NORTHERNSHIELD
RESOURCES INC.

(A Development Stage Company)

Annual Consolidated Financial Statements

For the years ended December 31, 2011 and 2010
All amounts in Canadian Dollars

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Independent Auditor's Report

To the Shareholders of
Northern Shield Resources Inc.

We have audited the accompanying consolidated financial statements of Northern Shield Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, consolidated statements of cash flows, and consolidated statements of changes in equity for the years ended December 31, 2011 and December 31, 2010, and 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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 audits. We conducted our audits 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 consolidated 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.

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Independent Auditor's Report (Continued)

Auditor's Responsibility (Continued)

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 consolidated financial statements present fairly, in all material respects, the financial position of Northern Shield Resources Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which includes that the Company incurred a net loss of $1,361,924 and negative operating cash flows of $554,488 during the year ended December 31, 2011. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

April 24, 2012
Ottawa, Ontario

NORTHERN SHIELD RESOURCES INC.

(A Development Stage Company)

Consolidated Statements of Comprehensive Loss

for the years ended December 31, 2011 and 2010

(in Canadian Dollars)

		2011		2010
Expenses				
Expensed exploration (Note 10)	**$**	**650,120**	$	126,982
General and administrative (Note 10)		**1,050,740**		922,543
		(1,700,860)		(1,049,525)
Other income (Note 6)		**338,936**		6,822
.				
NET LOSS AND COMPREHENSIVE LOSS ATTRIBUTABLE TO OWNERS		**(1,361,924)**		(1,042,703)
Weighted average common shares outstanding		**96,248,390**		80,061,290
Basic and diluted loss per share (Note 4)	**$**	**(0.01)**	$	(0.01)

All results are from continuing operations.

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

APPROVED BY THE BOARD

___________________________ Ian C. Bliss, Director

___________________________ Bill Kiff, Director

NORTHERN SHIELD RESOURCES INC.

(A Development Stage Company)

Consolidated Statements of Financial Position

as at December 31, 2011 and 2010 and January 1, 2010
(in Canadian Dollars)

		December 31, 2011		December 31, 2010		January 1, 2010
CURRENT ASSETS						
Cash and cash equivalents (Note 7)	**$**	**350,225**	$	705,543	$	415,412
Unbilled receivables		**97,496**		99,598		-
Amounts receivable		**336,728**		85,691		54,704
Prepaid expenses		**30,324**		19,112		27,111
Asset held for sale (Note 15)		**110,000**		-		-
		924,773		909,944		497,227
NON-CURRENT ASSETS						
INVESTMENT IN PRIVATE COMPANY (Note 8)		**62,500**		-		-
MINERAL PROPERTIES (Note 8)		**6,096,687**		4,570,889		4,000,816
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Note 9)		**365,500**		102,033		89,894
	$	**7,449,460**	$	5,582,866	$	4,587,937
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	**$**	**867,827**	$	288,023	$	187,845
		867,827		288,023		187,845
SHAREHOLDERS' EQUITY						
Share capital (Note 3)		**15,519,625**		13,137,892		11,405,197
Reserves		**1,952,795**		1,685,814		1,481,055
Deficit		**(10,890,787)**		(9,528,863)		(8,486,160)
		6,581,633		5,294,843		4,400,092
	$	**7,449,460**	$	5,582,866	$	4,587,937

All results are from continuing operations.

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

NORTHERN SHIELD RESOURCES INC.

(A Development Stage Company)

Consolidated Statements of Cash Flows

for the years ended December 31, 2011 and 2010

(in Canadian Dollars)

	2011	2010
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	$ (1,361,924)	$ (1,042,703)
Items not affecting cash		
Amortization - administrative	19,211	22,418
Stock-based compensation	309,000	209,500
Warrant reserve allocated to share capital	(42,019)	-
Other income	(338,936)	(6,822)
Changes in non-cash operating working capital items:		
Unbilled receivables	2,102	(99,598)
Amounts receivable	(251,037)	(30,987)
Prepaid expenses	(11,212)	7,999
Asset held for sale	(110,000)	-
Accounts payable and accrued liabilities	579,804	100,178
Expensed exploration	650,120	126,982
Interest Income	403	-
	(554,488)	(713,033)
INVESTING		
Expenditures on mineral properties	(4,317,896)	(2,399,114)
Mineral property funding	2,141,978	1,702,059
Investment in private company	(62,500)	-
Purchase of property, plant and equipment	(297,176)	(34,557)
Amortization charged to exploration	14,498	-
	(2,521,096)	(731,612)
FINANCING		
Interest received	(403)	-
Issuance of share capital, net of issuance costs	2,720,669	1,734,776
	2,720,266	1,734,776
NET CASH (OUTFLOW)/INFLOW	(355,318)	290,131
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	705,543	415,412
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 350,225	$ 705,543

All results are from continuing operations.

