NSX Silver Incorporation

Annual Report 2012

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NSX SILVER INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

Background

This Management's Discussion and Analysis (MD&A) of NSX Silver Inc. (NSX Silver or the Company) is dated April 29, 2013 and provides an analysis of the financial operating results for the year ended December 31, 2012 and December 31, 2011. This MD&A should be read in conjunction with the audited annual financial statements and accompanying notes for the year ended December 31, 2012 which have been prepared in accordance with International Financial Reporting Standards (IFRS) for consolidated financial statements. All amounts are in Canadian dollars unless otherwise specified. The financial statements and additional information, including news releases and technical reports referenced herein, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com under the Company's profile. The common shares of NSX Silver are traded on the TSX Venture Exchange under the symbol "NSY". More extensive information on NSX Silver can be found on its website at www.nsxsilver.com.

Forward-Looking Information

Certain statements in this MD&A are forward-looking statements or information (collectively- forward-looking statements). NSX Silver is hereby providing cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "may", "is expected to", "anticipates", "estimates", "intends", "plans", "projection", "could", "vision", "goals", "objective" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. In making these forward-looking statements, NSX Silver has assumed that the current market for silver will continue and grow and that the risks listed below will not adversely impact the business of NSX Silver.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes may not occur or may be delayed. The risks, uncertainties and other factors, many of which are beyond the control of NSX Silver, that could influence actual results include, but are not limited to: limited operating history; exploration, development and operating risks; regulatory risks; substantial capital requirements and liquidity; financing risks and dilution to shareholders; competition; reliance on management and dependence on key personnel; fluctuating mineral prices and marketability of minerals; title to properties; local resident concerns; no mineral reserves or mineral resources; environmental risks; governmental regulations and processing licenses and permits; management inexperience in developing mines; conflicts of interest of management; uninsurable risks; exposure to potential litigation; dividends; and other factors beyond the control of NSX Silver.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, NSX Silver undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the business of NSX Silver or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. See "Risk and Uncertainties".

Company Overview

NSX Silver Inc. was incorporated on August 9, 2011 under the Canada Business Corporations Act as a wholly-owned subsidiary of NSGold Corporation (NSGold). The registered office of the Company is 1055 West Hastings Street, Suite 2200, Vancouver, B.C.

NSGold, the former parent company of NSX Silver, is a mineral exploration company actively exploring for gold and base metals in Nova Scotia, Canada. In April 2011, NSGold signed an agreement whereby it secured the option to acquire a 100% ownership interest in the three mining concessions comprising the Dios Padre Property, including the historic Dios Padre Silver Mine, located in Sonora State, Mexico. In July 2011, NSGold announced that it commenced the process to separate its Nova Scotia gold and base metal assets and its Mexican silver assets into two separate public companies so that NSGold could devote itself solely to exploration for gold and other metals. NSX Silver was incorporated in August 2011 as a wholly-owned subsidiary of NSGold, with the intention of taking over NSGold's exploration properties in Mexico.

On August 5, 2011, NSGold completed a private placement of 8,627,451 common shares at a price of $0.51 per share, for gross proceeds of $4.4 million. Sprott Asset Management LP, acting on behalf of certain Sprott funds and managed accounts, subscribed for the 8,627,451 common shares issued in the private placement, representing 19.9% of the common shares of NSGold issued and outstanding after the placement. The net proceeds from this financing were allocated to funding the activities of NSX Silver and working capital.

On October 21, 2011, NSX Silver and NSGold, as promoter, filed a preliminary prospectus with the securities commissions of each of the provinces of Canada in connection with a distribution of NSX Silver common shares to the shareholders of NSGold. A special meeting of shareholders of NSGold was held on December 22, 2011, at which the shareholders approved a special resolution reducing NSGold's paid-up capital in connection with the "spin-out" of the shares of NSX Silver to the shareholders of NSGold. The reduction of NSGold's paid-up capital is intended to result in the distribution of the shares of NSX Silver being treated as non-taxable for most of NSGold's shareholders.

On March 1, 2012, NSX Silver obtained a receipt from the securities commissions of each of the provinces of Canada for a final prospectus dated February 28, 2012. The prospectus qualified shares of NSX Silver to be distributed by NSGold to its shareholders by way of distribution in kind.

In March 2012, NSX Silver completed the acquisition from NSGold of all of the shares of Compania Minera Oso Blanco SA de CV (CMOB) for which NSGold received one million common shares of NSX Silver. Also in March 2012, NSGold completed a share subscription agreement whereby NSGold acquired 44,428,571 common shares of NSX Silver for gross proceeds of $4,665,000. Upon closing of the transaction, the amounts due to NSGold by each of NSX Silver for reorganization costs and CMOB for Dios Padre exploration costs were repaid and the net amount disbursed by NSGold was $3,474,063. Contemporaneously the Dios Padre Option Agreement, complete with all its rights and obligations, was assigned to NSX Silver. CMOB has acquired, and intends to acquire, additional interests in exploration properties in Mexico.

NSGold then completed the distribution of the common shares of NSX Silver to the NSGold shareholders whereby the shareholders received one share of NSX Silver for each share of NSGold held on the record date of March 16, 2012. A total of 43,553,767 shares of NSX Silver were distributed with the distribution, effected by way of a distribution of paid up capital.

The common shares of NSX Silver commenced trading on the TSX Venture Exchange on March 14, 2012 as a Tier 2 Mining Issuer under the trading symbol "NSY".

Resource Properties – Dios Padre Property

NSGold entered into a definitive option agreement (the Dios Padre Option Agreement), having an effective date of April 9, 2011, whereby it could acquire 100% ownership of the **Dios Padre Property** (the Property). The agreement was subsequently assigned to NSX Silver. The Property is comprised of three contiguous mining concessions, the Dios Padre, Don Carlos and Alejandro concessions, and includes the historic Dios Padre Silver Mine. The Property encompasses 285 hectares and is located in the Municipality of Yecora, State of Sonora, Mexico approximately 260 km east of Hermosillo. Under the terms of the Dios Padre Option Agreement, NSX Silver, through its then wholly-owned subsidiary CMOB, had the right to acquire a 100% undivided interest in the Dios Padre Property from the optionor by making a series of escalating semi-annual cash payments totaling US$6 million over a 5-year period and issuing an aggregate of 1,250,000 common shares to the optionor in five equal tranches over the same 5-year period. The Dios Padre Option Agreement also provides that at such time as NSX Silver acquires a 100% undivided interest in the Property, the optionor will be granted a 3% net smelter return royalty, two-thirds of which may be repurchased by NSX Silver at any time prior to the commencement of commercial production by the payment of US$2 million.

In March 2012, NSX Silver acquired all of the shares of CMOB from NSGold and NSGold assigned the Dios Padre Option Agreement, complete with all its rights and obligations, to NSX Silver.

On April 26, 2013, the Company entered an amending agreement with Minera Pena Blanca, S.A. C.V. (Minera Pena Blanca) to extend the due dates of the remaining cash option payments for the Dios Padre Property Option Agreement by three years. The Company is also required to pay the principal of Minera Pena Blanca an annual consulting fee of $125,000 for the next three years subject to the Dios Padre Property Option Agreement remaining in effect.

