

# **NSGold Corporation**

Unaudited Interim Condensed  
Consolidated Financial Statements

**For the quarter ended  
June 30, 2014**

August 25, 2014

## **Management's Report**

The accompanying consolidated financial statements of **NSGold Corporation** (the "Company") are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The 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 consolidated financial statements. The Audit Committee of the Board of Directors reviewed and approved the Company's 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, 2014 and December 31, 2013

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(expressed in Canadian dollars)

	June 30, 2014 \$	December 31, 2013 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	8,654	30,315
Sales tax and government grant recoverable	7,781	7,069
Deposits and prepaid expenses (note 4)	-	13,515
Amount due from NSX Silver Inc.	6,339	7,593
	<hr/>	<hr/>
	22,774	58,492
<b>Investment in NSX Silver Inc.</b>	18,758	18,758
<b>Resource properties</b> (note 5)	2,272,141	2,269,342
	<hr/>	<hr/>
	2,313,673	2,346,592
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6)	79,356	62,234
<b>Amount due to Van Hoof Industrial Holdings Ltd.</b> (note 10)	254,540	204,540
	<hr/>	<hr/>
	333,896	266,774
<b>Equity</b>	1,979,777	2,079,818
	<hr/>	<hr/>
	2,313,673	2,346,592
	<hr/>	<hr/>
<b>Going concern</b> (note 1)		

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

**Approved by the Board of Directors**

(signed) "Johannes H.C. Van Hoof", Director

(signed) "Glenn Holmes", Director

# NSGold Corporation

## Unaudited Consolidated Statements of Changes in Equity For the quarters ended June 30, 2014 and June 30, 2013

(expressed in Canadian dollars)

	Number of common shares	Share capital (note 10) \$	Contributed surplus (note 10) \$	Warrants and other (note 10) \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
<b>Balance – December 31, 2012</b>	43,553,767	4,515,281	518,265	160,000	(86,795)	(1,319,958)	3,786,793
Net loss for the period	–	–	–	–	–	(140,983)	(140,983)
Other comprehensive loss for the period	–	–	–	–	(65,653)	–	(65,653)
Stock-based compensation	–	–	68,562	–	–	–	68,562
<b>Balance – June 30, 2013</b>	43,553,767	4,515,281	586,827	160,000	(152,448)	(1,460,941)	3,648,719
Net loss for the period	–	–	–	–	–	(1,601,175)	(1,601,175)
Other comprehensive loss for the period	–	–	–	–	28,137	–	28,137
Expiration of warrants, net of tax	–	–	136,000	(160,000)	–	–	(24,000)
<b>Balance – December 31, 2013</b>	43,553,767	4,515,281	722,827	–	(124,311)	(3,033,979)	2,079,818
Net loss for the period	–	–	–	–	–	(100,041)	(100,041)
<b>Balance – June 30, 2014</b>	43,553,767	4,515,281	722,827	–	(124,311)	(3,134,020)	1,979,777

As at June 30, 2014 and 2013 and December 31, 2013, 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 consolidated financial statements.

# NSGold Corporation

## Unaudited Consolidated Statements of Loss and Comprehensive Loss For the quarters ended June 30, 2014 and June 30, 2013

(expressed in Canadian dollars)

	Three months ended June 30, 2014 \$	Three months ended June 30, 2013 \$	Six months ended June 30, 2014 \$	Six months ended June 30, 2013 \$
<b>Operating expenses</b>				
Consulting fees	22,363	26,900	44,288	58,400
Professional dues	7,673	3,221	14,742	10,338
Insurance	6,307	6,310	10,207	12,621
Stock-based compensation	–	51,000	–	54,874
Professional fees	8,238	6,583	8,238	9,689
Travel	–	–	571	2,072
Investor communications	–	–	–	10,000
Interest on amount due to related party	3,750	–	6,750	–
Property investigations	–	2,245	–	7,995
Other	9,009	7,472	15,245	13,694
<b>Loss before income taxes</b>	(57,340)	(103,731)	(100,041)	(179,683)
<b>Income tax recovery</b>	–	16,700	–	38,700
<b>Net loss for the period</b>	(57,340)	(87,031)	(100,041)	(140,983)
<b>Net loss per share – basic and diluted</b>	(\$0.001)	(\$0.002)	(\$0.002)	(\$0.003)
<b>Weighted average outstanding common shares</b>				
– basic and diluted	43,553,767	43,553,767	43,553,767	43,553,767
<b>Comprehensive loss for the period</b>				
Net loss for the period	(57,340)	(87,031)	(100,041)	(140,983)
Other comprehensive loss:				
Unrealized loss in available-for-sale securities	–	(37,516)	–	(65,653)
<b>Comprehensive loss for the period</b>	(57,340)	(124,547)	(100,041)	(206,636)