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

NORTHERN SHIELD RESOURCES INC.

(A Development Stage Company)

Consolidated Statements of Changes in Equity

(in Canadian Dollars)

	Share Capital (Note 3)		**Reserves**			
	Number of Shares	Amount	Share-based Payments	Warrants	Deficit	**Total**
Balance at January 1, 2010	**79,519,166**	**11,405,197**	**1,065,821**	**415,234**	**(8,486,160)**	**4,400,092**
Shares issued for cash	6,714,250	998,260	-	-	-	**998,260**
Warrants issued pursuant to private placement	-	(146,259)	-	146,259	-	**-**
Flow-through shares issued for cash	341,111	61,400	-	-	-	**61,400**
Flow-through premium	-	(6,822)	-	-	-	**(6,822)**
Shares issued upon exercise of warrants	4,411,111	661,666	-	-	-	**661,666**
Amounts reclassified upon exercise of warrants	-	130,370	-	(130,370)	-	**-**
Expiry of warrants	-	-	275,864	(275,864)	-	**-**
Amounts reclassified upon exercise of options	-	23,630	(23,630)	-	-	**-**
Share-based compensation	-	-	209,500	-	-	**209,500**
Share issue costs	-	13,450	-	-	-	**13,450**
Warrants issued as share issuance costs	-	(3,000)	-	3,000	-	**-**
Loss for the year	-	-	-	-	(1,042,703)	**(1,042,703)**
Balance at December 31, 2010	**90,985,638**	**13,137,892**	**1,527,555**	**158,259**	**(9,528,863)**	**5,294,843**
Shares issued for cash	4,700,000	1,175,000	-	-	-	**1,175,000**
Flow-through shares issued for cash	4,306,704	1,398,812	-	-	-	**1,398,812**
Flow-through premium	-	(338,936)		-	-	**(338,936)**
Shares issued pursuant to property purchase	50,000	9,000	-	-	-	**9,000**
Shares issued upon exercise of warrants	852,500	144,925	-	-	-	**144,925**
Amount reclassified upon exercise of warrants	-	42,019	-	(42,019)	-	**-**
Share issue costs	-	(49,087)	-	-	-	**(49,087)**
Share-based compensation	-	-	309,000	-	-	**309,000**
Loss for the year	-	-	-	-	(1,361,924)	**(1,361,924)**
Balance at December 31, 2011	**100,894,842**	**15,519,625**	**1,836,555**	**116,240**	**(10,890,787)**	**6,581,633**

All results are from continuing operations.
The accompanying notes are an integral part of the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Northern Shield Resources Inc. ("the Company" or "Northern Shield"), a development stage company, incorporated under the Canada Business Corporations Act, is a natural resource company engaged in the business of identifying, acquiring and exploring mineral properties located primarily in Ontario and Quebec.

The Company's head office is situated at Suite 440, 55 Metcalfe Street, Ottawa, Ontario. The Company's shares trade on the TSX Venture Exchange under the symbol NRN.

The Company has not yet determined whether any of their properties contain precious mineral reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties is dependent upon the existence of reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development of the properties, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

As Northern Shield does not have an interest in revenue producing properties, the Company has no operating income or earnings and, as such, its net loss may not be a meaningful indicator of its performance or potential. Exploration activities and the Company's expenses are financed by the periodic issuance of common shares and other equity securities.

Going concern

These consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. For the year ended December 31, 2011, the Company incurred a loss of $1,361,924 and had negative cash flows from operations of $554,488. At the end of the period it had an accumulated deficit of $10,890,787.

These factors raise doubt about the Company's ability to continue as a going concern. The Company is currently looking to raise additional financing. Should this financing not materialize and profitable operations ultimately not be attained, this may cast doubt as to the Company's ability to continue as a going concern. Realization values may be substantially different from carrying values as shown in the financial statements and the Company's ability to discharge its liabilities in the normal course of business may be in doubt should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). This is the first time that the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Previous CGAAP").

A description of how the transition from Previous CGAAP to IFRS has affected the reported financial results of the Company since the transition date to IFRS of January 1, 2010 (the "Transition Date") is provided in Note 20.

The Board of Directors authorized these Financial Statements for issue on April 24, 2012.

Basis of Preparation

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale or fair value through profit or loss and share-based payments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The policies applied in these consolidated financial statements are based on IFRSs issued and effective as at April 24, 2012 for periods ending on or before December 31, 2011.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its proportionate share of joint ventures.

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

When a Company entity undertakes its activities under joint venture arrangements directly, the Company's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Company and their amount can be measured reliably.