The Property is located in the Eastern Sierra Madre Mountain range about midway between the cities of Hermosillo and Chihuahua in east central Sonora State. Approximately 500,000 tonnes of high-grade enriched material yielding 16 million ounces of silver was reportedly mined between Jesuit operations in the 17th century, by L.V. Limited between 1860 and 1910, and by Cia. Minera Sahuaripa in the mid-1960's. More recently the Property was optioned by First Majestic Resource Corp. in 2004, which drilled a total of 17 exploratory holes before exiting the option in 2007.

The Property lies in the Sierra Madre Occidental, in a Cretaceous Volcanic Suite which is regionally grouped as the 'Lower Volcanic Sequence'. These rocks are overlain (and completely covered to the East by a Tertiary sequence of rhyolite tuffs and basalts regionally grouped as the Upper Volcanic Sequence. The interface between these sequences, and in particular the upper parts of the Lower Volanic Sequence, is the host environment for significant Gold and Silver districts including the nearby Sahuaripa, Mulatos, Dolores and Ocampo Districts and further south the El Sauzal Discovery. The setting of these deposits varies but they all occur within this highly prospective interval.

The Property is underlain by cretaceous dacite and andesite, locally intruded by the mineralized Dios Padre Porphyry (a brecciated rhyodacitic dacitic porphyry which may be partly intrusive or subvolcanic) and coeval barren dikes of similar composition. The Dios Padre Porphyry hosts the known high grade silver mineralization within the Property. It has been strongly modified by two phases of brecciation and moderate to intense argillic alteration, locally strong sericitic alteration, and infilling of leached voids by silica, barite and calcite. Silver occurs with pyrite, galena, tetrahedrite, freibergite, sphalerite, traces of pyrargyrite and native silver. Traces of chalcopyrite are also present. Gold values range from local highs of +1 ppm in the uppermost part of the zone to less than 100 ppb in the lower portions. Copper appears to increase with depth.

In 2011 NSGold completed a comprehensive geological survey over the Dios Padre property, which included a systematic rock geochemical sampling program, a ground-based 3D Induced Polarization geophysical survey ("3DIP") and a magnetic survey done simultaneously with the 3DIP. The geophysical survey identified high-chargeability anomalies corresponding to surface geochemical anomalies of copper, gold, silver and arsenic (a pathfinder element in gold exploration). These areas are heavily altered and leached to such a degree that it is expected that much of the metallic content has been stripped away. This makes the background values encountered even more significant. One such anomaly corresponds to the site of earlier mining activities. Four additional surface anomalies were found to contain strong values of the metals noted above while one was found to be a strong lead sulfide zone.

The 3DIP geophysical survey revealed a large conductive anomaly that lies just to the north of the most recent historic mining operations striking east-west. This area appears to approach the surface and may outcrop within the geochemical anomalies. The central core of this anomaly appears as a highly-conductive mass approximately 600 meters wide by 800 meters long with a depth of at least 300 meters, which is the limit of the effective range of the survey method.

A Phase 1 drilling program was carried out during the first half of 2012 in line with the recommendation of the Company's independent geological consultant, D.R. Duncan and Associates ("DRD") of Windsor, Nova Scotia. DRD prepared a 43-101 compliant technical report for the Dios Padre Project in February 2012 and a copy of the report is available on www.sedar.com under the Company's profile.

The Phase 1 drilling program comprised 16 diamond drill holes aggregating 3,530 meters and was designed to test the geochemical and geophysical anomalies discovered during the 2011 exploration program, as well as, the areas of historic silver production. The first six drill holes were sited to test the large geophysical anomaly and did not return significant assay results. Drill holes DP-7-2012 to DP-16-2012 were sited to test the north and northwest plunge of the mineralized breccia body previously mined in surface cuts and underground workings at the main Dios Padre Mine area. The holes were designed to test the down dip extension of the previously mined mineralized breccia zone after NSX Silver technical personnel analyzed the results of previous drill campaigns by prior explorers. Drill holes completed by Silver Standard Resources in 1996 and by First Majestic Resource Corp. in 2006 were all angled southward. However, NSX Silver geologists noticed compelling evidence for a north and northwest dip to the mineralized zone based on geologic conditions and assay patterns from both of these drill campaigns.

NSX Silver drill holes DP-07-2012 and DP-09-2102 were aimed at down dip extensions of the mineralized breccia body beneath the Santa Gertrudis open cut, and below the limits of the lowest known underground workings, known as the Santa Fe level. The Santa Gertrudis and the Santa Fe zones were reportedly last mined during the period from 1967 to 1971, with operations focusing on areas of high grade silver mineralization. Both of these drill holes successfully encountered mineralized breccia at depth. Minerals identified in the drill core from this newly discovered breccia zone include chalcopyrite, galena, tetrahedrite, freiburgite, pyrite, and barite. The mineral assemblage is consistent with silver-bearing minerals seen at upper levels of the Dios Padre Mine in pit walls, stockpiles, and accessible underground workings on the property. Holes DP-13-2012 through DP-16-2012 were drilled in and beneath the area of historic mining and were sited over a 120 meter by 70 meter area that constitutes only part of the surface foot print of the historic workings. Of particular importance is the fact that all four of these drill holes encountered significant zones of mineralization at or near surface.

The following table includes the significant intercepts from the Phase 1 drill program:

Dios Padre Silver Project
Significant Drill Intercepts – Phase 1 Drill Program (2012)

Drill Hole #	From	To	Intercept	Au	Ag
	(meters)	(meters)	(meters)	(gpt)	(gpt)
DP-07-2012	32.0	34.0	2.0	trace	79.6
	82.5	**84.0**	**1.5**	**0.021**	**254.0**
	105.0	106.5	1.5	0.199	trace
	120.0	121.5	1.5	0.287	40.1
	261.0	262.5	1.5	trace	41.8
DP-08-2012	99.0	100.5	1.5	1.365	82.6
DP-09-2012	15.5	17.5	2.0	trace	28.0
	64.0	68.0	4.0	trace	73.0
	193.5	**201.0**	**7.5**	**trace**	**573.0**
Including	**195.0**	**196.5**	**1.5**	**trace**	**1,410.0**
	217.5	226.5	9.0	trace	242.0
	261.0	264.0	3.0	0.187	183.0
DP-10-2012	241.0	244.0	3.0	0.259	275.6
DP-11-2012	89.0	93.0	4.0	trace	205.4
	153.0	156.0	3.0	trace	55.9
	238.5	241.5	3.0	0.225	trace
	268.5	273.0	4.5	0.072	80.9
DP-12-2012	16.5	19.0	2.5	trace	180.1
	20.5	**70.5**	**50.0**	**0.685**	**74.2**
Including	20.5	39.0	18.5	0.249	140.1
and	**34.5**	**36.0**	**1.5**	**0.444**	**468.0**
and	54.0	57.0	3.0	0.905	215.0
	63.0	67.5	4.5	0.500	37.5
	123.0	127.5	4.5	trace	36.9
DP - 13- 2012	**16.0**	**80.5**	**64.5**	**0.229**	**26.2**
Including	30.5	47.5	17.0	0.480	5.0
and	47.5	56.5	9.0	0.250	29.5
and	59.5	64.0	4.5	0.245	68.8
DP - 14 - 2012	0.9	7.5	6.6	-	171.2
including	**0.9**	**4.5**	**3.6**	**-**	**265.6**
gold intercepts	13.5	18.0	4.5	0.493	5.4
gold intercepts	22.5	25.5	3.0	0.245	5.6
	61.5	66.0	4.5	-	145.2
	75.0	90.0	15.0	-	92.1
including	**79.5**	**82.5**	**3.0**	**0.604**	**100.0**
	90.0	105.0	15.0	0.201	43.2
DP - 15 -2012	1.5	7.5	6.0	**-**	74.3
gold zone with minor silver	12.0	43.5	31.5	0.343	6.5
Including	18.0	25.5	7.5	0.455	-
and	27.0	31.5	4.5	0.776	-
DP - 16 -2012	4.5	19.5	15.0	-	63.4
	27.0	33.0	6.0	0.103	54.9
	40.5	57.0	16.5	0.134	149.5
including	**51.0**	**52.5**	**1.5**	**0.142**	**666.0**
and	40.5	43.5	3.0	0.167	220.0
	66.0	69.0	3.0	0.358	100.7

