



## **FINANCIAL REVIEW**

**Second Quarter Ended June 30, 2013**



(formerly Emerick Resources Corp.)

(An Exploration Stage Company)

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the Six Months Ended June 30, 2013**

(Expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed interim consolidated financial statements for the six months ended June 30, 2013. These financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

**Medgold Resources Corp. (formerly Emerick Resources Corp.)**

(Exploration Stage Company)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian Dollars)

| <b>As at</b>   | <b>June 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|--------------------------|------------------------------|
|  | (Unaudited)              | (Audited)                    |
| <b>ASSETS</b>  |                          |                              |
| <b>Current assets</b>                                |                          |                              |
| Cash and cash equivalents                            | \$ 403,892               | \$ 556,209                   |
| Prepaid expenses and deposits (Note 12)              | 69,222                   | 69,461                       |
| Sales tax recoverable                                | 85,571                   | 50,621                       |
| Total current assets                                 | 558,685                  | 676,291                      |
| <b>Non-current assets</b>                            |                          |                              |
| Reclamation bonds (Note 7)                           | 204,657                  | 19,693                       |
| Property and equipment (Note 6)                      | 11,556                   | 12,456                       |
| Exploration and evaluation assets (Note 7)           | 82,445                   | 48,593                       |
| Total non-current assets                             | 298,658                  | 80,742                       |
|  | \$ 857,343               | \$ 757,033                   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>          |                          |                              |
| <b>Current liabilities</b>                           |                          |                              |
| Accounts payable and accrued liabilities             | \$ 322,240               | \$ 422,506                   |
| Due to related parties (Note 12)                     | 134,498                  | 105,057                      |
| Total current liabilities                            | 456,738                  | 527,563                      |
| <b>Non-current liability</b>                         |                          |                              |
| Convertible debenture – liability component (Note 8) | 127,034                  | -                            |
| Total liabilities                                    | 583,772                  | 527,563                      |
| <b>Shareholders' equity</b>                          |                          |                              |
| Share capital (Note 9)                               | 2,690,798                | 2,690,798                    |
| Other equity reserve (Note 9)                        | 842,680                  | -                            |
| Accumulated other comprehensive loss                 | (14,638)                 | (1,145)                      |
| Deficit  | (3,245,269)              | (2,460,183)                  |
| Total shareholders' equity                           | 273,571                  | 229,470                      |
|  | \$ 857,343               | \$ 757,033                   |

Nature of operations and ability to continue as a going concern – Note 2

APPROVED ON BEHALF OF THE BOARD ON AUGUST 28, 2013:

“Simon Ridgway”  
Simon Ridgway, Director

“Daniel James”  
Daniel James, Director

*The accompanying notes form an integral part of these condensed interim consolidated financial statements*

**Medgold Resources Corp. (formerly Emerick Resources Corp.)**

(Exploration Stage Company)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)**

(Expressed in Canadian Dollars)

|   | Three months ended June 30, |                     | Six months ended June 30, |                     |
|---|-----------------------------|---------------------|---------------------------|---------------------|
|   | 2013                        | 2012                | 2013                      | 2012                |
| <b>Exploration expenditures</b> (Note 11)                         | \$ 155,496                  | \$ 120,993          | \$ 376,989                | \$ 224,263          |
| <b>General and administrative expenses</b>                        |                             |                     |                           |                     |
| Depreciation  | 450                         | -                   | 900                       | -                   |
| Foreign exchange gain   | (11,526)                    | -                   | (2,499)                   | -                   |
| General and administrative (Note 12)                              | 25,698                      | 17,115              | 53,532                    | 24,132              |
| Interest and bank charges (Note 8)                                | 4,424                       | -                   | 5,191                     | -                   |
| Legal and accounting  | 64,694                      | 124,964             | 99,311                    | 141,873             |
| Management fees (Note 12)   | 46,500                      | 68,340              | 93,000                    | 135,603             |
| Salaries and benefits (Note 12)                                   | 39,118                      | -                   | 76,842                    | -                   |
| Shareholder communications (Note 12)                              | 11,436                      | -                   | 35,513                    | -                   |
| Transfer agent and regulatory fees<br>(Note 12)                   | 5,318                       | -                   | 13,498                    | -                   |
| Travel and accommodation (Note 12)                                | 13,691                      | -                   | 32,809                    | -                   |
|   | 199,803                     | 210,419             | 408,097                   | 301,608             |
| <b>Net loss for the period</b>                                    | <b>\$ (355,299)</b>         | <b>\$ (331,412)</b> | <b>\$ (785,086)</b>       | <b>\$ (525,871)</b> |
| <b>Other comprehensive gain (loss)</b>                            |                             |                     |                           |                     |
| Items that may be reclassified<br>subsequently to profit or loss: |                             |                     |                           |                     |
| Unrealized gain (loss) on foreign<br>exchange translation         | (13,866)                    | 786                 | (13,493)                  | 8,808               |
| <b>Comprehensive loss</b>   | <b>\$ (369,165)</b>         | <b>\$ (330,626)</b> | <b>\$ (798,579)</b>       | <b>\$ (517,063)</b> |
| <b>Loss per share, basic and diluted</b>                          | <b>\$(0.01)</b>             | <b>\$(0.02)</b>     | <b>\$(0.02)</b>           | <b>\$(0.03)</b>     |
| <b>Weighted average number of shares<br/>outstanding</b>          | <b>52,416,078</b>           | <b>21,514,011</b>   | <b>52,416,078</b>         | <b>21,269,505</b>   |

*The accompanying notes form an integral part of these condensed interim consolidated financial statements*

# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended June 30, 2013 and 2012

(Expressed in Canadian Dollars)

|   |                               |                     | Other equity reserves   |   |  |                       |                                  |
|---|-------------------------------|---------------------|-------------------------|---|--|-----------------------|----------------------------------|
|   | Number of<br>common<br>shares | Share capital       | Other equity<br>reserve | Equity<br>portion of<br>convertible<br>debenture<br>reserve | Accumulated<br>other<br>comprehensive<br>income (loss) | Deficit               | Total<br>shareholders'<br>equity |
| Balance, December 31, 2011  | 21,025,000                    | \$ 334,087          | \$ 1,101,643            | \$ -  | \$ (5,821)   | \$ (419,364)          | \$ 1,010,545                     |
| Private placement shares issued   | 500,000                       | 7,945               | -                       | -   | -  | -                     | 7,945                            |
| Share subscriptions receivable  | -                             | -                   | (7,945)                 | -   | -  | -                     | (7,945)                          |
| Share subscriptions received  | -                             | -                   | 4,290                   | -   | -  | -                     | 4,290                            |
| Loss for the period   | -                             | -                   | -                       | -   | -  | (525,871)             | (525,871)                        |
| Unrealized foreign exchange gain  | -                             | -                   | -                       | -   | 8,808  | -                     | 8,808                            |
| <b>Balance, June 30, 2012</b>   | <b>21,525,000</b>             | <b>342,032</b>      | <b>1,097,988</b>        | <b>-</b>  | <b>2,987</b>   | <b>(945,235)</b>      | <b>497,772</b>                   |
| Additional proceeds on shares<br>outstanding                            | -                             | -                   | 180,150                 | -   | -  | -                     | 180,150                          |
| Elimination of Medgold UK share capital                                 | (21,525,000)                  | 1,298,001           | (1,298,001)             | -   | -  | -                     | -                                |
| Issuance of common shares on reverse<br>acquisition (Note 1)            | 32,287,500                    | 1,050,765           | -                       | -   | -  | -                     | 1,050,765                        |
| Outstanding common shares of Medgold<br>Resources Corp. brought forward | 20,128,578                    | -                   | -                       | -   | -  | -                     | -                                |
| Share subscriptions receivable  | -                             | -                   | 7,945                   | -   | -  | -                     | 7,945                            |
| Share subscriptions received  | -                             | -                   | 11,918                  | -   | -  | -                     | 11,918                           |
| Loss for the period   | -                             | -                   | -                       | -   | -  | (1,514,948)           | (1,514,948)                      |
| Unrealized foreign exchange loss  | -                             | -                   | -                       | -   | (4,132)  | -                     | (4,132)                          |
| Balance, December 31, 2012  | 52,416,078                    | 2,690,798           | -                       | -   | (1,145)  | (2,460,183)           | 229,470                          |
| Convertible debenture (Note 8)  | -                             | -                   | -                       | 842,680   | -  | -                     | 842,680                          |
| Loss for the period   | -                             | -                   | -                       | -   | -  | (785,086)             | (785,086)                        |
| Unrealized foreign exchange loss  | -                             | -                   | -                       | -   | (13,493)   | -                     | (13,493)                         |
| <b>Balance, June 30, 2013</b>   | <b>52,416,078</b>             | <b>\$ 2,690,798</b> | <b>\$ -</b>             | <b>\$ 842,680</b>   | <b>\$ (14,638)</b>                                     | <b>\$ (3,245,269)</b> | <b>\$ 273,571</b>                |

