

Management Discussion and Analysis ("MD&A") is intended to help the reader understand the financial statements of Nass Valley Gateway Ltd. ("NVG" or the "Company"). The information herein should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2012 and 2011. The consolidated financial statements for the years ended December 31, 2012 and 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The following discussion may contain management estimates of anticipated future trends, activities or results. These are not a guarantee of future performance, since actual results could change based on factors and variables beyond management control. All monetary amounts are in Canadian dollars unless otherwise stated.

This MD&A is the responsibility of management. The Board of Directors carries out its responsibility for the review of this disclosure directly and through its audit committee comprised exclusively of independent directors. The audit committee reviews and approves this disclosure prior to its publication, pursuant to the authority delegated to it by the Board of Directors.

The reader is encouraged to review the Company's statutory filings on [www.sedar.com](http://www.sedar.com) ("Sedar") and to review general information.

### **Current market conditions**

The recent and current global financial conditions are having a negative impact on the economic environment in which the Company operates. Access to public financing has significantly diminished for companies as a direct result. If the current conditions continue, the Company's ability to operate will be adversely impacted and the trading price of the Company's shares could continue to be under a downward pressure.

### **Highlights and Subsequent Events**

The following are highlights of events occurring during the year ended December 31, 2012 and subsequent thereto:

#### **Financing**

The Company closed a private placement of 12,000,000 shares at a price of \$0.05 per unit for total proceeds of \$600,000. Each unit consists of one common share and one share purchase warrant, exercisable at a price of \$0.10 within two years of the issue. Finders' fees amounting to \$7,200 in cash and 32,000 broker warrants were paid with respect to this private placement.

The Company repaid outstanding loan \$300,000 with Merfin Management Limited. After the repayment of the previous loan, the Company borrowed \$20,000 from Merfin Management Limited. Subsequent to December 31, 2012, the Company borrowed additional \$51,000 from Merfin Management Limited.

#### **Spinoff**

On October 15, 2012, the Company and Kirkland Precious Metals Corp. ("KPM") completed the Plan of Arrangement (the "Arrangement"). KPM acquired all of the Company's rights, 80% joint venture interest in the Central Catherine Claims, the Link Catherine Claims and the 80 Foot Fall Claims located within the Larder Lake Mining Division of the Province of Ontario, Canada (the "Kirkland Lake Properties") in exchange for 24,383,650 of KPM's shares in addition to the 100 shares already owned by the Company. KPM will carry out the recommended work program on its Kirkland Lake Properties, as set out in the National Instrument 43-101-Compliant technical report on the Link-Catherine Property. KPM has the work commitment of \$1,000,000 to be expended on the Kirkland Lake Properties on or before February 1, 2014. As a result of its obligations to Golden Dawn Minerals Inc. ("GDM"), the Company issued 33,333 common shares to GDM scheduled on February 19, 2013.

The total 24,383,750 KPM common shares will be distributed to the Company's shareholders who hold the Company's shares on October 15, 2012. The shareholders of the Company are entitled to receive one KPM share for every share of the Company held as of October 15, 2012. Holders of outstanding warrants of the Company are entitled to receive one share of the Company and one share of KPM upon exercise of each such warrant. The Company has 15,465,333 warrants outstanding as of October 15, 2012.

## **Operations**

The Company has entered into a joint venture agreement with Vixon Technology Ltd. (Vixon) for the commercialization and 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% interest respectively. The Company and Vixon have awarded each 5% of their respective interest to two directors of MWE.

On October 5, 2012, MWE entered into Joint Venture Agreement with Imperial Cedar Products Ltd. ("ICP"), an established manufacturer of wood products, for the erection of an M-Wave unit to be used for custom drying of wood products and for demonstrating the M-Wave System to customers.

After the spinoff, completed on October 15, 2012, the Company will focus on its green technologies by commercializing its wood drying M-Wave System. The Company will also continue marketing the environmentally responsible energy converting and waste disposal system, and continue to negotiate its opportunities for the geo-thermal energy business through its wholly owned subsidiaries.

