**NSGOLD CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED JUNE 30, 2012**

## Background

This Management's Discussion and Analysis (MD&A) of NSGold Corporation (NSGold or the Company) is dated August 27, 2012 and provides an analysis of the financial operating results for the quarters ended June 30, 2012 and June 30, 2011. This MD&A should be read in conjunction with the unaudited quarterly financial statements and accompanying notes for the quarter ended June 30, 2012 which have been prepared in accordance with International Financial Reporting Standards (IFRS) for consolidated financial statements. This MD&A should also be read in conjunction with the audited annual financial statements and accompanying notes for the year ended December 31, 2011. All amounts are in Canadian dollars unless otherwise specified. The financial statements and additional information, including news releases, the Filing Statement and technical reports referenced herein, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com under the Company's profile. The common shares of NSGold are traded on the TSX Venture Exchange under the symbol "NSX". More extensive information on NSGold can be found on its website at www.nsgoldcorp.com.

## Forward-Looking Information

Certain statements in this MD&A are forward-looking statements or information (collectively- forward-looking statements). NSGold is hereby providing cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "may", "is expected to", "anticipates", "estimates", "intends", "plans", "projection", "could", "vision", "goals", "objective" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. In making these forward-looking statements, NSGold has assumed that the current market for gold will continue and grow and that the risks listed below will not adversely impact the business of NSGold.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes may not occur or may be delayed. The risks, uncertainties and other factors, many of which are beyond the control of NSGold, that could influence actual results include, but are not limited to: limited operating history; exploration, development and operating risks; regulatory risks; substantial capital requirements and liquidity; financing risks and dilution to shareholders; competition; reliance on management and dependence on key personnel; fluctuating mineral prices and marketability of minerals; title to properties; local resident concerns; no mineral reserves or mineral resources; environmental risks; governmental regulations and processing licenses and permits; management inexperience in developing mines; conflicts of interest of management; uninsurable risks; exposure to potential litigation; dividends; and other factors beyond the control of NSGold.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, NSGold undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the business of NSGold or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. See "Risk Factors" below.

## Company Overview

NSGold is a mineral exploration company actively exploring for gold and base metals in Nova Scotia, Canada. The Company's flagship property is the Mooseland Gold Project located in Halifax County, Nova Scotia. NSGold was incorporated on September 25, 2009 under the Canada Business Corporations Act. The registered office of the Company is 1055 West Hastings Street, Suite 2200, Vancouver, B.C.

On April 14, 2010, NSGold entered into a formal purchase agreement with Globex Mining Enterprises Inc. (Globex) to acquire a 100% interest in the advanced-stage exploration property referred to as the Mooseland Gold Property located 70 kilometres northeast of the city of Halifax, Nova Scotia and five secondary properties (Secondary Properties) all located in the Province of Nova Scotia.

In June 2010, the Company completed a reverse takeover and short form vertical amalgamation pursuant to the British Columbia Business Corporations Act with Kermode Capital Ltd.(Kermode) with the amalgamated entity being renamed "NSGold Corporation". As a result of the foregoing transaction, the Company received a new ticker symbol relating to its common shares listed on the TSX Venture Exchange, namely "NSX". In addition, on June 18, 2010, the Company completed a private placement financing raising gross proceeds of $4.1 million.

In April 2011, the Company signed an agreement whereby it has the option to acquire a 100% ownership interest in the mining concessions comprising the Dios Padre Property, including the historic Dios Padre Silver Mine, located in the State of Sonora, Mexico.

On August 5, 2011, the Company completed a private placement of 8,627,451 common shares at a price of $0.51 per share, for gross proceeds of $4.4 million. Sprott Asset Management LP, acting on behalf of certain Sprott funds and managed accounts, subscribed for the 8,627,451 common shares issued in the private placement, representing 19.9% of the common shares of NSGold issued and outstanding after the placement.

During the year ended December 31, 2011, the Company received aggregate proceeds of $1.68 million from the exercise of warrants and broker unit warrants aggregating 3,992,333 common shares. In 2010, the Company received proceeds of $0.1 million from the exercise of options and warrants aggregating 438,112 common shares.

## "Spin-out" of NSX Silver

In July 2011, the Company announced that it started the process to separate its Nova Scotia gold and base metal assets and its Mexican silver assets into two separate public companies so that NSGold could devote itself solely to exploration for gold and other metals. NSX Silver was incorporated in August 2011 as a wholly-owned subsidiary of NSGold, with the intention of taking over the Company's exploration properties in Mexico. On October 21, 2011, NSX Silver and the Company, as promoter, filed a preliminary prospectus with the securities commissions of each of the provinces of Canada in connection with a distribution of NSX Silver common shares to the shareholders of NSGold.

A special meeting of shareholders of the Company was held on December 22, 2011, at which the shareholders approved a special resolution reducing NSGold's paid-up capital in connection with the "spin-out" of the shares of NSX Silver to the shareholders of NSGold. The reduction of NSGold's paid-up capital was intended to result in the distribution of the shares of NSX Silver being treated as non-taxable for most of NSGold's shareholders.

In March 2012, NSX Silver completed the acquisition of all of the shares of Compania Minera Oso Blanco SA de CV (CMOB), a wholly-owned subsidiary of NSGold, whereby NSGold received 1,000,000 common shares of NSX Silver. Also in March, NSGold completed a share subscription agreement whereby NSGold acquired 44,428,571 common shares of NSX Silver for gross proceeds of $4,665,000. On closing of the transaction the amounts due to NSGold by NSX Silver for reorganization costs and CMOB for Dios Padre exploration costs were repaid and the net amount disbursed by NSGold was $3,474,063. Contemporaneously the Dios Padre Option Agreement, complete with all its rights and obligations, was assigned to NSX Silver. CMOB has acquired, and intends to acquire, additional interests in exploration properties in Mexico.

NSGold then completed the distribution of the common shares of NSX Silver to the NSGold shareholders whereby the shareholders received one share of NSX Silver for each share of NSGold held with the record date being March 16, 2012. A total of 43,553,767 shares of NSX Silver were distributed with the distribution effected by way of a distribution of paid up capital. As a result of this transaction, the Company has recorded a gain of $1,212,135 on the distribution of NSX Silver shares which represents the difference between the fair value and the carrying amount of the assets distributed. After the distribution, NSGold now holds 1,875,804 shares of NSX Silver.

