

# **NSGold Corporation**

(formerly Kermode Capital Ltd.)

(A Development Stage Enterprise)

Unaudited Financial Statements

**For the six months ended June 30, 2010**

(Note 2)

**IN ACCORDANCE WITH NATIONAL INSTRUMENT 51-102, RELEASED BY THE  
CANADIAN SECURITIES ADMINISTRATORS, THE COMPANY DISCLOSES THAT ITS  
AUDITORS HAVE NOT REVIEWED THE UNAUDITED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2010.**

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August 26, 2010

**Management's Responsibility for the Financial Reporting**

The accompanying unaudited interim financial statements of **NSGold Corporation** have been prepared by the Company's management. The unaudited interim 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.

(signed) "*Johannes H.C. Van Hoof*"  
President and Chief Executive Officer

(signed) "*Glenn A. Holmes*"  
Chief Financial Officer

# NSGold Corporation

(A Development Stage Enterprise)

Balance Sheet

As at June 30, 2010

Unaudited - Prepared by Management

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	June 30, 2010
(Note 1)	\$
<b>Assets</b>	
<b>Current assets</b>	
Cash	2,855,736
Deposits	600,000
	<hr/> 3,455,736
<b>Resource properties</b> (note 4)	1,168,000
	<hr/> 4,623,736
	<hr/>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	985,015
	<hr/> 985,015
	<hr/>
<b>Shareholders' Equity</b>	
<b>Share capital</b> (note 5)	3,180,513
<b>Warrants</b> (note 5)	432,000
<b>Units options</b> (note 5)	125,000
<b>Deficit</b>	(98,792)
	<hr/> 3,638,721
	<hr/> 4,623,736
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The accompanying notes form an integral part of these financial statements.

# NSGold Corporation

(A Development Stage Enterprise)

Statement of Operations, Comprehensive Loss and Deficit

**For the six months ended June 30**

**Unaudited - Prepared by Management**

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	2010 six months \$
<b>Expenses</b>	
General and administration	28,531
Professional fees	<u>60,366</u>
<b>Net Loss and Comprehensive Loss</b>	88,897
<b>Deficit, beginning of period</b>	<u>9,895</u>
<b>Deficit, end of period</b>	<u>98,792</u>
 <b>Loss per share</b>	
 <b>Loss – basic and fully diluted</b>	\$0.01
<b>Weighted average common shares</b>	11,8839,819

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

# NSGold Corporation

(A Development Stage Enterprise)

Statement of Cash Flows

For the six months ended June 30, 2010

Unaudited - Prepared by Management

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	2010 six months \$
<b>Cash provided by (used for) the following:</b>	
<b>Operating activities</b>	
Net loss for the period	(88,897)
Net change in working capital balances related to operations	
Increase in accounts payable	<u>985,015</u>
	<u>896,118</u>
<b>Investing activities</b>	
Purchase of and expenditures on resource properties	(1,168,000)
Drill deposits	<u>(600,000)</u>
	<u>(1,768,000)</u>
<b>Financing activities</b>	
Issuance of shares & warrants (net of costs)	<u>3,727,618</u>
<b>Net change in cash &amp; cash equivalents</b>	2,855,736
Cash and cash equivalents, beginning of period	<u>Nil</u>
Cash and cash equivalents, end of period	<u>2,855,736</u>

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

# NSGold Corporation

(A Development Stage Enterprise)

Notes to Financial Statements

For the six months ended June 30, 2010

Unaudited - Prepared by Management

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## 1. Going concern

These financial statements have been prepared using Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due. For the six months ended June 30, 2010, the Company incurred a loss of \$88,897 and as at June 30, 2010 had an accumulated deficit of approximately \$98,792. The Company has no income or cash flow from operations and at June 30, 2010 had working capital of \$2,470,721. 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.

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 *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. 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 23, 2011 into one common share of the Company at a price of \$0.50 per share.

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.

These financial statements are prepared in accordance with generally accepted accounting principles in Canada. As these financial statements present the initial period of operations following the reverse takeover transaction, there are no comparative financial figures presented. Annual financial statements of the Company for the period from the date of inception on September 25, 2009 to April 30, 2010 have been filed on SEDAR as part of the Filing Statement filed by the Company on SEDAR on June 4, 2010.

# **NSGold Corporation**

(A Development Stage Enterprise)

Notes to Financial Statements

**For the six months ended June 30, 2010**

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## **3. Significant accounting policies**

### **Changes in accounting policies new accounting pronouncements**

Effective January 1, 2010 the Company has adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

#### *Section 1400 – General Standards of Financial Statement Presentation*

This section provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern. The implementation of this Section has no effect on the financial results of the Company.

#### *Section 1535, Capital Disclosures*

This section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and had no effect on the financial results of the Company.

#### *Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation*

These sections replace existing Section 3861, Financial Instruments – Disclosure and Presentation.

The presentation standards are carried forward unchanged. The disclosure standards introduce new disclosures to improve the information about financial instruments. This standard requires the disclosure of qualitative and quantitative information about the exposure to risks arising from financial instruments. The new standards cover disclosure only and had no effect on the financial results of the Company.

### **Recent accounting pronouncements issued and not yet adopted**

#### *Business Combinations, Consolidated Financial Statements and Non-controlling Interests*

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests" which replace Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the entity's interim and annual consolidated

financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. If the entity chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time. The Company is currently assessing the impact on its financial statements.