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

# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Expressed in Canadian Dollars)

|   | Three months ended June 30, |                   | Six months ended June 30, |                   |
|---|-----------------------------|-------------------|---------------------------|-------------------|
|   | 2013                        | 2012              | 2013                      | 2012              |
| <b>Cash provided by (used in):</b>                              |                             |                   |                           |                   |
| <b>OPERATING ACTIVITIES</b>                                     |                             |                   |                           |                   |
| Net loss for the period   | \$ (355,299)                | \$ (331,412)      | \$ (785,086)              | \$ (525,871)      |
| Items not involving cash:                                       |                             |                   |                           |                   |
| Depreciation  | 450                         | -                 | 900                       | -                 |
| Accretion of discount on convertible debenture                  | 3,861                       | -                 | 3,861                     | -                 |
|   | (350,988)                   | (331,412)         | (780,325)                 | (525,871)         |
| Changes in non-cash working capital balances:                   |                             |                   |                           |                   |
| Decrease (increase) in prepaid expenses and deposits            | 1,421                       | (3,963)           | 239                       | (3,963)           |
| Decrease (increase) in sales tax recoverable                    | 5,628                       | (4,142)           | (34,950)                  | (5,361)           |
| Increase (decrease) in accounts payable and accrued liabilities | (113,048)                   | 298,916           | (100,266)                 | 299,685           |
| Increase (decrease) in amounts due to related parties           | (61,021)                    | 2,993             | 29,441                    | (7,817)           |
|   | (518,008)                   | (37,608)          | (885,861)                 | (243,327)         |
| <b>FINANCING ACTIVITIES</b>                                     |                             |                   |                           |                   |
| Share subscriptions received                                    | -                           | 4,290             | -                         | 4,290             |
| Proceeds on convertible debenture, net of issuance costs        | (9,147)                     | -                 | 965,853                   | -                 |
|   | (9,147)                     | 4,290             | 965,853                   | 4,290             |
| <b>INVESTING ACTIVITIES</b>                                     |                             |                   |                           |                   |
| Exploration and evaluation asset acquisitions                   | -                           | (31,690)          | (33,852)                  | (31,690)          |
| Purchase of reclamation bonds                                   | (185,196)                   | -                 | (185,196)                 | -                 |
|   | (185,196)                   | (31,690)          | (219,048)                 | (31,690)          |
| Effect of changes in exchange rates on cash                     | (14,560)                    | 3,050             | (13,261)                  | 12,398            |
| <b>Decrease in cash</b>   | (726,911)                   | (61,958)          | (152,317)                 | (258,329)         |
| Cash, beginning of period                                       | 1,130,803                   | 952,518           | 556,209                   | 1,148,889         |
| <b>Cash, end of period</b>                                      | <b>\$ 403,892</b>           | <b>\$ 890,560</b> | <b>\$ 403,892</b>         | <b>\$ 890,560</b> |

*The accompanying notes form an integral part of these condensed interim consolidated financial statements*

# **Medgold Resources Corp. (formerly Emerick Resources Corp.)**

(Exploration Stage Company)

## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the six months ended June 30, 2013**

(Expressed in Canadian Dollars)

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### **1. CORPORATE INFORMATION**

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Medgold Resources Corp. (formerly Emerick Resources Corp.) (the “Company”) is a public company incorporated and domiciled in British Columbia and engaged in the acquisition and exploration of resource properties in Italy, Spain, and Portugal.

The address of the Company’s head office and principal place of business is #650 – 200 Burrard Street, Vancouver, BC, Canada V6C 3L6.

#### *Reverse Asset Acquisition*

On December 10, 2012, the Company completed a reverse asset acquisition transaction (the “Acquisition”) and concurrently, changed its name to Medgold Resources Corp. and graduated from the NEX Board of the TSX Venture Exchange (“TSX-V”) to a Tier 2 listing on the TSX-V.

Upon completion of the Acquisition, the Company issued 32,287,500 common shares to the shareholders of Medgold Resource Ltd. (“Medgold UK”), a private company incorporated on April 12, 2011 under the Companies Act 2006 of England and Wales, in exchange for a 100% of the issued and outstanding shares of Medgold UK.

As a result of the Acquisition, the shareholders of Medgold UK acquired 61.6% of the outstanding shares of the Company and Medgold UK gained control of the Company’s Board of Directors. For accounting purposes, the Acquisition was considered to be outside the scope of IFRS 3 *Business Combinations* since the Company’s activities prior to the Acquisition were limited to the management of cash resources and the maintenance of its listing and did not constitute a business. The Acquisition was accounted for consistent with IFRS 2 *Share-based Payment* (“IFRS 2”) whereby Medgold UK was deemed to have issued shares in exchange for the net assets of the Company together with its listing status at the fair value of the consideration received by Medgold UK. As a result, the acquisition was accounted for as a capital transaction, with Medgold UK being identified as the accounting acquirer and the equity consideration being measured at fair value. The resulting statements of financial position as at June 30, 2013 and December 31, 2012 are presented as a continuance of Medgold UK and the comparative figures presented in the condensed interim consolidated financial statements for the three and six month periods ended June 30, 2012 are those of Medgold UK.

### **2. BASIS OF PREPARATION**

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#### **Statement of Compliance**

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company, except for the accounting policies which have changed as a result of the adoption of new and revised standards and interpretations which are effective January 1, 2013. These condensed interim consolidated financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.



# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2013

(Expressed in Canadian Dollars)

### 2. BASIS OF PREPARATION (continued)

#### Basis of Measurement

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. The condensed interim consolidated financial statements are presented in Canadian dollars ("CDN").

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

#### Nature of Operations and Ability to Continue as a Going Concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these condensed interim consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At June 30, 2013, the Company had not yet achieved profitable operations, has accumulated losses of \$2,889,970 since its inception, and expects to incur further losses in the development of its business, all of which cast significant doubt about the Company's ability to continue as a going concern. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

#### Basis of Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. A subsidiary is an entity in which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All material intercompany transactions and balances have been eliminated on consolidation.

Details of the Company's subsidiaries as at June 30, 2013 are as follows:

| Name                             | Place of incorporation | Ownership % | Principal activity     |
|----------------------------------|------------------------|-------------|------------------------|
| Medgold Resource Ltd.            | Great Britain          | 100%        | Administrative company |
| Medgold Minera Sociedad Limitada | Spain                  | 100%        | Exploration company    |

#### Foreign Currency Translation

The functional and presentation currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The Company has determined that the functional currency of its foreign subsidiaries is the British Pound Sterling. Assets and liabilities are translated to the presentation currency at the yearend rates of exchange, and the results of their operations are translated at average rates of exchange for the year. The resulting translation adjustments represent accumulated other comprehensive income in shareholders' equity.

# **Medgold Resources Corp. (formerly Emerick Resources Corp.)**

(Exploration Stage Company)

## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the six months ended June 30, 2013**

(Expressed in Canadian Dollars)

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### **3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS**

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#### *IAS 1 Presentation of Financial Statements (Amendment)*

The amendments to IAS 1 require the grouping of items within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified. The statement of comprehensive income in these condensed interim consolidated financial statements has been amended to reflect the presentation requirements under the amended IAS 1.

The mandatory adoption of the following new and revised accounting standards and interpretations on January 1, 2013 had no significant impact on the Company's financial statements for the current or prior periods presented:

#### *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 previous IFRS, consolidation was 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 Consolidated and Separate Financial Statements.

#### *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 previous IFRS, entities had 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.

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

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

#### *IFRS 13 Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under previous IFRS, guidance on measuring and disclosing fair value was dispersed among the specific standards requiring fair value measurements and in many cases did not reflect a clear measurement basis or consistent disclosures.

#### *Amendments to other standards*

In addition, there have been other amendments to existing standards, including IAS 19 *Post-Employment Benefits*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

# **Medgold Resources Corp. (formerly Emerick Resources Corp.)**

(Exploration Stage Company)

## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the six months ended June 30, 2013**

(Expressed in Canadian Dollars)

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### **4. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE**

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The following new standard has been issued by the IASB but is not yet effective:

#### *IFRS 9 Financial Instruments*

IFRS 9 is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

### **5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- a) The determination of the Company's functional currency.
- b) The carrying value of the investment in exploration and evaluation assets and the recoverability of the carrying value.
- c) Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.
- d) Although the Company has taken steps to identify any decommissioning liabilities related to mineral properties in which it has an interest, there may be unidentified decommissioning liabilities present.

The key estimates applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- a) The inputs in determining the bifurcation of convertible debenture instruments into its liability and equity components.

The Company is required to make certain estimates when determining the fair value of the components of convertible debentures, including the discount rate and share price volatility. These estimates affect the liability and equity components recognized in the condensed interim consolidated financial statement of financial position and the accretion expense recognized in the consolidated statement of loss and comprehensive loss.

# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2013

(Expressed in Canadian Dollars)

### 6. PROPERTY AND EQUIPMENT

|                                 | <b>Leasehold<br/>improvements</b> |
|---------------------------------|-----------------------------------|
| <b>Cost</b>                     |                                   |
| Balance, December 31, 2011      | \$ 9,128                          |
| Additions                       | 3,778                             |
| Balance, December 31, 2012      | 12,906                            |
| <b>Balance, June 30, 2013</b>   | <b>\$ 12,906</b>                  |
| <b>Accumulated amortization</b> |                                   |
| Balance, December 31, 2011      | \$ -                              |
| Charge for period               | 450                               |
| Balance, December 31, 2012      | 450                               |
| Charge for period               | 900                               |
| <b>Balance, June 30, 2013</b>   | <b>\$ 1,350</b>                   |
| <b>Carrying amounts</b>         |                                   |
| At December 31, 2012            | \$ 12,456                         |
| <b>At June 30, 2013</b>         | <b>\$ 11,556</b>                  |

### 7. EXPLORATION AND EVALUATION ASSETS

|                               | <b>Italy</b>       |                          | <b>Spain</b>     |           |               |
|-------------------------------|--------------------|--------------------------|------------------|-----------|---------------|
|                               | <b>Pietratonda</b> | <b>Frassine-Grasceta</b> | <b>Pinzas</b>    |           | <b>Total</b>  |
| Balance, December 31, 2011    | \$ -               | \$ -                     | \$ -             | \$ -      | -             |
| Acquisition costs - cash      | 16,160             | 32,433                   | -                |           | 48,593        |
| Balance, December 31, 2012    | 16,160             | 32,433                   | -                |           | 48,593        |
| Acquisition costs - cash      | -                  | -                        | 33,852           |           | 33,852        |
| <b>Balance, June 30, 2013</b> | <b>\$ 16,160</b>   | <b>\$ 32,433</b>         | <b>\$ 33,852</b> | <b>\$</b> | <b>82,445</b> |

#### Italy

##### a) Pietratonda Property

In 2012, the Company was granted a gold exploration licence in Italy called Pietratonda. An exploration bond amount of \$6,487 (€5,000) has been made regarding this licence.