The common shares of NSX Silver commenced trading on the TSX Venture Exchange on March 14, 2012 as a Tier 2 Mining Issuer under the trading symbol NSY.

**Resource Properties**

On April 14, 2010, NSGold entered into a formal purchase agreement with Globex to acquire a 100% interest in the advanced-stage exploration property referred to as the Mooseland Gold Property located 70 kilometres northeast of the city of Halifax, Nova Scotia and five Secondary Properties all located in the Province of Nova Scotia.

Under the terms of the purchase agreement NSGold paid a total of $750,000 to Globex. Globex holds a gross metal royalty, equal to four percent (4%) of all metals produced from the Mooseland Gold Property and the Secondary Properties. In addition, Globex has the right to receive a five percent (5%) interest in the issued and outstanding share capital of NSGold at the time of production in the event that any of the Mooseland Gold Property or the Secondary Properties, as applicable, enters into production.

**Mooseland** is the site of the first recorded gold discovery in Nova Scotia in 1858, and the property recorded total historical production from 1863 to 1934 of 3,865 ounces of gold recovered from 9,058 tons of crushed material (J. Bates, 1982). More recently, Mooseland was the target of a succession of focused exploration programs by Hecla Mining Company of Canada and Acadia Mineral Ventures, Ltd. (1987-1992) and Azure Resources Corp. (2003-2004). These companies completed a total of 36,858 meters of diamond drilling on Mooseland. Mining infrastructure on the Mooseland property includes a three-compartment shaft sunk to a depth of 125 meters complete with a steel head frame and a ramp to a depth of 50 meters.

The Mooseland Gold Property is located less 12 kilometers from the Touquoy (Moose River) Gold Project being developed by Atlantic Gold of Australia.

In July 2010, NSGold initiated a Phase 1 exploration program at Mooseland that focused on obtaining data necessary to verify and classify the historical gold resource estimates in accordance with National Instrument 43-101. A total of 6,507 meters in 26 diamond drill holes were completed during 2010 with 13 holes drilled in each of the West and East Zones.

In August 2011, the Company initiated a follow-up drilling program at Mooseland. The program consisted of 5,011 meters of diamond drilling in 16 drill holes and was designed with the objective of building confidence in the ore body model. This program has increased the knowledge of the deposit and added significant ounces to the resource. Drilling filled in some of the larger gaps in the model 300 meters west and 200 meters east of the 2010 drilling on the West Zone and 200 meters north of the 2010 drilling on the East Zone. Fifteen of the sixteen had multiple intercepts of quartz veins that assayed greater than 1 gram per tonne gold. The best grade encountered was 0.5 meters of 107 grams/tonne. Significant drill results were announced in the Company's press releases dated October 18, 2011, November 22, 2011 and March 12, 2012.

In June 2012, the Company received an updated resource report for the Mooseland Gold Property. Total inferred gold resources for Mooseland were estimated at 454,000 ounces of gold at a cut-off grade of 2.6 grams per tonne (see NSGold press release dated June 5, 2012). This resource report was prepared by MineTech International Inc. of Halifax, Nova Scotia and a copy is available on SEDAR. A summary of the updated resource estimation is provided in the table below.

| Mooseland Summary of Non-Diluted Inferred Mineral Resources | | | | |
|---|---|---|---|---|
| | Cut-off Grade (g/tonne) | Tonnes Above Cut-off | Average Diluted Grade (g/tonne) | Ounces |
| West Zone | 2.6 | 1,460,000 | 5.52 | 259,000 |
| East Zone | 2.6 | 1,060,000 | 5.72 | 195,000 |
| **Total** | **2.6** | **2,520,000** | **5.6** | **454,000** |

This estimate is based on drill core assay results from historic and recent drilling programs totaling 45,382 meters in 183 drill holes as detailed below.

| Year | Company | East Zone | | West Zone | | Total | |
|---|---|---|---|---|---|---|---|
| | | Meters | # of Holes | Meters | # of Holes | Meters | # of Holes |
| 1986 - 88 | Hecla Mining Ltd/ Acadian Mineral Ventures Ltd -JV | 10,851 | 50 | 21,845 | 85 | 32,696 | 135 |
| 2003 | Azure Resources | 340 | 2 | 828 | 4 | 1,168 | 6 |
| 2010-11 | NSGold Corp. | 5,299 | 21 | 6,219 | 21 | 11,518 | 42 |

NSGold also holds five early-stage gold and base-metal exploration properties located in Nova Scotia. The properties are as follows: Leipsigate, Indian Path, Blockhouse, French Village and Cheticamp. The first three are former gold-producing properties, each characterized by Meguma-type gold occurrences, while the latter two are gold and base-metal exploration properties.

During the second quarter of 2012 NSGold personnel collected stream sediment and grab samples from three of its seven exploration licences that comprise the **Cheticamp Property** located in the Cheticamp Highlands area of Cape Breton, Nova Scotia. On the Fisset Brook exploration licences 9797 and 7755, rock samples returned values of up to **78.4 grams per tonne silver and 1.44 grams per tonne gold** in an area not previously known to contain significant values of either element. Lead and zinc values greater than the detection limit of the ICP assay method, of 0.5% and 1% respectively, were also obtained, as well as antimony values up to 334 ppm. Sediment sampling from two streams on the property has provided a strong vector for further exploration on a section of the claims with no exposure, with values up to 137 parts per million (“ppm”) copper, 163 ppm nickel, 145 ppm lead, 445 ppm zinc and 437 ppm arsenic.

On the Rocky Brook licence 09235, NSGold sampling returned values of up to **6.17 grams per tonne gold** in an area of historic trenching. A previous limited drill program in this area was carried out by Noranda in 1990 and returned gold values up to 7.8 grams per tonne over 0.6 meters and a 3.6 meter interval assaying 1.05% lead, 2.74% zinc and 0.51% copper. Grab samples from trenching completed by Noranda returned values up to 17.8 grams per tonne gold. Several historic soil anomalies and an IP anomaly remain untested on this property.

