



**NEVADA SUNRISE GOLD CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011**

**NEVADA SUNRISE GOLD CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
AS AT  
(Unaudited)

	June 30, 2011	September 30, 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 20,803	\$ 62,680
Other current assets	<u>1,099</u>	<u>4,632</u>
	21,902	67,312
<b>Equipment</b> (Note 5)	21,323	33,202
<b>Mineral properties</b> (Note 6)	2,183,497	2,580,601
<b>Other Assets</b>	<u>3,408</u>	<u>3,591</u>
	<u>\$ 2,230,130</u>	<u>\$ 2,684,706</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current**

Accounts payable and accrued liabilities	\$ 137,195	\$ 111,839
Convertible note payable (Note 13)	379,654	504,813
Due to related parties (Note 9)	<u>17,582</u>	<u>51,449</u>
	<u>534,431</u>	<u>668,101</u>

**Shareholders' equity**

Share capital (Note 8)	7,118,057	6,371,766
Contributed Surplus (Note 8)	735,266	619,144
Subscriptions received in advance (Note 8)	-	45,000
Equity Component of convertible note payable (Note 13)	14,537	18,978
Accumulated other comprehensive income (loss) (Note 7)	(118,098)	(2,620)
Deficit	<u>(6,054,063)</u>	<u>(5,035,663)</u>
	<u>1,695,699</u>	<u>2,016,605</u>
	<u>\$ 2,230,130</u>	<u>\$ 2,684,706</u>

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 12)

**Contingencies** (Note 14)

Approved by the Directors:

"William B. Henderson"

**Director**

"Warren Stanyer"

**Director**

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

**NEVADA SUNRISE GOLD CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited)

	Nine Month Period Ended June 30, 2011	Nine Month Period Ended June 30, 2010	Three Month Period Ended June 30, 2011	Three Month Period Ended June 30, 2010
<b>EXPENSES</b>				
Accretion Expense (Note 13)	\$ 12,989	\$ 4,589	\$ 3,382	\$ 4,589
Business Insurance	27,941	29,032	9,262	9,131
Consulting	201,476	135,022	23,834	40,155
Depreciation	10,152	10,694	3,311	3,515
Exploration Costs (Note 6)	39,746	20,518	309	2,558
Marketing	44,768	103,657	1,088	36,331
Professional fees	48,258	67,894	(1,518)	50,533
Property Investigation	-	-	-	-
Rent and office expenses	78,391	90,987	21,037	49,180
Salaries and benefits	136,085	148,743	45,889	47,334
Stock-based compensation (Note 8)	97,144	145,219	11,837	51,119
Travel and entertainment	10,767	7,361	4,546	4,873
	<u>707,717</u>	<u>763,716</u>	<u>122,977</u>	<u>299,318</u>
<b>OTHER ITEMS</b>				
Write-off of Mineral Property (Note 6)	(284,041)	-	(284,041)	-
Foreign exchange gain (loss)	7,735	8,469	(488)	4,797
Interest expense	(34,377)	(28,861)	(10,263)	(11,370)
	<u>(310,683)</u>	<u>(20,392)</u>	<u>(294,792)</u>	<u>(6,573)</u>
<b>Loss for the period</b>	(1,018,400)	(784,108)	(417,769)	(305,891)
<b>Income tax expense</b>	-	3,836	-	3,836
<b>Net Loss</b>	(1,018,400)	(787,944)	(417,769)	(309,727)
<b>Deficit, beginning of period</b>	<u>(5,035,663)</u>	<u>(3,967,784)</u>	<u>(5,636,294)</u>	<u>(4,446,001)</u>
<b>Deficit, end of period</b>	<u>\$ (6,054,063)</u>	<u>\$ (4,755,728)</u>	<u>\$ (6,054,063)</u>	<u>\$ (4,755,728)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
<b>Weighted average number of common shares outstanding</b>	<u>49,395,789</u>	<u>39,487,119</u>	<u>50,449,843</u>	<u>45,284,659</u>