# **Medgold Resources Corp. (formerly Emerick Resources Corp.)**

(Exploration Stage Company)

## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the six months ended June 30, 2013**

(Expressed in Canadian Dollars)

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### **7. EXPLORATION AND EVALUATION ASSETS (continued)**

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#### **Italy** (continued)

##### **b) Frassine - Grasceta Property**

In 2012, the Company was granted two gold exploration licences in Italy called Frassine and Grasceta. The areas the two licenses cover are adjoined. Two exploration bonds totaling \$12,974 (€10,000) have been made regarding these two licences.

#### **Portugal**

In 2012, the Company applied for three exploration licences in northern Portugal. During and subsequent to the current period, two licences known as Vila de Rei and Boticas were granted and the Company was been issued an exclusive right to acquire the third licence.

##### **a) Vila de Rei Project**

The Vila de Rei licence is located in central Portugal, covering an area of 300 square kilometres.

During the current period, the Company posted a bond of \$185,196 (€136,960) with the Portugal mining authority for the Vila de Rei licence.

##### **b) Boticas Project**

The Boticas license is located in northern Portugal, covering an area of 106 square kilometres.

#### **Spain**

##### **a) Pinzas Project**

Pursuant to a binding letter of intent ("LOI") with Ormonde Mining PLC ("Ormonde") signed in July 2011, and amended in April and September 2012, the Company was provided access to Ormonde's database on a 2,400 square kilometre area in southern Galicia, Spain. In consideration thereof, the Company agreed to undertake €100,000 in exploration of the project area, which expenses could be incurred through the cost of licence applications. During the current period, Ormonde agreed to transfer all of its rights to the project area to the Company, with Ormonde retaining a 1.5% NSR royalty on any future gold production from the project area.

The Company currently has nine gold exploration permit applications in place within the Ormonde project area, which is known as the Pinzas Project. Three of the applications were submitted in 2012 and completed during the current period with acquisition costs totalling \$33,852 being recorded. During the current period, new applications for six adjoining licences were submitted which are subject to public tender.

##### **b) Calzadilla Property**

In 2012, the Company submitted a gold exploration permit application in the Province of Caceres, Spain known as the Calzadilla Property.

##### **c) Other**

In 2012, the Company entered into an agreement whereby a third party performed due diligence services on a potential property acquisition in Spain. Although the Company has not proceeded with the acquisition; the Company has a remaining commitment to make a payment of €12,500.

## Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2013

(Expressed in Canadian Dollars)

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#### 8. CONVERTIBLE DEBENTURE

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On April 12, 2013, the Company issued a convertible debenture for the principal sum of \$975,000. The debenture is convertible into a maximum of 6,500,000 common shares of the Company at the rate of \$0.15 per share on or before April 11, 2015, and bears interest at the rate of 8% per annum, payable in arrears. The debenture, in whole or in part, can be converted into common shares at the holder's option at a rate of \$0.15 per share until the maturity date, at which time the remaining principal sum will be converted into shares at \$0.15 per share. The Company also issued to the convertible debenture holder share purchase warrants to purchase up to 6,500,000 additional common shares at \$0.15 per share and exercisable until April 11, 2014.

For accounting purposes, the convertible debenture is allocated into corresponding debt and equity components at the date of issue. The Company uses the residual value method, which allocates value first to the debt component, based on fair value and then the residual value, to the equity component. The debt component is subsequently accreted to face value of the convertible debenture at the effective interest rate.

Upon the issuance of the convertible debenture, the fair value was separated into a liability component of \$124,362 and an equity component of \$850,638 included in other equity reserves. The equity component was calculated as the difference between the gross proceeds received of \$975,000 and the discounted cash flows associated with the debt using an estimated market rate for non-convertible instruments of 12% per annum.

Issuance costs of \$9,147 were incurred and have been recorded against the liability and equity components and are being amortized to the statements of comprehensive loss over the life of the convertible debenture. During the period ended June 30, 2013, accretion of interest on the convertible debentures of \$3,861 was charged to profit or loss.

|  | <b>Liability<br/>component</b> | <b>Equity<br/>component</b> |
|--|--------------------------------|-----------------------------|
| Face value of debenture at date of issue | \$ 124,362                     | \$ 850,638                  |
| Issuance costs allocated                 | (1,189)                        | (7,958)                     |
| Accretion of discount                    | 3,861                          | -                           |
| <b>Balance, June 30, 2013</b>            | <b>\$ 127,034</b>              | <b>\$ 842,680</b>           |

# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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### 9. SHARE CAPITAL AND RESERVES

#### Common Shares

The Company is authorized to issue an unlimited number of common shares without par value.

There was no share issuances during the six month period ended June 30, 2013.

#### Escrow Shares

As at June 30, 2013, there were 12,487,500 shares (December 31, 2012: 14,680,032) held in escrow.

#### Share Purchase Warrants

A summary of share purchase warrants activity for the six month period ended June 30, 2013 is as follows:

|                                   | Number of<br>warrants | Weighted<br>average<br>exercise<br>price |
|-----------------------------------|-----------------------|--|
| Balance, December 31, 2012        | -                     | -  |
| Issued with convertible debenture | 6,500,000             | \$0.15                                   |
| <b>Balance, June 30, 2013</b>     | <b>6,500,000</b>      | <b>\$0.15</b>                            |

Details of share purchase warrants outstanding as of June 30, 2013 are:

| Expiry date    | Number of<br>warrants | Exercise<br>price |
|----------------|-----------------------|-------------------|
| April 11, 2014 | 6,500,000             | \$0.15            |

#### Options

There were no share options issued or outstanding as at June 30, 2013 or December 31, 2012.

#### Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's statement of financial position include 'Other equity reserve', 'Accumulated Other Comprehensive Loss/Income', and 'Deficit'.

Other Equity Reserve is used to recognize the issuance value of common shares in excess of par value prior to the reverse asset acquisition and the equity component of convertible debentures.

Accumulated Other Comprehensive Loss is used to record the foreign exchange translation adjustments for subsidiaries that have a different functional currency than the Company.

# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2013

(Expressed in Canadian Dollars)

### 10. SHARE-BASED PAYMENTS

#### Expenses Arising from Share-based Payment Transactions

There were no expenses arising from share-based payment transactions recognized during the six month periods ended June 30, 2013 and 2012 as part of share-based compensation expense.

#### Amounts Capitalized Arising from Share-based Payment Transactions

There were no expenses arising from share-based payment transactions that were capitalized during the six month periods ended June 30, 2013 and 2012 as part of exploration and evaluation assets.

### 11. EXPLORATION EXPENDITURES

During the six months ended June 30, 2013, the Company incurred the following exploration expenditures:

|                                 | Italy             |                   | Portugal          |                  | Spain            |  |                   |
|---------------------------------|-------------------|-------------------|-------------------|------------------|------------------|--|-------------------|
|                                 | Pietratonda       | Frassine-Grasceta | Vila de Rei       | Boticas          | Pinzas           |  | Total             |
| Assaying                        | \$ 24,315         | \$ 20,805         | \$ -              | \$ -             | \$ -             |  | \$ 45,120         |
| Geological and other consulting | 42,404            | 34,694            | 68,013            | 7,811            | 40,442           |  | 193,364           |
| Shipping and courier            | 9,741             | 9,741             | 4,108             | -                | -                |  | 23,590            |
| Travel                          | 28,095            | 27,987            | 36,707            | 16,949           | 5,177            |  | 114,915           |
| <b>Balance, end of period</b>   | <b>\$ 104,555</b> | <b>\$ 93,227</b>  | <b>\$ 108,828</b> | <b>\$ 24,760</b> | <b>\$ 45,619</b> |  | <b>\$ 376,989</b> |

During the six months ended June 30, 2012, the Company incurred the following exploration expenditures:

|                                 |                   |
|---------------------------------|-------------------|
| Geological and other consulting | \$ 181,721        |
| Travel                          | 42,542            |
| <b>Balance, end of period</b>   | <b>\$ 224,263</b> |



# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2013

(Expressed in Canadian Dollars)

### 12. RELATED PARTY TRANSACTIONS AND BALANCES

The Company's related parties with transactions during the six months ended June 30, 2013 consist of directors, officers and the following companies with common directors:

| Related party                                | Nature of transactions  |
|--|---|
| Radius Gold Inc. ("Radius")                  | Shared office, administrative and exploration related charges |
| Gold Group Management Inc.<br>("Gold Group") | Shared office, administrative and exploration related charges |
| Mill Street Services Ltd. ("Mill Street")    | Management services   |