The Phase 2 drilling program consisted of seventeen drill holes for a total of 3,220 meters of core drilling and was designed taking into account the results of the 2012 drilling completed by NSX Silver (16 holes) as well as the 2006 drilling completed by First Majestic Resource Corp. (17 holes) and the 1996 drilling completed by Silver Standard Resources (10 holes). Holes DP-17-2013 through DP-32-2013 were drilled in and beneath the area of historic mining; both in the area of old pit and adjacent to the underground mine workings.

Significant drill intercepts encountered, included the following;

- **26.6 meters** in DP-21-2013 grading **107.4 grams per tonne silver**, which occurs from surface to 26.6 meters. This hole intersected the old workings at 26.6 meters and was terminated.
- **18.9 meters** in DP- 21A - 2013 grading **234.6 grams per tonne silver** and 0.179 grams per tonne gold over 12.4 meters within that interval. In addition, gold mineralization was encountered over a 45.4 meter intercept with an average grade of 0.51 grams of gold per tonne, which envelopes a smaller low grade silver intercept of 19.5 meters grading 16.1 grams of silver and 0.406 grams of gold per tonne.
- **41 meters** in hole DP-26-2013 grading **288.2 grams per tonne silver** and 0.246 grams gold per tonne over a 25 meter interval. Within this section an interval of 2.5 meters grading 1.490 kilograms of silver per tonne and 0.351 grams per tonne gold was encountered from 101.8 to 104.3 meters.
- **8.6 meters** in hole DP- 29-2013 grading **443 grams per tonne silver** and 0.175 grams of gold per tone
- **12 meters** in hole DP-30-2013 grading **208.2 grams per tonne silver** which includes a section of 6 meters grading 312.6 grams of silver per tonne.

The following table includes other significant intercepts from the Phase 2 drill program:

Dios Padre Silver Project
Significant Drill Intercepts – Phase 2 Drill Program (2013)

Drill Hole #	From	To	Intercept	Silver	Gold
	(meters)	(meters)	*(meters)	(grams/tonne)	(grams/tonne)
DP - 18 - 2013	193.7	201.7	8	71.63	--
gold anomaly	178.25	184.8	6.55	--	0.442
DP - 19 - 2013	149.25	151.5	2.25	148.91	0.358
	176.55	179.2	2.65	39.95	--
DP - 20 - 2013	125.7	131.7	6	90.15	0.217
DP - 21 - 2013	0	26.6	26.6	107.36	--
DP - 21A - 2013	27.2	46.1	18.9	234.57	0.179
gold anomaly	49.2	94.6	45.4	--	0.511
gold silver zone	56.6	76.1	19.5	16.12	0.406
DP - 22 - 2013	126.45	139.1	12.65	250.42	--
including	126.45	136.1	9.65	306.13	0.104
DP - 23 - 2013	28.4	32.4	4	49.25	--
DP - 26 - 2013	91.3	132.3	41	288.19	0.164
including	100.3	104.3	4	1,165.81	0.395
including	101.8	104.3	2.5	1,489.90	0.351
DP - 29 - 2013	0	20.9	20.9	207.69	0.184
Including	10.3	18.9	8.6	443	0.175
	38.5	39.5	1	234	0.236
gold anomaly	221	225.2	4.2	--	0.394
	245.75	255.6	9.85	86.68	0.452
	259.95	262.65	2.7	83.25	0.621
DP - 30 - 2013	203.6	215.6	12	208.21	--
including	208.1	214.1	6	312.63	--
DP - 32 - 2013	87.7	91.7	4	229.9	0.104

* True widths will vary with the drill hole angle but are generally 50 to 70% of the reported interval

Drilling during the Phase 2 Program encountered multiple thick zones of silver mineralization ranging up to 41 meters in thickness. Also of significant interest is the occurrence of low grade gold mineralization with silver mineralization in a number of the drill holes. Gold occurs in separate zones often accompanied by low silver values. Gold does not appear to have a spatial relationship with high grade silver mineralization, suggesting multiple mineralizing events. These gold zones were also indicated by historic drilling and warrant further study.

NSX Silver technical personnel are reviewing and analyzing all data generated from this program together with data generated from the Phase 1 program and from the historic exploration programs with a view to updating the comprehensive geological model to assist in the project evaluation.

Resource Properties – Other

During 2011, CMOB acquired the **Oso Blanco and Oso Blanco 2 concessions** in the Municipality of Yecora, State of Sonora, Mexico. The two concessions are located in proximity to the Dios Padre, Alejandro and Don Carlos concessions. The Oso Blanco concession was acquired by request to the Mexican government on July 13, 2011 at a cost of approximately $3,600. The Oso Blanco 2 concession was acquired by request to the Mexican government on August 30, 2011 at a cost of approximately Cdn $3,200. The Oso Blanco concession covers an area of approximately 3,000 hectares while the Oso Blanco 2 concession covers an area of approximately 1,900 hectares.

During the first quarter of 2012, CMOB acquired by request to the Mexican government the **Piedras del Norte concession** which is located in proximity to the Dios Padre, Alejandro and Don Carlos concessions. This concession covers approximately 700 hectares.

During July 2012 NSX Silver initiated a geochemical sampling survey over a large portion of these three concessions which collectively comprise close to 6,000 hectares of ground. In particular, the Company was attracted to the previously unexplored Huerigo Zone on the Oso Blanco 2 concession by alteration in surface rocks that is similar to that seen at the Dios Padre Project. Silver values up to 545 grams per tonne were returned from the rock chip samples in this area and four large poly-metallic anomalies were also discovered.

In December 2012, the Company completed its Phase 2 geochemical survey conducted on the wholly-owned Oso Blanco II concession. The survey covered the Huerigo Zone and other silver-lead-copper anomalies discovered during the Phase I geochemical survey. The Phase 2 program successfully delineated the Huerigo Zone in detail and confirmed the internal consistency and intensity of the silver anomaly.