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

# NSGold Corporation

## Unaudited Consolidated Statements of Cash Flows For the quarters ended June 30, 2014 and June 30, 2013

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(expressed in Canadian dollars)

	<b>Six months ended June 30, 2014 \$</b>	<b>Six months ended June 30, 2013 \$</b>
<b>Cash provided by (used for) the following</b>		
<b>Operating activities</b>		
Net income (loss) for the periods	(100,041)	(140,983)
Charges (credits) to loss not involving cash		
Stock-based compensation	–	54,874
Deferred income taxes (recovery) expense	–	(38,700)
	<u>(100,041)</u>	<u>(124,809)</u>
Net change in working capital balances related to operations		
Decrease (increase) in sales tax recoverable	(712)	35,338
Decrease (increase) in prepaid expenses	13,515	12,621
Increase (decrease) in accounts payable and accrued liabilities	17,122	(14,981)
	<u>(70,116)</u>	<u>(91,831)</u>
<b>Investing activities</b>		
Net expenditures on resource properties	(2,799)	(153,750)
Advances from Van Hoof Industrial Holdings Ltd.	50,000	100,000
Advances from NSX Silver Inc.	1,254	21,120
	<u>48,455</u>	<u>(32,630)</u>
<b>Net change in cash for the periods</b>	(21,661)	(124,461)
<b>Cash – Beginning of years</b>	<u>30,315</u>	<u>186,364</u>
<b>Cash – End of periods</b>	<u>8,654</u>	<u>61,903</u>

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

# **NSGold Corporation**

## **Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013**

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(expressed in Canadian dollars)

### **1 Nature of operations and going concern**

#### **Going concern**

These consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) 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, 2014, NSGold Corporation (the “Company” or “NSGold”) had an accumulated deficit of \$3.1 million (December 31, 2013 - \$3.0 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 may cast 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 statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

#### **General information**

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. 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.

The Company’s registered office is located at 1550 Bedford Highway in Halifax, Nova Scotia. The Company’s shares are listed on the TSX Venture Exchange with the symbol NSX.

# NSGold Corporation

## Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013

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(expressed in Canadian dollars)

### **2 Basis of presentation**

#### **a) Basis of preparation**

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of financial statements in accordance with Part I of the Canadian Institute of Chartered Accountants (“CICA”) handbook.

The Board of Directors approved the consolidated financial statements for issue on August 25, 2014.

#### **b) Basis of measurement**

These consolidated financial statements have been prepared under a historical cost basis, except for certain financial assets which are recorded at fair value.

#### **c) Use of estimates and judgments**

The preparation of the consolidated 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 consolidated 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 as well as 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.

##### *Recoverability of resource properties*

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as, the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

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. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value of mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the Company does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through the use of, where available, comparison to similar market assets and, where available, industry benchmarks. Actual results may differ materially from these estimates.



# NSGold Corporation

## Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013

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(expressed in Canadian dollars)

### 2 Basis of presentation (continued)

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

##### *Impairment of investments*

The Company follows the guidance of IAS 39 “Financial Instruments- Recognition and Measurement” to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. The Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health and short-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flows.

### 3 Significant accounting policies

The significant policies used in the preparation of these consolidated financial statements are as follows:

#### **Cash**

Cash includes cash on hand and deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

#### **Financial instruments**

Financial instruments are classified as follows:

Cash and the amount due from NSX Silver are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method, less a provision for impairment, established on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and its assessment of the current economic environment.

