NSGold Corporation

(Formerly Kermode Capital Ltd)
(A Development Stage Enterprise)

December 31, 2010 and 2009

April 27, 2011

Management's Responsibility for the Financial Reporting

The accompanying financial statements of **NSGold Corporation** have been prepared by the Company's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, has audited these financial statements and their report follows.

(signed) "*Johannes H.C. van Hoof*"
President and Chief Executive Officer
Buenos Aires, Argentina

(signed) "*Glenn Holmes*"
Chief Financial Officer
Halifax, Nova Scotia

PRICEWATERHOUSECOOPERS

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April 27, 2011

Independent Auditor's Report

To the Shareholders' of
NSGold Corporation

We have audited the accompanying financial statements of **NSGold Corporation**, which comprise the balance sheet as at December 31, 2010 and 2009 and the statements of loss, comprehensive loss and deficit and cash flows for the year ended December 31, 2010 and the period ended December 31, 2009, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of **NSGold Corporation** as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the year ended December 31, 2010 and the period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

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

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

NSGold Corporation

(A Development Stage Enterprise)
Balance Sheet
As at December 31, 2010 and 2009

	2010 $	2009 $
Assets		
Current assets		
Cash	127,602	–
Short-term investments	1,200,000	–
Sales tax recoverable	159,223	–
Deposits	303,500	–
	1,790,325	–
Resource properties (note 4)	2,197,905	–
	3,988,230	–
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	489,486	–
Shareholders' Equity		
Share capital (note 5)	3,268,133	9,895
Warrants and other (note 5(ii))	528,000	–
Contributed Surplus	15,000	–
Deficit	(312,389)	(9,895)
	3,498,744	–
	3,988,230	–

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

Approved on behalf of the Board of Directors

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

(signed) *"Glenn Holmes"*, Director

NSGold Corporation

(A Development Stage Enterprise)

Statement of Loss, Comprehensive Loss and Deficit

For the year ended December 31, 2010 and the period from September 25, 2009, date of incorporation to December 31, 2009

	Year ended December 31, 2010 $	September 25, 2009 to December 31, 2009 $
Operating expenses		
Consulting fees	67,850	–
Insurance	25,000	–
General and administrative	70,711	–
Stock based compensation	12,860	–
Professional fees	108,164	9,895
Travel	21,413	–
	(305,998)	(9,895)
Other income		
Interest income	3,504	–
Net loss and comprehensive loss for the period	(302,494)	(9,895)
Deficit - Beginning of period	(9,895)	–
Deficit - End of period	(312,389)	(9,895)
Loss per share – basic and diluted	(0.01)	(0.00)
Weighted average outstanding common shares – basic and diluted	21,155,688	10,884,500

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

NSGold Corporation
(A Development Stage Enterprise)
Statement of Cash Flows
For the year ended December 31, 2010 and the period from September 25, 2009, date of incorporation to December 31, 2009

	Year ended December 31, 2010 $	September 25, 2009 to December 31, 2009 $
Cash provided by (used for) the following:		
Operating activities		
Net loss for the period	(302,494)	(9,895)
Charges (credits) to loss not involving cash		
Stock based compensation	12,860	–
Share subscriptions paid in kind	–	9,895
	(289,634)	–
Net change in working capital balances related to operations		
Increase in sales tax recoverable and deposits	(462,723)	–
Increase in accounts payable	60,859	–
	(691,498)	–
Investing activities		
Purchase of and expenditures on resource properties	(1,767,138)	–
Purchase of short-term investments	(1,200,000)	–
	(2,967,138)	–
Financing activities		
Issuance of shares & warrants (net of costs)	3,786,238	–
Net change in cash for the period	127,602	–
Cash - Beginning of period	–	–
Cash - End of period	127,602	–

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

1 Going concern

These financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") 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. For the twelve months ended December 31, 2010, the Company incurred a loss of $302,494 and as at December 31, 2010 had an accumulated deficit of $312,389. The Company has no income or cash flow from operations and at December 31, 2010 had working capital of $1,300,839. 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 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.

2 Nature of operations and basis of presentation

Reverse takeover, amalgamation and name change

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 23, 2010, Kermode announced that it had 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. Concurrently Kermode completed an amalgamation with NSGold (NSGold was continued from the CBCA to the BCBCA, following which Kermode completed a short form vertical amalgamation with NSGold under the BCBCA) and changed its name to NSGold Corporation. Also concurrently Kermode completed a $4.12 million private placement financing with the issuance of 15,105,871 units consisting of one common share and one-half of one common share purchase warrant. Each warrant is exercisable until June 18, 2011 into one common share of the Company at a price of $0.50 per share.