The Phase 2 program covered 800 hectares of the 1,900 hectare Oso Blanco II concession and was designed to increase sample density and provide detailed information regarding the size, shape, and intensity of the anomalies. A total of 941 rock chip surface samples were taken during the two programs. In known anomalous zones rock chip samples were taken on a 50 meter grid with 25 meter sample spacing and at any changes in lithology or alteration. Previously unexplored ground was sampled on a 100 meter grid with 50 meter sample spacing and at any change in lithology or alteration.

Anomalous zones were defined by elevated silver-lead-copper assay values supported by multi-element assay values that exceed the statistical background populations. Background levels for silver, lead, and copper are 1.3, 18, and 20 ppm respectively. The main Huerigo metal anomaly occurs as an arcuate 900X300 meter multi-point silver anomaly, supported by coincident anomalous lead and copper values. Silver values range from background to a maximum of 545 grams per tonne, with lead values reaching 2.05% and copper reaching 2.1% Of the total 941 samples tested, an impressive 302 samples (32%) contained anomalous silver, copper, and lead.

The Phase 2 program identified additional silver-lead-copper anomalies on the concession. These zones will be evaluated by backhoe pits, trenching, geologic mapping, and detailed geochemical sampling. Upon completion and analysis of the additional surface sampling programs, the Huerigo and other anomalous zones will be evaluated for a potential drill program.

Selected Financial Information

NSX Silver's consolidated net loss for the year ended December 31, 2012 was $517,274 or $0.014 per share. In the prior period from the date of incorporation to the end of 2011 the Company incurred a loss of $18,280 or $18.28 per share. The following table contains selected financial information for the year ended December 31, 2012 and for the quarters from August 9, 2011, the date of incorporation, to December 31, 2012:

	Year Ended Dec 31, 2012 $	Qtr Ended Dec 31, 2012 $	Qtr ended Sept 30, 2012 $	Qtr Ended Jun 30, 2012 $	Qtr Ended Mar 31, 2012 $	Period ended Dec 31, 2011 $	Qtr Ended Dec 31, 2011 $	Aug 9 2011 to Aug 31, 2011 $
Operating expenses								
Consulting fees	**104,263**	27,813	28,087	23,413	24,950	**-**	-	-
Insurance	**14,922**	1,792	4,667	5,375	3,088	**-**	-	-
Professional fees	**39,618**	19,600	1,510	15,251	3,257	**18,280**	11,580	6,700
Professional dues	**6,337**	472	740	5,125	-	**-**	-	-
Stock-based compensation	**190,000**	-	-	-	190,000	**-**	-	-
Travel	**14,062**	1,131	1,057	9,094	2,780	**-**	-	-
Wages and benefits	**53,283**	18,430	17,083	13,302	4,468	**-**	-	-
Investor communications	**30,000**	20,000	7,500	2,500	-			
Property investigation	**3,369**	3,369	-	-	-	**-**	-	-
Other	**68,704**	20,833	22,926	19,865	5,080	**-**	-	-
Total operating expenses	**524,558**	**113,440**	**83,570**	**93,925**	**233,623**	**18,280**	**11,580**	**6,700**
Interest income	**(7,284)**	(2,087)	(1,903)	(3,294)	-	**-**	-	-
Net loss for the period	**517,274**	111,353	81,667	90,631	233,623	**18,280**	11,580	6,700
Weighted average outstanding shares	**36,385,953**	45,679,571	45,649,571	45,492,758	8,487,656	**1,000**	1,000	1,000
Basic and diluted net loss per share	**$0.014**	$0.002	$0.002	$0.002	$0.028	**$18.28**	$11.58	$6.70

In 2011, the Company incurred expenses of $18,280 relating to corporate professional fees during the initial months of operations. The Company also incurred $137,817 associated with its corporate reorganization and listing on the TSX Venture Exchange. During the first six months of 2012, the Company incurred an additional $105,784 bringing the total costs to $243,601. These costs have been recorded as deferred share issue costs.

In the first quarter of 2012, the Company completed its corporate restructuring to acquire NSGold's interest in the Dios Padre project and the Company's Mexican activities commenced in the first quarter of 2012. The first quarter results include three months of corporate activity and approximately one month of Mexican administrative activities. The following quarters include three months for each of the corporate and Mexican activities. The second quarter also includes professional fees of $15,251 and travel costs of $9,094, most of which relates to the annual meeting, filing costs and some Mexican travel. The Company engaged an investor communication service in June of 2012 incurring one month's service in the second quarter and three month's service in the final two quarters of 2012. Commencing in the fourth quarter of 2012 the Company has also retained Venture Liquidity Providers Inc. to initiate its market making service to provide an orderly trading market for the common shares of the Company.

In the first quarter, the Company issued an initial tranche of stock options which are recorded in the accounts at fair value as estimated using the Black-Scholes pricing model. This valuation resulted in total stock-based compensation of $261,000 of which $71,000 was capitalized to resource properties and $190,000 was expensed.

Liquidity and Capital Resources

As at December 31, 2012, the Company had net working capital of $1,610,706. In March 2012, the Company received net proceeds of $3.5 million from NSGold in relation to the Spin-out Transaction as previously described in the section titled "Company Overview". It is expected that the Company's current working capital will be sufficient to fund a Phase 2 program at Dios Padre, as well as general and administrative expenses for the remainder of 2013.

The Company finances its operations through the issuance of equity securities. The Company is dependent on raising additional funding through the issuance of equity securities in order to fund future exploration programs and to meet its ongoing general and administrative requirements and while management has been has been successful in obtaining funding in the past, there can be no assurance that it will be able to do so in the future.

The following table contains selected financial information for the years ended December 31, 21012 and 2011:

	As at December 31, 2012 $	As at December 31, 2011 $
Total current assets	1,698,221	1,263
Deferred share issue costs	-	137,817
Resource properties and capital assets	3,666,844	-
Total assets	5,401,960	139,080
Total liabilities	87,515	157,260
Shareholder equity (deficiency)	5,314,445	(18,180)

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

In the first quarter of 2012, the Company transacted with NSGold, the Company's former parent company, to distribute common shares of the Company by way of dividend to the shareholders of NS Gold. The Company also acquired the shares of CMOB from NSGold. As part of the transaction the rights and obligations of the Dios Padre Option Agreement were also assigned to the Company.

During the year ended December 31, 2012 the Company incurred legal fees aggregating $79,872 from a law firm of which one of the officers is a partner. The Company recorded $72,439 to deferred share issue costs and $7,432 to professional fee expense. During the period from August 9, 2011 to December 31, 2011, the Company incurred legal fees aggregating $87,128 from this law firm of which $83,679 was recorded as deferred share issue costs and $3,449 was recorded as professional fee expense.

Outstanding Share Data

As at December 31, 2011, the Company had only its initial share capital of 1,000 common shares issued and outstanding. In March of 2012, the Company issued 1,000,000 common shares on its acquisition of CMOB from NSGold and also issued 44,428,571 common shares to NSGold for gross subscription proceeds of $4,665,000 million. The shares were distributed to the NSGold shareholders whereby the shareholders received one share of NSX Silver for each share of NSGold held at the record date of March 16, 2012. In June 2012, the Company issued 250,000 common shares associated with its Dios Padre Property option agreement. As at December 31, 2012 and April 29, 2013, the Company has 45,679,571 shares issued and outstanding.

