

**NASS VALLEY GATEWAY LTD.**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED**  
**JUNE 30, 2012 and 2011**  
(Expressed in Canadian Dollars)  
(Unaudited)

# NASS VALLEY GATEWAY LTD.

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**Nass Valley Gateway Ltd.**  
**Condensed interim consolidated statements of financial position**  
*(Expressed in Canadian Dollars)*

	June 30 2012 (Unaudited) \$	December 31 2011 (Audited) \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and equivalents	134,839	6,155
Amounts receivable	7,931	3,852
Prepaid expenses	9,690	4,940
	<b>152,460</b>	14,947
<b>Non current assets</b>		
Reclamation bond	3,000	3,000
Exploration and evaluation assets (Note 4)	209,387	198,887
<b>Total Assets</b>	<b>364,847</b>	216,834
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	18,480	24,937
Due to related parties (Note 7)	25,941	33,787
	<b>44,421</b>	58,724
<b>Noncurrent liabilities</b>		
Loans repayable to related party	-	299,087
	<b>44,421</b>	357,811
<b>Shareholders' equity</b>		
<b>Controlling interest</b>		
Share capital (Note 6)	2,757,188	2,162,665
Share subscriptions	-	15,000
Share based payment reserve	240,835	229,835
Deficit	(2,677,997)	(2,548,477)
	<b>320,026</b>	(140,977)
<b>Non-controlling interest (Note 1)</b>	<b>400</b>	-
	<b>320,426</b>	(140,977)
<b>Total Liabilities and Shareholders' Equity</b>	<b>364,847</b>	216,834
Commitment (Note 4)		
Subsequent Events (Note 11)		

These consolidated financial statements were approved and authorized for issue by the Board of Directors on August 22, 2012 and were signed on its behalf:

*"Dieter Peter"*  
Dieter Peter, Director

*"Andrew von Kursell"*  
Andrew von Kursell, Director

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**Nass Valley Gateway Ltd.**  
**Condensed interim consolidated statements of comprehensive loss**  
*(Expressed in Canadian Dollars)*  
*(Unaudited)*

	For the three months ended June 30		For the six months ended June 30	
	2012	2011	2012	2011
<b>Revenue</b>	\$ -	\$ -	\$ -	\$ -
<b>Expenses</b>				
Accounting and legal	31,022	7,354	31,022	20,354
Amortization	-	-	-	2,556
Administrative services	25,000	26,914	50,417	53,164
Insurance	2,143	2,728	4,941	5,711
Loan interest expenses and bank charges	1,755	4,208	7,286	26,333
Investor relations	4,251	671	7,719	1,119
Information technology services	732	3,905	1,093	4,176
Office expenses	291	425	945	1,869
Share based payments	205	8,223	9,724	10,587
Transfer agent and filing fees	6,287	3,099	16,078	8,661
Travel and promotion	295	2,045	295	6,180
<b>Loss before other expenses</b>	<b>(71,981)</b>	<b>(59,572)</b>	<b>(129,520)</b>	<b>(140,710)</b>
<b>Other expenses</b>				
Impairment of amount receivable	-	-	-	(14,007)
<b>Net loss and comprehensive loss</b>	<b>(71,981)</b>	<b>(59,572)</b>	<b>(129,520)</b>	<b>(154,717)</b>
<b>Net loss and comprehensive loss attributable to:</b>				
Controlling interest	(71,981)	(59,572)	(129,520)	(154,717)
Non-controlling interest (Note 1)	-	-	-	-
	<b>(71,981)</b>	<b>(59,572)</b>	<b>(129,520)</b>	<b>(154,717)</b>
Net loss per share, basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
<b>Weighted average number of shares outstanding</b>	<b>21,087,047</b>	<b>12,333,750</b>	<b>16,719,190</b>	<b>12,277,258</b>

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**Nass Valley Gateway Ltd.**  
**Condensed interim consolidated statements of cash flows**  
**For the six months ended June 30, 2012 and 2011**  
*(Expressed in Canadian Dollars)*  
*(Unaudited)*

