) if the Company settled a dispute of $722,073 (AUS$714,924) against the Company and Philco. The Company settled the dispute for $321,988, thereby fulfilling the requirements under the agreement to receive the contingent consideration of $1,033,850 (AUS$1,000,000), which has been recorded in amounts and advances receivable as at December 31, 2012 (notes 11, 13 and 18). The contingent consideration of $1,033,580 (AUS$1,000,000) was recorded at inception for $nil, which represented management's best estimate of its fair value. Upon settlement during the quarter ended September 30, 2012, a fair value gain was recognized of $1,033,580 (AUS$1,000,000). The receivable was due from Mining Group in March 2013, and was settled subsequent to year-end (note 18).

**(Expressed in Canadian dollars)**

## 4. SALE OF PHILCO MINING (Continued)

On October 17, 2012, the option to acquire 80% of its interests in Batoto by Mining Group expired unexercised.

Under the terms of the agreement, the Company exercised an option to purchase (i) 500,000 Mining Group common shares at $0.20 per share for $105,020 (AUS$100,000), and (ii) 2,000,000 options for $0.01 per option for $21,004 (AUS$ 20,000), each such option to purchase a Mining Group share for AUS$0.20 until January 17, 2014. The Company repaid the secured loan of $1,044,190 (AUS$1,000,000) (notes 10 and 16) from the proceeds.

Pursuant to a shareholders' agreement, Mining Group has an obligation to fund AUS$48,000,000 in exploration activity in Philco Mining as follows:

| Exploration Expenditures | Annual amount (AUS$) | Cumulative amount (AUS$) |
|---|---:|---:|
| Year 1 | 5,000,000 | Nil |
| Year 2 | 5,000,000 | Nil |
| Year 3 | 5,000,000 | 15,000,000 |
| Year 4 | 15,000,000 | 30,000,000 |
| Year 5 | 18,000,000 | 48,000,000 |

The annual amounts in the table above are the expected schedule of expenditures, the cumulative amount is the funding requirement schedule. Should Mining Group not meet the funding requirements, the agreement contains dilution provisions. Upon Mining Group funding the project to AUS$48,000,000, both the Company and Mining Group will fund further development pro rata based on their ownership interests. Mining Group reported AUS$2.9 million in exploration expenditures in 2012, which contributes to the minimum exploration amount of AUS$15 million required by the end of the third year.

## 5. INVESTMENT IN AND LOAN TO PHILCO MINING CORP

Pursuant to the January 17, 2012, sale of an 80% interest in Philco Mining (note 4), the Company retained a 20% investment in Philco Mining. The investment is accounted for as an investment in an associate using the equity method. The 20% retained investment was revalued on the date of sale at $1,231,360. The carrying amount is as follows:

| | | |
|---|---|---:|
| Investment amount | $ | 1,231,360 |
| Share of net loss | | (33,175) |
| Carrying amount | $ | 1,198,185 |
| | | |
| Loan to Philco Mining | $ | 10,307,538 |

The Company's advances to Philco Mining are unsecured, non-interest-bearing and have no specified terms of repayment. Pursuant to a shareholders' agreement, the Company's advance to Philco Mining will rank equally with amounts advanced by Mining Group for exploration expenditures on the Philco Mining copper-gold project. The advances will be repaid first from distribution of profits on a proportional basis until each advance is repaid.

**(Expressed in Canadian dollars)**

## 6. INVESTMENT IN MINING GROUP LTD.

Pursuant to the January 17, 2012, sale of an interest in Philco Mining (note 4), the Company acquired 3,100,000 common shares of Mining Group and 2,000,000 share purchase options. Each option is exercisable to acquire one Mining Group common share for AUS$0.20 until January 17, 2014. At December 31, 2012, the fair value of the shares is $416,662 and of the options (derivative financial instruments) is $141,143.

The Company recorded an unrealized gain of $120,139 on the options in net income and an unrealized loss of $1,463,196 on the shares in other comprehensive income for the year ended December 31, 2012.

## 7. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents as FVTPL; amounts and advances receivable (excluding HST receivable) and loan receivable from Philco Mining, as loans and receivables; and accounts payable and accrued liabilities, secured loans, convertible notes, retirement benefit obligation and due to related parties, as other financial liabilities.

The investment in Mining Group is comprised of two parts. The options are a derivative financial instrument classified as FVTPL, and are valued at each reporting period using the Black-Scholes option pricing model. The marketable securities are classified as AFS financial instruments, and are valued at their market value price at each reporting date.

The carrying values of cash and cash equivalents, amounts and advances receivable (excluding HST receivable), accounts payable and accrued liabilities, and secured loans approximate their fair values due to the short terms to maturity of these financial instruments. The carrying value of amounts due to related parties approximates their fair value, as the amounts were due on demand. The loan receivable from Philco Mining is recorded at its carrying value, as the amount has no stated interest rate or terms of repayment.

The carrying values of convertible notes (note 11) were determined, in accordance with Level 3 of the fair value hierarchy, by discounting the face value of the notes and accreting those discounts over the six months to the anticipated conversion date of the notes. The Company's measurement of fair value of financial instruments in accordance with the fair value hierarchy is as follows:

| Fair value hierarchy | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **As at December 31, 2011:** | | | | |
| Convertible notes (note 11) | $ 2,449,076 | $ - | $ - | $ 2,449,076 |
| Retirement benefit obligation (note 14) | $ 279,219 | $ - | $ - | $ 279,219 |
| **As at December 31, 2012:** | | | | |
| Investment in Mining Group (note 5) | $ 557,805 | $ 416,662 | $ 141,143 | $ - |
| Convertible notes (note 11) | $ 720,008 | $ - | $ - | $ 720,008 |
| Retirement benefit obligation (note 14) | $ 208,212 | $ - | $ - | $ 208,212 |

**(Expressed in Canadian dollars)**

**7. FINANCIAL INSTRUMENTS** (Continued)

(a) Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents. Cash and cash equivalents have been placed on deposit with major Canadian, Philippine, and Australian financial institutions. The risk arises from the non-performance by counterparties of contractual financial obligations. The Company is not exposed to significant credit risk on amounts and advances receivable (excluding HST receivable).