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

**NEVADA SUNRISE GOLD CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Nine Month Period Ended June 30, 2011	Nine Month Period Ended June 30, 2010	Three Month Period Ended June 30, 2011	Three Month Period Ended June 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (1,018,400)	\$ (787,944)	\$ (417,769)	\$ (309,727)
Item not involving cash				
Accretion	12,989	4,589	3,382	4,589
Depreciation	10,152	10,694	3,311	3,515
Stock-based compensation	97,144	145,219	11,845	51,119
Write down of Mineral Properties	284,041	-	284,041	-
Net change in non-cash working capital				
Other current assets	3,534	(57,346)	1,089	10,356
Accounts payable and accrued liabilities	45,918	(35,834)	76,357	(133,177)
	<u>(564,622)</u>	<u>(720,622)</u>	<u>(37,744)</u>	<u>(373,325)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment in mineral properties	(15,330)	(558,642)	( 7,543)	(120,929)
Acquisition of equipment	-	-	-	-
	<u>(15,330)</u>	<u>(558,642)</u>	<u>(7,543)</u>	<u>(120,929)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of share capital	701,290	1,089,331	-	238,451
Payments on Convertible note payable	(100,024)	-	-	-
Proceeds from Convertible note payable	-	520,836	-	-
Due to related parties	(49,458)	59,397	3,233	73,790
Other assets	-	131	-	(99)
	<u>551,808</u>	<u>1,669,695</u>	<u>3,233</u>	<u>312,142</u>
<b>Effect of exchange rate on cash</b>	<u>(13,733)</u>	<u>(260,635)</u>	<u>(5,592)</u>	<u>(150,248)</u>
<b>Net increase (decrease) in cash</b>	(41,877)	129,796	(47,646)	(332,360)
<b>Cash, beginning of period</b>	<u>62,680</u>	<u>51,939</u>	<u>68,449</u>	<u>514,095</u>
<b>Cash, end of period</b>	\$ 20,803	\$ 181,735	\$ 20,803	\$ 181,735
<b>Interest paid</b>	\$ 48,840	\$ 14,755	\$ -	\$ 14,755
<b>Income taxes paid</b>	\$ -	\$ 514	\$ -	\$ 514

Supplemental disclosure with respect to cash flows (Note 10)

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

**NEVADA SUNRISE GOLD CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Nevada Sunrise Gold Corporation (the "Company") was incorporated under the laws of British Columbia on April 3, 2007. On May 15, 2007 the Company acquired all of the issued and outstanding shares of Intor Resources Corporation ("Intor") by way of reverse takeover. Intor was incorporated under the laws of the State of Nevada on September 7, 2004 as Nevada Sunrise Exploration Limited. The name of that company was changed to Intor Resources Corporation in February, 2005. The Company's principal business activities include the acquisition, exploration and development of mineral properties.

The Company filed a prospectus on June 25, 2008, and an amendment to this prospectus on August 22, 2008, in connection with an initial public offering. On September 18, 2008, the Company closed its initial public offering and began trading on September 22 on the TSX-V using the symbol NEV.

The Company is in the process of exploring and developing its mineral properties. The recoverability of the amounts shown for mineral properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize economic benefit from its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The current market conditions and volatility increase the uncertainty of the Company's ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The unaudited interim consolidated financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, all adjustments (consisting of normal and recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine month period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ended September 30, 2011.

The interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual consolidated financial statements for the year ended September 30, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included for the year ended September 30, 2010.

**NEVADA SUNRISE GOLD CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

Future Accounting Changes

*Business combinations (Section 1582)*

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The Company does not expect the adoption of this section to have a significant effect on its financial statements.

*Consolidated financial statements (Section 1601) and non-controlling interests (Section 1602)*

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The Company does not expect the adoption of this section to have a significant effect on its financial statements.

*International financial reporting standards ("IFRS")*

The CICA has adopted a strategic plan whereby the Canadian accounting standards will be converged with International Financial Reporting Standards (IFRS) with the requirement to report under the new standards for fiscal years commencing in 2011. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. At this time, the most significant impacts appear to be related to potential reclamation and closure obligations, the calculation of stock-based compensation and, the accounting for future business combinations. The resulting effect on the Company's consolidated financial statements has not yet been determined, however the Company does anticipate increased note disclosure.

**3. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In the management of capital, the Company includes cash and components of shareholders' equity.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the nine months ended June 30, 2011. The Company is not subject to externally imposed capital requirements.