# **NSGold Corporation**

(A Development Stage Enterprise)

Notes to Financial Statements

**For the six months ended June 30, 2010**

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## *International Financial Reporting Standards (IFRS)*

In February 2008, the Canadian AcSB announced that Canadian generally accepted accounting principles (“GAAP”) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. As such, the Company will be required to prepare its December 31, 2011 financial statements including comparative information in compliance with IFRS. The Company is monitoring and reviewing plans to make the transition to IFRS and has not yet determined the impact of the transition on its financial statements.

## **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.

## **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.



# NSGold Corporation

(A Development Stage Enterprise)

Notes to Financial Statements

For the six months ended June 30, 2010

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## 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 Emerging Issues Committee (“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.

## Financial instruments

The Corporation follows the recommendations of the CICA under CICA Handbook Section 1530 “Comprehensive Income” (“Section 1530”), Section 3855 “Financial Instruments – Recognition and Measurement” (“Section 3855”), Sections 3862 and 3863 “Financial Instruments – Disclosure and Presentation” and Section 3865 “Hedges”. These sections provide requirement for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with GAAP.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

The Corporation has classified its cash as held-for-trading. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

## 4. Resource properties

The schedule below details the resource property expenditures.

Mineral claims acquired	\$	750,000
Purchase of Net Smelter Royalty		415,000
Exploration costs incurred		3,000
<b>Balance as at June 30, 2010</b>		<b>\$ 1,168,000</b>

# **NSGold Corporation**

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Notes to Financial Statements

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

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

The initial payment of \$250,000 was paid on June 29, 2010 and as at June 30, 2010 the remaining payments aggregating \$500,000 were 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 net smelter return by paying a total of \$400,000 to the three numbered companies. Van Hoof Industrial Holdings Ltd. has 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.

On February 15, 2010, NSGold entered into an Assignment Agreement with Van Hoof Industrial Holdings Ltd. whereby Van Hoof Industrial Holdings Ltd. conditionally assigned to NSGold its right, title and interest in and to the Royalty Purchase Agreement such that NSGold has the right to acquire the 3% net smelter return upon payment by NSGold of \$300,000 to Van Hoof Industrial Holdings Ltd. and \$100,000 to the three numbered companies, all subject to NSGold obtaining equity financing of at least \$3,000,000 on or before 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 NSGold agreeing to pay the foregoing companies an additional amount of \$15,000.

As at June 30, 2010 an amount of \$415,000 being the aggregate royalty purchase payments was recorded as accounts payable. This amount was paid by the Company to the royalty vendors in July 2010.

# NSGold Corporation

(A Development Stage Enterprise)

Notes to Financial Statements

For the six months ended June 30, 2010

Unaudited - Prepared by Management

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## 5. Share capital

### Authorized

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

<b>Common shares issued and fully paid</b>	<b>Number of Shares</b>	<b>Amount \$</b>
<b>Balance - December 31, 2009 as restated (Note 2)</b>	11,000,000	10,000
Shares deemed to be issued with respect to reverse takeover of Kermode (Note 2)	4,000,000	2,395
Shares issued for cash, net of issue costs	15,105,871	3,168,118
<b>Balance - June 30, 2010</b>	<b>30,105,871</b>	<b>3,180,513</b>

### Warrants

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

	<b>Expiry date</b>	<b>Exercise price \$</b>	<b>Number of warrants</b>	<b>Ascribed value \$</b>
<b>Issuance of warrants</b>				
Balance – December 31, 2009 as restated	May 6, 2011	0.10	200,000	Nil
Issued pursuant to June 2010 private placement financing	June 23, 2011	0.50	7,552,936	352,000
Agent compensation warrants	June 23, 2012	0.25	600,00	80,000
<b>Balance – June 30, 2010</b>			<b>8,352,936</b>	<b>432,000</b>

The fair value of warrants 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 issued are as follows:

Risk-free interest rate	2%
Expected volatility	100%
Expected dividend yield	nil

# NSGold Corporation

(A Development Stage Enterprise)

Notes to Financial Statements

For the six months ended June 30, 2010

Unaudited - Prepared by Management

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## 5. Share capital (continued)

### Options

Pursuant to the reverse takeover transaction (note 2) NSGold 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.

As at June 30, 2010 the Company had not adopted a stock option plan.

The following table summarizes the changes in the Company's stock options during the period ended June 30, 2010:

	Weighted Average Exercise price \$	Number of Warrants	Ascribed value \$
Balance – December 31, 2009		Nil	Nil
Deemed to be granted with respect to the reverse takeover of Kermode	0.25	400,000	Nil
<b>Balance – June 30, 2010</b>		400,000	Nil

### Units Options

Pursuant to the June 2010 private placement financing 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 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 issued are as follows:

Risk-free interest rate	2%
Expected volatility	100%
Expected dividend yield	nil

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

# **NSGold Corporation**

(A Development Stage Enterprise)

Notes to Financial Statements

**For the six months ended June 30, 2010**

**Unaudited - Prepared by Management**

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## **6. Related party transactions**

During the period the Company incurred legal fees aggregating \$150,492 from a law firm of which one of the officers is a partner. The Company recorded \$40,000 to share issue costs, \$34,475 to professional fee expense and \$76,017 to opening share capital in conjunction with the accounting for the reverse takeover transaction. As at June 30, 2010 the amount payable totaled \$28,937.