## **Description of business and overall performance**

The Company was incorporated on October 25, 2005 under the British Columbia Business Corporation Act. The Company became a reporting issuer on February 26, 2007 and the common shares of the Company were listed on the CNSX Stock Exchange on March 9, 2007 under the trading symbol 'NVGL', which was changed in September 2008 to "NVG" as a consequence of the new trading symbol system adopted by the CNSX. As of October 5, 2007, the Company's common shares are co-listed on the "Open Market" of the Frankfurt (Germany) Stock Exchange and are trading under the symbol "3NV". The Company's common shares are also traded on the Third Market Segment called Freiverkehr on the Berlin-Bremen Stock Exchange.

Before the spinoff of the Kirkland Lake Properties, the Company is an exploration company engaged in Vancouver, British Columbia in the exploration for industrial and metallic minerals in British Columbia and precious metals in Ontario. After the spinoff, the Company's operations will focus on its green technologies by commercializing its wood drying M-Wave System. The Company is also exploring the conversion of organic waste into fuel oil and by-products such as carbon black, activated carbon and fertilizers and other Renewable energy technologies.

## **M-Wave System**

The project's objective is the commercialization and future assembly of industrial drying systems based on the applications of multi-wave technology (the "M-Wave System"). The Company will be the operator in this project. Vixon has developed a proven, continuous-flow, proprietary-technology integrated system that provides practicable solutions to moisture content monitoring, control of the dehumidification requirements, and significant cost savings compared with the conventional and the newer atmospheric wood-drying technologies. The Company has undertaken to develop the M-Wave System into a proprietary turnkey system providing low-cost, environmentally friendly guarantees for improved quality control and assurance in order to achieve high standards of quality-specified product excellence.

M-Wave System is a superior, environmentally-friendly, drying technology for wood products compared to the traditional Kiln drying systems presently used within the industry. This first M-Wave unit will initially be used by M-Wave System BC01 Inc. ("MWE-BC01") for smaller production runs of cedar shingles and also as the Company's demonstration unit to prove the efficiency of the M-Wave System for custom drying of all soft and hard wood products used in the housing construction industry.

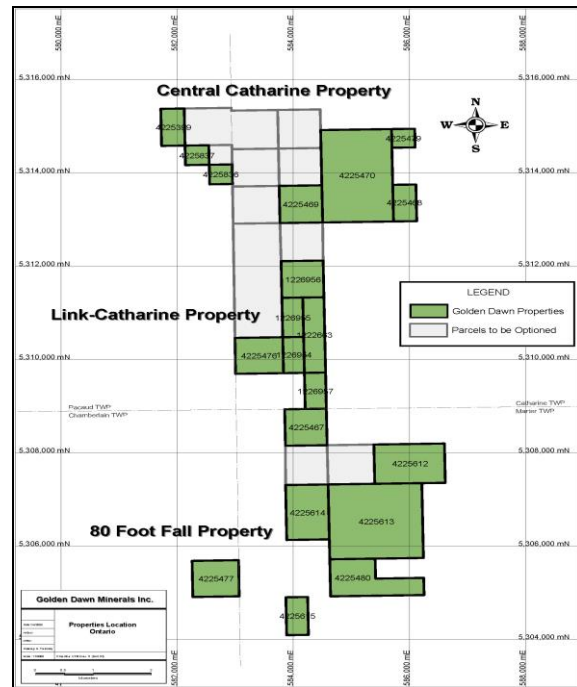
M-Wave EnviroTech Inc. has initiated the design of a larger scale M-Wave unit for its subsidiary MWE-BC01 Inc. to accommodate additional demand for M-Wave dried products. This demand was identified after the analysis of test runs of cedar feed-stock of different quality and moisture content. The increased demand is for the production of dry, quality re-edged and re-butted, grooved, sanded shingles, as well as specialty cut and then primed and pre-stained shingles and shakes for the local and export markets. This second M -Wave unit is anticipated to be delivered and in production during the summer of 2013.