Base metal and precious metal mineralization on the Cheticamp Property occurs in an altered meta-sedimentary sequence (mainly quartz-sericite schist with some chlorite schist) within altered volcanics. Numerous additional showings as well as two former producing mines (the Galena Lead/Zinc Mine and the Mountain Top Copper/Gold Mine) occur on nearby claims, also owned by NSGold, in a similar geological environment. NSGold has excellent claim coverage in these areas and is planning to undertake further evaluation work on all the exploration licences.

The rocks of the Cheticamp Highlands region are of the Aspy Terrane which correlates with the Gander and Dunnage Zones of Newfoundland, host to the Buchans area deposits, and the Miramichi Zone of north-central New Brunswick, host to the Bathurst area deposits.

The Company continues to evaluate various other gold properties with a view to acquiring an advanced stage exploration property in an established mining “friendly” jurisdiction.

**Summary of Quarterly Operating Results**

The following table presents the quarterly operating results for the Company for the last eight quarters. The financial information is prepared in accordance with International Financial Reporting Standards for consolidated financial statements.

| Quarter ended | Jun 30, 2012 $ | Mar 31, 2012 $ | Dec 31, 2011 $ | Sep 30, 2011 $ | Jun 30, 2011 $ | Mar 31, 2011 $ | Dec 31, 2010 $ | Sep 30, 2010 $ |
|---|---|---|---|---|---|---|---|---|
| **Operating expenses** | | | | | | | | |
| Consulting fees | **39,361** | 52,402 | 49,076 | 33,500 | **31,446** | 26,607 | 27,150 | 25,700 |
| Investor relations | **-** | 7,125 | 16,549 | 14,937 | **4,009** | 11,103 | - | - |
| Professional fees | **24,491** | 8,170 | 18,929 | 154,557 | **41,313** | 14,215 | 18,038 | 27,260 |
| Stock based compensation | **33,427** | 8,436 | 19,032 | 37,091 | **77,882** | 6,977 | 7,860 | 14,500 |
| Travel | **10,092** | 1,177 | 21,371 | 9,194 | **14,247** | 14,024 | - | 12,164 |
| Write-down of resource properties | **-** | - | 27,345 | - | **-** | - | - | - |
| Property investigations | **8,097** | 6,470 | **-** | - | **-** | - | - | - |
| Other | **17,943** | 25,981 | 14,130 | 66,550 | **28,465** | 12,550 | 34,961 | 58,968 |
| Reorganization costs (recovery) | **-** | (137,817) | 137,817 | - | **-** | - | - | - |
| Listing fees | **-** | - | - | - | **-** | - | - | - |
| Gain on distribution of NSX Silver shares | **-** | (1,212,135) | - | - | **-** | - | - | - |
| Total expenses (income) | **133,411** | (1,240,191) | 304,249 | 315,829 | **197,362** | 85,476 | 88,009 | 138,892 |
| | | | | | | | | |
| Interest income | **-** | - | (2,705) | (2,100) | **(2,100)** | (302) | (3,504) | - |
| Deferred income tax expense (recovery) | **-** | 156,000 | 10,129 | (3,256) | **(19,577)** | (2,503) | - | 41,206 |
| Net loss (income) for the period | **133,411** | (1,084,191) | 311,673 | 310,473 | **175,685** | 82,671 | 84,505 | 179,798 |
| Unrealized (gain) loss on available-for-sale securities | **337,621** | (307,000) | - | - | **-** | - | - | - |
| Comprehensive loss (income) for the period | **471,032** | (1,391,191) | 311,673 | 310,473 | **175,685** | 82,671 | 84,505 | 179,798 |
| Net loss (income) per share | **$0.003** | ($0.025) | $0.01 | $0.01 | **$0.01** | $0.003 | $0.01 | $ 0.01 |

NSGold's consolidated net loss for the quarter ended June 30, 2012 was $133,411 or $0.003 per share compared to a net loss of $175,685 (including a tax recovery of $19,577) or $0.02 per share in the quarter ended June 30, 2011. In the current quarter the Company incurred total operating expenses of $133,411 as compared to operating expenses of $197,362 in the quarter ended June 30, 2011. In the second quarter of 2012 the Company incurred stock-based compensation of $33,427 as compared to $77,882 in the second quarter of 2011. In the current quarter, the Company issued 895,000 stock options which vest in four equal installments over one year. As a result, one quarter of the stock based compensation expense associated with these options has been recorded in the current quarter. The Company also incurred property investigation expenses of $14,567 during the first half of 2012 as it seeks to acquire an advanced stage exploration property. At the end of 2011, the Company wrote off $27,345 of expenditures on two of its resource properties in Nova Scotia.

NSGold's consolidated net income for the quarter ended March 31, 2012 was $1,084,191 or $0.025 per share. In this quarter to Company recorded the recovery of reorganization costs in the amount of $137,817, which were expensed in the prior quarter. The Company also recognized a gain of $1,212,135 on the distribution of NSX Silver shares. This represented the difference between the fair value and the carrying amount of the assets distributed. After removing these one-time amounts the Company incurred total operating expenses of $109,761 as compared to a operating expenses of $82,671 in the quarter ended March 31, 2011.

In the first quarter of 2012, the Company recorded an unrealized gain on its investment in shares of NSX Silver. The gain was reversed in the second quarter resulting in the Company recording a cumulative unrealized loss on its investment of $30,621 in comprehensive income/loss.

| | **As at June 30, 2012 $** | **As at December 31, 2011 $** |
|---|---|---|
| Total current assets | 403,415 | 4,821,150 |
| Resource properties | 3,527,040 | 4,059,778 |
| Total assets | 4,274,146 | 8,880,928 |
| Total liabilities | 412,059 | 490,251 |
| Equity | 3,862,087 | 8,390,677 |

**Liquidity and Capital Resources**

As at June 30, 2012, the Company had net working capital of $332,356 (December 31, 2011 – $4,515,899). The Company also has an amount receivable from NSX Silver of $137,453. In March 2012, in association with the spin-out of the silver assets, the Company disbursed approximately $3.5 million to NSX Silver. On August 5, 2011 the Company completed a private placement of 8,627,451 common shares at a price of $0.51 per share, for gross proceeds of $4.4 million. The net proceeds raised were approximately $4 million.