Related party transactions for the period ended June 30, 2013, in addition to related party transactions disclosed elsewhere in the condensed interim consolidated financial statements, comprise the following:

- The Company reimbursed Gold Group, a company controlled by the Chief Executive Officer of the Company, \$124,541 (2012: \$Nil) for shared administration costs consisting of \$33,229 in general and administration, \$61,692 in salaries and benefits, \$17,554 in shareholder communications, \$2,866 in transfer agent and regulatory fees, and \$9,200 in travel and accommodation. Salaries and benefits include those for a Director, the Chief Financial Officer and the Corporate Secretary. Effective July 1, 2012, Gold Group is reimbursed by the Company for these shared costs and other business related expenses paid by Gold Group on behalf of the Company. There were no transactions with Gold Group during the comparative period.
- Prepaid expenses and deposits include an amount of \$61,000 (December 31, 2012: \$68,113) paid to Gold Group as a deposit pursuant to the office and administrative agreement and other administrative expenses paid in advance on the Company's behalf.
- Amounts due to related parties as of June 30, 2013 consist of \$33,486 (December 31, 2012: \$23,012) owing to Gold Group, \$17,520 (December 31, 2012: \$17,520) owing to Radius, \$36,330 (December 31, 2012: \$16,800) owing to Mill Street, a company controlled by the Chief Executive Officer of the Company, \$23,581 (December 31, 2012: \$23,863) owing to David Hall, a Director of the Company, and \$23,581 (December 31, 2012: \$23,862) owing to Jeremy Martin, a Director of the Company. The amounts for Radius and Mill Street are unsecured, interest free and have no specific terms of repayment. The amount for Gold Group is due on a monthly basis and secured by a deposit. The amounts for David Hall and Jeremy Martin are due no later than December 10, 2014.

### Key management compensation

The Company has identified certain of its directors and senior officers as its key management personnel. Included for the periods ended June 30, 2013 and 2012 at their exchange amounts are the following items paid or accrued to key management personnel and/or companies with common directors. These transactions are in the normal course of operations.

|                       | Six months ended June 30, |            |
|-----------------------|---------------------------|------------|
|                       | 2013                      | 2012       |
| Management fees       | \$ 93,000                 | \$ 135,603 |
| Salaries and benefits | 10,541                    | -          |

# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2013

(Expressed in Canadian Dollars)

### 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other business, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

#### General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receive periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

#### a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: foreign currency risk, interest rate risk, and equity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. As at June 30, 2013, the Company is exposed to foreign currency risk and interest rate risk.

#### Foreign Currency Risk

As at June 30, 2013, the Company is exposed to currency risk through the following financial assets and liabilities denominated in currencies other than the Canadian dollar:

|  | June 30, 2013                                       |                                   |                              | December 31, 2012                                   |                                   |
|--|---|-----------------------------------|------------------------------|---|-----------------------------------|
|  | British<br>Pound<br>Sterling<br>(CDN<br>equivalent) | US Dollars<br>(CDN<br>equivalent) | Euros<br>(CDN<br>equivalent) | British<br>Pound<br>Sterling<br>(CDN<br>equivalent) | US Dollars<br>(CDN<br>equivalent) |
| Cash                                     | \$ 73,677   | \$ 64,003                         | \$ 17,389                    | \$ 450,095  | \$ 7,577                          |
| Accounts payable and accrued liabilities | (194,378)   | -                                 | (18,381)                     | (334,522)   | -                                 |
| Due to related parties                   | (47,162)  | -                                 | -                            | (47,725)  | -                                 |
| <b>Net exposure</b>                      | <b>\$ (167,863)</b>                                 | <b>\$ 64,003</b>                  | <b>\$ (992)</b>              | <b>\$ 67,848</b>                                    | <b>\$ 7,577</b>                   |

# **Medgold Resources Corp. (formerly Emerick Resources Corp.)**

(Exploration Stage Company)

## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the six months ended June 30, 2013**

(Expressed in Canadian Dollars)

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### **13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

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#### **a) Market Risk (continued)**

Based on the above net exposures at June 30, 2013, a 10% depreciation or appreciation of the above currencies against the Canadian dollar would approximately result in a \$10,500 increase or decrease in the Company's after tax net earnings, respectively.

#### *Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at June 30, 2013, the Company does not have any borrowings except for the accumulated interest owing on a convertible debenture, of which the interest rate is fixed for the duration of the debenture. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with Canadian and British financial institutions. The Company considers this risk to be limited.

#### **b) Credit Risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash and cash equivalents that are invested in asset based commercial paper.

#### **c) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At June 30, 2013, the Company had working capital of \$101,947 (December 31, 2012: \$148,728) available to apply against short-term business requirements.

#### **Determination of Fair Value:**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statements of Financial Position carrying amounts for cash, accounts payables and accrued liabilities, and due to related parties approximates fair value due to their short-term nature. The convertible debenture is carried at fair value using the effective interest method of 12.54%. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2013

(Expressed in Canadian Dollars)

### 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are categorized in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of the Company's financial assets measured at fair value on a recurring basis as of June 30, 2013 were calculated as follows:

|                  | Balance at    |         | Level 1 |         | Level 2 |   | Level 3 |   |
|------------------|---------------|---------|---------|---------|---------|---|---------|---|
|                  | June 30, 2013 |         |         |         |         |   |         |   |
| Financial Asset: |               |         |         |         |         |   |         |   |
| Cash             | \$            | 403,892 | \$      | 403,892 | \$      | - | \$      | - |

### 14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or adjust the amount of cash and cash equivalents. Management reviews the capital structure on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements. The Company's capital resources as of June 30, 2013 are not sufficient to cover its corporate operating costs and carry out exploration activities for the next twelve months. In order to carry out planned exploration programs and business objectives, the Company will need to raise additional capital. The Company believes it will be able to raise additional debt or equity capital as required, but recognized the uncertainty attached thereto.

# Medgold Resources Corp. (formerly Emerick Resources Corp.)

(Exploration Stage Company)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2013

(Expressed in Canadian Dollars)

### 15. SEGMENTED REPORTING

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mining sector relating to precious metals exploration. Management of exploration programs is centralized in England. Due to the geographic and political diversity, the Company's exploration operations are decentralized whereby regional corporate offices provide support to the exploration programs in addressing local and regional issues. The Company's operations and assets are therefore segmented on a district basis.

Details of identifiable assets by geographic segments are as follows:

| Period ended June 30, 2013 |         |         |            |           |          |              |
|----------------------------|---------|---------|------------|-----------|----------|--------------|
|                            | Canada  | England | Italy      | Spain     | Portugal | Consolidated |
| Exploration expenditures   | \$ -    | \$ -    | \$ 331,265 | \$ 39,484 | \$ 6,240 | \$ 376,989   |
| Loss before income taxes   | 230,997 | 128,263 | 331,265    | 88,321    | 6,240    | 785,086      |
| Capital expenditures*      | -       | -       | -          | 33,852    | -        | 33,852       |

| Period ended June 30, 2012 |        |         |            |       |          |              |
|----------------------------|--------|---------|------------|-------|----------|--------------|
|                            | Canada | England | Italy      | Spain | Portugal | Consolidated |
| Exploration expenditures   | \$ -   | \$ -    | \$ 224,263 | \$ -  | \$ -     | \$ 224,263   |
| Loss before income taxes   | -      | 301,608 | 224,263    | -     | -        | 525,871      |
| Capital expenditures*      | -      | -       | 31,690     | -     | -        | 31,690       |

\*Capital expenditures consists of additions of property and equipment and exploration and evaluation assets

| As at June 30, 2013      |                   |                   |                  |                  |                   |                   |
|--------------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
|                          | Canada            | England           | Italy            | Spain            | Portugal          | Consolidated      |
| Total current assets     | \$ 380,098        | \$ 155,938        | \$ -             | \$ 22,649        | \$ -              | \$ 558,685        |
| Total non-current assets | 11,556            | -                 | 68,054           | 33,852           | 185,196           | 298,658           |
| <b>Total assets</b>      | <b>\$ 391,654</b> | <b>\$ 155,938</b> | <b>\$ 68,054</b> | <b>\$ 56,501</b> | <b>\$ 185,196</b> | <b>\$ 857,343</b> |
| <b>Total liabilities</b> | <b>\$ 323,851</b> | <b>\$ 241,540</b> | <b>\$ -</b>      | <b>\$ 18,381</b> | <b>\$ -</b>       | <b>\$ 583,772</b> |

| As at December 31, 2012  |                   |                   |                  |             |             |                   |
|--------------------------|-------------------|-------------------|------------------|-------------|-------------|-------------------|
|                          | Canada            | England           | Italy            | Spain       | Portugal    | Consolidated      |
| Total current assets     | \$ 204,830        | \$ 471,461        | \$ -             | \$ -        | \$ -        | \$ 676,291        |
| Total non-current assets | 12,456            | 658               | 67,628           | -           | -           | 80,742            |
| <b>Total assets</b>      | <b>\$ 217,286</b> | <b>\$ 472,119</b> | <b>\$ 67,628</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 757,033</b> |
| <b>Total liabilities</b> | <b>\$ 145,316</b> | <b>\$ 382,247</b> | <b>\$ -</b>      | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 527,563</b> |



**(formerly Emerick Resources Corp.)**

## **MANAGEMENT’S DISCUSSION AND ANALYSIS Second Quarter Report – June 30, 2013**

### **General**

This Management’s Discussion and Analysis (“MD&A”) supplements, but does not form part of, the unaudited condensed interim consolidated financial statements of the Company for the six months ended June 30, 2013. The following information, prepared as of August 28, 2013, should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for six months ended June 30, 2013 and the related notes contained therein. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards (“IFRS”). In addition, the following should be read in conjunction with the Consolidated Financial Statements of the Company for the year ended December 31, 2012 and the related MD&A. All amounts are expressed in Canadian dollars unless otherwise indicated. The June 30, 2013 financial statements have not been reviewed by the Company’s auditors.