**Kirkland Lake Project, Ontario**

*Mineral: Gold*

In February 2010, the Company entered into an Acquisition Agreement with Golden Dawn Minerals Inc. (GOM), which gives the Company an option to acquire an 80% Joint Venture interest in three gold prospects within the Larder Lake Mining Division of the Province of Ontario, Canada. A 2% net smelter royalty return (the "NSR") exists individually on all three properties in favor of the original optionors.

The project consists of three blocks of claims totaling 1,896 hectares namely **the Link-Catherine, the Central-Catherine, and the 80 Foot Fall** properties within the Boston-Skead gold belt. All three properties lie close together on a north trending linear and are underlain by Precambrian volcanics in contact with granitic intrusives. Extensive historical work has revealed complex gold-bearing quartz vein systems similar to the richly productive Kirkland Lake District and the Kerr-Addison Mine located to the northeast of this area.



Gold mineralization in this belt occurs with quartz, quartz-sulphide veins and veinlets in Archean volcanic rocks that have been intruded by a granitic batholith. This crescent-shaped Boston-Skead Gold Belt is located 25 km south of the Kirkland Lake Gold Belt. The region is best known for the Kirkland Lake Gold Camp and for its past gold production from a number of underground mines along a six-kilometre main ore zone. The first mine commenced operations in 1913; six of the seven mines operated until 1968. The area has produced 24 million ounces of gold.

Extensive drilling in multiple campaigns by several companies between 1993 and 2009 has yielded encouraging gold mineralization in several zones. Work to date also indicates the possibility of tellurium associated with the gold veins, nickel associated with ultramafic rock units, pegmatite-hosted lithium, molybdenum and rare metals, and volcanogenic massive sulphides within the volcanic units.

**Link-Catharine Property**

The majority of recent work has been concentrated on the Link-Catherine block between 1999 and 2009 which was explored by 29 holes of which 15 holes were focused in a zone of 375 meters by 300 meters where a number of auriferous and barren quartz and quartz-carbonate vein systems from 1.0 to 20.0 meters in thickness have been intersected. These vein systems carry individual veins of up to 0.3-1.5 meters thick which are flanked by a stock work of 2.0 to 10.0 cm thick veins and veinlet's. Within this area, 16 prospective composite intercepts ranging from 0.89-7.77 g Au/t over 1.5-31.3 meters occur in 12 of the holes. Also 17 other 0.5-2.0 meter individual intervals assaying greater than 1.0 g/t Au were observed in 15 holes. These results provide a strong incentive for additional work to further evaluate the complex gold-bearing system.

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**Form 51-102F1**

**Management's Discussion and Analysis of Financial Results**

**For the year ended December 31, 2012**

**Containing information up to and including April 25, 2013**

In June of 2008 a diamond drilling program was conducted in the area of the past drilling program, and intersected a number of 1.0 cm to 1.5 m-wide quartz veins and brecciated quartz zones in iron carbonate and chlorite altered basalt. Significant assay intervals were as follows:

A ground magnetometer and VLF-EM survey was completed in 2008 to determine if geological signatures related to potential mineralization could be defined. Interpretation of the ground magnetometer survey indicates a prominent 200 m to 300 m wide magnetic anomaly that extends northerly along the 3.9 km length of the Link-Catharine claim block. There is another 600 m north-south oriented magnetic high along the eastern margin of the claim block; this anomaly probably indicates the signature of underlying ultramafic rock. A distinct northwesterly trending magnetic anomaly is defined.

Drilling that was completed in February 2009 focused on areas where northerly trending geophysical anomalies were interpreted to intersect east-west structures (faults) delineated from ground magnetic surveys. The two drilling programs conducted (2,487m) in 2008/2009 have shown that gold mineralization is associated with significant alteration zones over several hundred metres in width.