**NEVADA SUNRISE GOLD CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

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**4. FINANCIAL INSTRUMENTS**

The fair value of the Company's other current assets, accounts payable, and accrued liabilities, note payable, convertible note payable, loan payable to shareholder and due to related parties approximate carrying value, which is the amount recorded on the consolidated balance sheet. The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets or liabilities.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's believes it has no significant credit risk.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2011, the Company had a cash balance of \$20,803 (September 30, 2010 - \$62,680) to settle current liabilities of \$534,431 (September 30, 2010 - \$668,101). As discussed in Note 14, the Company closed the first tranche of a private placement financing in July 2011 which yielded gross proceeds of \$540,500. The Company is actively searching for new sources of financing which would assure continuation of the Company's operations and exploration programs; however there can be no assurance that the Company's efforts will be successful.

*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 cash balances and an interest-bearing convertible note payable. The interest charged on the note is at fixed rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions or short-term debt instruments issued by the federal government. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of June 30, 2011, the Company did not have any investments in investment-grade short-term deposit certificates or short-term debt issued by the federal government.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated in US Dollars (US).

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**NEVADA SUNRISE GOLD CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

**4. FINANCIAL INSTRUMENTS (cont'd)**

*Sensitivity Analysis*

The carrying amount of cash, accounts payable and accrued liabilities, convertible note payable, loan payable to shareholder, and due to related parties approximates their fair value due to their short term nature. The Company does not have any deposits with fixed interest rates.

The Company operates in the United States and is exposed to risk from changes in the US dollar. A 10% fluctuation in the US dollar against the Canadian dollar would affect net loss for the period by approximately \$43,000.

**5. EQUIPMENT**

	June 30, 2011			September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 16,458	\$ 8,835	\$ 7,623	\$ 17,344	\$ 7,421	\$ 9,923
Computer equipment and software	14,289	14,271	18	15,058	11,215	3,843
Tenant Improvements	23,688	15,598	8,090	24,964	12,633	12,331
Field Equipment	<u>10,558</u>	<u>4,966</u>	<u>5,592</u>	<u>11,127</u>	<u>4,022</u>	<u>7,105</u>
	\$ 64,993	\$ 43,670	\$ 21,323	\$ 68,493	\$ 35,291	\$ 33,202

**6. MINERAL PROPERTIES**

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous historical title conveyance characteristic of many mineral claims. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its interests are in good standing. The mineral property interests in which the Company has committed to earn an interest are located in the United States.

	Golden Arrow	Iron Point	Juniper	Pinnacle	Total
<b>Balance as at September 30, 2009</b>	\$ 1,811,341	\$ 107,808	\$ 116,567	\$ -	\$ 2,035,716
Acquisition costs (recovery)	575,310	40,317	43,458	-	659,085
Foreign currency variance	<u>(101,479)</u>	<u>(6,113)</u>	<u>(6,608)</u>	<u>-</u>	<u>(114,200)</u>
<b>Balance as at September 30, 2010</b>	\$ 2,285,172	\$ 142,012	\$ 153,417	\$ -	\$ 2,580,601
Acquisition costs	447	19	21	14,844	15,330
Write off of Mineral Properties	-	(136,538)	(147,503)	-	(284,041)
Foreign currency variance	<u>(116,773)</u>	<u>(5,493)</u>	<u>(5,935)</u>	<u>(192)</u>	<u>(128,393)</u>
<b>Balance as at June 30, 2011</b>	\$ 2,168,846	\$ -	\$ -	\$ 14,652	\$ 2,183,497



**NEVADA SUNRISE GOLD CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

**6. MINERAL PROPERTIES (cont'd...)**

*Exploration costs*

	Golden Arrow	Iron Point	Juniper	Kinsley Mountain	Pinnacle	Total
<b>Cumulative exploration costs, September 30, 2010</b>	\$ 1,552,649	\$ 2,468	\$ 10,601	\$ 22,566	\$ -	\$ 1,588,284
<b>Nine months ended June 30, 2011</b>						
Drilling	-	-	-	-	-	-
Geological survey	37,219	-	-	-	-	37,219
Field costs	38	-	-	-	-	38
Consulting	2,490	-	-	-	-	2,490
<b>Exploration Costs, nine months ended June 30, 2011</b>	<u>39,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,747</u>
<b>Total Cumulative Exploration Costs at June 30, 2011</b>	\$ 1,592,396	\$ 2,468	\$ 10,601	\$ 22,566	\$ -	\$ 1,628,031

**Golden Arrow, Nevada**

The Company has a mining lease and two quitclaim deeds covering a certain area of the Golden Arrow property. The mining lease, which requires annual lease payments of US\$50,000, is set to expire in December 2016. However, the Company may extend the mining lease for additional one year terms by paying escalating annual lease payments.