Additional information relevant to the Company’s activities can be found on SEDAR at ([www.sedar.com](http://www.sedar.com)).

### **Forward Looking Information**

This MD&A may contain “forward-looking statements” that reflect the Company’s current expectations and projections about its future results. When used in this MD&A, words such as “will”, “may”, “should”, “estimate”, “intend”, “expect”, “anticipate” and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company’s future operational or financial performance.

Forward-looking statements are statements that are not historical facts, and include but are not limited to:

- a) Estimates and their underlying assumptions;
- b) Statements regarding plans, objectives and expectations with respect to the effectiveness of the Company’s business model, future operations, the impact of regulatory initiatives on the Company’s operations, and market opportunities;
- c) General industry and macroeconomic growth rates;
- d) Expectations related to possible joint or strategic ventures; and
- e) Statements regarding future performance.

Forward-looking statements used in this MD&A are subject to various risks, uncertainties and other factors, most of which are difficult to predict and generally beyond the control of the Company. These risks, uncertainties and other factors may include, but are not limited to unavailability of financing, failure to identify commercially viable mineral reserves, fluctuations in the market valuation for commodities, difficulties in obtaining required approvals for the development of a mineral project, and other factors.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks, uncertainties and other factors, including the risks, uncertainties and other factors identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by securities law.

### **Business of the Company**

The Company is a Vancouver-based mineral exploration company engaged in the acquisition and exploration of precious and base metals properties. As a result of the transaction described below, the Company is focusing its business on acquiring and exploring mineral properties in economically stressed, but politically stable European countries that are seeking foreign investment to invigorate the mining sector.

### **Acquisition of Medgold Resource Ltd.**

On December 10, 2012, the Company completed a reverse asset acquisition (the “Acquisition”) of Medgold Resource Ltd. (“Medgold UK”), a UK-based private company focused on the exploration and development of precious and base metals in Western Europe. To acquire Medgold UK, the Company issued 32,287,500 shares in its capital stock to Medgold UK’s shareholders in proportion to their respective shareholdings in Medgold UK. The Company’s resulting issued capital was 52,416,078 shares, of which Medgold UK’s shareholders owned 61.6% at closing. All outstanding options in the Company were cancelled.

As of the closing of the Acquisition, Ralph Rushton and Simon Ridgway remained as Directors of the Company, and Mr. Ridgway is Chief Executive Officer and Chairman of the Board. Daniel James was appointed as Director and President of the Company and was joined on the Board by David Hall and Jeremy Martin, all of whom are directors of Medgold UK.

As a result of the completion of the Acquisition, the Company’s listing was graduated from the NEX board to Tier 2 of the TSX Venture Exchange as a resource issuer. In addition, the Company’s name was changed from Emerick Resources Corp. to “Medgold Resources Corp.”.

For accounting purposes, the Acquisition was considered to be outside the scope of IFRS 3 *Business Combinations* since the Company’s activities prior to the Acquisition were limited to the management of cash resources and the maintenance of its listing and did not constitute a business. The Acquisition was accounted for consistent with IFRS 2 *Share-based Payment* (“IFRS 2”) whereby Medgold UK was deemed to have issued shares in exchange for the net assets of the Company together with its listing status at the fair value of the consideration received by Medgold UK. As a result, the acquisition was accounted for as a capital transaction, with Medgold UK being identified as the accounting acquirer and the equity consideration being measured at fair value. The resulting statements of financial position as at June 30, 2013 and December 31, 2012 are presented as a continuance of Medgold UK and the comparative figures presented in the condensed interim consolidated financial statements for the period ended June 30, 2012 are those of Medgold UK.

### **The Properties**

The Company has licences granted in Portugal and Italy, and has licences under application in Spain, all of which are primarily gold exploration projects. These countries are favourable jurisdictions, with robust mining codes, backed by administrations which are actively seeking both foreign investment and commodity exploration companies.

#### *Portuguese Projects*

The Company is targeting orogenic and intrusion-related gold systems in northern Portugal, similar to Astur Gold’s Salave project, in northwest Spain, which hosts measured resources of 2.1 Mt at 3.88 g/t for 268,000 oz Au, and indicated resources of 15.8 Mt at 2.79 g/t for 1.4 M oz Au (see “*Technical Report on Salave Gold Deposit, Spain*” by Scott Wilson RPA, February 25, 2010: [http://www.asturgold.com/data/2011/12/salave\\_43-101.pdf](http://www.asturgold.com/data/2011/12/salave_43-101.pdf)). *This mineral resource is quoted for information purposes only and is not necessarily an indication of the potential of the Company’s projects.* At Salave, gold is typically vein-hosted, locally attaining bonanza grade status, with veins and associated alteration, commonly extensive over kilometres of strike. The Romans, who mined the high-grade Au-As veins, conducted

extensive exploration and exploitation programs throughout the northern Portugal region, with many of the prospects now the focus of modern-day exploration.

The Company holds two 3-year exploration permits in Portugal, Vila de Rei and Boticas, which were issued in March and July, 2013, respectively.

#### The Boticas Gold Project

Boticas is located in northern Portugal, approximately 30 km north of the Jales/Gralheira historic gold mine. The property is hosted in granites with gold mineralization controlled by large-scale regional faults, which is common to many large-scale orogenic gold deposits around the world.

The 106 square kilometer Boticas licence covers approximately 12 km strike length of a major regional structure that is considered to control orogenic gold mineralization. The Limarinho prospect, which has been the focus of historic exploration, is oriented orthogonal to this major structure, and is considered to be a major dilational, or 'crumple-zone', which is of sufficient scale to potentially host a multi-million ounce gold system. Furthermore, and typical of orogenic gold systems, these dilational zones commonly repeat along major regional structures creating a series of *en echelon* mineralized zones which opens up additional exploration potential.

Recent reconnaissance sampling completed by the Company has identified a new zone of mineralization located 200 m to the southeast of the Limarinho prospect, with five grab samples yielding best results of 13.1 g/t, 8.19 g/t and 0.80 g/t Au. Early indications suggest that this zone may be an *en echelon* zone off-set from, and parallel to, the main Limarinho zone. This zone is the focus of further investigation during Q3.

Previous licence-wide exploration, undertaken by COGEMA of France in the 1980s, which involved detailed grid-soil sampling, identified 15 gold anomalies throughout the licence, of which only three were drill-tested. Drilling was undertaken by COGEMA in the late 1980s and Kernow Resources & Developments Ltd ("Kernow") in the early and late 2000s, with both companies primarily focusing on the Limarinho prospect. Drilling defined gold mineralization over at least 600 metres in strike and 150 metres in width, remaining open in both directions, and drill-tested to a vertical depth of greater than 150 metres, yet also remains open at depth. Historical drilling results\* reported by both companies include:

- 40.2m at 1.96 g/t Au from 19.3m, including 20.4m at 2.92 g/t Au from 20.7m (hole KL4);
- 50.05m at 1.70 g/t Au from 8.65m, including 19.7m @ 2.80 g/t Au from 32.2m (hole PF3), and;
- 104.75m at 0.83 g/t Au from 45.50 to 150.25m (hole PF17).

*\* Historic reports indicate a total of 3,234 metres of diamond drilling was completed in 26 holes. These are historical data provided for information purposes and the Company has not completed sufficient work to verify these results.*

The historic drilling indicates that Limarinho has a higher grade core of gold mineralization, as evidenced by Kernow's hole KL4 which returned 20.4m at 2.92 g/t Au, and the Company's channel sample yielding 3.98 g/t Au over 14.10m (as reported by the Company's press release 5 February 2013), which is surrounded by a broad zone of roughly 1 g/t Au mineralization. Previous mineralization studies indicated that the gold is typically free, associated with a late mineral phase, with gold grains occupying micro-fractures, highlighting potential for high percentage gold recoveries.

#### *Proposed Work*

The Company's field work is continuing through the summer during Q3 with an initial focus upon the newly discovered zone located 200m to the southeast of Limarinho by detailed mapping and channel-chip sampling. Licence-wide exploration will also be undertaken to explore for repeating zones of mineralization along the structural corridor of the main NE-trending fault. At the same time, detailed structural studies will be initiated to better understand the mechanical controls upon the gold mineralization. The Company hopes to outline a number of drill targets for testing later in the year.

#### Vila de Rei Gold Project

The Vila de Rei licence is located in central Portugal, covering an area of 300 square kilometres, targeting sediment-hosted orogenic gold mineralization. The project area covers 40 line km of a principal regional structure and comprises four previously identified geochemical anomalies, the largest of which extends over 3 km. Rock chip



sampling by a previous explorer in the mid 2000's gave 33 out of 247 samples above 1 g/t Au with maximum values of 24.72 g/t, 22.85 g/t and 19.24 g/t Au. *The sampling is historical in nature, has not been verified by the Company, and is quoted for information purposes only.*

Field work undertaken in April 2013 comprised reconnaissance work over the Pampilhal and Rei anomalies, but also involved licence-wide prospecting. A total of 106 rock grab samples were collected, (including 11 QC samples), with 55 from Pampilhal prospect and 40 from Rei prospect. Fifty-five rock samples were collected from the Pampilhal prospect with 41 (75%) yielding greater than 0.1 g/t Au and 11 (20%) greater than 1.0 g/t Au.