The Company's ability to meet its administrative expenses and complete its planned exploration activities is dependent upon management's ability to secure additional financing. While management has been successful in obtaining funding in the past, there can be no assurance that it will be able to do so in the future.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Related Party Transactions**

During the period ended June 30, 2012 the Company transferred the shares of Compañia Minera Oso Blanco, S.A. de C.V. to NSX Silver. The Company also entered a share subscription agreement with NSX Silver and subsequently distributed these shares of NSX Silver by way of a dividend to its shareholders.

During the period ended June 30, 2012 the Company incurred legal fees aggregating $18,348 from a law firm of which one of the officers is a partner. During the year ended December 31, 2011 the Company incurred legal fees aggregating $206,138 from this law firm. The Company recorded $75,207 to reorganization costs and $130,931 to professional fee expense.

## Outstanding Share Data

As at June 30, 2012 and August 29, 2012, the Company has 43,553,767 shares issued and outstanding. The Company also had 690,196 outstanding broker compensation warrants entitling the holder to acquire one common share per warrant at an exercise price of $0.51 per share until August 4, 2013. During the quarter ended June 30, 2012, 600,000 agent compensation warrants expired resulting in a transfer $80,000 (initially recorded fair value) from outstanding warrants to contributed surplus.

As at June 30, 2012 and August 29, 2012, the Company had 1,565,000 stock options with a weighted average exercise price of $0.27. On April 13, 2012 the Company granted 750,000 options to directors and officers and 145,000 options to employees and consultants. These stock options vest in four equal tranches commencing three months from the date of grant, and will be fully vested in twelve months. The exercise price of these options is $0.14 per share and the expiry date is April 13, 2017. The details of the outstanding stock options as at August 29, 2012 are summarized in the following table.

| Date of Grant | Expiry Date | Number of Options | Exercise Price |
|---|---|---|---|
| | | | |
| August 17, 2010 | August 17, 2015 | 140,000 | $0.25 |
| March 24, 2011 | March 24, 2016 | 395,000 | $0.50 |
| May 10, 2011 | May 10, 2016 | 50,000 | $0.60 |
| June 22, 2011 | June 22, 2016 | 85,000 | $0.50 |
| April 13, 2012 | April 13, 2017 | 895,000 | $0.14 |

Directors and officers hold an aggregate number of 1,235,000 stock options and employee and consultants hold 330,000. The total number of options outstanding represents 1.5% of the issued and outstanding common shares as at December 31, 2011and 3.6% of the issued number of shares as at August 29, 2012. The fully diluted number of common shares is 45,513,963 at December 31, 2011 and 45,808,963 at August 29, 2012.

## Accounting Standards Issued But Not Yet Applied

*International Financial Reporting Standards 9, Financial Instruments (IFRS 9)*

The International Accounting Standards Board has issued IFRS 9, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 introduces new classification and measurement requirements for financial instruments. NSGold continues to assess the impact of IFRS 9 on its statements of comprehensive loss and financial position.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company continues to assess the impact that the new and amended standards will have on its financial statements. The following is a brief summary of the new standards:

*IFRS 10 – Consolidation*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 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 existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

*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 existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

*Amendments to standards*

IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company continues to assess the impact of all other changes to IFRS 7 on its consolidated statements of loss and financial position.

**Risks and Uncertainties**

The following are certain factors relating to the business of the Company. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems immaterial, may also impair the operations of the Company. If any such risks actually occur, the financial condition, liquidity and results of operations of the Company could be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected.

The following is a description of certain risks and uncertainties that may affect the business of the Company.

**(i) Limited Operating History**

The Company is a relatively new company with limited operating history and no history of business or mining operations, revenue generation or production history. The Company was incorporated September 25, 2009 and has yet to generate a profit from its activities. The Company will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its growth objective. The Company anticipates that it may take several years to achieve positive cash flow from operations.

**(ii) Exploration, Development and Operating Risks**

The exploration for and development of minerals involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of minerals disclosed will be economically recoverable. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any minerals discovered will result in an increase in the Company's resource base.

The Company's operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, seismic activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

**(iii) Substantial Capital Requirements and Liquidity**

Substantial additional funds for the establishment of the Company's current and planned mining operations will be required. No assurances can be given that the Company will be able to raise the additional funding that may be required for such activities, should such funding not be fully generated from operations. Mineral prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures, operating expenses and geological results are all factors which will have an impact on the amount of additional capital that may be required. To meet such funding requirements, the Company may be required to undertake additional equity financing, which would be dilutive to shareholders. Debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, and pursue only those development plans that can be funded through cash flows generated from its existing operations.

**(iv) Fluctuating Mineral Prices**

The economics of mineral exploration is affected by many factors beyond the Company's control, including commodity prices, the cost of operations, variations in the grade of minerals explored and fluctuations in the market price of minerals. Depending on the price of minerals, it may be determined that it is impractical to continue the mineral exploration operation.

Mineral prices are prone to fluctuations and the marketability of minerals is affected by government regulation relating to price, royalties, allowable production and the importing and exporting of minerals, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any minerals found on the Company's properties.

**(v) Regulatory Requirements**

The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations governing exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of mineral properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the facilities and conduct of exploration and development operations will be obtainable on reasonable terms or that such laws and regulation would not have an adverse effect on any exploration and development project which the Company might undertake.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulation and permits governing operations and activities of mineral companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs or require abandonment or delays in the development of new properties.

**(vi) Financing Risks and Dilution to Shareholders**

The Company has limited financial resources, no operations and no revenues. If the Company's exploration program on its exploration properties is successful, additional funds will be required for the purposes of further exploration and development. There can be no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital will be raised through the issuance of additional equity, which will result in dilution to the Company's shareholders.

**(vii) Title to Properties**

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed. The Company cannot give an assurance that title to its exploration properties will not be challenged or impugned. Mineral properties sometimes contain claims or transfer histories that examiners cannot verify. A successful claim that NSGold does not have title to its exploration properties could cause the Company to lose any rights to explore, develop and mine any minerals on that property, without compensation for its prior expenditures relating to such property.