The Company manages credit risk, in respect of cash and cash equivalents, by maintaining deposits and guaranteed investment certificates at major financial institutions with strong investment-grade ratings.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as the majority of the amounts are held with only a few Canadian and Philippine financial institutions. The Company's concentration of credit risk and maximum exposure thereto, is as follows:

| | 2012 | 2011 |
|---|---|---|
| Canadian dollar | $ 200,379 | $ 3,420,002 |
| Philippine peso | 98,057 | 162,285 |
| Australian dollar | - | 2,355 |
| Total cash and cash equivalents | $ 298,436 | $ 3,584,642 |

The Company is also exposed to credit risk with respect to its amounts and advance receivable and Loan to Philco Mining (note 5). The Company maintains an equity investment in Philco Mining and receives periodic financial information from Mining Group and Philco Mining with respect to that investment. The Company actively monitors the status of Philco Mining and Mining Group to minimize the credit risk related to this $10,307,538 loan, and the accounts receivable due from Mining Group of $1,033,580 (notes 4 and 18). Other amounts receivable relate to input tax credits.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

Interest rate risk consists of two components:

(a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

**7. FINANCIAL INSTRUMENTS** (Continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

The Company's cash and cash equivalents consist of cash held in bank accounts and funds held in trust. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on their estimated fair values as of December 31, 2012 and 2011. Future cash flows from interest income on cash will not be material. The Company's convertible notes bear interest at a fixed rate per annum and are short-term, with maturities of less than six months from December 31, 2012. The interest expense on the convertible notes will not be material. The Company manages interest rate risk by investing in highly liquid investments with maturities of one year or less.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars.

The Company is exposed to foreign currency risk with respect to cash and cash equivalents, amounts and accounts receivable, and accounts payable and accrued liabilities as a portion of these amounts are denominated in Philippine pesos, Australian dollars and US dollars as follows:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Canadian dollar equivalent:** | | | | |
| Cash and cash equivalents | $ | 97,027 | $ | 164,640 |
| Amounts and advances receivable | | 1,033,580 | | - |
| Accounts payable and accrued liabilities | | (1,165,273) | | (1,207,575) |
| | $ | (34,666) | $ | (1,042,935) |

The Company manages foreign currency risk by only holding funds in foreign currencies for short-term requirements of no more than two months. The Company has not entered into any foreign currency contracts and does not utilize derivatives to mitigate this risk.

A 5% fluctuation in the value of the Philippine peso and Australian dollar at December 31, 2012 would result in a change to net income (loss) and comprehensive income (loss) by $94,826 (2011 - $61,638).

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to other price risk through its investment in marketable securities of Mining Group, which are valued at each reporting date at their market price (note 5). During the year, the marketable securities of Mining Group declined in value by 75%, resulting in an unrealized loss recorded in accumulated other comprehensive loss of $1,463,196.

## 7. FINANCIAL INSTRUMENTS (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated investing and financing activities. Accounts payable are all due within three months of year-end and amounts due to related parties are without specific terms of repayment; however, they are expected to be repaid within one year. The Company's convertible notes are due June 21, 2013 (note 11).

The Company will require significant cash funding to conduct its exploration programs, meet its administrative overhead costs, meet its repayment obligations on the convertible notes and maintain its resource interests and bring its T'Boli gold processing plant to full production capacity. This will require the Company to obtain additional financing in 2013.

## 8. EXPLORATION AND EVALUATION ASSETS

(a) Permits and licenses

Through its subsidiaries and the Philippine companies, the Company has interests in certain permits and licenses to explore and develop exploration and evaluation assets located in the Philippines, as described below:

(i) Panag, Suriganon, Tagpura and Camanlangan are located in the municipalities of New Bataan and Nabunturan, Compostela Valley Province, Philippines. The Company completed the sale of 80% of the Company's interests in Philco Mining (note 4) January 17, 2012, and has retained a free-carried interest of 20% in Philco Mining (note 5).

(ii) Batoto, Barangay Camanlangan, Municipality of New Bataan, Compostela Valley Province, Philippines

There are no royalties payable to the government of the Philippines because the properties are located in an indigenous area. The indigenous peoples will, upon commercial production, be given a royalty equivalent to 1% of the operating cost of any operation. There are no annual work commitments.

(iii) T'Boli, Barangay Kematu, Municipality of T'Boli, South Cotabato Province, Philippines

There is a 2% mineral royalty payable to the government of the Philippines in respect of any future mineral production.

The Company received the MGB's Declaration of Mining Project Feasibility enabling the Company to commence commercial mining production at the T'Boli gold-silver mine within the Mineral Processing and Sharing Agreement.