The Company reports its interests in jointly controlled assets using proportionate consolidation, except when the investment or asset is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The Company's share of the jointly controlled assets is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Conversion to International Financial Reporting Standards

The Company’s transition date for converting to IFRS was January 1, 2010 (the “Transition Date”). The consolidated comparative statements of financial position as at December 31, 2010 and January 1, 2010, and consolidated comparative statements of comprehensive loss, consolidated comparative statements of changes in equity and consolidated comparative statements of cash flows for the year ended December 31, 2010 have been restated in accordance with IFRS. The guidance for the first time adoption of IFRS is set out in *IFRS 1, First-Time Adoption of IFRS*, and has been applied. The impact of the transition from GAAP to IFRS is explained in Note 20.

Functional Currency and Foreign Currency Translation

The presentation currency of the Company is the Canadian dollar. The functional currency of the Company is also the Canadian dollar. The functional currency was determined through an analysis of the consideration factors identified in *IAS 21, The Effects of Changes in Foreign Exchange Rates*.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, any material monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the consolidated statement of financial position. Any material non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, unbilled receivables, amounts receivable, investments and accounts payable. The Company has designated its cash and cash equivalents, unbilled receivables, amounts receivable and prepaids are classified as loans and receivables, which are measured at amortized cost.

Accounts payable are classified as other financial liabilities, which are measured at amortized cost.

A. Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

> *Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in net loss.
>
> *Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in net loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with change in fair value recognized through other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in net loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

B. Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in net loss.

Other financial liabilities - This category includes accounts payables and accrued liabilities, which are recognized at amortized cost.

Cash and Cash Equivalents

Cash equivalents include money-market instruments, which are readily convertible into known amounts of cash or have maturities at the date of purchase of less than ninety days.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Property, Plant and Equipment and Intangible Assets

Property, plant and equipment (PP&E) and intangible assets are stated at cost and are depreciated annually on a declining-balance basis at the following rates:

PP&E	
Furniture, fixtures & office equipment	20% declining balance
Field equipment	30% declining balance
Leasehold improvements	5-year straight-line
Intangible Assets	
Computer software	100% declining balance

If impairment indicators are present, the Company compares the carrying value of PP&E or intangible assets to estimated net recoverable amounts, based on estimated future cash flows to determine whether there is any impairment. The depreciation method, useful life and residual values are assessed annually.

There was no identification of impairment of either PP&E or intangible assets during the period.

Impairment of Non-Financial Assets Under IAS 36

Non-financial assets, including asset held for sale, mineral properties and property, plant and equipment and intangible assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

An asset’s recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in net loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in net loss for the period.

There was no identification of impairment of non-financial assets during the period apart from those specifically addressed in Note 8 below.

Exploration and Evaluation

The Company is in the exploration stage with respect to its investment in mineral properties and has chosen to follow the cost model, capitalizing all costs relating to the acquisition of and exploration for mineral claims and crediting all sale proceeds received against the cost of the related claims. Such costs include, but not are not limited to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment.

Exploration and evaluation ("E&E") assets are assessed for impairment only when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount and when the Group has sufficient information to reach a conclusion about technical feasibility and commercial viability.

Consistent with IFRS 6 and industry-specific indicators for an impairment review arise typically when one of the following circumstances applies:

- substantive expenditure on further exploration and evaluation activities is neither budgeted nor planned;
- title to the asset is compromised;
- adverse changes in variations in commodity prices and markets; and
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

During the year ended December 31, 2011, three properties were deemed to be without value to the Company and were consequently written-off. Details may be found in Note 8 below.

Income Taxes

Current income taxes is based on taxable profit (loss) for the year. Taxable profit (loss) differs from profit (loss) as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit (loss). Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Share-Based Compensation Transactions

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black- Scholes option-pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Restoration, Rehabilitation and Environmental Obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Any material costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, will be provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability when any obligation to incur such costs arises. The unwinding of any value of discount will be recognized as a borrowing cost.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Company has no material restoration, rehabilitation and environmental obligations, as the disturbance to date is immaterial.

Flow Through Shares

Under Canadian income tax legislation, a company is permitted to issue flow through shares whereby the company agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. The Company allocates the proceeds from the issuance of these shares between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the market price of the shares and the amount the investor pays for the shares. A deferred flow-through premium liability is recognized for the difference. The liability is reversed when the expenditures are made and is recorded in other income. The spending also gives rise to a deferred tax timing difference between the carrying value and tax value of the qualifying expenditure.