The Company completed a National Instrument 43-101 report on the Link Catherine, based on these drilling results. A summary of the better assay results are provided below:

HOLE	FROM	TO	INTERVAL	AU G/T	GEOLOGICAL DESCRIPTION
CAT 99-04	32.4 m	63.7 m	31.3 m	2.74 g/t Au	
"	31.3 m*	39.9 m*	7.8 m*	5.16 g/t Au*	*Sub-interval within 32.4-63.7 m
"	43.3 m*	57.2 m*	13.9 m*	1.63 g/t Au	*Sub-interval within 32.4-63.7 m
"	59.2 m*	63.7 m*	4.5 m*	3.20 g/t Au	*Sub-interval within 32.4-63.7 m
CAT 03-10	58.0 m	59.7 m	1.7 m	7.77 g/t Au	
"	58.0 m*	59.1 m*	1.1 m*	9.85 g/t Au*	*Sub-interval within 58.0-59.7 m
"	59.1 m*	59.8 m*	0.7 m*	5.69 g/t Au*	*Sub-interval within 58.0-59.7 m
C-05-2	54.0 m	59.0 m	1.5 m	5.59 g/t Au	
CAT 08-02	36.5 m	33.5 m	3.0 m	3.55 g/t Au	
CAT 08-04	14.5 m	24.5 m	10.0 m	1.01 g/t Au	
"	18.4 m*	22.0 m*	3.6 m*	1.36 g/t Au*	*Sub-interval within 14.5-24.5 m
CAT 08-04	31.8 m	40.5 m	8.7 m*	0.89 g/t Au	
"	37.1 m*	40.5 m*	3.4 m*	2.65 g/t Au*	*Sub-interval within 31.8-40.5 m
CAT 09-01	162.5 m	170.0 m	7.5 m	1.497 g/t Au	
CAT 09-02	85.4 m	91.5 m	6.1 m	1.160 g/t Au	
"	90.0 m*	91.0 m*	1.0 m*	4.30 g/t Au*	*Sub-interval within 85.4-91.5 m
CAT 09-02	117.0 m	119.0 m	2.0 m	8.96 g/t Au	
"	117.0 m*	118.0 m*	1.0 m*	17.45 g/t Au*	*Sub-interval within 117.0-119.0 m
CAT 09-03	177.0 m	181.0 m	4.0 m	2.15 g/t Au	
"	178.0 m*	179.0 m*	1.0 m*	3.77 g/t Au*	*Sub-interval within 177.0-181.0 m
HOLE	FROM	TO	INTERVAL	AU G/T	GEOLOGICAL DESCRIPTION
CAT 09-08	100.0 m	101.9 m	1.9 m	2.962 g/t Au	
"	100.0 m*	101.0 m*	1.0 m*	5.010 g/t Au	*Sub-interval within 100.0-101.9 m
CAT 09-09	98.7 m	102.4 m	3.7 m	2.050 g/t Au	
"	100.0 m*	101.0 m*	1.0 m*	3.160 g/t Au*	*Sub-interval within 98.7-102.4 m
CAT 09-11	127.9 m	130.2 m	2.3 m	1.065 g/t Au	
CAT 09-12	109.5 m	112.8 m	3.3 m	1.092 g/t Au	

Selected composite assay intervals & sub-intervals from 1999-2009 drilling programs. Link-Catherine claims, Boston- Skead gold belt, Larder Lake Mining Division, Ontario.

The report concludes inter alia that:

1. The stratigraphy succeeded by the holes consists of volcanic flows and tuffs of mafic to intermediate volcanics which are interspersed with ultramafic (komatite) units, gabbro sills and infrequent sill/dykes;
2. Over 20 individual auriferous and barren quartz and quartz-carbonate vein systems 1.0 to 20.0 m thick have been identified, four of which have been interpreted as major;
3. The above veins and vein systems are interpreted to be related to roughly northerly-trending structures and/or stratigraphic contacts which they parallel. The arcuate north-south trending Pacaud Fault may be the "parent" structure or "Break" in the area. However, northeasterly-trending cross-structures have been mapped on the nearby 80-foot Falls Claims and may also exist on the Link-Catherine Claims. Intersections could form important loci for mineralization.
4. The traces of the four holes of the 2008 drilling program are interpreted to lie parallel or slightly oblique to essentially north-south striking auriferous quartz-carbonate veins. It is hypothesized that a series of the veins may occupy the crest or trough of a fold where tensional features were in-filled by both auriferous and barren quartz and carbonate.
5. Gold mineralization is hosted by carbonatized and/or silicified mafic and ultramafic volcanics. Fuchsite-Chlorite-Talc schists are subordinate hosts. The style and type of the structurally-controlled quartz vein-hosted gold mineralization intersected on the property bears resemblances to that exploited since the first quarter of the 20<sup>th</sup> century at World-Class Kirkland Lake District and Kerr-Addison Mine situated 60 km east of the latter. The Macassa Mine in the former largely hosted by various phases of syenite. Notably, this lithology has been which has been observed near the terminus of some Link-Catherine holes and could be significant. The Kerr-Addison orebodies in particular are associated with extensive carbonatization as well as discrete zones attended by fuchsite mineralization. Both of the preceding alteration types are common to abundant in the Link-Catherine holes.
6. Twelve holes contain an aggregate of 16 significant pyritic intervals that have not been sampled. Prospective composite intercepts vary from 0.89 to 7.77 g/t over 1.5 to 31.3 m (Figure 1.1). Systematic additional assaying in some holes should address this situation.
7. Over seventeen (17) 0.5-2.0 m individual intervals assaying >1.0 g/t Au other than those previously cited occur in 15 holes from the 1999-2009 programs.

The author of the report recommends that since considerable potential remains to be evaluated within the area of most recent drilling, drill cores from the last phase of drilling, numerous zones of pyritic materials on the Link-Catherine need to be assayed in order to check for disseminated gold content possibly extending some distance from the veins and veinlets that returned encouraging gold values.

Review of all geophysical data and a program of three dimensional computer-assisted modeling of all drill data assembled to date are also recommended to elucidate targets for continued exploration of the gold zones encountered to date on the Link-Catherine property. These gold zones lie within altered volcanics, transected by numerous northeast and northwest trending linears on the eastern flank of the intrusive mass on the west side of the Link-Catherine property.

The report concludes that this mineralized belt warrants additional work.

***Central Catharine Property***

The Central Catharine property is located 750m northeast of the Link-Catharine property in Catharine Township. The property consists of eight claims covering prospective geology for gold mineralization along a southeast-trending belt. Geological mapping, prospecting and geophysical surveys have been conducted in the past, but no drilling is reported in assessment work files. Three historic vein systems occur in an area 1.6 km to 3.0 km north and northwest of the Central Catharine property. These are:

- 1) Gold Hill vein which was developed down to 365m depth and 275m along strike; a 100 tonne per day mill operated for a short period during 1927-1928;
- 2) Kennedy-Boston vein with occasional finely disseminated gold although narrow it was explored underground to a depth of 45 m and along strike for 365m; there is no record of production; and
- 3) Hilltop Showing consisted of a series of narrow lenticular quartz veins with very fine visible gold grains; it was explored underground to a depth of 207m and along strike for one kilometre.

A geological mapping, sampling and prospecting program is being planned on the Central Catharine property to compile a geological map and to determine if specific targets can be identified for follow-up programs.

***80-Foot Fall Property***

The 80-Foot-Fall Property is located in the Marter and Chamberlain Townships 800 metres south of the Link-Catharine property. It consists of seven claims covering an area of surface trenches, an old timbered shaft, and three drill hole sites. Two of the three old drill holes were designed to re-establish the location and possible extensions of old showings. A quartz vein zone and massive pyrite bands were intersected in the old holes, but gold values are reported as being low.