**(viii) Requirement for Permits and Licenses**

A substantial number of permits and licenses may be required should the Company proceed beyond exploration; such licenses and permits may be difficult to obtain and may be subject to changes in regulations and in various operational circumstances. It is uncertain whether the Company will be able to obtain all such licenses and permits.

**(ix) Competition**

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other mining companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of minerals claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.

**(x) Reliance on Management and Dependence on Key Personnel**

The success of the Company will be largely dependent upon on the performance of its directors and officers and the ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

**(xi) No Mineral Reserves**

The Mooseland Gold Property in which the Company holds an interest is considered to be an advanced stage exploration property, however no mineral reserve estimates have been prepared in respect of the property. Mineral reserves are, in the large part, estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Reserve estimates for properties that have not yet commenced production may require revision based on actual production experience. Market price fluctuations of metals, as well as increased production costs or reduced recovery rates, may render mineral reserves containing relatively lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. Moreover, short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies and the processing of new or different mineral grades, may cause a mining operation to be unprofitable in any particular accounting period.

### (xii) Environmental Risks

The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with mining operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

### (xiii) Governmental Regulations and Processing Licenses and Permits

The activities of the Company are subject to Canadian and Mexican approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Although the Company believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licenses and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of the Company's investments in such projects may decline.

### (xiv) Local Resident Concerns

Apart from ordinary environmental issues, work on, or the development and mining of the Mooseland and Dios Padre properties could be subject to resistance from local residents that could either prevent or delay exploration and development of the property.

### (xv) Management Inexperience in Developing Mines

The management of the Company has some experience in exploring for minerals, but may lack all or some of the necessary technical training and experience to successfully develop and operate a mine. Without adequate training or experience in these areas, management may not be fully aware of many of the specific requirements related to working within the mining industry and their decisions and choices may not take into account all available and necessary engineering or managerial approaches that experienced mine operating companies commonly use to successfully develop a mine. Consequently, the Company's operations, earnings and ultimate financial success could be materially adversely effected.

### (xvi) Conflicts of Interest

Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including mineral resource companies) and, as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest. The British Columbia Business Corporations Act (BCBCA) provides that in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the Company, the director must disclose his interest in such contract or agreement and refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the BCBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA.

### (xvii) Uninsurable Risks

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's results of operations and financial condition and could cause a decline in the value of the Company's shares. The Company does not intend to maintain insurance against environmental risks.

**(xviii) Litigation**

The Company and/or its directors may be subject to a variety of civil or other legal proceedings, with or without merit.

**(xix) Dividends**

To date, NSGold has not paid any dividends on its outstanding shares. Any decision to pay dividends on the shares of the Company will be made by its board of directors on the basis of the Company's earnings, financial requirements and other conditions.

Additional information regarding the Company is available on SEDAR at www.sedar.com.

Dated: August 27, 2012

# NSGold Corporation

Unaudited Interim Condensed Consolidated Financial Statements
**For the six month period ended**
**June 30, 2012**

August 29, 2012

## Management's Report

The accompanying unaudited interim condensed consolidated financial statements of **NSGold Corporation** are the responsibility management and have been approved by the Board of Directors. The interim unaudited condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The interim unaudited condensed consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparation of the financial statements. The Audit Committee of the Board of Directors reviewed and approved the Company's interim unaudited condensed consolidated financial statements, and recommended their approval by the Board of Directors.

These interim unaudited condensed consolidated financial statements have not been reviewed by the external auditors of the Company.

(signed) "*Glenn Holmes*"
President and Chief Executive Officer
Halifax, Nova Scotia

(signed) *"Robert Randall"*
Chief Financial Officer
Halifax, Nova Scotia

**NSGold Corporation**

Unaudited Consolidated Statements of Financial Position

**As at June 30, 2012 and December 31, 2011**

(expressed in Canadian dollars)

| | June 30, 2012 $ | December 31, 2011 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 340,436 | 4,408,877 |
| Sales tax recoverable | 28,483 | 390,065 |
| Deposits and prepaid expenses | 34,496 | 22,208 |
| | 403,415 | 4,821,150 |
| **Amount due from NSX Silver Inc.** | 137,453 | – |
| **Investment in NSX Silver Inc.** | 206,238 | – |
| **Resource properties** (note 4) | 3,527,040 | 4,059,778 |
| | 4,274,146 | 8,880,928 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 5) | 71,059 | 305,251 |
| **Deferred tax liability** | 341,000 | 185,000 |
| | 412,059 | 490,251 |
| **Equity** | 3,862,087 | 8,390,677 |
| | 4,274,146 | 8,880,928 |

**Going concern** (note 1)

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

**Approved by the Board of Directors**

(signed) *“Johannes H.C. van Hoof”*, Director

(signed) *“Glenn Holmes”*, Director

# NSGold Corporation

Unaudited Consolidated Statement of Changes in Equity

**For the periods ended June 30, 2012 and 2011**

(expressed in Canadian dollars)

| | Share capital (note 6) $ | Contributed surplus (note 6) $ | Warrants and other (note 6) $ | Accumulated other comprehensive income (loss) $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance – December 31, 2010** | 3,976,418 | 26,100 | 552,283 | – | (1,352,700) | 3,202,101 |
| Net loss and comprehensive loss for the period | – | – | – | – | (258,356) | (258,356) |
| Stock-based compensation | – | 103,432 | – | – | – | 103,432 |
| Shares issued pursuant to resource property option agreement | 121,250 | – | – | – | – | 121,250 |
| Expiration of warrants and other, net of tax | – | 190,202 | (225,202) | – | – | (35,000) |
| Shares issued upon exercise of warrants and other | 1,923,834 | – | (247,081) | – | – | 1,676,753 |
| **Balance – June 30, 2011** | 6,021,502 | 319,734 | 80,000 | – | (1,611,056) | 4,810,180 |
| Net loss and comprehensive loss for the period | – | – | – | – | (622,145) | (622,145) |
| Stock-based compensation | – | 68,922 | – | – | – | 68,922 |
| Shares issued for cash net of issue costs and taxes | 3,973,720 | – | – | – | – | 3,973,720 |
| Warrants issued | – | – | 160,000 | – | – | 160,000 |
| **Balance – December 31, 2011** | 9,995,222 | 388,656 | 240,000 | – | (2,233,201) | 8,390,677 |
| Net income for the period | – | – | – | – | 950,780 | 950,780 |
| Comprehensive loss for the period | – | – | – | (30,621) | – | (30,621) |
| Stock-based compensation | – | 49,392 | – | – | – | 49,392 |
| Shares issued upon exercise of stock options | 48,050 | (13,050) | – | – | – | 35,000 |
| Distribution of shares of NSX Silver | – | – | – | – | (5,533,141) | (5,533,141) |
| Expiration of warrants | – | 80,000 | (80,000) | – | – | – |
| **Balance – June 30, 2012** | 10,043,272 | 504,998 | 160,000 | (30,621) | (6,815,562) | 3,862,087 |

