

### NSGOLD CORPORATION

(TSX-V: NSX)

#### Recommendation

Speculative Buy

#### Risk

High

#### Price (June 20, 2012)

\$0.07

#### 52-Week Range

\$0.61 - \$0.065

#### Intrinsic Value

\$0.43

#### Shares O/S

43.55 million

#### Market Cap

\$3.05 million

#### Average Daily Volume

50-day: 30,300

200-day: 19,700

#### Year-End

December 31

#### Book Value Per Share

Mar. 2012: \$0.10

#### Resource Property Per Share

Mar. 2012: \$0.08

#### eResearch Analysts:

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Bob Weir, B.Sc., B.Comm., CFA



**NOTE:** On the chart above, the sharp downward move in mid-March in NSGold's shares reflects the spin-out of its silver assets to its own shareholders.

#### UPFRONT

By spinning out its silver assets into a separate company, NSGold Corporation ("NSGold" or "the Company") recently became a pure gold explorer, and is actively trying to capitalize on this momentum.

The Company has an aggressive plan to become a significant player in the Canadian gold exploration and development market. Its flagship Mooseland gold project already has more than 450,000 oz in a NI 43-101 - compliant resource estimate. NSGold intends to explore Mooseland further and, based on historical information, we believe that the property's resource could exceed 600,000 oz.

NSGold also intends to add to its gold assets through acquisition of gold companies and/or properties. This could lead to it becoming a more than 1Moz gold company, a significant milestone.

#### RECOMMENDATION

We recommend the shares of NSGold Corporation as a Speculative Buy for risk-tolerant investors. Our Intrinsic Value is \$0.43 per share. However, it will require an end to the prevailing difficult economic environment and accompanying stock market malaise, and a return of investor interest to the junior mining sector before the stock will reflect better its true worth. In the meantime, we firmly believe there is little downside risk from current levels for the shares of NSGold, particularly as they are now selling below their current book value of \$0.10 per share and property book value of \$0.08 per share.

## NSGOLD IS A PURE PLAY

In March 2012, NSGold completed the spin-out of its silver assets. The Company distributed 43 million shares of its wholly-owned subsidiary, NSX Silver Inc., to NSGold shareholders. Following the distribution, NSGold holds 1,875,804 NSX Silver shares.

**COMMENT:** NSGold becoming a “pure play” gold company is the main benefit of the spin-out for NSGold’s shareholders. One of management’s stated goals is to augment its gold assets through acquisition, which could involve gold companies and/or properties.

## NEIGHBOURING GOLD PROJECTS

**COMMENT:** Although Nova Scotia does not have a long tradition of gold mining, we expect that the recent decision by the province’s Department of Natural Resources to support the development of the Touquoy/Moose River Gold Project, owned by Atlantic Gold NL and located 12km from Mooseland, will encourage NSGold to further explore and develop Mooseland. The Touquoy project in 2010 obtained a DFS based on Proved and Probable Reserves of 454,000 oz Au. The other successful gold project in the vicinity is the Dufferin Mine owned by Ressources Appalaches and located 40km from Mooseland. The mine is past-producing and was closed in 2001. Since 2009, Ressources Appalaches extended the mineralized zone on the project along strike to 1,400m and at depth to 360m. The Company plans to dewater the mine and, in the future, produce up to 700,000 oz Au.

## NEW RESOURCE ESTIMATE FOR MOOSELAND

On June, 5, 2012, NSGold published highlights from its new NI 43-101 - compliant resource estimate for the Mooseland property. The resource estimate increased from 390,000 oz Au in Inferred resource (June 2011) to 422,000 oz Au at 3.0 g/t cut-off grade.

**COMMENT:** At a lower 2.6 g/t cut-off grade, which we consider reasonable, the property’s Inferred resource becomes 454,000 oz Au (see the table below). Thus, NSGold’s resource estimate, which we use for our valuation purposes, is now up 16%.