2 Nature of operations and basis of presentation (continued)

Basis of presentation

As the former shareholders of NSGold Corporation obtained approximately 73% of the outstanding shares of the combined entity upon closing of the Share Exchange Agreement, the transaction was accounted for as a reverse takeover of Kermode by NSGold. These financial statements represent a continuation, for accounting purposes, of the financial statements of NSGold. For accounting purposes, as Kermode was a non-operating public enterprise, the acquisition of Kermode by NSGold was accounted for as an issuance of 4,000,000 common shares, 200,000 warrants and 400,000 options by NSGold for the net monetary assets of Kermode. The periods presented are for the year ended December 31, 2010 and from the date of incorporation of NSGold, September 25, 2009, to December 31, 2009.

3 Significant accounting policies

Changes in accounting policies and new accounting pronouncements

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standards Board ("AcSB") issued EIC Abstract 173, "Credit Risk and Fair Value of Financial Assets and Financial Liabilities", which establishes guidance requiring an entity to consider its own credit risk as well as the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. This interpretation must be applied retrospectively without restatement of prior years. The adoption of this interpretation did not have a significant impact on the Company's financial statements.

Financial Instruments

In June 2009, the AcSB issued amendments to Section 3862, "Financial Instruments – Disclosures", to require enhanced disclosures about the relative reliability of the data, or "inputs", that an entity uses in measuring the fair values of its financial instruments. The new requirements are effective for annual financial statements for fiscal years ending after September 30, 2009. The additional disclosures are included in note 3 (i).

Recent accounting pronouncements issued and not yet adopted

Convergence with International Financial Reporting Standards ("IFRS")

The Company will cease to prepare its financial statements in accordance with Canadian GAAP as set out in Part V of the Canadian Institute of Chartered Accountants ("CICA") Handbook – Accounting for the periods beginning on January 1, 2011, when it will start to apply as its primary basis of accounting IFRS as published by the International Accounting Standards Board and set out in Part I of the CICA Handbook – Accounting. Consequently, future accounting changes to Canadian GAAP are not discussed in these financial statements as they will normally never be applied by the Company.

3 Significant accounting policies (continued)

Management estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates. The most significant estimates are related to the recoverability of resource properties, valuation of stock based compensation and the measurement and valuation of future tax assets and liabilities.

Cash

Cash includes cash on hand and balances with banks.

Short-term investments

Short-term investments are highly liquid investments with an original maturity greater than three months and are due within 12 months of year end. These investments are classified as held-for-trading and are measured at fair value with changes in fair values recorded in the statement of loss. As at December 31, 2010, short-term investments consisted of a variable rate GIC held with a major Canadian banking institution with an interest rate of prime less 1.95%.

Resources properties

Initial acquisition costs and exploration and development costs related to resource properties are deferred until such time as the properties are put into commercial production, sold or abandoned or management determines that the resource properties are not economically viable, at which time the resource properties are written down to fair value. Under this method, all amounts shown as resource properties represent costs incurred to date less amounts amortized, received from exploration partners and/or written down, and do not necessarily represent present or future values.

If any properties are put into commercial production, the carrying value of the properties will be depleted following the unit of production method. If any properties are sold or abandoned, or considered to be impaired in value, the carrying value of the properties will be charged to operations.

The carrying values of resource properties, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the resource properties will be written down to their fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon obtaining the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimate of recoverability of the Company's resource property has been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of the resource property.

3 Significant accounting policies (continued)

Flow-through shares

The issuance of flow-through shares entitles the Company to renounce certain resource expenditures incurred in Canada, allowing the expenditures to be deducted for tax purposes by the investors who purchased the flow-through shares. The Company has adopted the recommendations by the EIC of the CICA relating to the recording of flow-through shares. In accordance with EIC 146, the Company reduces its share capital and recognizes a temporary future income tax liability for the amount of income tax benefits foregone when the resource expenditures are renounced.

Stock-based compensation

The Company accounts for stock options using the fair value method of the CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. Under this Section, the estimated fair value of all stock options granted is recorded in the statement of loss over their vesting periods.

The estimated fair value of options is determined using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate over the expected life of the option. The resulting estimated fair value of the options is expensed on a straight-line basis over their vesting periods.

Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the year. The Company follows the treasury method of calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the year. Diluted loss per share for the periods presented is the same as basic loss per share, as the Company has incurred losses and the exercise of options and warrants would be anti-dilutive.

Related party transactions

All transactions with related parties are in the normal course of business and are measured at the exchange amount.

3 Significant accounting policies (continued)

Financial instruments

The Company recognizes and records financial instruments based on their classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net loss or comprehensive loss.

If a financial instrument is measured at fair value, changes in its fair value are recognized in net loss in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available-for-sale investments. For investments designated as being available-for-sale, changes in the fair value shall be recorded directly in Shareholders' Equity in a separate account called "Other Comprehensive Income (Loss)" until the asset is disposed of or becomes impaired. At that time, the gains and losses are transferred to the Statement of Loss.

The Company has implemented the following classifications:

- Cash and short-term investments are classified as "Financial Assets Held-for-Trading." These financial assets are marked-to-market through net loss each period.

- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities." After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

i) Fair value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

The CICA established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices 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 that are not based on observable market data.

The financial instruments recorded at fair value on the balance sheet are cash and short-term investments. They are measured using Level 1 of the fair value hierarchy.

3 Significant accounting policies (continued)

Financial instruments (continued)

ii) Credit risk

Management does not believe it is exposed to any significant concentration of credit risk except that its short-term investments are on deposit with a major Canadian chartered bank.

iii) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Cash is held in bank accounts or interest-bearing instruments that can be converted to cash without penalty at any time and are recorded at fair value.

iv) Interest rate risk

The Company has cash and short-term investments and no interest-bearing debt; accordingly, the Company's interest income is susceptible to fluctuations in interest rates.

Capital management

The Company's capital structure consists of share capital, warrants, unit options, deficit and contributed surplus, which at December 31, 2010 totalled $3,498,744 (2009 - $nil). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

4 Resource properties

The schedule below details the resource property expenditures.

	Mooseland $	Other $	Total $
Mineral claims acquired	700,000	50,000	750,000
Purchase of Net Smelter Royalty ("NSR")	415,000	–	415,000
Exploration costs incurred	977,553	55,352	1,032,905
Balance as at December 31, 2010	2,092,553	105,352	2,197,905

On April 14, 2010, the Company and Globex Mining Enterprises Inc. ("Globex") entered into a formal purchase agreement to acquire a 100% interest in the 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 order to acquire a 100% interest in the properties, NSGold committed to pay a total of $750,000 to Globex, as follows:

i) $250,000 by June 30, 2010 (paid);
ii) $250,000 by September 1, 2010 (paid); and
iii) $250,000 on the earlier of 30 days after commencement of production or September 1, 2011.

As at December 31, 2010 the first two payments were made and the remaining payment of $250,000 was recorded as accounts payable.

Globex holds the NSR, 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.

Pursuant to a Net Smelter Return Royalty Agreement dated April 11, 2002 among Globex and three Canadian numbered companies (160880 Canada Inc., 160881 Canada Inc., and 160891 Canada Inc.), the three numbered companies retained an underlying 3% net smelter return royalty on the claims within exploration license 05099 (subsequently re-named 05978) which is one of the four exploration licenses that comprise the Mooseland Property. On January 26, 2010, Van Hoof Industrial Holdings Ltd., the controlling shareholder of NSGold, signed a Royalty Purchase Agreement with the foregoing three numbered companies regarding the 3% net smelter return held by them in respect of the claims comprising exploration license 05978 for the Property, pursuant to which Van Hoof Industrial Holdings Ltd. has the right to acquire the said NSR by paying a total of $400,000 to the three numbered companies. Van Hoof Industrial Holdings Ltd. made an initial payment in the amount of $300,000 to the three numbered companies and acquired 75% of the 3% net smelter return. Globex has waived its right of first refusal pursuant to the Net Smelter Return Royalty Agreement in respect of the 75% interest in the 3% net smelter return acquired by Van Hoof Industrial Holdings Ltd.

4 Resource properties (continued)

On February 15, 2010, the Company entered into an Assignment Agreement with Van Hoof Industrial Holdings Ltd. whereby Van Hoof Industrial Holdings Ltd. conditionally assigned to the Company its right, title and interest in and to the Royalty Purchase Agreement such that the Company has the right to acquire the 3% NSR upon payment by the Company of $300,000 to Van Hoof Industrial Holdings Ltd. and $100,000 to the three numbered companies, all subject to the Company obtaining equity financing of at least $3,000,000 on or before June 30, 2010. NSGold obtained the equity financing prior to June 30, 2010.