Preliminary exploration at the Pampilhal prospect outlined highly anomalous gold mineralization associated with silicification over a 2.4 km by 1.3 km area, including over 2.8 km combined strike length of linear, structurally-controlled gold-bearing silica ridges or "ribs". Sampling maps have been posted on the Company's website at [www.medgoldresources.com/vila-de-rei.asp](http://www.medgoldresources.com/vila-de-rei.asp).

The program of work identified a number of key observations:

- The longest exposed silica rib, named Dan's Ridge, extends for over 1.2 km and returned anomalous gold along its entire length, with assays ranging from trace to 12.45 g/t Au and including samples of 3.48 g/t and 1.06 g/t Au. Thirty-two rock grab samples were collected along its length at approximately 40-100 m intervals.
- The Western Ridge, in the northern end of the prospect, is exposed over 300 m and returned remarkably consistent high gold assays for a first-pass sampling program. Five rock grab samples were collected along its length at approximately 75-100 m intervals, returning 2.10 g/t, 1.20 g/t, 1.45 g/t, 2.36 g/t and 1.15 g/t Au.
- In the southern end of the prospect, the Southeast Ridge is exposed over 365 m. Eight rock grab samples were collected, yielding results from 0.046 g/t to 3.76 g/t Au and including samples of 3.32 g/t Au and 1.84 g/t Au.

At the Rei prospect, the Company collected a total of 40 rock grab samples, and has identified a new zone of silica-hematite mineralization, located 500 m to the north of Redcorp Ventures' linear anomaly, covering an area of approximately 600 by 400 m, and yielded results from below detection up to 1.14 g/t, 0.84 g/t and 0.81 g/t Au.

Further work will continue in Q3 and Q4 2013 focusing on detailed mapping and channel sampling of the silica ribs with the aim of defining potential drill targets.

### *Spanish Projects*

The Company has applied for three contiguous exploration permits in northwest Spain, located in the southwest part of Galicia Province, and known as the Pinzas Gold Project. They are adjacent to an additional six pre-defined permit areas that the Company has applied for by a public tender which closed on March 15, 2013, with the outcome of the tender expected in Q3/Q4 2013.

A detailed review of the region focussed on granite-hosted orogenic gold systems and identified several significant targets, with the Pinzas area being the primary target area. The area was also extensively explored by the Romans over 2,000 years ago, who extracted gold from hundreds of projects over hundreds of years throughout the entire Iberian region.

### The Pinzas Gold Project

The Pinzas Gold Project is located in the southwest corner of the highly prospective and productive gold region of Galicia, in northwest Spain. Mineralization is hosted in granites in the Hercynian orogenic belt, which extends northwards to the advanced-stage gold project of Salave, and southwards to Boticas and the Jales-Gralheira gold mine in Portugal.

The Company has completed the application process and paid all taxes for the three exploration permits at Pinzas which were expected to be issued in Q2 2013, and are now expected to be issued in Q3/Q4 2013. These permits cover approximately 79 square kilometres of free-ground and are therefore not subject to a public tender process.

Historical work undertaken within the Pinzas permit application area included rock samples collected by Ormonde Mining plc ("Ormonde") in 2005, which yielded results from below detection limit up to 11.10 g/t, 5.49 g/t and 2.73

g/t Au in 11 samples. Mineralization is hosted within a 14 km north-south trending structural corridor where parallel quartz veins, commonly high-grade, are concentrated along fault boundaries with schistose metasediments. The structural corridor within the public tender licence area was drill-tested by Penarroya-Espana in the 1980's with 3,705 m drilled in 16 holes, with gold-bearing quartz veins intersected in all drill holes. *The Ormonde sampling results and the drill results quoted here are historic and the Company has not independently verified them.* Medgold UK collected 21 rock samples in the permit application areas, with results from below detection up to 1.00 g/t and 2.13 g/t Au.

#### The Ormonde Agreement

In July 2011 Medgold UK signed a binding letter of intent (the "LOI") with Ormonde covering a 2,400 square kilometre agreement area within which Ormonde has an extensive rock and stream sediment geochemical database from samples collected in 2004-2006. Under the terms of the LOI, the Company was provided access to Ormonde's database in return for agreeing to undertake 100,000 EUR of exploration expense, where part of this expense could be incurred through the cost of licence applications. On April 4, 2013 the LOI was modified to give the Company 100% ownership of the project and on any other permits or projects acquired in the agreement area, with an obligation to pay Ormonde a 1.5% Net Smelter Royalty on any future gold production from any such projects with no further funding obligation from Ormonde. This has enabled the Company to solely develop the potential of the project area which contains multiple historic workings and strong geological signatures for gold mineralization.

#### *Italian Projects*

The Company holds three gold exploration licences in Italy, each 8 square kilometers in area, called Pietratonda, Frassine, and Grasceta, covering gold mineralization hosted within silicified limestones known as jasperoids. The Frassine and Grasceta licences are adjoined and located 43 km from the Pietratonda licence. Mineralization at all three projects is controlled by steeply-dipping normal and thrust faults, which are considered to be feeder structures, and also low-angle thrust faults with low-grade mineralization occurring at impermeable limestone-flysch contacts, forming aprons of flat-lying mineralization. The Company's licences cover potentially high-grade, limestone-hosted Carlin-type epithermal gold targets, one of the most prospective gold deposit types.

The projects are located in the Colline Metallifere mineral belt (the "Metal-Bearing Hills") which exhibits many geological similarities with deposits in the Carlin Trend, Nevada such as the structural setting, host rocks and general controls, yet the region has received very little modern exploration. The Colline Metallifere extends over 100 km in a northwest-striking direction and hosts numerous mineral occurrences. The region currently has 32 active quarrying and mining projects.

#### Pietratonda License

In April 2012 the Company carried out programs of geological mapping, geochemical exploration and satellite image interpretation. Geochemical exploration comprised soil sampling, rock sampling and limited channel sampling. Gold values in soils range from below detection (<0.005 g/t) to a maximum of 0.415 g/t, while gold values in rocks range from below detection (<0.005 g/t) to a maximum of 1.015 g/t. Together they show anomalous values over an area of about 1,400 m north-south by 500 m wide, which is open to the north and south. This is associated with anomalous arsenic, barium, mercury, molybdenum, antimony, thallium and zinc, which are elements typically associated with sediment-hosted, epithermal gold deposits.

In April 2013, the Company announced results of a recently completed exploration program at the Pietratonda licence consisting of a two-phase program of grid-rock chip and float sampling. Initial samples were collected on a 50 by 50 meter sample grid, with zones of anomalism later infilled by a 25 by 25 meter sample grid. Coincident with the sampling, the Company completed detailed geological mapping noting lithology, structure, and alteration.

A total of 273 samples were collected from this phase (including 49 quality control (QC) samples), with 27% of samples (excluding QC samples) yielding greater than 0.1 g/t Au and an average grade of all samples of 0.125 g/t Au. Gold results varied from below detection up to highs of 2.43 g/t, 1.21 g/t and 1.07 g/t, and antimony from 1.78 ppm to 15 samples above 1 percent, with highs of 5.17%, 7.08% and 8.42%. Gold and antimony define a coincident anomaly over 600 by 200 metres. Arsenic and mercury are also strongly anomalous, with highs of 0.51%, 0.14% and 0.10% As, and 104.5 ppm, 69.2 ppm and 47.4 ppm Hg, both of which show a good correlation with gold, and thus highlighting their use as pathfinder elements. A sample map and table of results are available on the Company's website at <http://www.medgoldresources.com/medgold-italy-mining.asp>.

These results are considered to represent a distal zone of mineralization associated with a high-grade and high-angle structural feeder-zone, which is commonly found in Carlin-type deposits. Vector analysis of the geochemistry highlights a strong increase in Au-Sb anomalism toward the inferred high-angle feeder faults. These represent clear exploration drill targets where Au-Sb grades are expected to increase with depth.

The next phase of work will involve an induced polarization (IP) geophysical study, to aid in the better definition of drill targets and the possible identification of high-angle faults associated with jasperoids and expected pyrite-stibnite mineralization at depth. This is expected to be carried out later in 2013. A drill program is tentatively planned for early 2014, dependent on IP results and once all the necessary permits have been received.

The samples were prepared and analysed for gold by fire assay with atomic adsorption finish by ALS Minerals at the Rosia Montana Laboratory, Romania. Multielements were analyzed by inductively coupled plasma mass spectrometer (ICP-MS) and inductively coupled plasma emission spectrometer (ICP-AES) on a sample split sent to the ALS Minerals laboratory in Vancouver. Blank, certified standard reference materials, and field and laboratory duplicates were routinely inserted for quality assurance and quality control.