In March 2010, the Company entered into an agreement with Animas Resources Ltd (“Animas”), whereby the Company agreed to grant Animas an option to acquire a 51% interest in the Golden Arrow property. Animas would have exercised this option by spending \$3,500,000 in specified exploration expenditures within three years, including certain expenditures which were to occur in 2010. In March 2011, Animas notified the Company that they were terminating the agreement.

**Iron Point, Juniper and Kinsley Mountain, Nevada**

The Company has mining agreements with a related party for each of three properties: Iron Point, Juniper and Kinsley Mountain. The Iron Point and Juniper agreements include a net smelter royalty on production of 2% while the Kinsley Mountain agreement has a sliding scale net smelter royalty rate on production from 2% to 5% depending on the price of gold. Each lease expires in 2017 and requires an annual advance minimum royalty. The annual advance minimum royalty for each property is US\$100,000 in 2011 and all years thereafter. The Company has the right to terminate each lease with the related party with thirty days written notice. The Iron Point and Juniper mining agreements were terminated effective June 1, 2011 and all related acquisition costs have been expensed.

Effective March 2010, the Company entered into an agreement with Animas Resources Ltd (“Animas”), whereby the Company agreed to grant Animas an option to acquire a 51% interest in the Kinsley Mountain property. Animas may exercise this option by spending \$1,500,000 in exploration expenditures including all annual property maintenance fees, advance royalty payments and lease payments within three years. As specified in the agreement, \$200,000, of the \$1,500,000 in exploration expenditures occurred during the 2010 calendar year. Upon earning 51%

**NEVADA SUNRISE GOLD CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

**6. MINERAL PROPERTIES (cont'd)**

interest in Kinsley Mountain property, Animas and the Company will form a joint venture for further exploration work on the property and Animas will be granted an option to earn an additional 14% interest (for a total interest of 65%) by spending \$3,000,000 in exploration expenditures within 5 years from the date Animas provides notice of its intent to proceed with the second option, provided that Animas must provide such notice within 120 days of the exercise of the first option. Once Animas has earned a 65% interest in the property, and if the Company elects not to participate in the funding of a pre-feasibility study, Animas may earn an additional 10% interest (for a total of 75%) by completing and paying for a pre-feasibility study for the property. Animas' exploration program at the Kinsley Mountain are ongoing and are not impacted by the termination of the Animas option on Golden Arrow.

**Pinnacle, Nevada**

Effective January 2011, the Company entered a mining agreement with a related party covering the Pinnacle property. The agreement includes a sliding scale net smelter royalty on production from 2.5% to 5% depending on the price of gold. The Company can terminate the agreement by giving written notice prior to July 1 of the year of its determination and executing a quitclaim deed conveying its interest in the property to the related party. The agreement requires advance minimum royalty payments as follows:

	<b>US\$ Advance Minimum Royalty</b>
2011 (quarterly instalments)	\$30,000
2012 (quarterly instalments)	45,000
2013 (quarterly instalments)	60,000
2014-2020 (due July 1 of each year)	60,000

In addition, the Company must pay annual property maintenance fees and a minimum work commitment of US\$100,000 by the end of 2012; US\$100,000 each year from 2013 through 2015; and US\$250,000 per year from 2016 through 2020.

**7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Comprehensive income (loss) is the change in shareholder equity during a period from transactions and other events from non-owner sources. The Company includes the account "accumulated other comprehensive income (loss)" in the shareholders' equity section of the consolidated balance sheet.