Accounts payable and accrued liabilities and the amount due to Van Hoof Industrial Holdings Ltd. are classified as “Other Financial Liabilities”. Other Financial Liabilities are initially recognized at fair value less transaction costs. Subsequent to initial recognition, Other Financial Liabilities are measured at amortized cost using the effective interest method.

The investment in NSX Silver is classified as available-for-sale. The Company measures its investments in marketable securities at fair value as determined using the applicable market bid price. All purchases are recorded effective on the trade date of the transaction.

# **NSGold Corporation**

## **Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013**

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(expressed in Canadian dollars)

### **3 Significant accounting policies** (continued)

#### **Impairment of financial assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss.

Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Available-for-sale investments: At the end of each reporting period, subsequent to initial recognition, the Company must assess whether there is evidence of impairment of these assets. The following list of items includes examples of events that typically provide evidence of impairment:

- a) Significant or prolonged decline in the fair value below its cost;
- b) increased probability that the investee will enter bankruptcy or other financial reorganization;
- c) a breach of contract, such as a default or delinquency by the investee in interest or principal payments; or
- d) significant changes with adverse effects taking place in the environment in which the investee operates.

Declines in the fair value of marketable securities are reported in other comprehensive income, net of applicable taxes, unless there is objective evidence that the asset is impaired. In the case of impairment, the decline is recorded directly in net income (loss) after clearing out any existing balances in accumulated other comprehensive income (loss). Increases in fair value are reported in other comprehensive income (loss), unless the increase can be objectively related to an event occurring after a previous impairment loss was recognized in net income (loss), in which case the increase can be recorded directly through net income (loss).

#### **Consolidation**

The financial statements of the Company consolidate the accounts of NSGold Corporation and its subsidiary, NSGold Nevada Inc. and Compañía Minera Oso-Mex. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. There are no non-controlling interests, therefore, all loss and comprehensive loss is attributable to the shareholders of the Company.

# **NSGold Corporation**

## **Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013**

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(expressed in Canadian dollars)

### **3 Significant accounting policies (continued)**

#### **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 their recoverable amount. 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 values 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 recoverable amount. 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 properties 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 properties.

#### **Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the assets recoverable amount is estimated.

#### **Flow through shares**

The Company has financed a portion of its exploration activities through the issue of flow-through shares. As permitted under the Income Tax Act (Canada), the tax attributes of eligible expenditures incurred with the proceeds of flow-through share issuances are renounced to the flow-through shareholders.

At the time of share issuance, the proceeds are allocated between share capital and the obligation to deliver the tax deduction. The allocation is based on the difference between the quoted price of the Company's non-flow-through shares and the amount the investor pays for the flow-through shares (given no other differences between the securities).

# **NSGold Corporation**

## **Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013**

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(expressed in Canadian dollars)

### **3 Significant accounting policies** (continued)

#### **Flow through shares** (continued)

In accordance with IFRS, deferred income taxes related to the temporary differences created by the renouncement of flow-through share tax benefits to subscribers are recorded on a pro-rata basis when the qualified expenditures are incurred. This can occur either before or after the formal renunciation of expenditures is filed with tax authorities. When the qualified expenditures are incurred, the tax value of the renunciation is recorded on a pro-rata basis as a deferred income tax liability with a corresponding charge to income tax expense in the statements of income (loss) and comprehensive income (loss). Additionally, as qualified expenditures are incurred, the Company recognizes a pro-rata reduction of the flow-through premium liability as a recovery of deferred income taxes in the statements of income (loss) and comprehensive income (loss).

#### **Income taxes**

The Company uses the asset and liability method for accounting for income taxes.

Current tax assets and liabilities for the current and prior years are measured at the amounts expected to be paid or recovered, using tax rates and tax laws that have been enacted or substantively enacted by the end of the year.

Deferred tax assets and liabilities are recognized for all future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of assets and liabilities and their respective tax bases, except for the initial recognition of goodwill and the initial recognition of an asset or liability, which at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Deferred tax assets are also recognized for unused tax losses and unused tax credits. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against, which the deductible temporary differences, unused tax losses and other unused deductible amounts can be utilized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates and tax laws expected to apply when the carrying amount of the assets or liabilities are recovered or settled or the unused losses are expected to be utilized.