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
<b>Cash flows from operating activities</b>				
Net loss for the period	\$ (71,981)	\$ (59,572)	\$ (129,520)	\$ (154,717)
<i>Items not affecting cash:</i>				
Amortization	-	-	-	2,556
Stock-based compensation	204	8,223	9,723	10,587
Bonus on loans	-	-	-	18,750
Write off of receivables from related parties	-	-	-	14,007
Accrued interest	-	4,193	5,439	-
<i>Changes in non-cash working capital items:</i>				
Decrease (increase) in amounts receivable	(4,193)	(1,514)	(3,679)	4,073
Decrease (increase) in prepaid expenses and deposit	(7,549)	(272)	(4,750)	2,711
Increase (decrease) in accounts payable and accrued liabilities	14,862	23,950	(6,457)	16,962
Increase in accounts payable to related parties	(37,650)	2,748	(7,846)	(2,409)
	(105,907)	(22,244)	(137,090)	(87,480)
<b>Cash flows from financing activities</b>				
Proceeds from issuance of share capital (Note 6(b))	232,800	-	577,800	-
Proceeds (repayments) of loan from related parties (Note 7)	(56,527)	65,000	(304,526)	185,000
	176,273	65,000	273,274	185,000
<b>Cash flows from investing activities</b>				
Acquisition of equipment	-	-	-	(485)
Mineral property payments	-	-	-	(40,000)
Deferred exploration costs (Note 3)	-	(12,092)	(7,500)	(25,137)
	-	(12,092)	(7,500)	(65,622)
<b>Increase/(decrease) in cash and equivalents</b>	70,366	30,664	128,684	31,898
<b>Cash and equivalents, beginning of the period</b>	64,473	10,382	6,155	9,148
<b>Cash and equivalents, end of the period</b>	\$ 134,839	\$ 41,046	\$ 134,839	\$ 41,046
<b>Supplemental cash flow disclosures: (Note 10)</b>				
Taxes paid	-	-	-	-
Interest paid	3,161	-	13,930	-

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**Nass Valley Gateway Ltd.**  
**Condensed interim consolidated statements of changes in equity**  
For the six months ended June 30, 2012 and 2011  
*(Expressed in Canadian Dollars)*  
*(Unaudited)*

	Share Capital		Share Subscription	Share based payment reserve	Deficit	Total	Non-controlling interest (Note 1)	Total shareholders' equity
	Number of shares	Amount						
		\$	\$	\$	\$	\$	\$	\$
<b>Balance, January 1, 2011 (audited)</b>	<b>12,175,417</b>	<b>2,137,415</b>	-	<b>208,984</b>	<b>(1,604,141)</b>	<b>742,258</b>	-	<b>742,258</b>
Property option	33,333	6,500	-	-	-	6,500	-	6,500
Bonus shares on loans	125,000	18,750	-	-	-	18,750	-	18,750
Comprehensive loss for the period	-	-	-	-	(154,717)	(154,717)	-	(154,717)
<b>Balance, June 30, 2011 (unaudited)</b>	<b>12,333,750</b>	<b>2,162,665</b>	-	<b>208,984</b>	<b>(1,758,858)</b>	<b>612,791</b>	-	<b>612,791</b>
<b>Balance, December 31, 2011 (audited)</b>	<b>12,333,750</b>	<b>2,162,665</b>	<b>15,000</b>	<b>229,835</b>	<b>(2,548,477)</b>	<b>(140,977)</b>	-	<b>(140,977)</b>
Property option	50,000	3,000	-	-	-	3,000	-	3,000
Private placement, net	12,000,000	591,523	(15,000)	-	-	576,523	-	576,523
Share based payment	-	-	-	11,000	-	11,000	-	11,000
Non-controlling interest in subsidiary	-	-	-	-	-	-	400	400
Comprehensive loss for the period	-	-	-	-	(129,520)	(129,520)	-	(129,520)
<b>Balance, June 30, 2012 (unaudited)</b>	<b>24,383,750</b>	<b>2,757,188</b>	-	<b>240,835</b>	<b>(2,677,997)</b>	<b>320,026</b>	<b>400</b>	<b>320,426</b>