**Table 1: Summary of Non-Diluted Inferred Mineral Resources at Mooseland**

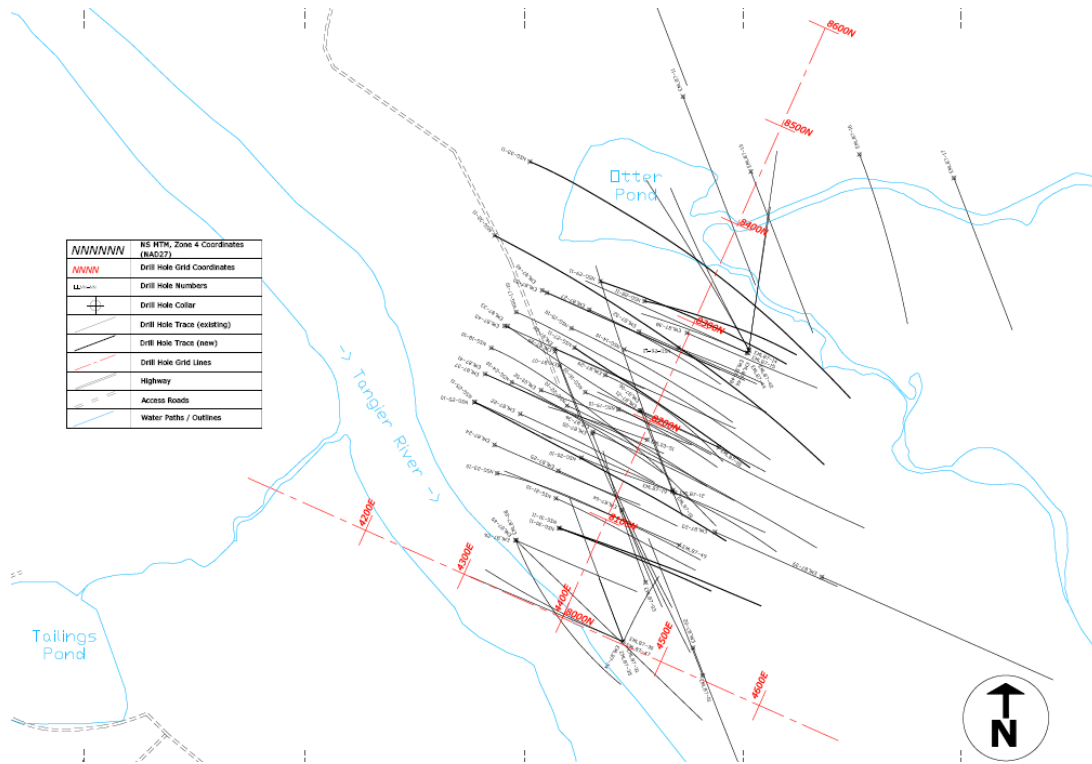
	Cut-Off Grade (g/tonne)	Tonnes Above Cut-Off	Average Diluted Grade (g/tonne)	Ounces
<b>West Zone</b>	2.6	1,460,000	5.52	259,000
<b>East Zone</b>	2.6	1,060,000	5.72	195,000
<b>TOTAL</b>	<b>2.6</b>	<b>2,520,000</b>	<b>5.6</b>	<b>454,000</b>

Source: Company

**COMMENT:** The Company intends to add to this resource through further exploration of Mooseland. We reiterate that, in our estimation, the property’s resource is potentially higher than 454,000 oz. On the East Zone, infill drilling could bring more ounces. This looks particularly true for the 200m area (the total strike length of the Zone is 300m) in the north-eastern part of the Zone where drill holes, which brought anomalous gold results, are spaced more widely (see Map 1 below). On the West Zone, there is a 750m underexplored area (see Map 2 below, between 1800E and 1400E section lines) where further drilling could also bring more ounces, while the Zone’s total strike length is 1,000m. Both East and West Zones are open at depth. Up to 90% of all holes were drilled down to 200m (East Zone) and 250m (West Zone) levels. There was no indication that the resource diminished with depth in deeper holes on either zone.