Current and deferred income tax expense is recognized in the statements of income (loss) and comprehensive income (loss) for the years, except to the extent that the income taxes related to a transaction or event which is recognized, in the same or different year, either in other comprehensive income (loss) or directly in equity.

#### **Capital management**

The Company's capital structure consists of share capital, warrants and other, deficit, accumulated other comprehensive loss and contributed surplus, which at June 30, 2014 totalled \$1,979,777 (2013 - \$3,648,719). 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.

# **NSGold Corporation**

## **Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013**

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(expressed in Canadian dollars)

### **3 Significant accounting policies** (continued)

#### **Capital management** (continued)

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.

#### **Functional and presentation currency and foreign currency translation**

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates and the consolidated financial statements are presented in Canadian dollars.

The functional currency of all subsidiaries and the parent company is Canadian dollars. Foreign currency transactions are recorded at the foreign exchange rate in effect on the date of the transaction and gains and losses resulting from the settlement of such transactions are recorded in the statements of income (loss) and comprehensive income (loss).

#### **Stock-based compensation**

The Company accounts for stock options using the fair value method. The estimated fair value of all stock options granted is recorded in the statements of income (loss) and comprehensive income (loss) over their vesting periods.

The Company grants stock options to certain officers and directors. Stock options vest in accordance with the individual option granting contracts and expire after five years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. Consideration paid by the directors and officers upon exercise of the stock options and the amount previously recognized in contributed surplus are recorded as share capital.

#### **Earnings (loss) per share**

Earnings (loss) per share are 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 income (loss) per share for the periods presented is the same as basic income per share.

#### **Related party transactions**

All transactions with related parties are in the normal course of business.

# NSGold Corporation

## Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013

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(expressed in Canadian dollars)

### 3 Significant accounting policies (continued)

#### Accounting Standards issued but not yet applied

The Company does not expect to early adopt the following revised standards and amendments. Accordingly, the Company expects to adopt these standards as set forth below.

i) IFRIC 21, *Levies*

In May 2013, the IASB issued IFRIC 21, "Levies", an interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37, "Provisions, contingent liabilities and contingent assets". IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of adopting IFRIC 21.

ii) IFRS 9, *Financial Instruments*

IFRS 9, "Financial instruments" introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 was amended in November 2013 to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive loss, without having to adopt the remainder of IFRS 9, and (iii) remove the previous mandatory effective date for adoption of January 1, 2015, although the standard is available for early adoption.

ii) IAS 32, *Offsetting Financial Assets and Financial Liabilities*

IAS 32, Offsetting Financial Assets and Financial Liabilities, was issued in December 2011 and amends the criterion for an entity being allowed to report financial assets and liabilities on a net basis. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2014, with early adoption permitted. The Company has not elected for early adoption of this standard and does not expect there to be any financial impact upon adoption.

# NSGold Corporation

## Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013

(expressed in Canadian dollars)

### 4 Deposits and prepaid expenses

	June 30, 2014	December 31, 2013
	\$	\$
Deposit on mineral claims	–	–
Prepaid insurance	–	13,515
Prepaid other	–	–
	<u>–</u>	<u>13,515</u>

### 5 Resource properties

	Mooseland \$	Silver Hill \$	Other \$	Total \$
<b>Year ended December 31, 2012</b>	3,494,411	–	145,928	3,640,339
Property acquisition costs	–	39,725	–	39,725
Exploration costs incurred	129,876	22,333	1,120	153,329
Write-downs	(1,500,000)	(62,058)	(1,993)	(1,564,051)
<b>Year ended December 31, 2013</b>	2,124,287	–	145,055	2,269,342
Exploration costs incurred	2,799	–	–	2,799
<b>Period ended June 30, 2014</b>	<u>2,127,086</u>	<u>–</u>	<u>145,055</u>	<u>2,272,141</u>

#### Mooseland and other Nova Scotia Properties

On April 14, 2010, the Company 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 the Company has paid a total of \$750,000 to Globex. There are no further payments due under the purchase agreement.

Globex also holds a gross metal royalty equal to 4% of all metals produced from the Mooseland Property and the Secondary Properties. In addition, Globex has the right to receive a 5% interest in the issued and outstanding share capital of the Company at the time of production in the event that any of the Mooseland Property or the Secondary Properties, as applicable, enters into production.