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

**Nass Valley Gateway Ltd.**  
**Notes to the condensed interim consolidated financial statements**  
**For the six months ended June 30, 2012 and 2011**  
(Unaudited)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is incorporated under the laws of British Columbia, Canada and its principal business activities include the acquisition and exploration of mineral properties in Ontario and British Columbia, Canada. The Company's shares are listed on the Canadian Stock Exchange ("CNSX") trading under the symbol "NVG". The registered office and principal business address of the Company is 10<sup>th</sup> Floor, 595 Howe Street, Vancouver, V6C 2T5, British Columbia.

The Company is in the process of exploring and evaluation its exploration assets and has not yet determined whether these assets contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets and related deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure the continuation of the Company's operations and exploration programs. To the extent financing is not available, lease payments, rental payments, and other payments may not be satisfied and could result in a loss of property ownership or earning opportunities for the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

On April 27, 2012, the Company entered into a joint venture agreement with Vixon Technology Ltd. ("Vixon") for the commercialization and future assembly of industrial drying systems based on the applications of multi-wave technology (the "M-Wave System"). This joint venture will be carried out through the Company's subsidiary, M-Wave EnviroTech Inc. ("MWE") in which the Company and Vixon each holds 60% and 40% ownership interest respectively. The Company will be the operator in this project. With respect to MWE, there were no material changes since incorporation on July 15, 2010, except for common shares issuance to the Company and Vixon according to interest holding stated in the joint venture agreement during the six months ended June 30, 2012.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, and accordingly, do not purport to give effect to adjustments which may be required should the Company be unable to achieve the objectives above as a going concern. The net realizable value of the Company's assets may be materially less than the amounts recorded in these consolidated financial statements should the Company be unable to realize its assets and discharge its liabilities in the normal course of business. At June 30, 2012, the Company had an accumulated deficit of \$2,677,997 which has been funded primarily by the issuance of equity and loans from related parties. Ongoing operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future.

**Basis of measurement and preparation**

These interim consolidated financial statements have been prepared under IFRS in accordance with IAS 34 – *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the consolidated annual financial statements prepared in accordance with IFRS have been omitted or condensed. Accordingly, these condensed financial statements do not include all the information required for full annual statements.

The interim consolidated financial statements are prepared on a historical cost basis, except for certain financial instruments classified as fair value through profit or loss which have been measured at fair value.

The policies set out in the ensuing paragraphs have been consistently applied to all periods presented unless otherwise noted.

The interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

**Nass Valley Gateway Ltd.**  
**Notes to the condensed interim consolidated financial statements**  
**For the six months ended June 30, 2012 and 2011**  
(Unaudited)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

These condensed interim financial statements follow the same accounting policies and methods of application as the Company's most recent annual financial statements for the year ended December 31, 2011 except for those described below.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and further periods if the review affects both current and future periods.

There are no judgements made by management in the application of IFRS that have a significant effect on the financial statements and no estimates were made by management with a significant risk of material adjustment in the next year.

**a) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Global Environomic Systems Corp., Kirkland Precious Metals Corp. and Nass Energy Inc., and 60% owned joint venture MWE. All significant inter-company balances and transactions have been eliminated upon consolidation.

**b) Significant accounting judgements and estimates**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from those reported.

Significant assumptions about the future and other sources of judgements and estimates that management has made at the statement of financial position date, that could result in material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, related to, but not limited to, the following:

- Share based payments is based upon expected volatility and option life estimates;
- The provision of income taxes is based on judgements in applying income tax law and estimates about timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities;
- The estimated value of exploration and evaluation costs which is included in the consolidated statement of financial position;
- The assessment of indications of impairment of each of the exploration and evaluation assets and related determination of the net realizable value and write-down of those assets where applicable.