A ground magnetometer and VLF-EM survey was completed in 2008 to determine if geological signatures related to potential mineralization could be defined. Interpretation of the ground magnetometer survey identified north-south conductors and east-west trending magnetic anomalies similar to those delineated on the Link-Catharine property where gold mineralization was defined. A continuing program of reconnaissance geological mapping, sampling and prospecting is in progress on the 80 Foot Fall property with the main objective to identify specific targets for follow-up programs.

***The reader is cautioned that historical drilling results have not been verified. There are no known mineral resources on the property, and there can be no assurance that any mineral resources will be discovered on the properties, and if discovered there is no assurance that any mineralization may be economically extracted. The technical information published has been reviewed by consultant Dr. Stewart A Jackson, P. Geol., Qualified Person.***

**Results of operations**

**Year ended December 31, 2012 compared to the year ended December 31, 2011**

Net loss and comprehensive loss for the year ended December 31, 2012 amounted to \$340,249 (loss per share - \$0.02) compared to \$944,336 (loss per share - \$0.08) in the previous year. As the Company is still in the exploration stage, no revenue was generated. The decrease in loss of \$604,087 was mainly due to:

- (i) an decrease in impairment of exploration and evaluation assets of \$690,086 from \$690,086 in 2011 to nil mainly due to one-time event of impairment Nass Bay Property in year 2011;
- (ii) an increase in accounting and legal of \$63,877 from \$20,354 in 2011 to \$84,231 mainly due to the professional services required for spinoff transaction in 2012;
- (iii) an increase in administrative services of \$27,407 from \$106,790 in 2011 to \$134,197 mainly due to the Company stop the contract with a third party company for sharing the administrative services during the year, therefore more administrative expense is allocated to the Company;
- (iv) a decrease of \$29,264 in interest expenses from \$36,700 in 2011 to \$7,436 due to repayment of loan \$300,000 to Merfin Management Ltd. in current year;

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- (v) an increase in share based payments \$39,638 from \$20,851 in 2011 to \$60,489 mainly due to 1,489,152 stock options granted to directors and officers;
- (vi) an increase in transfer agent and filing fees \$16,820 from \$12,654 in 2011 to \$29,474 mainly due to spinoff transaction in current year; and
- (vii) a decrease of \$9,012 in travel and promotion from \$10,273 in 2011 to \$1,261 mainly due to less travels of directors and officers in current year.

**Selected annual information**

	<b>December 31, 2012</b>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
	\$	\$	
Total revenues	-	-	-
General and administrative	347,053	240,243	267,199
Loss for the year	(340,249)	(944,336)	(267,199)
Loss per share – basic	(0.02)	(0.08)	(0.02)
Loss per share – diluted	(0.02)	(0.08)	(0.02)
Total assets	29,441	216,834	862,522
Total long –term liabilities	-	299,087	61,563
Shareholder's equity (deficiency)	(64,826)	(140,977)	742,258
Cash dividends declared - per share	-	-	-

**Selected quarterly information**

	<b>2012 - IFRS</b>				<b>2011 - IFRS</b>			
	<b>Dec 31 2012</b>	<b>Sep 30 2012</b>	<b>June 30 2012</b>	<b>Mar 31 2012</b>	<b>Dec 31 2011</b>	<b>Sep 30 2011</b>	<b>June 30 2011</b>	<b>Mar 31 2011</b>
Total assets	\$ 29,441	\$ 252,703	\$ 364,847	\$ 282,739	\$ 216,834	\$ 919,670	\$ 942,202	\$ 897,660
Exploration and evaluation assets	-	225,289	209,387	209,387	198,887	888,973	888,973	876,881
Working capital (deficiency)	(67,826)	(2,843)	108,039	3,143	(43,777)	(41,545)	(19,706)	(20,457)
Shareholders' equity	(64,826)	225,446	320,426	159,003	(140,977)	581,353	623,378	674,728
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net loss	(110,804)	(99,925)	(71,981)	(57,539)	(744,382)	(45,237)	(59,572)	(95,145)
Earnings (loss) per share	(0.01)	(0.01)	(0.00)	(0.00)	(0.06)	(0.00)	(0.00)	(0.00)