As at December 31, 2011, the Company had no stock options outstanding. On March 16, 2012, the Company granted 995,000 options to directors and officers and 400,000 options to employees and consultants. These stock options vest immediately and have an exercise price of $0.25 per share and an expiry date of March 16, 2022. As at December 31, 2012 and April 29, 2013, the Company has 1,390,000 options outstanding which represents 3% of the issued and outstanding common shares as at December 31, 2013 and April 29, 2012.

Accounting Standards issued but not yet applied

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

i. IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2015, with early adoption permitted. The Company has not elected for early adoption of this standard and does not expect there to be any financial impact upon adoption.

ii. IFRS 10, Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, Consolidated and Separate Financial Statements.

Prospective application of this standard is effective for fiscal years beginning on or after January 1, 2013. The Company does not expect there to be any financial impact upon adoption.

iii. IFRS 13, Fair Value Measurement

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

Prospective application of this standard is effective for fiscal years beginning on or after January 1, 2013. The Company does not expect there to be any financial impact upon adoption.

iv. IAS 1, Presentation of Financial Statements

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in Other Comprehensive Income ("OCI") into two groups, based on whether or not items may be recycled 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. The Company does not expect there to be any financial impact upon adoption.

v. IAS 32, Offsetting Financial Assets and Financial Liabilities

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

Risks and Uncertainties

The following are certain factors relating to the business of the Company. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems immaterial, may also impair the operations of the Company. If any such risks actually occur, the financial condition, liquidity and results of operations of the Company could be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected.

The following is a description of certain risks and uncertainties that may affect the business of the Company.

i. Limited Operating History

The Company is a relatively new company with limited operating history and no history of business or mining operations, revenue generation or production history. The Company was incorporated August 9, 2011 and has yet to generate a profit from its activities. The Company will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its growth objective. The Company anticipates that it may take several years to achieve positive cash flow from operations.

ii. Exploration, Development and Operating Risks

The exploration for and development of minerals involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of minerals disclosed will be economically recoverable. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any minerals discovered will result in an increase in the Company's resource base.

The Company's operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, seismic activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

iii. Substantial Capital Requirements and Liquidity

Substantial additional funds for the establishment of the Company's current and planned mining operations will be required. No assurances can be given that the Company will be able to raise the additional funding that may be required for such activities, should such funding not be fully generated from operations. Mineral prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures, operating expenses and geological results are all factors which will have an impact on the amount of additional capital that may be required. To meet such funding requirements, the Company may be required to undertake additional equity financing, which would be dilutive to shareholders. Debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, and pursue only those development plans that can be funded through cash flows generated from its existing operations.

iv. Fluctuating Mineral Prices

The economics of mineral exploration is affected by many factors beyond the Company's control, including commodity prices, the cost of operations, variations in the grade of minerals explored and fluctuations in the market price of minerals. Depending on the price of minerals, it may be determined that it is impractical to continue the mineral exploration operation.

Mineral prices are prone to fluctuations and the marketability of minerals is affected by government regulation relating to price, royalties, allowable production and the importing and exporting of minerals, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any minerals found on the Company's properties.

v. Regulatory Requirements

The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations governing exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of mineral properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the facilities and conduct of exploration and development operations will be obtainable on reasonable terms or that such laws and regulation would not have an adverse effect on any exploration and development project which the Company might undertake.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulation and permits governing operations and activities of mineral companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs or require abandonment or delays in the development of new properties.

vi. Financing Risks and Dilution to Shareholders

The Company has limited financial resources, no operations and no revenues. If the Company's exploration program on its exploration properties is successful, additional funds will be required for the purposes of further exploration and development. There can be no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital will be raised through the issuance of additional equity, which will result in dilution to the Company's shareholders.

vii. Title to Properties

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed. The Company cannot give an assurance that title to its exploration properties will not be challenged or impugned. Mineral properties sometimes contain claims or transfer histories that examiners cannot verify. A successful claim that NSX Silver does not have title to its exploration properties could cause the Company to lose any rights to explore, develop and mine any minerals on that property, without compensation for its prior expenditures relating to such property.

viii. Requirement for Permits and Licenses

A substantial number of permits and licenses may be required should the Company proceed beyond exploration; such licenses and permits may be difficult to obtain and may be subject to changes in regulations and in various operational circumstances. It is uncertain whether the Company will be able to obtain all such licenses and permits.

ix. Competition

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other mining companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of minerals claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.

x. Reliance on Management and Dependence on Key Personnel

The success of the Company will be largely dependent upon on the performance of its directors and officers and the ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

xi. No Mineral Reserves

Mineral reserves are, in the large part, estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Reserve estimates for properties that have not yet commenced production may require revision based on actual production experience. Market price fluctuations of metals, as well as increased production costs or reduced recovery rates, may render mineral reserves containing relatively lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. Moreover, short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies and the processing of new or different mineral grades, may cause a mining operation to be unprofitable in any particular accounting period.

xii. Environmental Risks

The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with mining operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

xiii. Governmental Regulations and Processing Licenses and Permits

The activities of the Company are subject to Mexican approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Although the Company believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licenses and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of the Company's investments in such projects may decline.

xiv. Local Resident Concerns

Apart from ordinary environmental issues, work on, or the development and mining of the Dios Padre property could be subject to resistance from local residents that could either prevent or delay exploration and development of the property.

xv. Management Inexperience in Developing Mines

The management of the Company has some experience in exploring for minerals, but may lack all or some of the necessary technical training and experience to successfully develop and operate a mine. Without adequate training or experience in these areas, management may not be fully aware of many of the specific requirements related to working within the mining industry and their decisions and choices may not take into account all available and necessary engineering or managerial approaches that experienced mine operating companies commonly use to successfully develop a mine. Consequently, the Company's operations, earnings and ultimate financial success could be materially adversely effected.

xvi. Conflicts of Interest

Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including mineral resource companies) and, as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest. The Canada Business Corporations Act (CBCA) provides that in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the Company, the director must disclose his interest in such contract or agreement and refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the CBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the CBCA.

xvii. Uninsurable Risks

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's results of operations and financial condition and could cause a decline in the value of the Company's shares. The Company does not intend to maintain insurance against environmental risks.

xviii. Litigation

The Company and/or its directors may be subject to a variety of civil or other legal proceedings, with or without merit.

xix. Dividends

To date, NSX Silver has not paid any dividends on its outstanding shares. Any decision to pay dividends on the shares of the Company will be made by its board of directors on the basis of the Company's earnings, financial requirements and other conditions.

Additional information regarding the Company is available on SEDAR at www.sedar.com.

Dated: April 29, 2013

NSX Silver Inc.

Consolidated Financial Statements
December 31, 2012 and 2011

April 29, 2013

Management's Report

The accompanying consolidated financial statements of **NSX Silver Inc.** are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparation of the financial statements. The Audit Committee of the Board of Directors reviewed and approved the Company's consolidated financial statements, and recommended their approval by the Board of Directors.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, have examined these consolidated financial statements and their report follows.