As at June 30, 2012, the Accumulated Other Comprehensive Loss comprises the net unrealized loss on the available-for-sale securities which relates to the Company's investment in its remaining shares of NSX Silver Inc.

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

# NSGold Corporation

Unaudited Consolidated Statements of Income and Comprehensive Income

**For the periods ended June 30, 2012 and 2011**

(expressed in Canadian dollars)

| | Three months ended June 30, 2012 $ | Three months ended June 30, 2011 $ | Six months ended June 30, 2012 $ | Six months ended June 30, 2011 $ |
|---|---|---|---|---|
| **Operating expenses** | | | | |
| Consulting fees | 39,361 | 31,446 | 91,763 | 58,053 |
| Professional dues | 7,393 | 3,935 | 19,237 | 9,935 |
| Insurance | 2,535 | – | 5,962 | – |
| Stock-based compensation | 33,427 | 77,882 | 41,863 | 84,859 |
| Professional fees | 24,491 | 41,313 | 32,661 | 55,529 |
| Travel | 10,092 | 14,247 | 11,269 | 28,271 |
| Investor relations | - | 4,009 | 7,125 | 15,111 |
| Property investigations | 8,097 | – | 14,567 | – |
| Other | 8,015 | 24,530 | 18,725 | 31,080 |
| Reorganization costs recovery | – | – | (137,817) | – |
| Gain on distribution of NSX Silver shares | – | – | (1,212,135) | – |
| | (133,411) | (197,362) | 1,106,780 | (282,838) |
| **Other income** | | | | |
| Interest income | – | 2,100 | – | 2,403 |
| **(Income) loss before income taxes** | (133,411) | (195,262) | 1,106,780 | (280,435) |
| Deferred income tax (expense) recovery | – | 19,577 | (156,000) | 22,079 |
| **Net income (loss) for the period** | (133,411) | (175,685) | 950,780 | (258,356) |
| **Income (loss) per share – basic and diluted** | ($0.003) | ($0.01) | $0.02 | ($0.01) |
| **Weighted average outstanding common shares – basic and diluted** | 43,553,767 | 32,421,105 | 43,498,382 | 31,493,862 |
| **Comprehensive income (loss) for the period** | | | | |
| **Net income (loss) for the period** | (133,411) | (175,685) | 950,780 | (258,356) |
| Other Comprehensive income (loss) | | | | |
| Unrealized gain on available-for-sale securities | (337,621) | – | (30,621) | – |
| **Comprehensive income (loss) for the period** | (471,032) | (175,685) | 920,159 | (258,356) |

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

# NSGold Corporation

Unaudited Consolidated Statements of Cash Flows

**For the periods ended June 30, 2012 and 2011**

(expressed in Canadian dollars)

| | Six months ended June 30, 2012 $ | Six months ended June 30, 2011 $ |
|---|---|---|
| **Cash provided by (used for) the following** | | |
| **Operating activities** | | |
| Net income (loss) for the period | 950,780 | (258,356) |
| Charges (credits) to loss not involving cash | | |
| Stock-based compensation | 41,863 | 84,859 |
| Gain on distribution of NSX Silver shares | (1,212,135) | – |
| Deferred income taxes (recovery) expense | 156,000 | (22,079) |
| | (63,492) | (195,576) |
| Net change in working capital balances related to operations | | |
| Increase in sales tax recoverable | 323,720 | (41,320) |
| Increase in prepaid expenses | (12,288) | – |
| Decrease in accounts payable and accrued liabilities | (109,907) | (100,248) |
| | 138,033 | (337,144) |
| **Investing activities** | | |
| Expenditures on resource properties | (422,215) | (454,542) |
| Distribution of shares of NSX Silver | (4,560,137) | – |
| Investment in shares of NSX Silver | (196,959) | – |
| Repayment from NSX Silver | 937,837 | – |
| Increase in deposits and prepaids | – | (45,545) |
| Proceeds on sale of short-term investments | – | 396,100 |
| | (4,241,474) | (103,987) |
| **Financing activities** | | |
| Proceeds on exercise of options | 35,000 | – |
| Proceeds on exercise of warrants | – | 1,676,751 |
| | 35,000 | 1,676,751 |
| **Net change in cash for the period** | (4,068,441) | 1,235,620 |
| **Cash – Beginning of period** | 4,408,877 | 127,602 |
| **Cash – End of period** | 340,436 | 1,363,222 |

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

(expressed in Canadian dollars)

## 1 Nature of operations and going concern

### Going concern

These consolidated financial statements have been prepared using generally accepted accounting principles applicable to a going concern, which assumes the realization of assets and settlement of liabilities in the normal course of business as they come due. As at June 30, 2012, the Company had an accumulated deficit of $6.8 million. The Company has no income or cash flow from operations. In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Such circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

The Company's ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of properties. These consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

### General information

NSGold Corporation (the "Company" or "NSGold"), formerly Kermode Capital Ltd. ("Kermode"), is a development stage enterprise. The Company's principal business activity is the acquisition and exploration of resource properties. The Company has not yet determined whether its properties contain ore reserves that are economically recoverable.

On June 18, 2010, Kermode closed the Share Exchange Agreement with NSGold to acquire all 10,000 issued and outstanding common shares of NSGold by the issuance of 11,000,000 common shares of Kermode (see note 11). Concurrently Kermode completed an amalgamation with NSGold (NSGold was continued from the Canada Business Corporations Act to the British Columbia Business Corporations Act ("BCBCA"), following which Kermode completed a short form vertical amalgamation with NSGold under the BCBCA) and changed its name to NSGold Corporation. Concurrently a private placement financing was completed for gross proceeds of $4.12 million with the issuance of 15,105,871 units consisting of one common share and one-half of one common share purchase warrant.