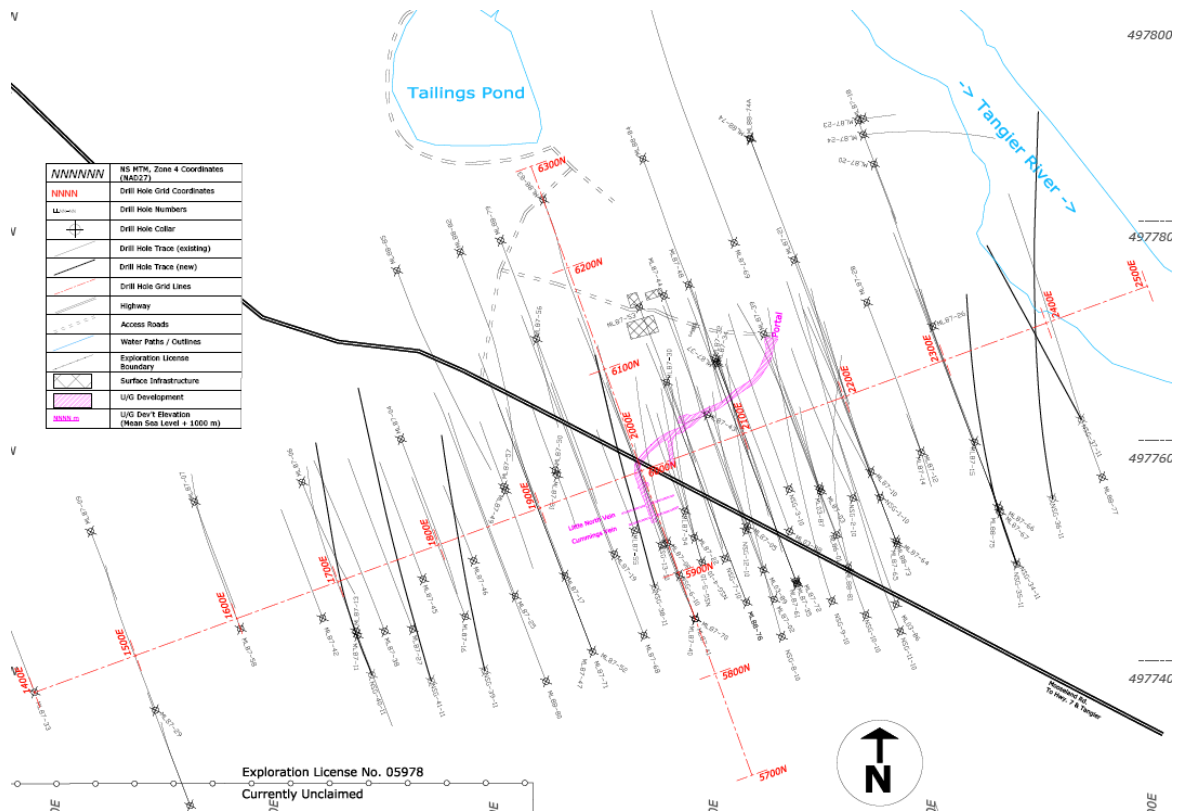
Based on this information, we estimate that the property’s resource is at least 30% bigger. This would mean a total resource of more than 600,000 oz. We thus expect that NSGold, through further Mooseland exploration as well as acquisition of gold assets, will soon have more than 1Moz in resources.

Map 1: Drill hole location map, Mooseland property, East Zone



Source: Company

Map 2: Drill hole location map, Mooseland property, West Zone



Source: Company

## VALUATION

### 1. MarketCap/Resource Method.

On a MC/Au oz multiple, NSGold currently trades in line with the lower-end peers, which are generally smaller (see the average size of resource in the table below) and some are at a less-advanced stage.

**COMMENT:** We believe that the stock should be valued on MC/Au oz based on current higher-end peers' average level of \$41/oz due to our expectations for growth of the Company's resources. At this level, the Company's Intrinsic Value is \$0.42 per share.