**Nass Valley Gateway Ltd.**  
**Notes to the condensed interim consolidated financial statements**  
**For the six months ended June 30, 2012 and 2011**  
(Unaudited)

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**3. ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

**Amendments to IAS 1 Presentation of Financial Statements**

The IASB has amended IAS 1 to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be reclassified into profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company does not expect a material impact as a result of the amendment.

New accounting standards effective January 1, 2013, unless otherwise noted. Company has not yet assessed the impact, if any, that the new amended standards will have on its financial statements or whether to early adopt any of the new requirements.

**IFRS 9 "Financial Instruments"**

The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In December 2011, the IASB extended the mandatory effective date to on or after January 1, 2015 with early adoption permitted. As a result, there were amendments to IAS 32 Financial Instruments – Presentation to clarify the offsetting between financial assets and liabilities, which are mandatory effective on or after January 1, 2014.

**IFRS 10 "Consolidated Financial Statements"**

Replaces Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and a reward based approaches and establishes control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

**IFRS 11 "Joint Arrangements"**

Replaces IAS 31 "Interests in Joint Ventures". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

**IFRS 12 "Disclosure of Interests in Other Entities"**

Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosures require information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements.

**IFRS 13 "Fair Value Measurement"**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

**Amendments to other standards**

In addition, there have been other amendments to existing standards, including IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

**Nass Valley Gateway Ltd.**  
**Notes to the condensed interim consolidated financial statements**  
**For the six months ended June 30, 2012 and 2011**  
(Unaudited)

**4. EXPLORATION AND EVALUATION ASSETS**

	Nass Bay Project \$	Kirkland Lake \$	Total \$
<b>Balance, 1 January 2011 (audited)</b>			
Acquisition costs	-	95,500	95,500
Deferred exploration costs	690,086	31,750	721,836
	<b>690,086</b>	<b>127,250</b>	<b>817,336</b>
<i>Changes during 2011</i>			
<i>Acquisition costs</i>	-	46,500	46,500
<i>Deferred exploration costs</i>	-	25,137	25,137
<i>Impairment of deferred Exploration costs</i>	(690,086)	-	(690,086)
	-	71,637	(617,449)
<b>Balance, December 31, 2011 (audited)</b>			
Acquisition costs	-	142,000	142,000
Deferred Exploration costs	-	56,887	56,887
	-	<b>198,887</b>	<b>198,887</b>
<i>Changes during 2012</i>			
<i>Acquisition costs</i>	-	3,000	3,000
<i>Deferred Exploration costs</i>	-	7,500	7,500
	-	10,500	10,500
<b>Balance, June 30, 2012 (unaudited)</b>			
Acquisition costs	-	145,000	145,000
Deferred Exploration costs	-	64,387	64,387
	-	<b>209,387</b>	<b>209,387</b>

**(i) Nass Bay Project, British Columbia**

The Nass Bay project is a construction aggregate project and comprised of staked Crown owned mineral claims initially staked for export possibilities of construction aggregates. These staked claims are on crown lands and adjoin the boundary of the Nisga'a Lands. Because of the economic situation and declining demand for construction aggregates for export purposes. The Company let the Claims expire, and may restake them. The claims are conventional mineral tenures which are 100% owned by the Company.

During the year ended December 31, 2011, the Company determined that the deferred exploration costs of \$690,086, capitalized under the project, should be impaired and charged the amount to operations.

**(ii) Kirkland Lake Project, Ontario**

Effective on February 1, 2010, the Company entered into an acquisition agreement (the "Agreement") with Golden Dawn Minerals Inc. which gives the Company an option to acquire 80% Joint Venture interest in the three gold prospects within the Larder Lake Mining Division of the Province of Ontario, namely the Central Catharine, 80 Ft Fall and the Terry Link properties.

Under the Agreement, the Company is required to make the following payments in addition to a work commitment of \$1,000,000 to be expended on or before the fourth anniversary of the effective date (February 1, 2010):

**Nass Valley Gateway Ltd.**  
**Notes to the condensed interim consolidated financial statements**  
**For the six months ended June 30, 2012 and 2011**  
(Unaudited)

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**4. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS (Continued)**

**(ii) Kirkland Lake Project, Ontario (continued)**

- (i) To the original Optionors, \$120,000 in cash and the issuance of 50,000 (150,000 pre-consolidation) common shares.