**(Expressed in Canadian dollars)**

## 8. EXPLORATION AND EVALUATION ASSETS (Continued)

(b) Expenditures on exploration and evaluation assets

| | Panag, Suriganon and Tagpura | Batoto | T'Boli | 2012 Total |
|---|---|---|---|---|
| Opening balance acquition costs | $ 1,031,287 | $ 1,029,478 | $ 1,041,061 | $ 3,101,826 |
| Adjustments recorded in 2011 | (1,031,287) | - | - | (1,031,287) |
| Acquisition costs | - | 1,029,478 | 1,041,061 | 2,070,539 |
| Deferred exploration costs | | | | |
| Balance, beginning of year | 10,354,955 | 5,680,300 | 11,471,934 | 27,507,189 |
| Incurred during year | | | | |
| Assaying | - | - | 98,522 | 98,522 |
| Community development | - | 27,659 | 627,515 | 655,174 |
| Consultants | - | 105,851 | 1,240,129 | 1,345,980 |
| Depreciation and amortization | - | 13,326 | 295,381 | 308,707 |
| Drilling costs | - | 1,241 | 659,971 | 661,212 |
| Exploration and mineral processing | - | 6,766 | 1,923,603 | 1,930,369 |
| Field supplies and administration | - | 256,449 | 3,158,340 | 3,414,789 |
| Taxes, licenses and fees | - | 4,190 | 87,673 | 91,863 |
| Geological | - | 1,217 | 11,465 | 12,682 |
| Mill site | - | 151 | 232,716 | 232,867 |
| Transportation and travel | - | 11,657 | 473,597 | 485,254 |
| Recovery from metal sales | - | - | (434,202) | (434,202) |
| Sale of Philco Mining | (10,354,955) | - | - | (10,354,955) |
| Total for year | (10,354,955) | 428,507 | 8,374,710 | (1,551,738) |
| Balance, end of year | $ - | $ 6,108,807 | $ 19,846,644 | $ 25,955,451 |

**(Expressed in Canadian dollars)**

## 8. EXPLORATION AND EVALUATION ASSETS (Continued)

(b) Expenditures on exploration and evaluation assets (continued)

| | Panag, Suriganon and Tagpura | Batoto | T'Boli | 2011 Total |
|---|---|---|---|---|
| Opening balance acquisition costs | $ 1,037,981 | $ 1,038,101 | $ 1,041,061 | $ 3,117,143 |
| Adjustments recorded in 2011 | (6,694) | (8,623) | - | (15,317) |
| Acquisition costs | 1,031,287 | 1,029,478 | 1,041,061 | 3,101,826 |
| Deferred exploration costs | | | | |
| Balance, beginning of of year | 9,074,959 | 5,057,730 | 6,707,012 | 20,839,701 |
| Incurred during year | | | | |
| Assaying | 20,247 | - | 31,079 | 51,326 |
| Community development | 30,459 | 59,992 | 187,138 | 277,589 |
| Consultants | 174,477 | 98,014 | 572,505 | 844,996 |
| Depreciation and amortization | 45,644 | 14,204 | 100,654 | 160,502 |
| Drilling costs | 184,044 | (10,769) | 489,753 | 663,028 |
| Exploration and mineral processing | 50,157 | 29,554 | 1,134,113 | 1,213,824 |
| Field supplies and miscellaneous | 405,907 | 311,315 | 1,635,511 | 2,352,733 |
| Geological | 92,950 | 64,983 | 139,455 | 297,388 |
| Repairs, supplies and materials | 146,933 | 20,942 | 70,120 | 237,995 |
| Taxes, licenses and fees | 92,141 | 23,711 | 255,351 | 371,203 |
| Transportation and travel | 37,037 | 10,624 | 197,888 | 245,549 |
| Recovery from metal sales | - | - | (48,645) | (48,645) |
| Total for the year | 1,279,996 | 622,570 | 4,764,922 | 6,667,488 |
| Balance, end of year | 10,354,955 | 5,680,300 | 11,471,934 | 27,507,189 |
| | $11,386,242 | $ 6,709,778 | $12,512,995 | $30,609,015 |

(c) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its resource exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. Environmental legislation is becoming increasingly stringent and costs and

**8. EXPLORATION AND EVALUATION ASSETS** (Continued)

(c) Environmental (continued)

expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the resource properties, the potential for production on the property may be diminished or negated.

(d) Realization of assets

The investment in and expenditures on exploration and evaluation assets comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the underlying properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

(e) Title to exploration and evaluation asset interests

Although the Company has taken steps to verify the title to exploration and evaluation asset interests for which it has a permit and/or license, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

**(Expressed in Canadian dollars)**

## 9. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Vehicles and exploration equipment | Construction in progress | Office furniture and equipment | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **Balance, December 31, 2010** | 75,660 | 409,718 | 970,536 | 1,182,528 | 58,716 | 12,735 | 2,709,893 |
| Additions | 105,985 | - | 253,640 | 300,132 | 9,379 | | 669,136 |
| **Balance, December 31, 2011** | 181,645 | 409,718 | 1,224,176 | 1,482,660 | 68,095 | 12,735 | 3,379,029 |
| Disposition of Philco Mining | 903 | (1,382) | (616,577) | (1,482,660) | (47,396) | (12,735) | (2,159,847) |
| Additions | - | - | 1,824,319 | 17,403 | 40,690 | | 1,882,412 |
| **Balance, December 31, 2012** | 182,548 | 408,336 | 2,431,918 | 17,403 | 61,389 | - | 3,101,594 |
| | | | | | | | |
| **Accumulated amortization and impairment losses** | | | | | | | |
| **Balance, December 31, 2010** | - | 35,022 | 536,856 | - | 51,372 | 6,649 | 629,899 |
| Amortization | - | 16,000 | 137,280 | - | 3,416 | (6,536) | 150,160 |
| **Balance, December 31, 2011** | - | 51,022 | 674,136 | - | 54,788 | 113 | 780,059 |
| Disposition of Philco Mining | - | 242 | (480,777) | - | (46,668) | (113) | (527,316) |
| Amortization | - | 16,276 | 271,249 | | 16,018 | - | 303,543 |
| **Balance, December 31, 2012** | - | 67,540 | 464,608 | - | 24,138 | - | 556,286 |
| | | | | | | | |
| **Net book value** | | | | | | | |
| Balance, December 31, 2011 | 181,645 | 358,696 | 550,040 | 1,482,660 | 13,307 | 12,622 | 2,598,970 |
| **Balance, December 31, 2012** | **182,548** | **340,796** | **1,967,310** | **17,403** | **37,251** | **-** | **2,545,308** |