(signed) *"Johannes H.C. van Hoof"*
President and Chief Executive Officer
Buenos Aires, Argentina

(signed) *"Glenn Holmes"*
Chief Financial Officer
Halifax, Nova Scotia

April 29, 2013

Independent Auditor's Report

To the Shareholders of
NSX Silver Inc.

We have audited the accompanying consolidated financial statements of **NSX Silver Inc.,** and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of changes in shareholder's deficiency, loss and comprehensive loss and cash flows for the years ended December 31, 2012 and December 31, 2011 and the related notes including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of NSX Silver Inc. and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about NSX Silver Inc's ability to continue as a going concern.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

PricewaterhouseCoopers LLP
Summit Place, 1601 Lower Water Street, Suite 400, Halifax, Nova Scotia, Canada B3J 3P6
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NSX Silver Inc.

Statement of Financial Position

As at December 31, 2012 and December 31, 2011

(expressed in Canadian dollars)

	2012 $	2011 $
Assets		
Current assets		
Cash and cash equivalents	1,431,171	100
Sales tax recoverable	244,575	1,163
Deposits and prepaid expenses (note 5)	22,475	–
	1,698,221	1,263
Capital assets - vehicles (net of accumulated amortization of $6,511)	36,895	–
Resource properties (note 6)	3,666,844	–
Deferred share issue costs	–	137,817
	5,401,960	139,080
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	67,355	52,090
Amount due to NSGold Corporation (note 8)	20,160	105,170
	87,515	157,260
Equity	5,314,445	(18,180)
	5,401,960	139,080

Nature of operations and going concern (note 1)

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

Approved by the Board of Directors

(signed) *"Johannes H.C. van Hoof"*, Director

(signed) *"Glenn Holmes"*, Director

NSX Silver Inc.

Statement of Changes in Shareholder's Deficiency

For the years ended December 31, 2012 and December 31, 2011

(expressed in Canadian dollars)

	Number of shares (note 10)	Share capital $ (note 10)	Contributed surplus $ (note 10)	Deficit $	Total $
Shares issued for cash	1,000	100	–	–	100
Net loss and comprehensive loss for the year	–	–	–	(18,280)	(18,280)
Balance – December 31, 2011	1,000	100	–	(18,280)	(18,180)
Shares issued to NSGold Corporation (note 4)	45,428,571	5,526,399	–	–	5,526,399
Shares issued pursuant to resource property option agreement	250,000	62,500	–	–	62,500
Stock-based compensation	–	–	261,000	–	261,000
Net loss and comprehensive loss for the year	–	–	–	(517,274)	(517,274)
Balance – December 31, 2012	45,679,571	5,588,999	261,000	(535,554)	5,314,445

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

NSX Silver Inc.

Statement of Loss and Comprehensive Loss

For the years ended December 31, 2012 and December 31, 2011

(expressed in Canadian dollars)

	December 31, 2012 $	December 31, 2011 $
Operating expenses		
Consulting fees	104,263	–
Professional dues	6,337	–
Insurance	14,922	–
Professional fees	39,618	18,280
Stock-based compensation	190,000	–
Travel	14,062	–
Investor relations	30,000	–
Wages and benefits	53,283	–
Property investigation	3,369	–
Other	68,704	–
	(524,558)	(18,280)
Other income		
Interest income	7,284	–
Net loss and comprehensive loss for the years	(517,274)	(18,280)
Loss per share - basic and diluted	($0.01)	($18.28)
Weighted average outstanding common shares – basic and diluted	36,385,953	1,000

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

NSX Silver Inc.

Statement of Cash Flows

For the years ended December 31, 2012 and December 31, 2011

(expressed in Canadian dollars)

	December 31, 2012 $	December 31, 2011 $
Cash provided by (used in)		
Operating activities		
Net loss for the year	(517,274)	(18,280)
Charges (credits) to loss not involving cash		
Stock-based compensation	190,000	–
	(327,274)	(18,280)
Net changes in non-cash working capital balances related to operations		
Increase in sales tax recoverable	(210,350)	(1,163)
Increase in prepaid expenses	(22,745)	–
Increase (decrease) in accounts payable and accrued liabilities	(98,076)	19,443
	(658,445)	–
Investing activities		
Acquisition of capital assets	(27,975)	–
Expenditures on resource properties	(1,342,389)	–
	(1,370,364)	–
Financing activities		
Net proceeds on the issuance of capital stock	3,459,880	100
Net change in cash and cash equivalents for the years	1,431,071	100
Cash and cash equivalents – Beginning of years	100	–
Cash and cash equivalents – End of years	1,431,171	100
Cash and cash equivalents are comprised of the following:		
Cash on hand and balances with banks	81,171	100
Short-term investments	1,350,000	-
	1,431,171	100

(expressed in Canadian dollars)

1 Nature of operations and going concern

Nature of operations

NSX Silver Inc. (the "Company") was incorporated under the Canada Business Corporations Act on August 9, 2011 as a wholly owned subsidiary of NSGold Corporation ("NSGold"). The common shares of the Company commenced trading on the TSX-Venture Exchange, on March 14, 2012, with the symbol NSY (see note 4). Its principal business activities will be the acquisition, exploration and development of resource properties in Mexico. The Company's registered office is located at 1550 Bedford Highway in Halifax, Nova Scotia.

Going concern

The Corporation's planned principal operations have not commenced, and no revenues have been derived during the period ended December 31, 2012. These consolidated financial statements as at December 31, 2012 have been prepared on the basis of International Financial Reporting Standards applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. There are material uncertainties that may cast significant doubt about the appropriateness of the going concern assumption as the Company had an accumulated deficit of $0.5 million and has no operations at this time which will generate revenue. In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Accordingly, the Company may need to raise additional financing. Management cannot provide assurance that the Company will ultimately achieve profitable operations, become cash flow positive, or raise additional debt and/or equity capital. These financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, and these adjustments could be material.

2 Basis of presentation

Statement of compliance

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

The Board of Directors approved the statements for issue on April 29, 2013.

Basis of measurement

These consolidated financial statements have been prepared under the historic cost basis.

(expressed in Canadian dollars)

2 Basis of presentation (continued)

Use of estimates and judgments

The preparation of the financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current as well as expected economic conditions. Actual results may differ from these estimates.

Recoverability of resource properties

The Company assesses all resource properties at each reporting period date to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, future capital requirements, exploration potential and operating performance.

Fair value of assets acquired from NSGold Corporation (note 4)

The estimation of the fair value of assets acquired is determined based on the fair value of the assets received from NSGold in return for shares of the Company. The determination of the fair value requires the exercise of judgment based on various assumptions and other factors such as historical experience and current as well as expected economic conditions. In order to estimate the fair value of the assets transferred to the Company, management looked to various factors including the share prices of the Company and NSGold before and after the transaction and the inferred and in situ values of the properties transferred. A $0.01 difference in the per share value allocated to the Company's shares, issued to NSGold, would impact the fair value of the assets acquired by approximately $500,000.

3 Significant accounting policies

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, and highly liquid temporary investments that are readily convertible to known amounts of cash.

Deferred share issuance costs

Costs directly attributable to the raising of capital will be charged against the related share capital. Costs related to shares not yet issued are recorded as deferred share issuance costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share capital or charged to operations if the shares are not issued.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Financial instruments

Financial instruments are classified as follows:

Cash and cash equivalents is classified as "Loans and Receivables". After its initial fair value measurement, it is measured at amortized cost using the effective interest method, less a provision for impairment.