During the year ended December 31, 2013, the Company identified various indicators of impairment of the Mooseland resource property, including a decline in exploration activity and future planned exploration, which will be dependent on securing additional financing in an improved equity market. The Company also experienced a significant decline in market capitalization, with its share price decreasing from \$0.09 per share to \$0.02 per share during the year, before returning to a level of \$0.05 per share during April 2014.

# NSGold Corporation

## Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013

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(expressed in Canadian dollars)

### 5 Resource properties (continued)

#### Mooseland and other Nova Scotia Properties (continued)

Given the stage of exploration of the property, the estimated fair value of \$2.1 million was determined based on a review of comparable sales transactions for resource properties. The resulting impairment charge of \$1.5 million was charged to expenses. The write-down represents approximately 40% of the carrying value prior to the recorded impairment. As at December 31, 2013, if it were determined that the estimated fair value of the property should have been 20% higher or lower than the carrying value after the write-down, this would result in an increase or decrease of the impairment charge by approximately \$425,000.

The manner and amount of the ultimate realization of the Mooseland property remains subject to significant uncertainty.

### 6 Accounts payable and accrued liabilities

	June 30, 2014 \$	December 31, 2013 \$
Accounts payable	57,711	46,920
Accrued liabilities	21,500	15,000
Employee withholdings payable	145	314
	<hr/> 79,356	<hr/> 62,234

### 7 Compensation of key management

Key management includes NSGold's Directors, the President and Chief Executive Officer and the Chief Financial Officer. Compensation awarded to key management is summarized as follows:

	Quarter ended June 30, 2014 \$	Year ended December 31, 2013 \$
Cash compensation and other benefits	42,000	96,000
Stock-based compensation	-	53,874
	<hr/> 42,000	<hr/> 149,874

Cash compensation and other benefits are included in consulting fees in the consolidated statements of income (loss).

As of June 30, 2014, \$15,000 (December 31, 2013 - \$14,811) was due to these individuals.



# NSGold Corporation

## Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013

(expressed in Canadian dollars)

### 8 Income taxes

#### a) Reconciliation of total tax recovery (expense)

	December 31, 2013 \$	December 31, 2012 \$
Income (loss) before income taxes	(1,937,021)	915,243
Income tax rate	31%	31%
Expected income tax recovery (expense)	600,000	(284,000)
Non-deductible stock-based compensation	(17,000)	(21,000)
Unrealized loss on available-for-sale securities	(29,000)	—
Reorganization costs	—	43,000
Unutilized foreign losses	(20,000)	(9,000)
Non-taxable portion of gain	—	188,000
Unrealized deferred tax assets	(311,000)	—
Other	—	81,000
Income tax recovery (expense)	223,000	(2,000)

#### b) Deferred tax

Components of the net deferred income tax asset (liability) are as follows:

	December 31, 2013 \$	December 31, 2012 \$
Deferred income tax assets		
Non-capital losses carried forward	680,000	504,000
Deductible share issue costs	66,000	109,000
Deferred income tax liability		
Resource properties	(435,000)	(812,000)
Net deferred tax asset (liability)	311,000	(199,000)

The net deferred tax assets at December 31, 2013 has not been recognized as it is not probable that the net deferred tax asset will be realized.

#### c) Losses

The Company has Canadian non-capital tax losses of approximately \$2,199,000 available for carry-forward to reduce future years' taxable income. These non-capital tax losses expire as follows:

	\$
For the year ending December 31, 2027	76,000
2028	29,000
2029	259,000
2030	1,009,000
2031	272,000
2032	146,000
2033	408,000

# NSGold Corporation

## Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013

(expressed in Canadian dollars)

### 9 Share capital

#### a) 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

	Number of shares	Amount \$
<b>Common shares issued and fully paid</b>		
<b>Balance – December 31, 2013 and June 30, 2014</b>	43,553,767	4,515,281

#### b) Warrants and other

Warrant activity for the quarter ended June 30, 2014 and the year ended December 31, 2013 was as follows:

	June 30, 2014			Dec 31, 2013		
	Number	Weighted average exercise price \$	Amount \$	Number	Weighted average exercise price \$	Amount \$
<b>Opening balance</b>	–	–	–	690,196	0.39	160,000
Expired during the year	–	–	–	(690,196)	0.25	(160,000)
<b>Closing balance</b>	–	–	–	–	–	–

There are no warrants outstanding as of June 30, 2014.