#### Frassine-Grasceta Licences

A drilling campaign conducted at Frassine-Grasceta in 1991 by a joint-venture between Anglo American Corporation (now Anglo American plc) and Agip Miniere (a subsidiary of the Agip oil company) completed 7 diamond drill holes for 600 metres which returned intersections of up to 3.15 g/t Au over 4 metres and 0.94 g/t Au over 19 metres in two holes, with a highest sample value of 6.4 g/t Au. *These are historical data which have not been verified by the Company and are quoted for information purposes.*

Medgold UK collected 12 reconnaissance rock samples at Frassine-Grasceta in November 2011, which yielded a high of 1.02 g/t Au from a grab sample, and 0.41 g/t Au over 12 metres from a composite channel-chip sample.

Mineralization at Frassine-Grasceta is controlled by high-angle feeder structures, and hosted by jasperoids which typically occur on low-angle thrust faults and also in high-angle normal faults. High-grade gold mineralization is typically associated with the latter and can also be associated with localized copper-lead-zinc mineralization.

In April 2013 the Company undertook a program of rock sampling at a sample grid of 50 by 50 metres over key areas of mapped jasperoid mineralization. Samples were analyzed at ALS Minerals at the Rosia Montana Laboratory, Romania. Sample assays have recently been received by the Company from Frassine and are currently being reviewed. Mineralization appears to be associated with some quite complex structural geological controls that are not well understood. The Company is reviewing its options for Frassine including completing additional Company-funded work, a joint venture or an outright sale of the project.

#### Qualified Person

Dr. Stewart D. Redwood, FIMMM, Consulting Geologist to the Company, is a Qualified Person as defined in NI 43-101. Dr. Redwood has reviewed and approved the technical information contained in this MD&A, some of which is based on reports by historic workers. The Company, however, has not independently verified the results of historic workers.

#### Quarterly Information

The following table provides information for the eight fiscal quarters ended June 30, 2013:

|                                     | June 30,<br>2013<br>(\$) | Mar. 31,<br>2013<br>(\$) | Dec. 31,<br>2012<br>(\$) | Sep. 30,<br>2012<br>(\$) | June 30,<br>2012<br>(\$) | Mar. 31,<br>2012<br>(\$) | Dec. 31,<br>2011<br>(\$) | Sep. 30,<br>2011<br>(\$) |
|-------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Exploration expenditures            | 155,496                  | 221,493                  | 143,515                  | 142,293                  | 120,993                  | 103,270                  | 84,809                   | 22,776                   |
| General and administrative expenses | 199,803                  | 208,294                  | 178,850                  | 118,196                  | 210,419                  | 91,189                   | 95,518                   | 60,856                   |
| Net loss                            | 355,299                  | 429,787                  | 1,254,459                | 260,489                  | 331,412                  | 194,459                  | 180,327                  | 83,632                   |
| Basic and diluted loss per share    | 0.01                     | 0.01                     | 0.05                     | 0.01                     | 0.02                     | 0.01                     | 0.01                     | 0.00                     |

Net losses trend upwards since the first quarter presented due in large part to the Company becoming increasingly active with exploration activities and since the quarter ended December 31, 2012, higher costs associated with the

Company consolidating its records with its subsidiaries. The net loss for the quarter ended December 31, 2012 was significantly higher than other quarters presented because of a listing cost of \$932,094 resulting from the Acquisition. The net loss for the quarter ended June 30, 2013 is higher than all other quarters presented except for the quarter ended December 31, 2012 because of its being the first entire period with consolidated operations. The net loss for the quarter ended June 30, 2012 was significantly impacted by legal costs of \$122,566 relating to the Acquisition that were charged in that period. The quarter ended September 30, 2012 was impacted by legal costs as well but to a lesser degree than the previous quarter.

### **Results of Operations**

#### *Quarter ended June 30, 2013*

For the quarter ended June 30, 2013, the Company had a net loss of \$355,299 compared to a net loss of \$331,412 for the quarter ended June 30, 2012, an increase of \$23,887. Exploration costs for the current quarter were \$155,496 compared to \$120,993 for the comparative quarter, an increase of \$34,503. Exploration expenditures increased as the Company holds more property licences since the comparative quarter.

General and administrative expenses totaled \$199,803 for the current quarter compared to \$210,419 for the comparative quarter, a decrease of \$10,616. Although general and administrative expenses during the comparative quarter were limited mostly to management fees and legal and accounting costs, management fees and legal fees were much greater until the Acquisition was completed. The current quarter also included these types of costs plus new costs commencing after the Acquisition, such as salaries and benefits, shareholder communications, transfer agent and regulatory fees, travel and accommodation, and the consolidation of the various entities. Due to these circumstances, all general and administrative costs except for management fees and legal and accounting increased during the current quarter.

#### *Six months ended June 30, 2013*

For the six month period ended June 30, 2013, the Company had a net loss of \$785,086 compared to a net loss of \$525,871 for the six month period ended June 30, 2012, an increase of \$259,215. Exploration costs for the current period were \$376,989 compared to \$224,263 for the comparative period, an increase of \$152,726. As was the case with the quarterly comparison, exploration expenditures increased as the Company began investigating and acquiring more properties.

General and administrative expenses totaled \$408,097 for the current period compared to \$301,608 for the comparative period, an increase of \$106,489. Similar to the quarterly comparison, general and administrative expenses during the comparative period were mostly comprised of management fees and legal and accounting costs and were higher than the current period. However, new costs incurred since the Acquisition such as salaries and benefits, shareholder communications, transfer agent and regulatory fees, and travel and accommodation resulted in the overall general and administrative costs for the current period being higher. Management fees and legal and accounting costs have been significantly reduced since the Acquisition.

### **Mineral Properties Expenditures**

A summary of the Company's expenditures on its mineral properties during the period ended June 30, 2013 is as follows:

Italy – A total of \$197,782 was incurred on the Pietratonda and Frassine-Grasceta properties with \$77,098 of that amount being spent on geological consulting, \$56,082 on travel, \$45,120 on assaying, and \$19,482 on shipping and courier.

Portugal – A total of \$133,588 was incurred on the Vila de Rei and Boticas properties with \$75,824 incurred on geological consulting costs, \$53,656 on travel, and \$4,108 on shipping and courier.

Spain - \$40,442 in geological consulting and \$5,177 in travel costs were incurred on the Pinzas property.

### **Liquidity and Capital Resources**

The Company's cash resources decreased from \$556,209 as at December 31, 2012 to \$403,892 as at June 30, 2013. During the current period, the Company raised \$975,000 by issuing a debenture which is convertible into 6,500,000 common shares of the Company at the rate of \$0.15 per share. The debenture was issued on April 12, 2013 with maturity on April 11, 2015. The holder of the debenture has the option to convert all or part of the principal sum to shares up to the maturity date, at which time the remaining principal sum will be automatically converted to shares. The Company also issued to the convertible debenture holder share purchase warrants to purchase up to 6,500,000 additional common shares at \$0.15 per share and exercisable until April 11, 2014. The only cash requirement for the debenture is an interest factor of 8% per annum which is to be paid upon conversion. The debenture proceeds have been used to settle some liabilities and for exploration expenditures and general working capital.

The Company's current capital resources are not considered sufficient to cover its corporate operating costs and carry out exploration activities for the next twelve months. In order to carry out planned exploration programs and business objectives, the Company will need to raise additional capital. Actual funding requirements may vary from those planned due to a number of factors including potential property acquisitions and exploration activity. Management believes it will be able to raise additional equity capital as required, but recognizes the uncertainty attached thereto.

### **Capital Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or adjust the amount of cash and cash equivalents. Management reviews the capital structure on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

### **Financial Instruments and Risk Management**

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other business, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

### **General Objectives, Policies and Processes:**

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receive periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: foreign currency risk, interest rate risk, and equity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. As at June 30, 2013, the Company is exposed to foreign currency risk and interest rate risk.

*Foreign Currency Risk*

As at June 30, 2013, the Company is exposed to currency risk through the following financial assets and liabilities denominated in currencies other than the Canadian dollar:

|  | June 30, 2013                                    |                                   |                              | December 31, 2012                                |                                   |
|--|--|-----------------------------------|------------------------------|--|-----------------------------------|
|  | British Pound<br>Sterling<br>(CDN<br>equivalent) | US Dollars<br>(CDN<br>equivalent) | Euros<br>(CDN<br>equivalent) | British Pound<br>Sterling<br>(CDN<br>equivalent) | US Dollars<br>(CDN<br>equivalent) |
| Cash                                     | \$ 73,677  | \$ 64,003                         | \$ 17,389                    | \$ 450,095                                       | \$ 7,577                          |
| Accounts payable and accrued liabilities | (194,378)  | -                                 | (18,381)                     | (334,522)  | -                                 |
| Due to related parties                   | (47,162)   | -                                 | -                            | (47,725)   | -                                 |
| <b>Net exposure</b>                      | <b>\$ (167,863)</b>                              | <b>\$ 64,003</b>                  | <b>\$ (992)</b>              | <b>\$ 67,848</b>                                 | <b>\$ 7,577</b>                   |

Based on the above net exposures at June 30, 2013, a 10% depreciation or appreciation of the above currencies against the Canadian dollar would approximately result in a \$10,500 increase or decrease in the Company's after tax net earnings, respectively.

*Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at June 30, 2013, the Company does not have any borrowings except for the accumulated interest owing on a convertible debenture, of which the interest rate is fixed for the duration of the debenture. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with Canadian and British financial institutions. The Company considers this risk to be limited.

b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash and cash equivalents that are invested in asset based commercial paper.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At June 30, 2013, the Company had working capital of \$101,947 (December 31, 2012: \$148,728) available to apply against short-term business requirements.