On March 31, 2010, 160880 Canada Inc., 160881 Canada Inc., and 160891 Canada Inc. accepted to extend the deadline for the payment of the remaining $100,000 due under the Royal Purchase Agreement with Van Hoof Industrial Holdings Ltd. until June 30, 2010, in consideration for the Company agreeing to pay the foregoing companies an additional amount of $15,000. During the year ended December 31, 2010 the Company made payments aggregating $415,000 to Van Hoof Industrial Holdings Ltd. and the three numbered companies, thereby acquiring the 3% NSR.

5 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 $**
Issued during the period and balance – December 31, 2009 (a)	10,884,500	9,895
Issued in lieu of professional fees (a)	115,500	105
Shares deemed to be issued with respect to reverse takeover of Kermode (note 2)	4,000,000	2,395
Shares issued pursuant to the exercise of stock options	400,000	40,000
Shares issued pursuant to the exercise of broker warrants	38,112	3,811
Shares issued for cash, net of issue costs	15,105,871	3,211,927
Balance – December 31, 2010	30,543,983	3,268,133

(a) At December 31, 2009, 9,895 common shares were outstanding which were issued in lieu of professional fees. During the year ended December 31, 2010, an additional 105 common shares were issued in lieu of professional fees. As indicated in note 2, these common shares were acquired by issuance of 11,000,000 common shares of Kermode. The number of shares disclosed in the table above has been revised to reflect the number of shares issued by Kermode.

5 Share capital (continued)

i) Authorized capital stock (continued)

On June 18, 2010 the Company completed a private placement financing of 15,105,871 units for gross proceeds of $4,120,504. The Company incurred total share issuance costs, of $567,577 of which $205,000 related to the valuation of the 600,000 Agent Compensation Warrants and 1,018,643 Agent Unit Options issued and constitutes a non-cash item. Share issuance costs of $47,000 have been allocated to the cost of the warrants.

The private placement financing comprised 8,225,140 units priced at $0.25 per unit which consisted of one common share and one-half of one common share purchase warrant and 6,880,731 units priced at $0.30 per unit which consisted of one flow-through common share and one-half of one common share purchase warrant. Directors and Officers of the Company subscribed to 1,975,000 units. The value, net of share issuance costs, allocated to the common shares issued was $3,211,927 and the value allocated to the warrants was $323,000

The gross proceeds of the 6,880,731 flow-through shares were $2,064,219. The Company agreed to incur $2,064,219 of qualified Canadian mineral exploration expenditures, as defined by Canadian income tax legislation from the date of closing to December 31, 2011 and renounce such expenditures with an effective date of no later than December 31, 2010. As at December 31, 2010 the Company had incurred $1,030,765 of these expenditures therefore leaving $1,033,454 to be incurred in 2011. The expenditures were renounced on March 28, 2011.

5 Share capital (continued)

ii) Warrants and other

The following table summarizes the changes in the Company's warrants for the year ended December 30, 2010:

	Expiry date	Exercise price $	Number	Ascribed value $
Balance – December 31, 2009	–	–	–	–
Warrants deemed to be issued with respect to the reverse takeover of Kermode (note 2)	May 6, 2011	0.10	200,000	–
Warrants exercised	May 6, 2011	0.10	(38,112)	–
Issued pursuant to June 2010 private placement financing	June 18, 2011	0.50	7,552,936	323,000
Agent compensation warrants	June 18, 2012	0.25	600,000	80,000
Agent unit options*	June 18, 2011	0.25	1,018,643	125,000
Balance – December 31, 2010			9,333,467	528,000

* Pursuant to the June 2010 private placement, the Company issued to the agents options entitling the holders thereof to acquire up to an aggregate of 1,018,643 units of the Company at an exercise price of $0.25 per unit for a period of twelve months from the closing of the private placement. Each unit consists of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one additional common share at an exercise price of $0.50 per share for a period of twelve months from the closing of the private placement.

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 weighted average assumptions used in the pricing model for warrants and agent options issued are as follows:

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

5 Share capital (continued)

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 million 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.

Pursuant to the reverse takeover transaction (note 2) the Company was deemed to have issued 400,000 incentive stock options being the Kermode incentive stock options issued and outstanding as at the closing of the reverse takeover transaction.