Loss Per Share

The Company presents the basic loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Significant Accounting Judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (see paragraph immediately below), that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are related to the economic recoverability of the mineral properties and assumption of going concern.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Significant Accounting Estimates

The preparation of these annual consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the consolidated statements of financial position date, which could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of amounts receivable and prepayments which are included in the consolidated statements of financial position;
- impairment of non-financial assets;
- the estimated useful lives of property, plant and equipment and intangible assets which are included in the consolidated statements of financial position and the related depreciation included in the statements of comprehensive loss;
- the inputs used in accounting for share-based compensation expense in the consolidated statements of comprehensive loss; and
- the inputs used in determining the various commitments and contingencies accrued in the consolidated statements of financial position.

New Accounting Standards and Interpretations

Standards, amendments and interpretations issued but not yet effective up to the date of the issuance of the financial statements are listed below, none of which have been early adopted by the Company. The Company reasonably expects these standards, amendments and interpretations to be applicable at a future date and intends to adopt them once they become effective. The Company is currently evaluating the impact that these standards, amendments and interpretations will have on its consolidated financial statements; however the Company does not expect the impact of the resulting changes to the consolidated financial statements to be material.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

IFRS 1, "First-Time Adoption of International Financial Reporting Standards"

This amendment replaces references to a fixed date of '1 January 2004' with the 'date of transition to IFRSs', eliminates the need to derecognize transactions that occurred before the date of transition to IFRS and provides disclosure guidance where an entity elects to measure its assets and liabilities at fair value and to use that fair value as the deemed cost in its opening IFRS statement of financial position because of severe hyperinflation. This amendment is effective for annual periods beginning on or after July 1, 2011. Earlier application is permitted. This pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 7, "Financial Instruments: Disclosures"

This amendment provides disclosure guidance on transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

IFRS 9, "Financial Instruments"

This new standard is part of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement" and provides guidance on the classification and measurement of financial assets, financial liabilities, hedge accounting and derecognition. This new standard will also supersede International Financial Reporting Interpretations Committee 9, "Reassessment of Embedded Derivatives". This standard is effective for annual periods beginning on or after January 1, 2015. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

IFRS 10, "Consolidated Financial Statements"

This new standard provides guidance on the determination of control where this is difficult to assess and replaces the consolidation requirements in IFRS Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities". This new standard will also supersede the portion of IAS 27, "Consolidated and Separate Financial Statements", that addresses the accounting for consolidated financial statements. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

IFRS 11, "Joint Arrangements"

This new standard provides guidance on how to account for interests in jointly controlled entities. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. This pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 12, "Disclosure of Interests in Other Entities"

This new standard provides disclosure guidance on interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

IFRS 13, "Fair Value Measurement"

This new standard sets out a single IFRS definition and measurement framework for fair value. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

IAS 1, "Presentation of Financial Statements"

This amendment contains new standards regarding the presentation of items of other comprehensive income. This amendment is effective for annual periods beginning on or after July 1, 2012. Earlier application is permitted. The application of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

IAS 12, "Income Taxes"

This amendment contains new standards related to deferred tax: recovery of underlying assets and supersedes SIC 21, "Income Taxes – Recovery of Revalued Non-Depreciable Assets". This amendment is effective for annual periods beginning on or after January 1, 2012. Earlier application is permitted. The application of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

IAS 19, "Employee Benefits"

This amendment contains new standards related to employee benefits from defined benefit plans. This amendment is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The application of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

IAS 27, "Separate Financial Statements"

This amendment contains accounting and disclosure requirement for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This amendment requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9, "Financial Instruments". This amendment is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

IAS 28, "Investments in Associates and Joint Ventures"

This amendment prescribes the accounting for investments in associates and sets out the requirement for the application of the equity method when accounting for investments in associates and joint ventures. The amendment is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The application of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine"

This Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The application of this pronouncement is not expected to have an impact on the Company's consolidated financial statements as the Company is currently in the exploration and evaluation phase.

3. SHARE CAPITAL

Authorized and Issued

An unlimited number of voting common shares are authorized for issue and, subject to priority rights of other share classes, are entitled to receive dividends when and if declared by the Board of Directors. There were 100,894,842 issued and outstanding at December 31, 2011 (90,985,638 at December 31, 2010 and 79,519,166 at January 1, 2010).

An unlimited number of preferred shares are authorized for issue in series. There were no preferred shares issued at December 31, 2011 (none at December 31, 2010).

During the year, a total of 4,700,000 common shares were issued through private placements (2010 – 6,714,250) at an average of $0.25 per share (2010 - $0.15) for gross proceeds of $1,175,000 (2010 - $998,260).