**NASS VALLEY GATEWAY LTD.**  
**Form 51-102F1**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2012**  
**Containing information up to and including April 25, 2013**

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**Liquidity**

The Company's working capital and deficit positions at December 31, 2012 and December 31, 2011 were as follows:

	<b>December 31 2012</b>	<b>December 31 2011</b>
Working capital (deficiency)	\$ (54,630)	\$ (43,777)
Deficit	2,895,530	2,548,477

The cash positions at December 31, 2012 and 2011 were \$7,853 and \$6,155 respectively.

The Company's financial condition is contingent upon management being able to raise additional funds to complete its planned exploration program on the Kirkland Lake Projects and the completion of the manufacture of the energy conversion units. While the Company will seek to maximize recoveries and reduce operating costs, estimates and assumptions influencing these parameters at the feasibility stage may prove incorrect. Incorrect assumptions may result in material differences between estimated and actual results. The Company has no way to predict the future price of the commodities. As a result, revenue derived from future operations, if any, will be impacted.

The Company has historically relied upon equity financings and loans from related parties 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 months, the securities markets in the world and in Canada have experienced high volatility in price and volume and companies, particularly in junior exploration industry, have unprecedented decline in their share prices 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 the Company's share prices will not occur or that these fluctuations will not affect the ability of the Company to raise equity funding, and if at all, without causing a significant dilution to its existing shareholders. 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.

**Capital resources**

At December 31, 2012, the Company had a share capital of \$2,531,899 (December 31, 2011: \$2,162,665), representing 24,383,750 (December 31, 2011: 12,333,750) common shares without par value, and an accumulated deficit of \$2,895,530 (December 31, 2011: \$2,548,477). The shareholder's equity amounted to \$(71,630) (December 31, 2011: \$(140,977)).

**Additional disclosure for venture issuers without significant revenue**

Additional disclosure concerning the Company's general and administrative expenses and resource property costs is provided in the Company's Statement of Operations, Comprehensive Loss and Deficit included in its financial statements for the years ended December 31, 2012 and 2011 and its prospectus filed February 26, 2007, which are available on SEDAR at [www.Sedar.com](http://www.Sedar.com)



**Related party transactions**

During the year ended December 31, 2012, the Company entered into the following transactions with related parties.

**Key Management personnel compensation**

No remuneration was paid during the years ended December 31, 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 year ended December 31, 2012, the Company incurred \$134,197 (2011: \$106,790) with respect to the foregoing.

**Other related party transactions**

During the year ended December 31, 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: \$22,096) 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:

	<b>December 31, 2012</b>	December 31 2011
Krypt-Logx Network Corp.	\$ 6,804	\$ 6,804
Mineral Hill Industries Ltd.	25,638	3,943
GMM Admin Corp.	786	-
Dieter Peter (Chief Executive Officer)	-	22,096
Golden Dawn Minerals Inc.	-	944
	<b>\$ 33,228</b>	<b>\$ 33,787</b>

The amount outstanding due from related party was as follows:

	<b>December 31, 2012</b>	December 31 2011
Kirkland Precious Metals Corp.	3,100	-
Global Environomic Systems Corp.	100	-
	<b>3,200</b>	<b>-</b>

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 year ended December 31, 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 8.50% per annum.

During the year ended December 31, 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 accrued interest \$24,526.

**NASS VALLEY GATEWAY LTD.**  
**Form 51-102F1**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2012**  
**Containing information up to and including April 25, 2013**

At December 31, 2012, the outstanding loan and accrued interest balance is \$20,000 (December 31, 2011:\$ 299,087).

	<b>December 31 2012</b>	December 31 2011
Loan payable	<b>\$ 20,000</b>	280,000
Interest payable	-	19,087
	<b>\$ 20,000</b>	299,087

During the year ended December 31, 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.