The Company's registered office is located at 1055 West Hasting Street in Vancouver, British Columbia. The Company's shares are listed on the TSX-Venture Exchange with the symbol NSX.

(expressed in Canadian dollars)

## 2 Basis of presentation and accounting policies

### a) Basis of presentation

The Company prepares its unaudited interim condensed consolidated financial statements (the "financial statements") in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Handbook of the Canadian Institute of Chartered Accountants - Part 1 ("CICA Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 2 of the Company's financial statements for the year ended December 31, 2011. These financial statements should be read in conjunction with the Company financial statements for the year ended December 31, 2011.

These financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

These financial statements have been authorized for issuance by the Board of Directors on August 29, 2012

### b) Basis of measurement

These consolidated financial statements have been prepared under a historical cost basis.

### c) Use of estimates and judgments

The preparation of the financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results may differ from these estimates. The more significant areas requiring the use of management estimates and assumptions are discussed below.

(expressed in Canadian dollars)

## 2 Basis of presentation and accounting policies (continued)

### c) Use of estimates and judgments (continued)

*Recoverability of resource properties*
The Company assesses all resource properties at each reporting period date to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, future capital requirements, exploration potential and operating performance.

*Fair value of assets transferred to NSX Silver*
The estimation of the fair value of transferred assets is determined based on the fair value of the assets distributed by NSGold to its shareholders. The determination of the fair value requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. A $0.01 difference in the per share value allocated to the NSX shares, distributed by NSGold, would impact the fair value and resulting gain by approximately $500,000.

### d) Accounting policies

These financial statements are based on the accounting policies consistent with those disclosed in note 3 to the 2011 annual consolidated financial statements. Refer also to note 3 to the 2011 annual consolidated financial statement for information on new accounting standards and amendments not yet effective.

## 3 Listing of NSX Silver Inc. on the TSX Venture Exchange – NSX share subscription and distribution agreement

NSX Silver Inc. (NSX Silver) was incorporated in August 2011 as a wholly-owned subsidiary of NSGold, with the intention of taking over the Company's exploration properties in Mexico so that NSGold could devote itself solely to exploration for gold and other metals. In March 2012, NSX Silver completed the acquisition of all of the shares of Compania Minera Oso Blanco SA de CV (CMOB), a wholly-owned subsidiary of NSGold, whereby NSGold received one million common shares of NSX Silver. Also in March 2012 NSGold completed a share subscription agreement whereby NSGold acquired 44,428,571 common shares of NSX Silver for gross proceeds of $4,665,000. Contemporaneously the Dios Padre Option Agreement was assigned to NSX Silver.

NSGold then completed the distribution of the common shares of NSX Silver to its shareholders whereby the shareholders received one share of NSX Silver for each share of NSGold held with the record date being March 16, 2012. A total of 43,553,767 shares of NSX Silver were distributed with the distribution effected by way of distribution of paid up capital. As a result of this transaction, the Company has recorded a gain of $1,212,135 on the distribution of NSX Silver shares which represents the difference between the fair value and the carrying amount of the assets distributed. After the distribution, NSGold holds 1,875,804 shares of NSX Silver. The common shares of NSX Silver commenced trading on the TSX Venture Exchange on March 14, 2012 as a Tier 2 Mining Issuer under the trading symbol NSY.

(expressed in Canadian dollars)

## 4 Resource properties

| | Mooseland $ | Dios Padre $ | Other $ | Total $ |
|---|---|---|---|---|
| **As at January 1, 2010** | – | – | – | – |
| Mineral claims acquired | 700,000 | – | 50,000 | 750,000 |
| Purchase of Net Smelter Royalty | 415,000 | – | – | 415,000 |
| Exploration costs incurred | 977,553 | – | 56,951 | 1,034,504 |
| **Year ended December 31, 2010** | 2,092,553 | – | 106,951 | 2,199,504 |
| **As at January 1, 2011** | 2,092,553 | – | 106,951 | 2,199,504 |
| Property acquisition | - | 224,971 | – | 224,971 |
| Additions | 1,182,219 | 431,516 | 48,913 | 1,662,648 |
| Write-downs | – | – | (27,345) | (27,345) |
| **Balance at December 31, 2011** | 3,274,772 | 656,487 | 128,519 | 4,059,778 |
| Exploration costs incurred | 113,701 | 304,201 | 10,048 | 427,950 |
| Disposition of resource property | – | (960,688) | – | (960,688) |
| **Balance at June 30, 2012** | 3,388,473 | – | 138,567 | 3,527,040 |

### i) Mooseland and other Nova Scotia Properties

On April 14, 2010, NSGold entered into a formal purchase agreement with Globex Mining Enterprises Inc. (“Globex”) to acquire a 100% interest in the advanced-stage exploration property referred to as the Mooseland Gold Property located 70 kilometres northeast of the city of Halifax, Nova Scotia and five secondary properties (“Secondary Properties”) all located in the Province of Nova Scotia.

Under the terms of the purchase agreement NSGold has paid a total of $750,000 to Globex. Globex holds a gross metal royalty equal to four percent (4%) of all metals produced from the Mooseland Property and the Secondary Properties. In addition, Globex has the right to receive a five percent (5%) interest in the issued and outstanding share capital of NSGold at the time of production in the event that any of the Mooseland Property or the Secondary Properties, as applicable, enters into production.