## 10. SECURED LOAN

On November 4, 2011, Mining Group issued to the Company an Aus$1 million ($1,044,190) secured loan (the “MGL Loan”) (note 4). The MGL Loan was secured with a chattel mortgage on a specified exploration permit. The loan matured November 7, 2012, or earlier if the Company completed an agreement with Mining Group to effect the sale of 80% of the Company’s interest in the Panag, Suriganon and Tagpura properties (the “Tagpura Property”). The loan accrued interest at the rate of LIBOR plus 2%, but the interest would be forgiven should the Company and Mining Group complete the sale of the interest in the Tagpura Property. On January 17, 2012, the Company concluded the sale and the loan was repaid from the cash consideration (note 4).

## 11. CONVERTIBLE NOTES

(a) On December 23, 2011, the Company issued 2,500,000 convertible notes that matured December 23, 2012, with a face value of $1 per note (the "Convertible Notes") for a total of $2,500,000. Each of the Convertible Notes was convertible to five common shares of the Company and an option to purchase an additional share for $0.20 for a period of 21 months, or, on the maturity date if the Company had not obtained a listing on the Australian Securities Exchange (“ASX”).

The Convertible Notes bore interest at 10% per annum, and were convertible on issue of a prospectus for the listing of the Company’s securities on the ASX with the Australian Securities and Investments Commission (“ASIC”), or, at the election of the Company, at any time before repayment. If not converted, the note holders could demand payment on the maturity date, on change of control of the Company, or in the event of default by the Company. The Company accrued interest of $250,000 on the Convertible Notes to December 23, 2012, at which time the Convertible Notes were repaid in full.

**(Expressed in Canadian dollars)**

**11. CONVERTIBLE NOTES** (Continued)

(a) (continued)

The Company recognized $60,976 as the value of the conversion feature for the Convertible Notes, which was accounted for as debt discount recognized as interest cost over the 12 month term to the maturity of the notes.

(b) On December 21, 2012, the Company issued 2.4 million convertible notes that mature June 21, 2013, with a face value of $1 per note (the "2012 Convertible Notes") for total proceeds of $2.4 million. The 2012 Convertible Notes and any securities issued on conversion thereof are subject to a four-month hold period expiring April 21, 2013. Each 2012 Convertible Note is convertible to five common shares of the Company.

The 2012 Convertible Notes bear interest at 12% per annum. As well, 12 million common share purchase warrants to acquire one common share at $0.20 until June 21, 2014 were issued to the lenders. If not converted, the note holders can demand payment on the maturity date, on change of control of the Company or in the event of default by the Company.

The Company recognized $1,594,037 as the value of the warrants issued and the conversion feature for the 2012 Convertible Notes, which was accounted for as debt discount to be recognized as interest cost over the six-month term to the maturity of the notes. At December 31, 2012, $95,496 of the warrant value and conversion feature had been amortized to interest expense.

The net present values of the convertible notes at their issue dates of December 21, 2012 and December 23, 2011, respectively, were:

| | December 21, 2012 | December 23, 2011 |
|---|---|---|
| Face value on issue | $ 2,400,000 | 2,500,000 |
| Debt discount | (76,521) | (56,403) |
| Warrant valuation | (1,517,516) | - |
| Finders' fees | (192,000) | - |
| Net present value on issue | $ 613,963 | $ 2,443,597 |

The net present values at December 31, 2012 and 2011 were determined as follows:

| | 2012 | 2011 |
|---|---|---|
| Net present value on issue | $ 613,963 | 2,443,597 |
| Amortization of debt discount | 7,912 | 5,479 |
| Amortization of warrants to interest | 87,584 | - |
| Amortization of finders' fees | 10,549 | - |
| Net present value at year-end | $ 720,008 | $ 2,449,076 |

## 12. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

(b) Issued

At December 31, 2012, 116,499,584 (2011 - 78,369,515) common shares were issued and outstanding.

On September 2, 2011, the Company completed the first tranche of a non-brokered private placement consisting of 4,560,667 units priced at $0.30 per unit, for gross proceeds of $1,368,200. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share of the Company at a price of $0.45 for two years from the closing date. The gross proceeds were allocated as $1,140,167 to the common shares within share capital and $228,033 to the warrants within share-based payments reserve. The Company paid finders' fees in connection with the financing by issuing 259,140 finders' units with a fair value of $77,742. Other cash share issuance costs in the amount of $8,026 were incurred by the Company related to this placement.

On December 20, 2011, the Company completed a non-brokered private placement consisting of 16,370,000 common shares priced at $0.15 per share, for gross proceeds of $2,455,500. Other cash share issuance costs in the amount of $26,478 were incurred by the Company related to this placement.

During the year ended December 31, 2011, a warrant holder exercised warrants and purchased 100 common shares at $0.50 per share for gross proceeds of $50.