**Table 2: Market Capitalization to Resources Peer Comparison**

Company	Stock Price	Shares O/S (M)	Market Cap (M)	Au Equiv (M oz)	MC / Au Eq
NSGold Corporation	\$0.09	43.6	\$3.7	0.45	\$8
Kimber Resources	\$0.73	82.5	\$60.5	1.19	\$51
Lexam VG Gold	\$0.23	225.6	\$51.9	1.28	\$41
Orezone Gold Corporation	\$1.69	85.6	\$144.3	3.50	\$41
Klondex Mines Ltd.	\$1.82	46.8	\$85.4	2.11	\$40
Explor Resources	\$0.17	148.9	\$24.9	0.83	\$30
Moneta Porcupine Mines	\$0.18	167.8	\$30.5	3.14	\$10
Gowest Gold	\$0.08	123.6	\$10.3	1.19	\$9
Temex Resources	\$0.13	122.3	\$16.3	1.91	\$9
Laurion Mineral Exploration	\$0.03	100.5	\$2.5	0.31	\$8
Seafield Resources	\$0.13	169.2	\$22.3	3.08	\$7
Lincoln Mining	\$0.03	97.4	\$3.1	0.59	\$5
Vatic Ventures	\$0.10	16.0	\$1.6	0.49	\$3
Peer Average (high-end)				1.78	\$41
Peer Average (low-end)				1.53	\$7

Source: Company and eResearch

**Table 3: Scenarios for MC/R Ratio**

MC / Au Eq	Au Eq (Moz)	Potential MC (\$M)	Shares O/S (M)	Price/Share
\$8	0.45	\$3.7	43.6	\$0.09
\$41	0.45	\$18.5	43.6	\$0.42

Source: Company and eResearch

### 2. Per Attributable Au Oz Method.

For the in-situ valuation method, we used the same assumptions as in our previous NSGold valuation, namely: 4.5% of our forecast gold price of \$1,500/oz (\$67.50) and 60% of the resource ounces, which is now 272,400 Au oz.

**COMMENT:** Due to a higher resource estimate, NSGold's intrinsic value per share according to this valuation method rises from \$0.37 to \$0.42 (see the table below).

**Table 4: Matrix of Values Per Attributable Resource Ounce**

Per Attributable Gold						
Price (in-the-ground)	\$52.5	\$60.0	\$67.5	\$75.0	\$82.5	\$90.0
% of forecast gold price	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
Market Cap						
Using 90,800 Resource Ounces	\$4,767,000	\$5,448,000	\$6,129,000	\$6,810,000	\$7,491,000	\$8,172,000
Using 181,600 Resource Ounces	\$9,534,000	\$10,896,000	\$12,258,000	\$13,620,000	\$14,982,000	\$16,344,000
Using 272,400 Resource Ounces	\$14,301,000	\$16,344,000	\$18,387,000	\$20,430,000	\$22,473,000	\$24,516,000
Using 363,200 Resource Ounces	\$19,068,000	\$21,792,000	\$24,516,000	\$27,240,000	\$29,964,000	\$32,688,000
Using 454,000 Resource Ounces	\$23,835,000	\$27,240,000	\$30,645,000	\$34,050,000	\$37,455,000	\$40,860,000
Value Per Share (43.4M shares)						
Using 90,800 Resource Ounces	\$0.11	\$0.13	\$0.14	\$0.16	\$0.17	\$0.19
Using 181,600 Resource Ounces	\$0.22	\$0.25	\$0.28	\$0.31	\$0.34	\$0.38
Using 272,400 Resource Ounces	\$0.33	\$0.38	\$0.42	\$0.47	\$0.52	\$0.56
Using 363,200 Resource Ounces	\$0.44	\$0.50	\$0.56	\$0.63	\$0.69	\$0.75
Using 454,000 Resource Ounces	\$0.55	\$0.63	\$0.70	\$0.78	\$0.86	\$0.94

Source: eResearch

### 3. Target Price.

The average of the Intrinsic Values obtained from the two valuation methods is \$0.42 per share.

**COMMENT:** *To this value, we add the market value of NSGold's position in NSX Silver, which is 1,875,804 shares at \$0.20 per share, and discount it by 30% to reflect the investment nature of the holding. The sum of these two values is \$0.43 per share, which we use as our revised NSGold Intrinsic Value, up from \$0.40. We are not ascribing a time horizon to this Intrinsic Value since the Company's value will depend on an expansion of its assets. This is currently difficult to quantify and also set a time-frame for.*

### 4. Further Growth Potential

**COMMENT:** *In better times for junior gold explorers, \$41/oz would be considered to be a low multiple. Thus, if the market improves and, if by that time NSGold has a bigger NI 43-101 compliant gold resource, the stock price could exceed our Intrinsic Value.*

## RISKS AND RATING

We rate the stock as a Speculative Buy. The Company's risks stem from:

- **Junior Mining Exploration Companies:** There is inherent risk associated with early-stage mining exploration.
- **Stock Dilution:** NSGold in 2012 will have to raise capital, most likely equity, to finance its operating and expansion needs (see the Financial Review and Outlook on the next page). If the price of the financing is below NSGold's book value per share (\$0.10 as of March 31, 2012), this would lead to dilution of minority stakes.
- **Further Exploration of Mooseland:** Although we believe that NSGold will go ahead with further exploration and development of Mooseland, there is some risk that the Company will take a decision to put the project on hold, stemming from the fact that Nova Scotia is not a usual destination for gold projects in Canada. What mitigates this risk, at least partly, is that, in turn, this could accelerate any push by NSGold to seek acquisitions, located geographically elsewhere, of either gold properties or gold companies.
- **Gold Market:** NSGold's future cash flow depends on the level of gold prices. Currently, our long-term gold price forecast is \$1,500/oz. If the price is significantly lower than this level over a substantial period, this may affect the Company's plans to expand, explore, and develop its properties.

## FINANCIAL REVIEW AND OUTLOOK

**Financial Year End:** December 31.

**Spin-Out Effect:** NSGold spun out its silver assets in March 2012. As a result, the Company's assets were reduced from \$8.9 million as of December 31, 2011 to \$4.7 million as of March 31, 2012 (see Table 6 on the next page). The value of its resource properties declined from \$4.1 million to \$3.5 million. Together with the investment in NSX Silver, this value as of March 31, 2012 exceeded the value of the resource properties as of December 31, 2011 (\$4.2 million vs. \$4.1 million).

At the same time, the Company's cash position dropped from \$4.4 million to just over \$122,000. As of March 31, 2012, NSGold's working capital was around \$106,000.

**COMMENT:** *The Company's post-spin-out burn rate is yet to be identified. However, given the current working capital, we believe that NSGold will soon need to raise capital, both for operating/exploration needs and expected acquisitions. We expect that the Company will be able to raise funds even despite the adverse market conditions, since it has a credible strategic plan. In 2011, NSGold raised almost \$5.7 million from issuance of stock and the exercise of warrants/options, which testifies to the existence of strong backing from the Company's founders and key shareholders.*

**Options and Warrants:** As of March 31, 2012, NSGold had around 1 million warrants and options outstanding, all of them currently out-of-the-money (see Table 5 below). Given the expiration dates, which are mostly quite distant, and higher exercise prices, we do not expect that the Company will raise any funds this year from warrants/options exercise.

**Table 5: Warrants and Options as at March 31, 2012**

### Warrants

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Comment</u>	<u>Potential Equity</u>
600,000	\$0.25	18-Jun-12	Out-of-the-Money	\$150,000
690,196	\$0.51	15-Aug-13	Out-of-the-Money	\$352,000
<u>1,290,196</u>				<u>\$502,000</u>

### Options

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Comment</u>	<u>Potential Equity</u>
280,000	\$0.25	August 17, 2015	Out-of-the-Money	\$70,000
395,000	\$0.50	March 23, 2016	Out-of-the-Money	\$197,500
50,000	\$0.60	May 9, 2016	Out-of-the-Money	\$30,000
85,000	\$0.50	June 21, 2016	Out-of-the-Money	\$42,500
<u>810,000</u>				<u>\$340,000</u>