# NSGold Corporation

## Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013

(expressed in Canadian dollars)

### 9 Share capital (continued)

#### d) 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 options to purchase up to 4,000,000 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
<b>Balance December 31, 2010</b>	0.25	280,000	2.25	August 17, 2015
Granted during the year	0.50	395,000	2.75	March 23, 2016
Granted during the year	0.60	50,000	3.0	May 9, 2016
Granted during the year	0.50	<u>85,000</u>	3.0	June 21, 2016
<b>Balance December 31, 2011</b>	0.42	810,000	2.8	
Granted during the year	0.14	895,000	2.75	April 17, 2017
Exercised during the year	0.25	<u>(140,000)</u>		
<b>Balance – December 31, 2012</b>	0.27	1,565,000	2.75	
Granted during the year	0.10	<u>1,280,000</u>	8.75	June 23, 2023
<b>Balance – December 31, 2013 and June 30, 2014</b>	0.20	<u>2,845,000</u>	5.5	

As at June 30, 2014, all options are vested and exercisable.

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 \$0.05 (2012 - \$0.08). The weighted average assumptions used in the pricing model for options issued are as follows:

	2013	2012
Risk-free interest rate	1.4%	2.1%
Expected volatility	160%	100%
Expected dividend yield	\$nil	\$nil
Expected life	5 years	2.5 years

# NSGold Corporation

## Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013

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(expressed in Canadian dollars)

### 9 Share capital (continued)

#### e) Contributed surplus

	Quarter ended June 30, 2014 \$	Year ended December 31, 2013 \$
<b>Balance – Beginning of period</b>	722,827	518,265
Stock-based compensation	–	68,562
Expiration of warrants, net of tax	–	136,000
<b>Balance – End of period</b>	<u>722,827</u>	<u>722,827</u>

The Company recorded total stock-based compensation during the year ended December 31, 2013, of \$68,562 of which \$13,688 was capitalized to resource properties.

### 10 Related party transactions

#### Loan facility

The Company obtained a loan facility of up to \$500,000 from Van Hoof Industrial Holdings Ltd. (“VHIH”), a company controlled by Mr. Hans Van Hoof, Chairman of the Company. The loan facility is being made available without any fees, options or warrants. As the loan is drawn upon, it will bear interest at the rate of 6% per annum and is repayable in full on January 5, 2015. As at June 30, 2014, VHIH had advanced \$254,540 of this loan facility. Interest in the amount of \$11,750 has been accrued. Subsequent to June 30, 2014, VHIH has advanced an additional \$40,000. As security for the repayment of the loan facility, the Company has granted a security interest over its 1,875,804 common shares of NSX Silver.

#### Other

During the period ended June 30, 2014, the Company incurred legal fees aggregating \$2,903 (year ended December 31, 2013 – \$7,308) from a law firm of which one of the officers is a partner.

### 11 Supplemental cash flow information

During the quarter ended June 30, 2013, the Company incurred expenditures on resource properties of \$8,000 which were recorded as accounts payable. These items are non-cash transactions and have been excluded from the statements of cash flows.

# **NSGold Corporation**

## **Unaudited Notes to Consolidated Financial Statements For the quarters ended June 30, 2014 and June 30, 2013**

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(expressed in Canadian dollars)

### **12 Financial instruments**

#### **Credit risk**

The Company manages credit risk by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low. At March 31, 2014, the Company held a cash balance of \$838 in Mexican bank.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Company does not have sufficient working capital to carry out all budgeted programs in 2014 and must raise finance during 2014 to avoid disruption in planned expenditures (see note 1).

#### **Market Risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity and equity prices.

a) **Interest rate risk**

The Company has no significant exposure to interest rate risk on its lending and borrowing activities. Outstanding debt as at June 30, 2014 has a fixed interest rate (see note 10).

b) **Price risk**

The Company is not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Company has no significant revenues.