On August 17, 2012, the Company completed the first tranche of a non-brokered private placement consisting of 9,558,834 units priced at $0.15 per unit, for gross proceeds of $1,433,825. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share for a period of two years from the closing date at a price of $0.20 for the first year and $0.25 for the second year. The Company allocated $1,051,471 to share capital and $382,354 to warrant reserve to reflect the values assigned to shares and warrants within the unit issuance. The Company paid finders' fees in connection with the financing of $84,300 in cash. Other cash share issuance costs in the amount of $26,294 were incurred by the Company related to this placement.

On August 17, 2012, the Company issued 125,000 common shares to G. Lluch valued at $13,750. The shares were issued in connection with the supplementary mineral property and royalty agreement with G. Lluch & Sons Inc. and Philco Mining. The supplementary agreement amends and updates various property access, exploration and mining rights, and royalty agreements.

On September 7, 2012, the Company, pursuant to the deed of settlement, issued 2,000,000 common shares valued at $220,000 and paid $101,988 (AUS$100,000) to settle a dispute against the Company and Philco Mining. The settlement satisfied the conditions under the sale agreement between Mining Group and the Company for the final payment by Mining Group to the Company of AUS$1,000,000 (note 5).

**12. SHARE CAPITAL** (Continued)

(b) Issued (continued)

On September 14, 2012, the Company completed the second tranche of a non-brokered private placement consisting of 3,930,000 units priced at $0.15 per unit, for gross proceeds of $589,500. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share for a period of two years from the closing date at a price of $0.20 for the first year and $0.25 for the second year. The Company allocated $589,500 to share capital and $nil to warrant reserve, as the unit issuance price was higher than the closing price of the Company's common shares on the date the private placement was announced. The Company paid finders' fees in connection with the financing of $40,425 in cash.

On November 7, 2012, the Company completed the third tranche of a non-brokered private placement consisting of 18,570,995 units priced at $0.15 per unit, for gross proceeds of $2,785,649. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share for a period of two years from the closing date at a price of $0.20 for the first year and $0.25 for the second year; 6,161,334 of the units were not issued until December 6 while the documentation required to be filed by investors holding over 5% of the issued and outstanding was under review. The Company allocated $2,785,649 to share capital and $nil to warrant reserve, as the unit issuance price was higher than the closing price of the Company's common shares on the date the private placement was announced. The Company issued 1,320,240 common shares as finders' fees to a single finder.

On December 14, 2012, the Company completed a non-brokered private placement consisting of 2,625,000 units priced at $0.20 per unit, for gross proceeds of $525,000. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire an additional common share for a period of two years from the closing date at a price of $0.27. The Company allocated $525,000 to share capital and $nil to warrant reserve, as the unit issuance price was higher than the closing price of the Company's common shares on the date the private placement was announced.

(c) Stock options

The Company has a stock option plan whereby the Board of Directors is authorized to grant options to a rolling ceiling of 10% of the issued and outstanding common shares of the Company.

Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of the grant. The terms of the option and the option price are fixed by the directors at the time of grant subject to restrictions imposed by the TSX Venture Exchange. Stock options awarded have a maximum term of ten years. The vesting terms of the options are determined by the directors; however, options granted to investor relations consultants are subject to a minimum twelve-month vesting schedule whereby no more than 25% vest in any three-month period.

Stock options held by officers, directors and employees of the Company expire one year following their departure from the Company.

**(Expressed in Canadian dollars)**

**12. SHARE CAPITAL** (Continued)

(c) Stock options (continued)

As at December 31, 2012 and 2011, the following incentive stock options were outstanding and exercisable:

| Expiry Date | Exercise Price | **2012** | **2011** |
|---|---|---|---|
| 15-Apr-14 | $ 0.63 | 450,000 | 450,000 |
| 20-Jul-14 | $ 0.50 | 790,000 | 840,000 |
| 30-Sep-14 | $ 0.50 | 135,000 | 292,500 |
| 1-Mar-15 | $ 0.95 | 150,000 | 150,000 |
| 17-Aug-15 | $ 0.50 | 50,000 | 96,000 |
| 12-Jul-16 | $ 0.50 | 28,000 | 64,000 |
| 21-Sep-16 | $ 0.45 | 750,000 | 750,000 |
| 6-Dec-16 | $ 0.20 | 2,190,000 | 2,190,000 |
| 24-Jul-17 | $ 0.50 | 189,900 | 189,900 |
| 6-Nov-17 | $ 0.50 | 1,064,000 | 1,174,500 |
| 25-Oct-17 | $ 0.15 | 4,500,000 | - |
| | | 10,296,900 | 6,196,900 |

The options outstanding and exercisable at December 31, 2012, have a weighted average remaining contractual life of 4.05 (2011 - 4.38) years. Stock option activity is as follows:

| | **2012** | | **2011** | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding and exercisable, beginning of year | 6,196,900 | $ 0.49 | 3,237,000 | $ 0.52 |
| Granted | 4,500,000 | $ 0.15 | 3,390,000 | $ 0.43 |
| Expired/canceled | (400,000) | $ 0.50 | (430,000) | $ 0.50 |
| Exercised | - | - | (100) | $ 0.50 |
| Outstanding and exercisable, end of year | 10,296,900 | $ 0.29 | 6,196,900 | $ 0.49 |

On October 16, 2012, the Company granted 4,500,000 fully vested incentive stock options. The exercise price of the options is $0.15 each, exercisable until October 16, 2017. The fair value of the stock options granted was $624,672 ($0.15 each) as estimated at the date of the grant using the Black-Scholes option pricing model.