Accounts payable and accrued liabilities and amounts due to NSGold Corporation are classified as "Other Financial Liabilities". Other Financial Liabilities are initially recognized at fair value less transaction costs. Subsequent to initial recognition, Other Financial Liabilities are measured at amortized cost using the effective interest method.

Impairment of financial assets

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

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

Consolidation

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

Capital management

The Company's capital structure consists of share capital, warrants, deficit and contributed surplus, which at December 31, 2012 totalled $5,214,445. The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Functional and presentation currency and foreign currency translation

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates and the consolidated financial statements are presented in Canadian dollars. The functional currency of all subsidiaries and the parent company are Canadian dollars. Foreign currency transactions are recorded at the foreign exchange rate in effect on the date of the transaction and gains and losses resulting from the settlement of such transactions are recorded in the statement of loss and comprehensive loss.

Stock-based compensation

The Company accounts for stock options using the fair value method. The estimated fair value of all stock options granted is recorded in the statement of loss over their vesting periods.

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

Income taxes

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

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

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

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Impairment of non-financial assets

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

Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the period. The Company follows the treasury method of calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the year. Diluted loss per share for the period presented is the same as basic loss per share, as the Company has no dilutive instruments outstanding.

Resource properties

Initial acquisition costs and exploration and development costs related to resource properties are deferred until such time as the properties are put into commercial production, sold or abandoned or management determines that the resource properties are not economically viable, at which time the resource properties are written down to their recoverable amount. Under this method, all amounts shown as resource properties represent costs incurred to date less amounts amortized, received from exploration partners and/or written down, and do not necessarily represent present or future values.

If any properties are put into commercial production, the carrying values of the properties will be depleted following the unit of production method. If any properties are sold or abandoned, or considered to be impaired in value, the carrying value of the properties will be charged to operations.

The carrying values of resource properties, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the resource properties will be written down to their recoverable amount. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon obtaining the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimate of recoverability of the Company's resource property has been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of the resource property.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Accounting Standards issued but not yet applied

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

(i) IFRS 9, *Financial Instruments*

IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2015, with early adoption permitted. The Company has not elected for early adoption of this standard and does not expect there to be any financial impact upon adoption.

(ii) IFRS 10, *Consolidated Financial Statements*

IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, Consolidated and Separate Financial Statements.

Prospective application of this standard is effective for fiscal years beginning on or after January 1, 2013. The Company does not expect there to be any financial impact upon adoption.

(iii) IFRS 13, *Fair Value Measurement*

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

Prospective application of this standard is effective for fiscal years beginning on or after January 1, 2013. The Company does not expect there to be any financial impact upon adoption.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Accounting Standards issued but not yet applied (continued)

(iv) IAS 1, *Presentation of Financial Statements*

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in Other Comprehensive Income ("OCI") into two groups, based on whether or not items may be recycled 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. The Company does not expect there to be any financial impact upon adoption.

(v) IAS 32, *Offsetting Financial Assets and Financial Liabilities*

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

4 Share subscription agreement with NSGold Corporation, acquisition of shares of Compañía Minera Oso Blanco SA de CV and distribution of the Company's shares

On February 28, 2012, the Company filed a non-offering prospectus with the securities commissions of each of the provinces of Canada, relating to the qualification and distribution of common shares of the Company by NSGold (the former parent company of the Company) to its shareholders by way of distribution in kind. The shareholders of NSGold approved a special resolution reducing NSGold's paid-up capital in connection with the "spin-out" of the shares of the Company to the shareholders of NSGold at a special meeting of the shareholders held on December 22, 2011.

In association with this spin-out and prior to the subscription of common shares of the Company by NSGold, the Company completed the acquisition of the shares of Compañía Minera Oso Blanco SA de CV (CMOB), a wholly owned subsidiary of NSGold, for one million common shares of the Company. The acquisition has been recorded as a purchase of assets which has been recorded based on the fair value of the assets of CMOB. Also, in March 2012, the Company completed a share subscription agreement with NSGold whereby NSGold acquired 44,428,571 common shares of the Company for gross proceeds of $4,665,000, net of share issue costs of $243,601.

NSGold then completed the distribution of the common shares of the Company to the NSGold shareholders whereby the shareholders received one share of the Company for each share of NSGold held as of the record date of March 16, 2012. A total of 43,553,767 shares of the Company were distributed to the shareholders of NSGold with the distribution effected by way of a distribution of paid up capital of NSGold. After the distribution, NSGold holds 1,875,804 shares of the Company.

The common shares of the Company commenced trading on the TSX Venture Exchange on March 14, 2012 as a Tier 2 Mining Issuer under the trading symbol NSY.

(expressed in Canadian dollars)

4 Share subscription agreement with NSGold Corporation, acquisition of shares of Compañía Minera Oso Blanco SA de CV and distribution of the Company's shares
(continued)

The net assets of the Company and CMOB on the date of spin-out by NSGold are summarized as follows:

	$
Assets acquired	
Cash	4,560,137
Sales tax recoverable	37,862
Capital assets	15,432
Resource properties	2,159,644
	6,773,075
Less liabilities assumed	(1,246,676)
	5,526,399

5 Deposits and prepaid expenses

	December 31, 2012 $
Prepaid shareholder communication	17,500
Prepaid insurance	2,583
Rent deposit	1,900
Prepaid other	492
	22,475

(expressed in Canadian dollars)

6 Resource properties

	Dios Padre $	Other $	Total $
As at January 1, 2012	–	–	–
Acquisition of resources properties (note 4)	2,153,438	6,205	2,159,643
Exploration costs incurred	1,364,867	142,334	1,507,201
Balance – December 31, 2012	3,518,305	148,539	3,666,844

Dios Padre Property Option Agreement

In connection with the purchase by the Company of the shares of CMOB, all of the rights and obligations of NSGold under a Property Option Agreement dated April 9, 2011 (see below) were assigned to the Company, so that the Company thereafter will issue shares and make cash payments to the optionor, as the case may be. The optionor has consented to such assignment.

Under the Property Option Agreement with Minera Pena Blanca S.A. de C.V. ("Minera Pena Blanca"), the Company, through its subsidiary CMOB, has the exclusive right to acquire a 100% undivided interest in three mining concessions in Mexico (Dios Padre, Don Carlos and Alejandro) from the optionor. The Property, including the historic Dios Padre Silver Mine, is located in the Municipality of Yecora, State of Sonora, Mexico approximately 260 km east of Hermosillo. Under the terms of the Property Option Agreement, the Company can acquire this 100% undivided interest by making cash payments totaling US$6 million over a 5-year period and issuing an aggregate of 1,250,000 common shares to the optionor in five equal tranches over the same 5-year period. Prior to the acquisition of CMOB by the Company, NSGold paid US$175,000 and issued 250,000 common shares to the optionor. Since its acquisition of CMOB, the Company has paid US$75,000 and issued 250,000 common shares to the optionor. In order to acquire a 100% interest, the Company must make the balance of the cash payments in the amount of US$5,750,000 and issue the remaining one million shares. The dates for the remaining option payments are as follows:

	$'000
January 31, 2013	250
July 31, 2013	250
January 31, 2014	300
July 31, 2014	300
January 31, 2015	500
July 31, 2015	500
January 31, 2016	3,650

On April 26, 2013, the Company entered an amending agreement (see note 16).