	<b>Cash payments</b>	<b>Common shares</b>
On or before February 4, 2010 (paid in 2010)	\$ 60,000	-
On or before December 18, 2010 (paid and issued in 2010)	20,000	16,667
On or before January 18, 2011 (paid and issued in 2011)	40,000	33,333
	<u>\$ 120,000</u>	<u>50,000</u>
Discount granted in 2010 for early payments	(2,000)	-
	<u>118,000</u>	<u>50,000</u>

(ii) To Golden Dawn Minerals Inc.

	<b>Common shares</b>
Within 10 days subject to required approval (effective date) (issued in 2010)	66,667
On or before the second anniversary of the effective date	50,000
On or before the third anniversary of the effective date	33,333
	<u>150,000</u>

At the year ended December 31, 2011, the Company completed the total cash payments to the Optionors of \$118,000 and issued 50,000 shares to the Optionor and 66,667 shares to Golden Dawn Minerals Inc. (see Note 7) pursuant to the Agreement.

During the six months ended June 30, 2012, the Company

- (i) issued 50,000 shares to Golden Dawn Minerals Inc., valued at \$3,000 pursuant to the Agreement (Note 7); and
- (ii) incurred \$7,500 (year ended December 31, 2011: \$25,138) in exploration expenditures, bringing the total amount of capitalized exploration expenditures to \$64,387 at June 30, 2012 (December 31, 2011: \$56,887).

Cumulative exploration costs on the Kirkland Lake Project are as follows:

	<b>June 30 2012 (unaudited)</b>	<b>December 31 2011 (audited)</b>
	<b>\$</b>	<b>\$</b>
Consulting	1,500	1,500
Contracted services	21,000	13,500
Fieldwork	25,750	25,750
Reports, drafting and maps	16,137	16,137
	<u>64,387</u>	<u>56,887</u>
Capitalized deferred exploration costs	<u>64,387</u>	<u>56,887</u>

**Nass Valley Gateway Ltd.**  
**Notes to the condensed interim consolidated financial statements**  
**For the six months ended June 30, 2012 and 2011**  
(Unaudited)

**5. EQUIPMENT**

	Furniture & Equipment	Leasehold Improvements	TOTAL
	\$	\$	\$
<b>Balance - January 1, 2011 (audited)</b>			
Cost	3,830	2,260	6,090
Accumulated amortization	(2,457)	(1,562)	(4,019)
	<b>1,373</b>	<b>698</b>	<b>2,071</b>
<b>Movements- year ended December 31, 2011</b>			
Additions	485	-	485
Amortization	(1,858)	(698)	(2,556)
	(1,373)	(698)	(2,071)
<b>Balance - December 31, 2011 (audited) and June 30, 2012 (unaudited)</b>			
Cost	4,315	2,260	6,575
Accumulated amortization	(4,315)	(2,260)	(6,575)
	-	-	-

**6. SHARE CAPITAL**

**a) Authorized share capital**

At June 30, 2012, the authorized share capital of the Company comprised of an unlimited number of common shares at no par value. All issued and outstanding shares are fully paid.

**b) Issue of common shares**

On April 23, 2012, the Company received subscription of 12,000,000 million units for total proceeds amounting to \$600,000. Each unit consists one common share and one warrant, exercisable at a price of \$0.10 within two years of issue. Finders' fees amounting to \$7,200 cash and 32,000 broker warrants were paid with respect to the private placement. All securities issued pursuant to this private placement are subject to a four-month hold period following the closing date.

On March 13, 2012, the Company consolidated its outstanding common shares on the basis of one post consolidated share for three pre-consolidated shares held, rounded to the nearest share. The total outstanding common shares of 37,151,303 were consolidated to 12,383,750. The outstanding shares, weighted average outstanding shares and loss per share information have been retrospectively adjusted to reflect this change. In addition, all share issuances, options and warrant transactions have been retrospectively adjusted to reflect the changes.