**(Expressed in Canadian dollars)**

**12. SHARE CAPITAL** (Continued)

(c) Stock options (continued)

On December 6, 2011, the Company granted 2,190,000 fully vested incentive stock options. The exercise price of the options is $0.20 each, exercisable until December 6, 2016. The fair value of the stock options granted was $325,018 ($0.15 each) as estimated at the date of the grant using the Black-Scholes option pricing model.

On September 21, 2011, the Company granted 750,000 fully vested incentive stock options. The exercise price of the options is $0.45 each, exercisable until September 21, 2016. The fair value of stock options granted was $152,960 ($0.20 each), as estimated at the date of grant using the Black-Scholes option pricing model.

On April 5, 2011, the Company granted 450,000 fully vested incentive stock options. The exercise price of the options is $0.63 each, exercisable until April 15, 2014. The fair value of stock options granted was $189,445 ($0.42 each), as estimated at the date of grant using the Black-Scholes option pricing model.

*Share-based payments*

The fair value of stock options granted was estimated using the Black-Scholes option pricing model with weighted average assumptions as follows:

| | 2012 | 2011 |
|---|---|---|
| Risk-free rate | 1.63% | 1.77% |
| Expected life | 5 years | 4.25 years |
| Expected volatility | 157.77% | 124.24% |
| Expected dividend yield | Nil | Nil |

Total stock-based compensation recognized during the year ended December 31, 2012 with respect to options was $624,672 (2011 - $667,423). The options were granted to consultants.

**(Expressed in Canadian dollars)**

## 12. SHARE CAPITAL (Continued)

(d) Warrants

As at December 31, 2012, and 2011, the following share purchase warrants were outstanding:

| Expiry Date | | Exercise Price | 2012 | 2011 |
|---|---|---|---|---|
| October 31, 2012 | $ | 0.80 | - | 6,580,000 |
| December 8, 2012 | $ | 1.10 (1) | - | 12,100,000 |
| August 14, 2013 | $ | 1.50 | 2,000,000 | 2,000,000 |
| September 2, 2013 | $ | 0.30(2) | 4,560,667 | 4,560,667 |
| September 2, 2013 | $ | 0.45 | 259,140 | 259,140 |
| August 17, 2014 | $ | 0.20(3) | 9,558,834 | - |
| September 14, 2014 | $ | 0.20(3) | 3,930,000 | - |
| October 31, 2014 | $ | 0.20(3) | 2,109,661 | - |
| November 7, 2014 | $ | 0.20(3) | 10,300,000 | - |
| December 7, 2014 | $ | 0.20(3) | 6,161,334 | - |
| December 14, 2014 | $ | 0.27 | 2,625,000 | - |
| June 21, 2014 | $ | 0.20 | 12,000,000 | - |
| September 15, 2015 | $ | 1.25(4) | 2,079,846 | 2,079,846 |
| October 18, 2015 | $ | 1.25(4) | 2,980,188 | 2,980,188 |
| December 8, 2015 | $ | 1.10(1) | 11,000,000 | - |
| | | | 69,564,670 | 30,559,841 |

(1) On April 10, 2012, the Company extended the expiry date of 11,000,000 warrants from December 8, 2012, to December 8, 2015.

(2) On February 8, 2012, the Company reduced the exercise price from $0.45 to $0.30 per share on 4,560,667 warrants issued as part of the private placement on September 2, 2011.

(3) The warrants are exercisable at $0.20 for the first year and $0.25 for the second year.

(4) The warrants were exercisable at $1.00 for the first two years and $1.25 for the remaining three years.

Share purchase warrant transactions and the number of share purchase warrants outstanding are summarized as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 30,559,841 | $ 0.95 | 34,906,090 | $ 1.06 |
| Issued | 46,684,829 | $ 0.20 | 4,819,807 | $ 0.45 |
| Expired | (7,680,000) | $ 0.84 | (9,166,056) | $ 1.10 |
| Modified | (4,560,667) | $ 0.45 | - | - |
| Modified | 4,560,667 | $ 0.30 | - | - |
| Outstanding, end of year | 69,564,670 | $ 0.46 | 30,559,841 | $ 0.95 |

**(Expressed in Canadian dollars)**

## 12. SHARE CAPITAL (Continued)

(e) Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

| | 2,012 | 2,011 |
|---|---|---|
| **Net income (loss) for years ended** | $ 2,184,643 | $ (3,483,700) |
| **Weighted average number of shares outstanding** | 86,537,931 | 60,178,742 |
| **Effect of dilutive securities** | | |
| Incentive share options | 6,690,000 | - |
| Outstanding warrants | 44,059,829 | - |
| **Adjusted weighted average number of shares outstanding** | 137,287,760 | 60,178,742 |
| **Earnings per share** | | |
| Basic | $ 0.025 | $ (0.058) |
| Diluted | $ 0.016 | $ (0.058) |

**(Expressed in Canadian dollars)**

## 13. RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended December 31, 2012 and 2011, the Company incurred key management compensation as follows:

| | 2012 | 2011 |
|---|---|---|
| Short-term benefits | $ 1,484,047 | $ 1,116,434 |
| Share-based payments | 506,516 | 435,320 |
| | $ 1,990,563 | $ 1,551,754 |

Of this amount, $1,277,404 (2011 - $1,005,320) was expensed and $713,159 (2011 - $546,434) was capitalized to exploration and evaluation assets.