## 5 Accounts payable and accrued liabilities

| | June 30, 2012 $ | December 31, 2011 $ |
|---|---|---|
| Accounts payable | 52,559 | 215,520 |
| Accrued liabilities | 18,500 | 89,000 |
| Employee withholding payable | - | 731 |
| | 71,059 | 305,251 |

(expressed in Canadian dollars)

## 6 Share capital

### i) Authorized capital stock

Unlimited number of common shares, without nominal or par value
Unlimited number of preferred shares, without nominal or par value, issuable in one or more series

| Common shares issued and fully paid | Number of shares | Amount $ |
|---|---|---|
| **Balance – December 31, 2010** | 30,543,983 | 3,976,418 |
| Shares issued for cash, net of issue costs (a) | 8,627,451 | 3,973,720 |
| Shares issued pursuant to resource property option agreement | 250,000 | 121,250 |
| Shares issued pursuant to the exercise of agent options | 1,018,643 | 254,662 |
| Shares issued pursuant to the exercise of warrants | 2,973,690 | 1,422,091 |
| Fair value of exercised warrants and options at the date of issuance | – | 247,081 |
| **Balance – December 31, 2011** | 43,413,767 | 9,995,222 |
| Shares issued pursuant to the exercise of options | 140,000 | 35,000 |
| Fair value of exercised warrants and options at the date of issuance | – | 13,050 |
| **Balance – June 30, 2012** | 43,553,767 | 10,043,272 |

#### a) 2011 Private placement

On August 5, 2011 the Company completed a private placement financing of 8,627,451 common shares at a price of $0.51 per share for gross proceeds of $4.4 million. The Company incurred total share issuance costs of $559,215, of which $160,000 related to the valuation 690,196 broker warrants. These costs, net of the related tax benefit of$132,935, result in shares issued of $3,973,720.

### ii) Warrants and other

The following table summarizes the changes in the Company's warrants for the period ended June 30, 2012:

| | Expiry date | Exercise price $ | Number of Warrants $ | June 30, 2012 $ | December 31, 2011 $ |
|---|---|---|---|---|---|
| Broker warrants issued with June 2010 private placement | June 18, 2012 | 0.25 | – | – | 80,000 |
| Broker warrants issued with August 2011 private placement | Aug 15, 2013 | 0.51 | 690,196 | 160,000 | 160,000 |
| **Balance – End of year** | | | 690,196 | 160,000 | 240,000 |

(expressed in Canadian dollars)

## 6 Share capital (continued)

### ii) Warrants and other (continued)

The fair value of warrants and agent unit options recognized has been estimated at the grant date using the Black-Scholes option pricing model. The resulting weighted average fair value at date of grant is $0.23. The weighted average assumptions used in the pricing model for warrants and agent options issued are as follows:

| | **2011** |
|---|---|
| Risk-free interest rate | 2.5% |
| Expected volatility | 100% |
| Expected dividend yield | $nil |
| Expected life | 1.1 years |

### iii) Options

The Company has adopted a stock option plan for directors, officers, employees and consultants of the Company, providing the Board of Directors with the discretion to issue up to 2,000,000 common shares. The exercise price of the stock options is determined by the Board of Directors when the options are granted, but cannot be less than the closing price of the Company's shares on the TSX Venture Exchange on the business day immediately preceding the day on which the option is granted. The maximum exercise period of the stock options is ten years.

The following table summarizes the changes in the Company's stock options:

| | **Weighted Average Exercise price $** | **Number of Options** | **Weighted Average Remaining Life (years)** | **Expiry date** |
|---|---|---|---|---|
| **Balance – December 31, 2010** | 0.25 | 280,000 | 3.2 | August 17, 2015 |
| Granted during the year | 0.50 | 395,000 | 3.8 | March 23, 2016 |
| Granted during the year | 0.60 | 50,000 | 3.9 | May 9, 2016 |
| Granted during the year | 0.50 | 85,000 | 4.0 | June 21, 2016 |
| **Balance – December 31, 2011** | 0.42 | 810,000 | 3.7 | |
| Granted during the period | 0.14 | 895,000 | 4.8 | April 17, 2017 |
| Exercised during the period | 0.25 | (140,000) | | |
| **Balance – June 30, 2012** | 0.27 | 1,565,000 | 4.3 | |

As at June 30, 2012, the Company had granted 1,565,000 stock options. Options vested and exercisable at June 30, 2012 totalled 893,750 (December 31, 2011 - 668,750) with an average exercise price of $0.38 (2011 - $0.51) per share and a weighted average remaining life of 4.2 years.

(expressed in Canadian dollars)

## 6 Share capital (continued)

### iii) Options (continued)

The estimated fair value of options has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. The resulting weighted average fair value at the date of grant is $0.08 (2011 - $0.31). The weighted average assumptions used in the pricing model for options issued are as follows:

| | 2012 | 2011 |
|---|---|---|
| Risk-free interest rate | 2.1% | 2.1% |
| Expected volatility | 100% | 100% |
| Expected dividend yield | $nil | $nil |
| Expected life | 2.5 years | 2.5 years |

### iv) Contributed surplus

| | June 30, 2012 $ | December 31, 2011 $ | December 31, 2010 $ |
|---|---|---|---|
| **Balance – Beginning of period** | 388,656 | 26,100 | – |
| Options issued with respect to reverse takeover | – | – | 60,000 |
| Exercise of stock options | (13,050) | – | (60,000) |
| Stock-based compensation | 49,392 | 172,354 | 26,100 |
| Expiration of brokers warrants | 80,000 | – | – |
| Expiration of warrants, net of tax | – | 190,202 | – |
| **Balance – End of period** | 504,998 | 388,656 | 26,100 |

The Company recorded total stock-based compensation during the period ended June 30, 2012 of $49,932 (year ended December 31, 2011 - $172,354) of which $7,529 (year ended December 31, 2011 - $31,372) was capitalized to resource properties and the balance of $42,403 was expensed.

## 7 Related party transactions

The Company transferred the shares of Compañia Minera Oso Blanco, S.A. de C.V. to NSX Silver. The Company also entered a share subscription agreement with NSX Silver and subsequently distributed these shares of NSX Silver by way of a dividend to its shareholders (see note 3).

During the period ended June 30, 2012 the Company incurred legal fees aggregating $18,348 from a law firm of which one of the officers is a partner. During the year ended December 31, 2011 the Company incurred

(expressed in Canadian dollars)

legal fees aggregating $206,138 from this law firm. The Company recorded $75,207 to reorganization costs and $130,931 to professional fee expense.

## 8 Supplemental cash flow information

During the period ended June 30, 2012, the Company incurred expenditures on resource properties of $10,000 which were recorded as accounts payable at the end of the period. These items are non-cash transactions and have been excluded from the statements of cash flows.