Accumulated other comprehensive income (loss) is comprised of the following:

Balance as at September 30, 2009	\$ 70,296
Cumulative translation adjustment	<u>(72,916)</u>
Balance as at September 30, 2010	(2,620)
Cumulative translation adjustment	<u>(115,478)</u>
Balance as at June 30, 2011	<u>\$ (118,098)</u>

**NEVADA SUNRISE GOLD CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

- a) Authorized: Unlimited common shares, without par value  
b) Issued

	Share Capital		Contributed Surplus
	Number of Shares	Amount	Amount
Balance as at September 30, 2009	31,936,979	\$ 5,151,939	\$ 412,992
Private Placements	13,979,530	1,296,930	-
Share issuance costs, private placements	-	(102,603)	9,695
Warrants Exercised	170,000	25,500	-
Stock-based compensation expense	-	-	196,457
Balance as at September 30, 2010	46,086,509	\$ 6,371,766	\$ 619,144
Private Placements	2,000,000	400,000	-
Share issuance costs, private placements	-	(8,209)	-
Warrants Exercised	2,363,334	354,500	-
Equity component of convertible note payable	-	-	18,978
Stock-based compensation expense	-	-	97,144
Balance as at June 30, 2011	50,449,843	\$ 7,118,057	\$ 735,266

In December 2010, the Company closed a non-brokered private placement consisting of 2,000,000 Units at a price of \$0.20 per Unit, yielding the Company gross proceeds of \$400,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each common share purchase warrant will be exercisable to purchase an additional common share at a price of \$0.30 until December 3, 2012, subject to acceleration on 30-days notice if, on any day on or after April 4, 2011 and before the expiry date of the Warrants, the Company's common shares trade at a price greater than \$0.50 for a period of 10 or more trading days. All shares and warrants issued pursuant to the offering are subject to a four-month hold period.

Between October 1, 2010 and December 31, 2010, a total of 2,363,334 warrants were exercised at a price of \$0.15 per warrant, yielding the Company \$354,500. Of these proceeds, \$45,000 was received in September 2010 and therefore was included in Subscriptions received in advance at September 30, 2010. Also, as discussed in Note 14, subsequent to June 30, 2011, the Company closed the first tranche of a non-brokered private placement that yielded gross proceeds of \$540,500.

**NEVADA SUNRISE GOLD CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

c) Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance as at September 30, 2009	6,300,000	\$ 0.30
Warrants issued	7,180,654	\$ 0.19
Warrants expired	(6,300,000)	\$ 0.30
Warrants exercised	<u>(170,000)</u>	<u>\$ 0.15</u>
Balance as at September 30, 2010	7,010,654	\$ 0.20
Warrants issued	2,000,000	\$ 0.30
Warrants expired	(4,647,320)	\$ 0.22
Warrants exercised	<u>(2,363,334)</u>	<u>\$ 0.15</u>
Balance as at June 30, 2011	<u>2,000,000</u>	<u>\$ 0.30</u>

At June 30, 2011, warrants were outstanding enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Expiry Date
2,000,000	\$ 0.30	December 3, 2012

d) Options

The Company has a stock option plan whereby it may grant options to employees, directors, consultants and certain other service providers. The maximum aggregate number of shares that may be reserved for issuance under the plan is 10% of the Outstanding Shares, less any common shares reserved for issuance under share options granted outside of this plan. Options are exercisable for a maximum of 10 years. Option shares are subject to vesting requirements as determined by the Company's Board of Directors.

The Company recognizes stock-based compensation expense for all stock options based on the fair value based method of accounting. The fair value attributable to options vesting during the period ended June 30, 2011 was \$97,144 (June 30, 2010 - \$145,219). No options were granted during the nine months ended June 30, 2011. The weighted average fair value of options granted during the nine months ended June 30, 2010 was \$0.12.

**NEVADA SUNRISE GOLD CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd...)**

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance as at September 30, 2009	2,525,000	0.25
Options issued	1,850,000	0.22
Options expired	(750,000)	0.24
Options exercised	-	-
Balance as at September 30, 2010	3,625,000	0.24
Options issued	-	-
Options expired	(750,000)	0.18
Options exercised	-	-
Balance as at June 30, 2011	2,875,000	\$ 0.25

The following weighted average assumptions were used for the Black-Scholes valuation of the stock granted during this period:

	June 30, 2011	June 30, 2010
Risk-free interest rate	-	2.75%
Expected life of options	-	5 years
Annualized volatility	-	115%
Dividends	-	-