**Current Price:** \$0.080

Source: Company, eResearch estimates

Table 6: Selected Financial Information

	<u>2010</u>	<u>2011</u>	<u>12M Mar 2012</u>
<b>Statement of Income/(Loss):</b>			
Revenue	-	-	-
General administrative expense	(176,014)	(399,333)	(424,927)
Travel	(21,413)	(58,836)	(45,989)
Other	(1,085,316)	(303,764)	1,036,109
Interest income	3,504	7,208	6,906
Stock-based compensation	(22,360)	(140,982)	(142,441)
Income tax recovery (expense)	(41,206)	15,206	(143,297)
<b>Net income/(Loss)</b>	<b>(1,342,805)</b>	<b>(880,501)</b>	<b>286,361</b>
Total Shares Outstanding (SO)	30,543,983	43,413,767	43,553,767
Weighted Average SO	21,155,688	36,202,773	37,650,818
Earnings (Loss) Per Share	(\$0.01)	(\$0.02)	\$0.01
<b>Statement of Cash Flow:</b>			
Net income (Loss)	(1,342,805)	(880,501)	286,361
All non-cash Items	<u>1,053,171</u>	<u>153,121</u>	<u>(899,052)</u>
Cash flow from operations	(289,634)	(727,380)	(612,691)
Property capital expenditures	(1,767,764)	(2,082,997)	(2,130,431)
Other investing items	<u>(1,503,500)</u>	<u>1,500,000</u>	<u>(2,719,271)</u>
Free cash flow	(3,560,898)	(1,310,377)	(5,462,393)
Working capital changes	(95,342)	(85,786)	(255,517)
Cash flow before financing	(3,656,240)	(1,396,163)	(5,717,910)
Equity financing	3,783,842	5,677,438	5,690,474
<b>Change in cash</b>	<b>127,602</b>	<b>4,281,275</b>	<b>(27,436)</b>
Cash, Beginning of the Period	0	127,602	149,475
Cash, End of the Period	127,602	4,408,877	122,039
	Dec. 31	Dec. 31	Mar. 31
	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Balance Sheet:</b>			
Cash	127,602	4,408,877	122,039
Short term investments	1,200,000	-	-
Sales tax recoverable	159,223	390,065	397,409
Deposits	303,500	22,208	13,781
Amount due from NSX Silver Inc.	-	-	193,531
Investment in NSX Silver Inc.	-	-	543,859
Resource Properties	2,199,504	4,059,778	3,450,776
Total Assets	<u>3,989,829</u>	<u>8,880,928</u>	<u>4,721,395</u>
Current Liabilities	489,486	305,251	86,438
Total Liabilities	787,728	490,251	427,438
Shareholders' Equity	<u>3,202,101</u>	<u>8,390,677</u>	<u>4,293,957</u>
Total Liabilities & Equity	<u>3,989,829</u>	<u>8,880,928</u>	<u>4,721,395</u>
Book Value (S.E.) Per Share	\$0.10	\$0.19	\$0.10

Source: Company, eResearch estimates

## ANALYST CERTIFICATION

The Research Analysts who were involved in the preparation of this Research Report hereby certify that:

- (1) the views and opinions expressed herein accurately reflect the Research Analysts' personal views concerning any and all securities and issuers that are either discussed or are the subject matter of this Research Report; and
- (2) The compensation received for the preparation of this report was not related, in any way, to the Research Analysts' views and opinions expressed herein.

### eResearch Analysts on this Report:

**Yuri Belinsky, B.A., M.A.:** Yuri Belinsky has extensive experience in equity research, with emphasis on mining and oil & gas companies. He had a successful track record in the capital markets in Ukraine, progressing from an analyst to the head of research for a team of 12 analysts. He also has experience as a portfolio manager. Mr. Belinsky has a B.A. in Economics and two MA degrees, in Public Administration and in Social Research and Evaluation.

**Bob Weir, B.Sc., B. Comm., CFA:** Bob Weir has 45 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He joined eResearch in 2004 and has been its President, CEO, and Director of Research since May 2005. Prior to joining eResearch, Mr. Weir was at Dominion Bond Rating Service (DBRS), latterly as Executive Vice-President responsible for supervising the firm's 34 analysts and conducting the day-to-day management affairs of the company.

**Analyst Affirmation:** I, Yuri Belinsky, and I, Bob Weir, hereby state that, at the time of issuance of this research report, I do not own, directly or indirectly, any shares of NSGold Corporation.

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<b>Strong Buy:</b>	Expected total return within the next 12 months is at least 40%.
<b>Buy:</b>	Expected total return within the next 12 months is between 10% and 40%.
<b>Speculative Buy:</b>	Expected total return within the next 12 months is substantial, but Risk is High (see below).
<b>Hold:</b>	Expected total return within the next 12 months is between 0% and 10%.
<b>Sell:</b>	Expected total return within the next 12 months is negative.

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A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

<b>High Risk:</b>	<i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends. <i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
<b>Medium Risk:</b>	<i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend. <i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry.
<b>Low Risk:</b>	<i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock. <i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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