During the year, a total of 4,306,704 flow-through common shares were issued (2010 – 341,111) at an average of $0.32/share (2010 - $0.18) for gross proceeds of $1,398,812 (2010 - $61,400). The difference between the issue price of the shares and the market price on the dates of issuance was recorded as deferred flow-through premium liability, and reversed to other income when the renouncement of exploration expenditures made with the funds generated from the share issue was completed.

During the year, the Company purchased a property for $10,000 in cash and 50,000 shares, which were valued at $9,000 (2010 - nil).

During the year, there were 852,500 warrants exercised (2010 – 4,411,111) at an average strike price of $0.17 (2010 - $0.15) for gross proceeds of $144,925 (2010 - $661,667).

During the year, share issue costs were incurred totaling $49,087 (2010 – due to the reversal of a previous accrual, a net negative share issue costs of $10,450 was recorded).

3. SHARE CAPITAL (cont.)

Warrants

The following continuity summarizes the Company's outstanding warrant obligations over the period covered by these financial statements:

	Quantity	Weighted Average Exercise Price	Weighted Average Expiry Date
Balance, January 1, 2010	**9,505,856**	**$ 0.30**	**October 29, 2010**
Issued during the year	3,019,627	$ 0.20	July 11, 2012
Exercised during the year	(4,411,111)	$ 0.15	November 8, 2010
Expired during the year	(4,950,745)	$ 0.43	October 13, 2010
Balance, December 31, 2010	**3,163,627**	**$ 0.20**	**June 24, 2012**
Exercised during the year	(852,500)	$ 0.17	June 15, 2012
Balance, December 31, 2011	**2,311,127**	**$ 0.21**	**June 27, 2012**

Additional information regarding warrants outstanding at years' ends:

Quantity	Exercise Price	Expiry Date
As at December 31, 2011:		
1,169,376	$ 0.25	April 29, 2012
1,471,084	$ 0.17	August 26, 2012
379,167	$ 0.17	August 31, 2012
2,311,127		
As at December 31, 2010:		
144,000	$ 0.17	June 24, 2011
1,169,376	$ 0.25	April 29, 2012
1,471,084	$ 0.17	August 26, 2012
379,167	$ 0.17	August 31, 2012
3,163,627		

3. SHARE CAPITAL (cont.)

Stock options

The Company has established a Stock Option Plan (the "Plan") to develop the interest and incentive of eligible employees, directors and consultants in the Company's growth and development. The aggregate number of share options which may be issued and outstanding at any time under this plan shall not exceed 10% of the total number of issued and outstanding shares of the Company unless the Company receives the permission of the TSX Venture Exchange and its shareholders. As at December 31, 2011, 10,089,484 common share options were authorized to be issued and outstanding under the Plan (December 31, 2010 – 9,098,564, January 1, 2010 – 7,951,917). Stock options are granted with an exercise price equal to the underlying common stock's fair market value at the time of grant. Once vested, options may be exercised during a period not exceeding five years from the date of grant, subject to earlier termination if the option holder ceases to be a director, officer, employee or consultant of the Company.

The following summarizes the Company's outstanding option obligations over the period covered by these financial statements:

	Quantity	Weighted Average Exercise Price
Balance, January 1, 2010	**4,121,000**	**$ 0.33**
Options expired during the period	(376,000)	$ 0.63
Options issued during the period	2,055,000	$ 0.18
Balance, December 31, 2010	**5,800,000**	**$ 0.26**
Options expired during the period	(1,125,000)	$ 0.41
Options issued during the period	2,550,000	$ 0.25
Balance, December 31, 2011	**7,225,000**	**$ 0.23**

At December 31, 2011, the remaining pool of options available for grant was 2,864,484 (December 31, 2010 – 3,298,564, January 1, 2010 – 4,026,917).

3. SHARE CAPITAL (cont.)

Stock options (cont.)

Additional information regarding options outstanding at years' ends:

Issue Date	Exercise Price	Quantity	Expiry Date	Exercisable
As at December 31, 2011:				
April 24, 2007	$ 0.40	635,000	April 24, 2012	635,000
July 21, 2008	$ 0.59	150,000	July 21, 2013	150,000
June 3, 2009	$ 0.19	1,660,000	June 3, 2014	1,106,666
November 26, 2009	$ 0.14	175,000	November 26, 2014	125,000
October 29, 2010	$ 0.18	2,055,000	October 29, 2015	685,000
October 5, 2011	$ 0.25	2,550,000	October 5, 2016	850,006
		7,225,000		**3,551,673**
As at December 31, 2010:				
February 1, 2006	$ 0.40	425,000	February 1, 2011	425,000
March 17, 2006	$ 0.42	700,000	March 17, 2011	700,000
April 24, 2007	$ 0.40	635,000	April 24, 2012	635,000
July 21, 2008	$ 0.59	150,000	July 21, 2013	150,000
June 3, 2009	$ 0.19	1,660,000	June 3, 2014	553,333
November 26, 2009	$ 0.14	175,000	November 26, 2014	125,000
October 29, 2010	$ 0.18	2,055,000	October 29, 2015	685,000
		5,800,000		**3,273,333**

Share-based compensation

The Black-Scholes option pricing model used by the Company to calculate option values, as well as other currently accepted valuation models, were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's option awards. These models require subjective assumptions, including future stock price volatility and expected time until exercise, which affect calculated values, summarized in the table below. Accordingly, management believes that this model does not necessarily provide a reliable single measure of the fair value of the Company's stock option awards.