At June 30, 2011, stock options were outstanding enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Number of options Currently Exercisable	Expiry Date
1,850,000	\$ 0.25	1,745,850	September 18, 2013
100,000	0.25	86,115	November 5, 2013
25,000	0.25	18,743	March 5, 2014
900,000	\$ 0.25	-	July 29, 2015

**NEVADA SUNRISE GOLD CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

**9. RELATED PARTY TRANSACTIONS**

	For the Nine Month Period Ended June 30, 2011	For the Nine Month Period Ended June 30, 2010
Professional fees to accounting firm in which officer is a partner	\$ 55,783	\$ 54,414
Exploration costs to a company owned by a director	-	235
Stock-based compensation to four directors, an officer and a director and an officer	23,891	82,639
Travel expense to an affiliated company	7,198	-
Affiliated company for advance minimum royalty payments	14,844	-
Mineral properties cost to company owned by a family member of an officer and director	-	2,387

	June 30, 2011	September 30, 2010
<b>Due to Related Parties</b>		
Affiliated company for advance royalties on mining leases and expenses paid on behalf of Company	\$ -	\$ 51,449
Two directors for director fees	5,860	-
Accounting firm in which an officer is partner for accounting and consulting services	11,722	-
<b>Total due to Related Parties</b>	<b>\$ 17,582</b>	<b>\$ 51,449</b>

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties. The amounts due to related parties are non-interest bearing, with no fixed terms of repayment. The fair value of the amounts due to related parties cannot be determined as there are no specific terms of repayment. Repayment is expected within the next fiscal year and therefore has been classified as a current liability in these financial statements.

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the nine months ended June 30, 2011, include:

- a) The reallocation of the equity component of convertible note payable of \$18,978 to contributed surplus.

**11. SEGMENTED INFORMATION**

The Company operates in one reportable operating segment, being the exploration and development of resource properties. All of the Company's equipment and mineral properties are located in the United States.

**NEVADA SUNRISE GOLD CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
FOR THE NINE MONTH PERIOD ENDED JUNE 30, 2011

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**12. COMMITMENTS**

The Company has entered into an operating lease agreement for its office premises in Auburn, California. The term of the lease is through December 31, 2012. The minimum annual commitments under this lease are as follows:

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Fiscal Year	Minimum Annual Commitment
2011	\$ 39,915 (paid \$31,625)
2012	41,117
2013	10,355

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**13. CONVERTIBLE NOTE PAYABLE**

In March 2010, the Company received US\$500,000 in exchange for a convertible promissory note. The note, which was due to mature on March 25, 2011, bore interest at 10% per annum and was convertible into units of the Company at a price of \$0.17 per unit. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at \$0.25 per share, exercisable until March 25, 2011. Proceeds from the convertible promissory note were used to make an option payment on the Company's Golden Arrow mineral property. The note is secured by a first charge over the Company's interest in the mining lease. In March, 2011, the Company executed an amendment to the convertible promissory note. Pursuant to the terms of the amendment, the Company repaid US\$100,000 in principal and US\$50,000 in interest in March 2011. The maturity of remaining principle amount, US\$400,000, is extended to March 25, 2012 and continues to bear interest at 10% per annum. The amended convertible promissory note may be prepaid in advance by the Company, provided that upon prepayment, the Company will grant 200,000 warrants to the lender. Each warrant will entitle the holder to acquire an additional common share at a price of \$0.12 per share, exercisable for a period of 12 months from grant.

The debt component of the amended convertible promissory note is calculated as the present value of the debt and required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible notes payable at the time the notes were issued. On issuance, the relative fair value of \$14,537 attributed to the equity component of the amended convertible promissory note was classified as the equity component of convertible notes payable.

**14. SUBSEQUENT EVENT**

In July 2011, the Company closed the first tranche of a non-brokered private placement. At the close of the first tranche, the Company issued 10,810,000 units (the "Units") at a price of \$0.05 per Unit, for gross proceeds of \$540,500. Each Unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.10 per share for a period of 18 months from the date of issuance.

In connection with the private placement, a finder's fee totaling \$39,240 and 981,000 warrants were paid to certain parties. The finder's warrants entitle the holder to purchase one share of the Company at a price of \$0.10 per share for a period of 18 months from the closing.

All securities issued under the private placement are subject to a four month hold period, expiring November 26, 2011, during which time the securities may not be traded.