On February 28, 2012, the Company issued 50,000 (post-consolidated units) common shares, valued at \$3,000 to Golden Dawn Minerals Inc. pursuant to the acquisition agreement in Note 4(ii) and Note 7.

*During the year ended December 31, 2011*

During the year ended December 31, 2011, the Company issued common shares with respect to the Kirkland Lake properties.

The Company also issued 125,000 common shares (375,000 pre-consolidation), valued at \$18,750 to Merfin Management as interest, pursuant to the loan agreements between Merfin Management and the Company as described in Note 7.

**Nass Valley Gateway Ltd.**  
**Notes to the condensed interim consolidated financial statements**  
**For the six months ended June 30, 2012 and 2011**  
(Unaudited)

**6. SHARE CAPITAL** (continued)

**c) Stock options**

The Company grants stock options to employees, directors, officers, and consultants as compensation for services pursuant to its Stock Option Plan (the "Plan"). Options issued pursuant to the Plan must have an exercise price greater than or equal to the "Market Price" of the Company's stock on the grant date less applicable discounts. Options have a maximum expiry period of up to five years from the grant date and are subject to the minimum vesting requirements, as determined by the Board of Directors.

The number of options that may be issued under the Plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date. Stock options granted to directors vest at a rate of 50% on the grant date and the balance on the first anniversary of the grant date. Stock options granted to employees vest at a rate of 50% on the first anniversary of the grant date and the balance on the second anniversary of the grant date.

The following tables summarize the continuity of the Company's stock options:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>December 31 2011</b>	<b>Issued</b>	<b>Expired/ Forfeited</b>	<b>June 30 2012</b>
	<b>\$</b>	<b>(audited)</b>			<b>(unaudited)</b>
January 31, 2012	0.45	215,328	-	(215,328)	-
June 25, 2012	0.15	70,327	-	(70,327)	-
June 15, 2013	0.15	451,990	-	(36,999)	414,991
March 29, 2014	0.21	11,666	-	-	11,666
March 1, 2012*	0.30	16,666	-	(16,666)	-
January 4, 2015	0.15		428,324	(8,332)	419,992
		765,977	428,324	(347,652)	846,649
<b>Weighted average exercise price(\$)</b>		<b>0.24</b>	<b>0.15</b>	<b>0.34</b>	<b>0.15</b>

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>December 31 2010</b>	<b>Issued</b>	<b>Expired/ Forfeited</b>	<b>December 31 2011</b>
	<b>\$</b>	<b>(audited)</b>			<b>(audited)</b>
January 31, 2012	0.45	215,328	-	-	215,328
May 4, 2012	0.93	10,000	-	(10,000)	-
June 25, 2011	0.54	56,867	-	(56,867)	-
June 25, 2012	0.15	75,994	-	(5,667)	70,327
June 15, 2013	0.15	475,323	-	(23,333)	451,990
March 29, 2014	0.21	-	11,666	-	11,666
March 1, 2012*	0.30	-	16,666	-	16,666
		833,512	28,332	(95,867)	765,977
<b>Weighted average exercise price(\$)</b>		<b>0.27</b>	<b>0.27</b>	<b>0.45</b>	<b>0.24</b>

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**6. SHARE CAPITAL** (continued)

**c) Stock options** (continued)

Details regarding the options outstanding as at June 30, 2012 (unaudited) are as follows:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Number of Options Exercisable
\$ 0.15	414,991	0.96	414,991
\$ 0.21	11,666	1.75	11,666
\$ 0.15	419,992	2.52	122,497
	846,649	1.74	549,154

Details regarding the options outstanding as at December 31, 2011 (audited) are as follows:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Number of Options Exercisable
\$ 0.45	215,328	0.08	215,328
\$ 0.15	70,327	0.48	70,327
\$ 0.15	451,990	1.46	366,000
\$ 0.21	11,666	2.24	5,833
\$ 0.30	16,666	0.19	8,333
	765,977	0.97	665,821

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. The fair value of stock options granted is recognized in income on a graded vesting basis. Option pricing models require the input of highly subjective input assumptions, which can materially affect the fair value estimate and therefore the existing models do not necessarily provide reliable a single measure of the fair value of the Company's stock options.