**Directors and Officers**

Dieter Peter	Chairman, CEO and Director (Mineral Hill Industries Ltd)
Melvin Stevens	President and Director
Andrew von Kursell	Director (Mineral Hill Industries Ltd)
Peng Zhang	Director (appointed on May 15, 2012)
John Patrick Copeland	Director (appointed on June 29, 2012)
Michael Zhu	Chief Financial Officer (Mineral Hill Industries Ltd) Corporate Secretary (appointed on April 2, 2013)

**Outstanding share data as at April 25, 2013:**

	<b>Number outstanding</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Common shares	24,417,083		
<b>Common shares issuable on exercise:</b>			
Stock options	1,489,152	\$0.10	November 8, 2015
Warrants	1,133,333	\$0.225	June 7, 2013
Warrants	12,000,000	\$0.10	May 1, 2014
Warrants	32,000	\$0.10	May 1, 2013

**Future Developments**

Subsequent to the Spin-Off of KPM, the Company will now focus solely to pursue the development of its technology projects to generate a cash flow and will seek also financing with its business alliance partners for its projects.

**Risks and Uncertainties**

The Company is engaged in advanced technology projects. The Company's financial success will be dependent upon the successful development and commercialization of its M-Wave Systems. These activities involve significant risks which may not be eliminated even with experience and knowledge.

The following are some of the key risks and uncertainties identified; however, there may be other risks and uncertainties that have not been listed:

- The demand of environmentally friendly products can be dependent on global consumption and economy;
- No assurance about the economic viability, it is speculative;
- The viability of environmentally technologies is subject to different interpretations that could affect the success of any development program;

- The development of the business will require substantial additional financing. Development funds can be restricted by unexpected economic conditions such which are beyond the Company's control;
- An increasing competition to adapt similar systems throughout the world;
- The emerge of more advanced technology causing the Company's technology obsolete;
- The rights to intellectual properties must be maintained in accordance with various regulations and agreements;
- Additional costs can be incurred such as availability of experts, work force and equipments;
- Additional expenditures will be required to establish permits and patents;
- There can be no assurance that the business plan will succeed in whole or in part;
- The Company is exposed to some seasonality risk due to factors including, but not limited to, the seasonality of construction industry.

### **Critical accounting estimates**

The preparation of the Company's financial statements requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities as well as expenses.

(i) *Stock Based Compensation*

The Company uses Black-Scholes option pricing model to determine the fair value of awards for stock options granted to employees, officer, directors and consultants. These estimated are based on historical information and accordingly cannot be relied upon to predict the future behavior. These estimates are set out in Note 6(c) to the financial statements

(ii) *Financial Instruments*

The carrying values of the financial instruments have been estimated to approximate their respective fair values.

(iii) *Income Taxes*

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

(iv) *Exploration and Evaluation Assets*

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.

### **Financial instruments**

The Company's financial instruments consist of cash, amounts receivable from related parties, amounts payable, amounts payable to related parties and loans payable to related party. 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*

The Company is not exposed to significant credit risk, being in the development stage. Amounts receivable from related parties and amounts due to related parties are described in Note 7 to the financial statements.

*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 anticipates it will need additional capital in the future to finance ongoing development of its technology, 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 presently no source of operating income and has no assurance that additional funding will be available to it for future 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 its exploration results. In recent years, the securities markets in Canada have experienced wide fluctuations in prices 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.

**Forward-Looking Statements**

The statements made in this MD&A that are not historical facts contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address the Company's expectations, should be considered forward-looking statements. Certain forward looking information should also be considered future-oriented financial information ("FOFI") as that term is defined in NI 51-102. The purpose of disclosing FOFI is to provide a general overview of management's expectations regarding the anticipated results of operations and capital expenditures. Such statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company and its subsidiaries may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors.

The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change except as required by law. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as contained in the Company's filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. The forward-looking statements made in this MD&A describe our expectations as at April 25, 2013.

*"Dieter Peter"*  
On behalf of the Board  
Dieter Peter  
Chief Executive Officer  
April 25, 2013