**Determination of Fair Value:**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statements of Financial Position carrying amounts for cash and cash equivalents, accounts payables and accrued liabilities, and due to related parties approximates fair value due to their short-term nature. The convertible debenture is carried at fair value using the effective interest method of 12.54%. Due to the use of subjective

judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

### **Fair Value Hierarchy:**

Financial instruments that are measured subsequent to initial recognition at fair value are categorized in Levels 1 to 3 based on the degree to which the fair value is observable:

|         |  |
|---------|--|
| Level 1 | Unadjusted quoted prices in active markets for identical assets or liabilities;  |
| Level 2 | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and |
| Level 3 | Inputs for the asset or liability that are not based on observable market data (unobservable inputs).  |

The fair values of the Company's financial assets as of June 30, 2013 were calculated as follows:

|                           | <b>Balance at</b>        |         | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|---------------------------|--------------------------|---------|----------------|----------------|----------------|
|                           | <b>December 31, 2012</b> |         |                |                |                |
| Financial Asset:          |                          |         |                |                |                |
| Cash and cash equivalents | \$                       | 403,892 | \$             | 403,892        | \$ -           |

### **Related Party Transactions**

The Company's related parties with transactions during the six months ended June 30, 2013 consist of directors, officers and the following companies with common directors:

| <b>Related party</b>                      | <b>Nature of transactions</b>                                 |
|---|---|
| Radius Gold Inc. ("Radius")               | Shared office, administrative and exploration related charges |
| Gold Group Management Inc. ("Gold Group") | Shared office, administrative and exploration related charges |
| Mill Street Services Ltd. ("Mill Street") | Management services   |

During the three and six month periods ended June 30, 2013, the Company reimbursed Gold Group, a company controlled by the Chief Executive Officer of the Company, for the following costs:

|                                      | <b>Three months ended June 30,</b> |             | <b>Six months ended June 30,</b> |             |
|--------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                      | <b>2013</b>                        | <b>2012</b> | <b>2013</b>                      | <b>2012</b> |
| General and administrative expenses: |                                    |             |                                  |             |
| General and administrative           | \$ 17,223                          | \$ -        | \$ 33,229                        | \$ -        |
| Salaries and benefits                | 32,340                             | -           | 61,692                           | -           |
| Shareholder communications           | 697                                | -           | 17,554                           | -           |
| Transfer agent and regulatory fees   | 2,664                              | -           | 2,866                            | -           |
| Travel and accommodation             | 1,891                              | -           | 9,200                            | -           |
|                                      | <b>\$ 54,815</b>                   | <b>\$ -</b> | <b>\$ 124,541</b>                | <b>\$ -</b> |

An office and administrative agreement was entered into between the Company and Gold Group effective July 1, 2012 and as such, there are no amounts to present for the comparative period. Salary and benefits include those for Ralph Rushton (a Director), the Chief Financial Officer and the Corporate Secretary.

Prepaid expenses and deposits include an amount of \$61,000 (December 31, 2012: \$68,113) paid to Gold Group as a deposit pursuant to the office and administrative agreement and other administrative expenses paid in advance on the Company's behalf.

Amounts due to related parties as of June 30, 2013 consist of \$33,486 (December 31, 2012: \$23,012) owing to Gold Group for accrued shared administrative costs, \$17,520 (December 31, 2012: \$17,520) owing to Radius for shared

leasehold improvement and equipment costs, \$36,330 (December 31, 2012: \$16,800) owing to Mill Street, a company controlled by the Chief Executive Officer of the Company for accrued management fees, \$23,581 (December 31, 2012: \$23,863) owing to David Hall, a Director of the Company for accrued management fees, and \$23,581 (December 31, 2012: \$23,862) owing to Jeremy Martin, a Director of the Company for accrued management fees. The amounts for Radius and Mill Street are unsecured, interest free and have no specific terms of repayment. The amount for Gold Group is due on a monthly basis and secured by a deposit. The amounts for David Hall and Jeremy Martin are due no later than December 10, 2014.

### **Key management compensation**

The Company has identified certain of its directors and senior officers as its key management personnel. Included for the three and six month periods ended June 30, 2013 and 2012 at their exchange amounts are the following items paid or accrued to key management personnel and/or companies with common directors. These transactions are in the normal course of operations.

|                       | <b>Three months ended June 30,</b> |             | <b>Six months ended June 30,</b> |             |
|-----------------------|------------------------------------|-------------|----------------------------------|-------------|
|                       | <b>2013</b>                        | <b>2012</b> | <b>2013</b>                      | <b>2012</b> |
| Management fees       | \$ 46,500                          | \$ 68,340   | \$ 93,000                        | \$ 135,603  |
| Salaries and benefits | 5,958                              | -           | 10,541                           | -           |

### **Other Data**

Additional information related to the Company is available for viewing at [www.sedar.com](http://www.sedar.com).

### **Share Position and Outstanding Warrants and Convertible Debentures**

As at August 28, 2013, the Company's outstanding share position is 52,416,078 common shares and the following share purchase warrants and convertible debentures are outstanding:

| <b>No. of warrants</b> | <b>Exercise price</b> | <b>Expiry date</b> |
|------------------------|-----------------------|--------------------|
| 6,500,000              | \$0.15                | April 11, 2014     |

  

| <b>No. of debentures</b> | <b>Conversion rate</b> | <b>Expiry date</b> |
|--------------------------|------------------------|--------------------|
| 6,500,000                | \$0.15                 | April 11, 2015     |

As at June 30, 2013 and the date of this MD&A, there were no outstanding stock options.

### **Critical Accounting Estimates and Judgments**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The determination of the Company's functional currency.
- The carrying value of the investment in exploration and evaluation assets and the recoverability of the carrying value.
- Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.



- d) Although the Company has taken steps to identify any decommissioning liabilities related to mineral properties in which it has an interest, there may be unidentified decommissioning liabilities present.

The key estimates applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- a) The inputs in determining the bifurcation of convertible debenture instruments into its liability and equity components.

The Company is required to make certain estimates when determining the fair value of the components of convertible debentures, including the discount rate and share price volatility. These estimates affect the liability and equity components recognized in the condensed interim consolidated financial statement of financial position and the accretion expense recognized in the consolidated statement of loss and comprehensive loss.

### **Adoption of New and Amended IFRS Pronouncements**

#### *IAS 1 Presentation of Financial Statements (Amendment)*

The amendments to IAS 1 require the grouping of items within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified. The statement of comprehensive income in these condensed interim consolidated financial statements has been amended to reflect the presentation requirements under the amended IAS 1.

The mandatory adoption of the following new and revised accounting standards and interpretations on January 1, 2013 had no significant impact on the Company's financial statements for the current or prior periods presented:

#### *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 previous IFRS, consolidation was 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 Consolidated and Separate Financial Statements.

#### *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 previous IFRS, entities had 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.

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

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

#### *IFRS 13 Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under previous IFRS, guidance on measuring and disclosing fair value was dispersed among the specific standards requiring fair value measurements and in many cases did not reflect a clear measurement basis or consistent disclosures.

#### *Amendments to other standards*

In addition, there have been other amendments to existing standards, including IAS 19 *Post-Employment Benefits*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses

accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

### **Future Accounting Changes**

The following new standard has been issued by the IASB but is not yet effective:

#### *IFRS 9 Financial Instruments*

IFRS 9 is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

### **Risks and Uncertainties**

#### *Mineral Property Exploration and Mining Risks*

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that option agreements, claims and leases are in good standing; and obtaining permits for drilling and other exploration activities.

#### *Joint Venture Funding Risk*

The Company's strategy includes seeking partners through joint ventures to fund exploration and project development. The main risk of this strategy is that funding partners may not be able to raise sufficient capital in order to satisfy exploration and other expenditure terms in a particular joint venture agreement. As a result, exploration and development of one or more of the Company's property interests may be delayed depending on whether the Company can find another partner or has enough capital resources to fund the exploration and development on its own.

#### *Commodity Price Risk*

The Company is exposed to commodity price risk. Declines in the market price of gold, base metals and other minerals may adversely affect the Company's ability to raise capital or attract joint venture partners in order to fund its ongoing operations. Commodity price declines could also reduce the amount the Company would receive on the disposition of one of its mineral properties to a third party.

#### *Financing and Share Price Fluctuation Risks*

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Securities markets have at times in the past experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be exploration stage companies such as the Company, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on the Company's ability to raise additional funds through equity issues and corresponding effect on the Company's financial position.

#### *Political, Regulatory and Currency Risks*

The Company's mineral properties are located in economically stressed, but politically stable Western European countries and consequently may be subject to a higher level of risk compared to less economically stressed countries. Operations, the status of mineral property rights, title to the properties and the recoverability of amounts shown for mineral properties in such nations can be affected by changing economic, regulatory and political

situations. The Company's equity financings are sourced in Canadian dollars but for the most part it incurs its exploration expenditures in British pound sterling and Euros. At this time there are no currency hedges in place. Therefore a weakening of the Canadian dollar against the British pound sterling or Euro could have an adverse impact on the amount of exploration conducted.

#### *Insured and Uninsured Risks*

In the course of exploration, development and production of mineral properties, the Company is subject to a number of hazards and risks in general, including adverse environmental conditions, operational accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in damage to the Company's properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability and result in increased costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

#### *Environmental and Social Risks*

The activities of the Company are subject to environmental regulations issued and enforced by government agencies. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present. Social risks are not considered significant in the Company's areas of operations.

#### *Competition*

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.