Assumptions	***2011***	***2010***
Lifetime	5-years	5-years
Interest Rate	2.50%	1.20%
Annual Volatility	116%	118%
Dividends	None	None

During the year ended December 31, 2011, the Company expensed $309,000 relating to options granted during the current and previous periods with periodic vesting dates (2010 – $209,500). All of the amounts were attributable to the General and Administration function.

4. LOSS PER SHARE

The treasury stock method is used for the calculation of diluted loss per share. Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year. As the Company has recorded a loss in each of the years presented, the following table presents the anti-dilutive effect of securities excluded from the loss per share computation for the years-ended December 31, 2011 and 2010:

	2011	2010
Stock options	**7,225,000**	5,800,000
Stock purchase warrants	**2,311,127**	3,163,627
	9,536,127	8,963,627

5. DEFERRED TAXES

During the year the Company has renounced 1,398,812 of flow through expenditures (funds raised in 2011), spent as at December 31, 2011 on eligible Canadian exploration expenditures.

Tax reconciliation

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings from continuing operations before taxes. These differences result from the following items:

	2011	**2010**
Net loss	(1,361,924)	(1,042,703)
Expected recovery of tax	(384,744)	(323,238)
Increase resulting from:		
Other income (premium on flow through shares)	(95,749)	(2,115)
Permanent differences – share-based compensation	87,293	62,607
Permanent differences - meals and donations	2,961	-
	(5,495)	60,492
Unrecorded benefit of loss carryforward and timing differences	341,563	177,417
Other	48,676	85,329
Tax recovery recorded	**-**	**-**

5. DEFERRED TAXES (cont.)

The Canadian Federal corporate tax rate decreased from 18% to 16.5% effective January 1, 2011. The Ontario provincial tax rate decreased from 12% to 11.5% effective July 1, 2011. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 31% to 28.25%.

The following deferred tax assets have not been recognized at the reporting date:

Tax losses	1,280,565
Undeducted share issuance costs	30,399
Unused tax credits	416,905

The unrecognized tax losses will expire between 2014 and 2031.
The unrecognized tax credits will expire between 2023 and 2031.

Deferred income tax liabilities

In accordance with IFRS, the Company has not recognized a deferred tax asset or liability on initial recognition of the asset or liability that affects neither accounting nor taxable profit and loss; under previous Canadian GAAP the Company issued flow through shares and the impact of the tax benefit was recorded as a deduction of share capital on renunciation. As a result of the changes, under IFRS the Company is in a deferred income tax asset position as at December 31, 2011 and 2010 and January 1, 2010; deferred tax assets and liabilities have been offset where they relate to the same taxation authority and the Company has the legal right to offset. The remaining deferred tax assets have not been recognized as the Company does not have a history of taxable earnings.

6. OTHER INCOME

For the years ended December 31:

	2011	2010
Premium on issuance of flow through common shares	**338,936**	6,822

During the year ended December 31, 2011 $338,936 was transferred from deferred premium on flow through shares to other income (2010 - $6,822), representing the premium for flow-through funds spent during the year (see Note 3).

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2011 and 2010 comprised the following:

	2011	2010	2009
Cash	**300,225**	655,543	365,412
GIC	**50,000**	50,000	50,000
	350,225	705,543	415,412

8. MINERAL PROPERTIES

The following table summarizes the exploration expenditures incurred on each of the Company's mineral properties:

	Highbank	Faint				Hale			New	
	Lake	Hope	Wabassi	Eastbank	Max	Lake	Q-1	Storm	Pptys	Total
Percent Ownership	*60%*	*100%*	*49%*	*100%*	*59%*	*100%*	*100%*	*100%*	*100%*	
At January 1, 2010	$ 1,005,637	$ 342,095	$ 605,094	$ 219,925	$ 1,769,722	$ 31,539	$ 15,605	$ -	$ 11,199	$ 4,000,816
Expenditures										
Acquisition	26,658	-	36,934	-	-	-	-	-	17,456	81,048
Exploration	117,070	714	1,666,414	-	440,905	-	-	-	92,963	2,318,066
Total Expenditures	143,728	714	1,703,348	-	440,905	-	-	-	110,419	2,399,114
External Funding	-	-	(1,702,059)	-	-	-	-	-	-	(1,702,059)
Write-Down	-	-	-	-	-	(31,539)	-	-	(95,443)	(126,982)
At December 31, 2010	$ 1,149,365	$ 342,809	$ 606,383	$ 219,925	$ 2,210,627	$ -	$ 15,605	$ -	$ 26,175	$ 4,570,889
Expenditures										
Acquisition	-	7,200	169,925	-	-	-	-	100,656	22,341	300,122
Exploration	128,790	4,090	2,256,384	-	4,565	-	-	1,402,841	221,104	4,017,774
Total Expenditures	128,790	11,290	2,426,309	-	4,565	-	-	1,503,497	243,445	4,317,896
External Funding	-	-	(2,141,978)	-	-	-	-	-	-	(2,141,978)
Write-Down	-	(354,099)	-	(219,925)	-	-	(15,605)	-	(60,491)	(650,120)
At December 31, 2011	$ 1,278,155	$ -	$ 890,714	$ -	$ 2,215,192	$ -	$ -	$ 1,503,497	$ 209,129	$ 6,096,687

The Company holds less than a 100% stake in three of its properties. The nature of the shared ownership of each is as follows:

Highbank Lake: Impala Platinum Holdings Limited of South Africa ("Impala") held a 45% stake in the property with a deemed investment value of $2,300,000 based on its expenditures on the property under a now-expired option agreement (the Company's stake of 55% is deemed to be worth $2,811,111). As the Company expends on the property, each dollar spent decreases Impala's deemed investment by one dollar. As each $230,000 is spent, the Company increases its stake in the property by 5%. Since the expiry of the agreement, the Company's stake has increased by 5% to 60%.

Wabassi: Under a completed option agreement with Discovery Harbour Resources Corp. of Vancouver ("Discovery"), Discovery earned a 51% stake in the Company's Wabassi property. Since the completion of the agreement, the two companies have been sharing exploration costs, governed by a joint-venture agreement, in proportion to their ownership stakes with the Company acting as the operator. In addition, as part of this arrangement, in 2011 the Company received 250,000 shares in Discovery.

8. MINERAL PROPERTIES (cont.)

common shares of Discovery. This exchange resulted in a $62,500 gain representing the fair value of the Discovery shares based on financing transactions of that company occurring in and around the date of the share exchange, and resulted in a $62,500 increase in external funding of the project. These shares have been classified as available-for-sale.

Max: under a now-completed option agreement with Rainy Mountain Royalty Corp (“Rainy”, formerly East-West Resources Corp), the Company earned a 50% stake in Rainy’s property with the two parties each holding a deemed investment of $1,000,000. Since the end of the option agreement and now governed by a joint-venture agreement, the Company has spent approximately $440,000 on exploration of the property with Rainy choosing not to participate. Under the joint-venture agreement, that $440,000 of expenditure has been added to the Company’s deemed investment (with Rainy’s remaining the same), which has increased the Company’s stake to 59%.

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

COST, BALANCE	FIELD EQUIP	OFFICE EQUIP	FURN & FIXT	LEASE-HOLDS	SOFT-WARE	TOTAL
January 1, 2010	**55,274**	**57,780**	**16,235**	**23,418**	**2,553**	**155,260**
Additions	29,573	4,983	-	-	-	**34,556**
December 31, 2010	**84,847**	**62,763**	**16,235**	**23,418**	**2,553**	**189,816**
Additions	250,507	16,621	11,746	-	18,302	**297,176**
December 31, 2011	**335,354**	**79,384**	**27,981**	**23,418**	**20,855**	**486,992**

ACCUMULATED DEPRECIATION, BALANCE	FIELD EQUIP	OFFICE EQUIP	FURN & FIXT	LEASE-HOLDS	SOFT-WARE	TOTAL
January 1, 2010	**(23,921)**	**(23,724)**	**(9,727)**	**(5,855)**	**(2,139)**	**(65,366)**
Depreciation	(9,454)	(6,901)	(1,207)	(4,684)	(171)	**(22,417)**
December 31, 2010	**(33,375)**	**(30,625)**	**(10,934)**	**(10,539)**	**(2,310)**	**(87,783)**
Depreciation	(14,498)	(7,521)	(2,393)	(4,684)	(4,613)	**(33,709)**
December 31, 2011	**(47,873)**	**(38,146)**	**(13,327)**	**(15,223)**	**(6,923)**	**(121,492)**

CARRYING AMOUNTS AS AT	FIELD EQUIP	OFFICE EQUIP	FURN & FIXT	LEASE-HOLDS	SOFT-WARE	TOTAL
January 1, 2010	**31,353**	**34,056**	**6,508**	**17,563**	**414**	**89,894**
December 31, 2010	**51,472**	**32,138**	**5,301**	**12,879**	**243**	**102,033**
December 31, 2011	**287,481**	**41,238**	**14,654**	**8,195**	**13,932**	**365,500**

Depreciation of exploration-related assets in the amount of $14,498 was allocated to mineral properties during the year ended December 31, 2011 (December 31, 2010 – nil).