At December 31, 2012, the Company owed $22,386 (2011 - $725) for consulting fees and expenses, and $300,000 (2011 - $nil) in promissory notes to directors and officers of the Company. Amounts due to related parties are non-interest-bearing, unsecured and without specific terms of repayment. Amounts are expected to be repaid within one year.

At December 31, 2012, the Company had an advance receivable from Philco Mining of $10,307,538. On January 17, 2012, the Company sold 80% of its interests in affiliate Philco Mining (4, 5 and 6). Under the terms of the agreement, the advances made by the Company to Philco Mining were retained. The advances to Philco Mining are unsecured, non-interest-bearing and have no specified terms of repayment. Pursuant to the agreement, the Company's advance to Philco Mining ranks equally with amounts advanced by Mining Group for exploration expenditures on the Philco Mining copper-gold project. The advances will be repaid first from distribution of profits on a proportional basis until each advance is repaid.

At December 31, 2012, the Company is committed to pay termination payments to six officers and directors in the event those individuals are terminated without cause. The payments range from one to three years of annual salary per individual. If the termination payments were triggered for all six individuals, the Company would be required to pay to those individuals in total $1,887,781.

**(Expressed in Canadian dollars)**

## 14. RETIREMENT BENEFIT OBLIGATION

The Company has a legislated obligation to provide a retirement payment to employees in the Philippines equal to 22.5 days pay for every year of credited service at attainment of a retirement age of 60.

The last actuarial valuation of the present value of the obligation was carried out at February 4, 2013, as at December 31, 2012 and for the year then ended. The present value of the obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | 5.64% | 6.23% |
| Expected rate of salary increase | 5% | 10% |
| Normal retirement age | 60 | 60 |
| Projected retirement benefit | 22.5 days pay per year of service | 22.5 days pay per year of service |
| Actuarial cost method | Projected Unit Credit Method | Projected Unit Credit Method |
| Manner of benefit payment | Lump sum | Lump sum |

Amounts capitalized during the years ended December 31, 2012 and 2011 as a component of exploration and evaluation assets in respect of the retirement benefit is as follows:

| | 2012 | 2011 |
|---|---|---|
| Current service cost | $153,375 | $213,104 |
| Interest on obligation | 33,408 | 64,959 |
| Other gain (loss) recognized | (96,783) | 1,066 |
| Retirement benefit obligation expense | $90,000 | $279,129 |

Movement in the net liability in the consolidated balance sheets is as follows:

| | 2012 | 2011 |
|---|---|---|
| Beginning, retirement benefit liability | $279,219 | $ - |
| Liability transferred - Philco Mining | (108,119) | - |
| Other loss recognition | (52,888) | - |
| Retirement benefit obligation expense recognized | 90,000 | 279,219 |
| Ending, retirement benefit liability | $208,212 | $279,219 |

The net retirement benefit liability included in the consolidated balance sheets arising from the entity's lawful obligation is as follows:

| | 2012 | 2011 |
|---|---|---|
| Present value of benefit obligation | $121,888 | $407,252 |
| Unrecognized actuarial gain (losses) | 86,324 | (128,033) |
| Retirement benefit, net | $208,212 | $279,219 |

**(Expressed in Canadian dollars)**

## 15. INCOME TAX

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 25.0% (2011 - 26.5%) to loss before taxes. The reasons for the differences are as follows:

| | 2012 | 2011 |
|---|---|---|
| Loss for the year before tax | $ 2,184,643 | $(3,483,700) |
| Statutory income tax rate | 25.0% | 26.5% |
| Income tax recovery computed at statutory rates | 546,161 | (923,181) |
| Tax effect of expenses that are not deductible (taxable) for income tax purposes | 151,548 | 145,217 |
| Change in timing differences | (1,131,133) | 173,859 |
| Under-provided in prior years | - | 129,419 |
| Reduction in future income taxes resulting from enacted tax rates | - | 26,498 |
| Expiry of non-capital loss carry-forwards | - | 13,319 |
| Change in benefit of tax losses not recognized | 433,424 | 434,869 |
| Income tax expense | $ - | $ - |

Effective January 1, 2012, the Canadian federal corporate tax rate decreased from 16.5% to 15.0% and the British Columbia provincial tax rate remained unchanged at 10%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 26.5% to 25.0%. Income tax rates in the Philippines remained at 30.0% (2011 - 30.0%).

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2012 and 2011 are presented below:

| | 2012 | 2011 |
|---|---|---|
| Deferred income tax assets | | |
| Non-capital losses carried forward | $ 367,987 | $ 434,635 |
| Deferred income tax liabilities | | |
| Exploration and evaluation assets | (149,896) | (223,974) |
| Held-for-trading securities | (15,017) | - |
| Foreign exchange on property, plant and equipment | (203,074) | (210,661) |
| Total | $ - | $ - |

**(Expressed in Canadian dollars)**

## 15. INCOME TAX (Continued)

The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

| | 2012 | 2011 |
|---|---|---|
| Deferred income tax assets: | | |
| Non-capital losses carried forward | $ 6,866,524 | $ 5,866,479 |
| Share issue costs | 724,346 | 925,871 |
| Available for sale securities | 731,598 | - |
| Accrued retirement obligation | - | 201,378 |
| Provisions and other | 47,000 | 44,334 |
| Total | $ 8,369,468 | $ 7,038,062 |