The weighted average grant fair value of 428,324 options granted on January 4, 2012 was \$0.04. The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 1.00%; the expected life of 3 years; expected volatility of 176%; and expected dividends of \$Nil.

The weighted average grant fair value of 11,667 (35,000 pre-consolidation) options granted on March 29, 2011 was \$0.15 (\$0.05 pre-consolidation). The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 2.62%; the expected life of 3 years; expected volatility of 134%; and expected dividends of \$Nil.

The weighted average grant fair value of 16,667 (50,000 pre-consolidation) options granted on March 1, 2011 was \$0.06 (\$0.02 pre-consolidation). The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 2.62%; the expected life of 1 year; expected volatility of 90%; and expected dividends of \$Nil.

**d) Share purchase warrants**

The weighted average fair value of 32,000 broker warrants granted on May 1, 2012 was \$0.04. The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 1.30%; the expected life of 1 year; expected volatility of 223%; and expected dividends of \$Nil.

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**6. SHARE CAPITAL** (continued)

**d) Share purchase warrants** (continued)

The continuity of share purchase warrants on a post-consolidation basis is as follows:

	Number of Warrants	Weighted Average Exercise Price	Expiry date	Remaining life (years)at June 30, 2012
Private placement	2,300,000	\$0.150	December 23, 2012	0.48
Private placement	1,133,333	\$0.225	June 7, 2013	0.94
<b>Balance, December 31, 2011 (audited)</b>	<b>3,433,333</b>	<b>\$0.174</b>		
Private placement	12,000,000	\$0.10	May 1, 2014	1.84
Broker warrants	32,000	\$0.10	May 1, 2013	0.84
<b>Balance, June 30, 2012 (unaudited)</b>	<b>15,465,333</b>	<b>\$0.118</b>	-	<b>1.56</b>

**7. RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2012, the Company entered into the following transactions with related parties.

**Key Management personnel compensation**

No remuneration was paid during the six months ended June 30, 2012 and 2011 to any key management personnel. Instead, the Company pays a management fee and administrative charges, including the services of its key management personnel, to Mineral Hill Industries Ltd, a company listed on the TSX Venture, which has common directors and officers.

During the six months ended June 30, 2012, the Company incurred \$50,417 (2011: \$53,164) with respect to the foregoing.

**Other related party transactions**

An advance in 2007 amounting to \$10,000 provided to Gixtat'in Mhind World Link Ltd. (GMWL) and an amount of \$5,000 due from GMM Admin Corp. both private companies with common directors and officers, were impaired during the six months ended June 30, 2011 as uncollectible. An amount of \$994 due to GMWL by the Company was off-set against this impairment.

During the six months ended June 30, 2012, the Company issued 50,000 shares (2011: Nil) valued at \$3,000 (2011:\$Nil) to Golden Dawn Minerals Inc., a company having a common director during that period, with regards to the option agreement on the Kirkland Lake Project. The Company also accrued \$nil (2011: \$12,163) payable to the Chief Executive Officer with respect to expenses incurred on behalf of the Company.

The amounts outstanding to related parties with respect to the above were as follows;

	June 30, 2012 (unaudited)	December 31 2011 (audited)
Krypt-Logx Network Corp.	\$ 6,804	6,804
Mineral Hill Industries Ltd.	18,220	3,943
GMM Admin Corp.	786	-
Dieter Peter (Chief Executive Officer)	-	22,096
Golden Dawn Minerals Inc.	131	944
	<b>\$ 25,941</b>	<b>33,787</b>

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**7. RELATED PARTY TRANSACTIONS** (continued)

These transactions are in the normal course of operations and, in management's opinion, are undertaken with the same terms and conditions as transactions with unrelated parties. Accordingly, these transactions are measured at exchange amounts, which are the amounts of consideration negotiated, established and agreed to by the related parties.