(expressed in Canadian dollars)

6 Resource properties (continued)

Dios Padre Property Option Agreement (continued)

The next share issuance to the optionor due under the Property Option Agreement is 250,000 shares by June 8, 2013. The Company must make a bonus payment to the optionor of US$1 million, if the Company publishes a measured and indicated resource on the properties which includes a contained silver content in excess of 50 million ounces, and must make a bonus payment to the optionor of US$2 million if the Company publishes a measured and indicated resource on the properties which includes a contained silver content in excess of 100 million ounces. Once the Company acquires a 100% undivided interest in the three concessions, the optionor will be granted a 3% net smelter return royalty, two-thirds of which may be repurchased by the Company for US$2 million at any time prior to the commencement of commercial production.

7 Accounts payable and accrued liabilities

	December 31, 2012 $	December 31, 2011 $
Accounts payable	45,855	13,090
Accrued liabilities	21,500	39,000
	67,355	52,090

8 Amount due to NSGold Corporation

The amount due to NSGold is due on demand and is non-interest bearing.

9 Compensation of key management

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

	December 31, 2012 $
Cash compensation and other benefits	72,000
Stock-based compensation	187,192
	259,192

Cash compensation and other benefits are included in consulting fees in the statement of loss.

(expressed in Canadian dollars)

10 Share capital

a) Authorized capital stock

Unlimited number of common shares, without nominal or par value
Unlimited number of preferred shares, without nominal or par value, issuable in one or more series

Common shares issued and fully paid	**# of shares**	**Amount $**
Shares issued for cash	1,000	100
Balance – December 31, 2011	1,000	100
Shares issued to NSGold (note 4)	45,428,571	5,526,399
Shares issued pursuant to resource property option agreement	250,000	62,500
Balance – December 31, 2012	45,679,571	5,588,999

b) As at December 31, 2012, there are 10,157,289 (2011 – nil) common shares subject to escrow agreements.

c) Options

The Company has adopted a stock option plan for directors, officers, employees and consultants of the Company, providing the Board of Directors with the discretion to issue up to 3,000,000 common shares. The exercise price of the stock options is determined by the Board of Directors when the options are granted, but cannot be less than the closing price of the Company's shares on the TSX Venture Exchange on the business day immediately preceding the day on which the option is granted. The maximum exercise period of the stock options is ten years.

During the year ended December 31, 2012, the Company granted 1,390,000 stock options with an exercise price of $0.25. These options vest immediately and expire in ten years. The fair value of these options was estimated using the Black-Scholes pricing model based on a volatility of 130%, risk-free rate of 2% and expected lives of 3 years with no dividend yield. This valuation resulted in total stock-based compensation for the year ended December 31, 2012 of $261,000 of which $71,000 was capitalized to mineral properties and $190,000 was expensed.

The following table summarizes the changes in the Company's stock options:

	Weighted average exercise price $	**Number of options**	**Weighted average remaining life (years)**	**Expiry date**
Balance – December 31, 2011	–	–	–	
Granted during the year	0.25	1,390,000	9.25	March 15, 2022
Balance – December 31, 2012	0.25	1,390,000	9.25	

(expressed in Canadian dollars)

10 Share capital (continued)

d) Contributed surplus

	2012 $
Balance – Beginning of year	–
Stock-based compensation	261,000
Balance – End of year	261,000

11 Income taxes

At December 31, 2012, the Company's effective income tax rate differs from the amount that would be computed from applying the federal and provincial statutory rate of 31% to the pre-tax loss for the period. The reasons for the difference are as follows:

	2012 $	2011 $
Loss before income taxes	517,274	18,280
Income tax recovery based on statutory rates	160,000	6,000
Non-deductible stock-based compensation	(59,000)	–
Unrecognized deferred tax assets	(101,000)	(6,000)
Provision for income taxes	–	–

Losses

The Company has Canadian non-capital tax losses of approximately $226,000 available for carry-forward to reduce future years' taxable income. These non-capital tax losses expire in 2032. The Company also has, Mexican non-capital tax losses of approximately $120,000 available for carry forward to reduce future years taxable income that expire in 2022. No deferred tax asset has been recognized for these losses as it is not probable that the related deferred tax asset will be realized.

12 Related party transactions

The Company acquired the shares of Compañía Minera Oso Blanco SA de CV from its former parent company, NSGold. The Company also entered a share subscription agreement with NSGold and NSGold distributed these shares of the Company by way of dividend to the shareholders of NS Gold (see note 4).

During the year ended December 31, 2012, the Company incurred legal fees aggregating $79,872 (2011 - $87,128) from a law firm of which one of the officers is a partner. The Company recorded $72,439 (2011 - $83,679) to deferred share issue costs and $7,432 (2011 - $3,449) to professional fee expense.

(expressed in Canadian dollars)

13 Supplemental cash flow information

During the year ended December 31, 2012, the Company incurred expenditures on resource properties of $20,000 which were recorded as accounts payable at the end of the year. The Company also recorded the issuance of shares pursuant to the acquisition of a resource property in the amount of $1,167,500. These items are non-cash transactions and have been excluded from the statements of cash flows.

14 Financial instruments

Credit risk

The Company manages credit risk by holding its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Company does not have sufficient working capital to carry out all budgeted programs in 2013 and must finance during 2013 to avoid disruption in planned expenditures (see note 1).

Market Risk

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

a) Interest rate risk

The Company has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

The Company operates in Mexico, giving rise to foreign currency risk. To limit the Company's exposure to this risk, cash is primarily held with high quality financial institutions in Canada. In the future, based on the timing of the Company's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in favourable rates in line with the Company's budgets, otherwise the Company does not use any form of hedging against fluctuations in foreign exchange.

(expressed in Canadian dollars)

14 Financial Instruments (continued)

As at December 31, 2012, the Company held the following financial instruments in foreign currencies:

	USD	Pesos
Cash	1,373	21,673
Sales tax recoverable	–	227,304
Prepaid and deposits	–	19,587
Accounts payable and accrued liabilities	–	21,595

At December 31, 2012, sensitivity to a plus or minus 10% change in the Mexican Pesos exchange rate would affect net loss and comprehensive loss by approximately $25,000.

Price risk

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

15 Commitments

On December 14, 2012, the Company entered into a drill agreement with Canz Drilling to conduct diamond drilling in January 2013. Minimum meters to be drilled are 2,500 meters with an option for 500 additional meters with rates varying based on meter depth and angle. To terminate the contract, the termination fee is $125,000 and is the minimum commitment as at December 31, 2012.

16 Subsequent event

On April 26, 2013, the Company entered an amending agreement with Minera Pena Blanca to extend the due dates of the remaining cash option payments for the Dios Padre Option Agreement by three years. The Company is also required to pay the principal of Minera Pena Blanca an annual consulting fee of $125,000 for the next three years subject to the Dios Padre Option Agreement remaining in effect.