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 following table summarizes the changes in the Company's stock options during the year ended December 31, 2010:

	Weighted Average Exercise price $	Number of Options	Weighted Average Remaining Life (years)	Expiry date
Balance – December 31, 2009	–	–	–	–
Deemed to be granted with respect to the reverse takeover of Kermode	0.25	400,000	–	April 30, 2014
Exercised during the period	0.25	(400,000)	–	–
Granted during the period	0.25	280,000	4.9	August 17, 2015
Balance – December 31, 2010	0.25	280,000	4.9	

The Company recorded total stock based compensation during the year ended December 31, 2010 of $15,000 of which $2,140 was capitalized to resource properties.

As at December 31, 2010, 1,720,000 options remained available for future grants under the plan. Options vested and exercisable at December 31, 2010 totalled 70,000 with an average exercise price of $0.25 per share.

The weighted average grant-date fair value of the 280,000 options granted during the year was $0.14 per option.

5 Share capital (continued)

iii) Options (continued)

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

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

iv) Contributed surplus

	$
Balance – December 31, 2009	–
Stock based compensation expense	15,000
Balance – December 31, 2010	15,000

6 Related party transactions

During the year ended December 31, 2010, the Company incurred legal fees aggregating $189,445 from a law firm of which one of the officers is a partner. The Company recorded $40,000 to share issue costs, $73,428 to professional fee expense and $76,017 to opening share capital in conjunction with the accounting for the reverse takeover transaction. As at December 31, 2010, the amount payable totalled $9,380. During the year ended December 31, 2010 the Company purchased NSR from a shareholder as described in note 4.

7 Income taxes

The following table reconciles the expected income taxes payable (recoverable) at the statutory income tax rate to the amounts recognized in the consolidated statement of operations and deficit for the years ended December 31, 2010 and 2009:

	2010 $	**2009** $
Loss before income taxes	302,494	9,895
Income tax rate	32%	32%
Expected income tax recovery based on above rates	97,000	3,000
Non-deductible stock option expense	(4,000)	–
Benefit of operating losses not recognized	(93,000)	(3,000)
Provision for (recovery of) income taxes	–	–

7 Income taxes (continued)

The following reflects future income tax assets (liabilities) at December 31, 2010 and 2009:

	2010 $	2009 $
Future tax assets (liabilities)		
Non-capital losses carried forward	117,000	3,000
Deductible share issue costs	87,000	–
	204,000	3,000
Valuation allowance applied against future tax assets	(204,000)	(3,000)
Net future income tax asset (liability) recognized	–	–

The Company has accumulated losses for Canadian income tax purposes of approximately $367,000 which may be carried forward and used to reduce taxable income in future years. These non-capital tax losses expire in 2030. A full valuation allowance has been recorded against future tax assets as realization is not considered more likely than not.

8 Subsequent events

Dios Padre Option Agreement

In March 2010 the Company signed a definitive option agreement (“Agreement”) whereby it can obtain a 100% ownership of the Dios Padre Property (the “Property”). The Property, including the historic Dios Padre Silver Mine, is located in the Municipality of Yecora, State of Sonora, Mexico approximately 260km each of Hermosillo. Under the terms of the Agreement, the Company, through its wholly-owned subsidiary Compañia Minera Oso Blanco SA de CV, can acquire a 100% undivided interest in the Dios Padre Property from Cia Minera Pena Blanca SA de CV by making cash payments totalling US$6 million over a 5 year period and issuing an aggregate of 1,250,000 common shares to the vendor in five equal tranches over the same 5 year period.

If the Company acquires a 100% undivided interest in the Property, the vendor will then be granted a 3% net smelter return royalty, two-thirds of which may be repurchased by the Company at any time prior to the commencement of commercial production by the payment of US$2 million. The acquisition is subject to the approval of the TSX Venture Exchange.

Options and Warrants

Subsequent to December 31, 2010 the Company issued 785,388 common shares pursuant to the exercise of warrants for aggregate proceeds of $327,939 and 389,123 common shares and 194,562 warrants pursuant to the exercise of Agent unit options for aggregate proceeds of $97,281.

On March 24, 2011 the Company granted stock options to three directors in respect of an aggregate of 300,000 common shares, and two consultants, in respect of an aggregate of 95,000 common shares. The exercise price of the stock options is $0.50 per share. The stock options vest in four equal tranches commencing three months from the date of grant and will be fully vested in twelve months. They expire five years from the date of grant.