**Advances from related party**

During the six months ended June 30, 2012, the Company entered into loan agreements with Merfin Management Limited ("Merfin"), a private company with a common director for loan totalling \$20,000. Under the terms of agreements, the amount is unsecured and bears interest at 8% per annum.

During the six months ended June 30, 2012, the Company

- (i) accrued a further \$5,439 (2011: \$7,326) in interest on the outstanding loans
- (ii) repaid a total of \$300,000 in outstanding loans and interest \$24,526.

At June 30, 2012, the outstanding loan and accrued interest balance is \$nil (December 31, 2011:\$ 299,087).

During the six months ended June 30, 2012, the Company issued Nil (2011:125,000) common shares, valued at \$Nil (2011: \$18,750), as a bonus interest pursuant to the terms of the loan agreements signed in 2009.

**8. FINANCIAL INSTRUMENTS AND RISKS**

The Company's financial instruments consist of cash, accounts payable and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

*Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, marketable securities, receivables and due from related parties. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash and equivalents and marketable securities with high-credit quality financial institutions. Amounts due to and from related parties are discussed in Note 7.

*Currency risk*

The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options, warrants and/or the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the sale of equity securities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets in Canada have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.



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**8. FINANCIAL INSTRUMENTS AND RISKS** (continued)

*Interest rate risk*

The Company normally invests in short-term interest bearing financial instruments. There is a minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificate included in cash and equivalents as they are currently held in large financial institutions.

**Fair value measurements of financial assets and liabilities**

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 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 for the asset or liability that are not based on observable market data.

The fair values of cash and cash equivalents are determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of due to related parties and accounts payable, approximate their current fair values because of their nature and relatively short maturity dates or durations.

Assets measured at fair value on a recurring basis were presented on the Company's balance sheet as of June 30, 2012 as follows:

	Fair Value Measurements Using			June 30 2012
	Level 1	Level 2	Level 3	
Assets:				
Cash and equivalents	\$ 134,839	–	–	\$ 134,839
	\$ 134,839	–	–	\$ 134,839

**9. CAPITAL MANAGEMENT**

The Company's capital structure consists of cash and shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses 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 period ended June 30, 2012. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its exploration plan and ultimately the development of its business, and will need to raise adequate capital by obtaining equity financing through private placement or debt financing. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

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**10. SUPPLEMENTAL CASH FLOW DISCLOSURE**

During the period ended June 30, 2012, the Company issued:

- a) 50,000 common shares (2011: 100,000), valued at \$3,000 (2011: \$6,500) with respect to obligations under property option agreements;
- b) Nil common shares (2011: 375,000) valued at nil (2011: \$18,750) pursuant to loan agreements (Note 7); and
- c) 32,000 broker warrants (2011: nil), valued at \$1,277 (2011: \$Nil).

**11. SUBSEQUENT EVENT**

The Company's Board of Directors ("Board") has approved a resolution to enter into an Arrangement Agreement to undertake a Plan of Arrangement ("POA"), which will involve the divestiture of its rights to certain mineral claims (the "Kirkland Property") into its wholly owned subsidiary Kirkland Precious Metals Corp ("KPM") which the effect of a spin-off of KPM. The Board has decided to act upon this POA in an effort to differentiate the assets of its subsidiaries. By undertaking this POA, Nass Valley Gateway Ltd., the parent company, will focus on its technology ventures in the multi-wave drying technology and energy-to-waste technology. This strategy will enable the Company to spin off and divest its rights to the interest in the Kirkland Property to KPM, which will be primarily focusing on mining and exploration. The Company's shareholders will receive common shares of KPM in an amount equal to the common shares of the Company they currently hold. Option and warrant holders will have the ability to exercise their options and warrants prior to the completion of the POA in order to participate in the POA. The POA is subject to:

- a. The approval by the shareholders of the Company of a special resolution approving the POA;
- b. The approval by the Court; and
- c. The approval by the CNSX.