The Company has accumulated non-capital losses for tax purposes of $7,604,274 that expire in various years as follows:

| | Philippines | Canada | Total |
|---|---|---|---|
| 2013 | $ 27,977 | $ - | $ 27,977 |
| 2014 | 122,622 | - | 122,622 |
| 2015 | 1,888 | - | 1,888 |
| 2027 | - | 545,447 | 545,447 |
| 2028 | - | 628,784 | 628,784 |
| 2029 | - | 820,431 | 820,431 |
| 2030 | - | 2,008,008 | 2,008,008 |
| 2031 | - | 2,663,728 | 2,663,728 |
| 2032 | - | 785,388 | 785,388 |
| | $ 152,487 | $ 7,451,786 | $ 7,604,273 |

## 16. CAPITAL MANAGEMENT

In October, the Company's Philippines affiliate, TMC, received the MGB's Declaration of Mining Project Feasibility enabling the Company to commence commercial mining production at the T'Boli gold-silver mine and the CIL plant. The Company has begun processing "incidental ore", which it stockpiled during exploration. To December 31, 2012, the CIL plant has generated $486,000 from metal sales. The CIL processing plant will require additional capital expenditure to meet its designed capacity.

The Company is continuing exploration of its other properties (note 8) and is not generating sufficient cash flows from operations to cover its operating costs or fund exploration of its other properties and continues to rely on debt and issuance of shares to generate capital. The Company considers capital to consist of shareholders' equity and convertible debt. The Company issued a secured loan for AUD$1 million (Cdn$1,044,190) (notes 4 and 10), which was redeemed January 7, 2012, as part of the transaction with the Mining Group (note 4). In addition, the Company issued convertible notes for $2.4 million (2011 - $2.5 million) (note 11). The Company is not subject to any externally imposed capital requirements.

**(Expressed in Canadian dollars)**

## 16. CAPITAL MANAGEMENT (Continued)

The Company's objectives of capital management are intended to safeguard its ability to meet normal operating requirements on an ongoing basis and continue the development and exploration of its resource properties. To effectively manage the Company's capital requirements, the Company has in place a planning process to determine the funds required to ensure appropriate liquidity to meet its operating and growth objectives. The Company monitors actual expenses on all exploration projects and overhead to manage costs, commitments and exploration activities.

The Company's policy for managing capital has not changed from prior years.

## 17. SEGMENTED INFORMATION

The Company has one operating segment: resource property exploration. The Company's corporate assets are located in Canada. The Company has investments in corporations located in the Philippines and Australia, and natural resource exploration activities have occurred in Colombia in past years.

| | 2012 | | | |
|---|---|---|---|---|
| | Canada | Australia | Philippines | Consolidated |
| Current assets | $ 1,403,368 | $ - | $ 240,739 | $ 1,644,107 |
| Exploration and evaluation assets | - | - | 28,025,990 | 28,025,990 |
| Loan to Philco Mining | 10,307,538 | - | - | 10,307,538 |
| Investments | 557,805 | - | - | 557,805 |
| Investment in Philco Mining | 1,198,185 | - | - | 1,198,185 |
| Property, plant and equipment | 11,760 | - | 2,533,548 | 2,545,308 |
| Total Assets | $ 13,478,656 | $ - | $ 30,800,277 | $ 44,278,933 |
| Total Liabilities | $ 1,782,054 | $ - | $ 1,426,674 | $ 3,208,728 |

| | 2011 | | | |
|---|---|---|---|---|
| | Canada | Australia | Philippines | Consolidated |
| Current assets | $ 3,641,363 | $ 2,535 | $ 368,661 | $ 4,012,559 |
| Exploration and evaluation assets | - | - | 30,609,015 | 30,609,015 |
| Property, plant and equipment | - | - | 2,598,970 | 2,598,970 |
| Total Assets | $ 3,641,363 | $ 2,535 | $ 33,576,646 | $ 37,220,544 |
| Total Liabilities | $ 3,960,388 | $ - | $ 486,797 | $ 4,447,185 |

## 18. SUBSEQUENT EVENTS

(a) On January 16, 2013, the Company issued an additional $2 million of convertible debentures. When combined with the previous closing (note 11), the Company will have accepted $4,460,700 in gross proceeds for the convertible notes. The convertible debentures are convertible into common shares of the Company at a price of $0.20 per share until July 14, 2014. Purchasers of the convertible debenture also received one detached warrant for each common share underlying the convertible debenture. Each warrant is exercisable into a common share of the Company until July 14, 2014 at a price of $0.20. The convertible debentures and warrants above are subject to a four-month hold period expiring May 15, 2013. Insiders that participated in the offering are subject to a 24-month conversion period, and received a 24 month detached warrant. The Company will pay finder's fees associated with the additional convertible notes in the amount of $247,650.

(b) On February 19, 2013, Philco Mining changed its name to Agusan Metals Corporation ("Agusan").

(c) On March 7, 2013, to comply with new regulations issued by the Philippines Department of Environment & Natural Resources requiring mining companies to have capital of at least $2,518,250 (P100 million), a minimum paid-up capital of $157,391 (P6.25 million) and maintain the present 80-20 equity ratio (note 5) of Mining Group and Cadan over Agusan, Mining Group subscribed for share capital of Philco Mining in the amount of $453,286 (P18 million) and Cadan subscribed for share capital of $113,321 (P4.5 million). The payment by Cadan was made as a reduction of the existing loan to Philco Mining from the Company (note 5).

(d) On March 8, 2013, the Company accepted a settlement offer by Mining Group of $527,868 (AUS$500,000) and 5,952,381 common shares of Mining Group, which had a fair market value at $316,721 (AUS$300,000). The settlement resulted in a loss on amounts and advances receivable of $211,147 (AUS$200,000) related to the contingent consideration from Mining Group of $1,033,580 (AUS$1,000,000) (notes 4, 11 and 13).