10. NATURE OF EXPENSES

General and administrative expenses comprised the following during the years ended December 31:

	2011	2010
Remuneration and consulting fees	**476,006**	435,263
Share-based compensation	**309,000**	209,500
Office expenses	**146,597**	137,516
Travel expenses	**117,949**	86,489
Marketing expenses	**96,927**	81,107
Professional fees	**95,851**	87,326
Public company expenses	**28,437**	30,396
Insurance expenses	**14,038**	14,702
	1,284,805	1,082,299
General and administration recovery	**(234,065)**	(159,756)
	1,050,740	922,543

Expensed exploration comprised the following during the years ended December 31:

	2011	2010
Expensed prospecting activities	**60,491**	95,443
Write-downs of mineral properties	**589,629**	31,539
	650,120	126,982

11. RELATED PARTY TRANSACTIONS

The following table presents the legal fees that the Company incurred with a law firm at which one of the Company's directors is a partner and the Company's corporate secretary is an associate. All transactions were made on terms equivalent to those that prevail in arm's length transactions.

	2011	2010
Fees incurred during the years ended December 31	**44,231**	46,326
Amounts payable as at December 31	**8,877**	10,691

12. KEY MANAGEMENT COMPENSATION

The following table presents the benefits earned by key members of management during the years ended December 31, noted below:

	2011	2010
Salaries	**271,538**	270,288
Benefits	**1,176**	1,048
Share-based payments	**61,541**	49,777
	334,255	321,113

13. COMMITMENTS

The Company is committed to operating leases as follows:

	2012	2013	Total
Premises lease	88,200	66,200	**154,400**

14. EMPLOYEE BENEFITS EXPENSE

The following table presents the benefits earned by the employees during the years ended December 31, noted below:

	2011	2010
Salaries	**523,664**	281,446
Benefits	**23,268**	15,062
Share-based payments	**109,321**	64,777
	656,253	460,928

All of the expenses in the above table were partially classified as General and Administration and partially capitalized to Mineral Properties.

15. ASSET HELD FOR SALE

Near the end of the fiscal year, the Company purchased a drill rig, which was idle on one of its mineral properties in an arms-length transaction from a company that was closing its Canadian operations. The intention of the purchase was to re-sell the asset to a newly formed drill company, which would continue work on the property using the same rig. Subsequent to the end of the year, the Company entered into an agreement to sell the asset as intended.

16. SEGMENT INFORMATION

The Company has one operating segment involved in the exploration of resource properties. All of the Company's assets are located in Canada.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market risk

Market risk is the risk that changes in market prices, such as equity prices, interest rates and foreign exchange rates will affect the Company's income (loss) or the value of its financial instruments.

It is in management's opinion that the Company is not exposed to significant equity price, currency or interest rate risks arising from its financial instruments.

Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

Foreign exchange risk

The Company is not exposed to significant foreign exchange risk due to the low volume of foreign currency transactions.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's unbilled receivables.

a) Concentration of credit risk

Counterparties expose the Company to credit-related losses in the event of non-performance. By dealing with only creditworthy counterparties, the Company's credit exposure is minimized. At December 31, 2011, a single business partner represented 100% of the Company's $97,496 of unbilled receivables (December 31, 2010 – the same business partner represented 100% of the Company's $99,598 of unbilled receivables, January 1, 2010 - nil).

b) Credit risk exposure

The carrying amount of the cash, unbilled receivables and amounts receivable represents the maximum exposure to credit risk. The maximum exposure to credit risk at December 31, 2011 was $784,449 (December 31, 2010 - $890,832, January 1, 2010 - $470,116). The cash is held by the Company's bank, one of the large Canadian chartered banks. Since the inception of the Company, no losses have been suffered in relation to cash held in the bank.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont.)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to manage liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. As at December 31, 2011, the Company had a cash and cash equivalents balance of $350,225 (December 31, 2010 - $705,543, January 1, 2010 - $415,412). To date, the Company has incurred significant operating losses. The Company's ability to continue as a going concern is dependent on its ability to generate sufficient capital through either revenues or through further financings.

The Company accrues expenses when incurred. Accounts are deemed payable once an event occurs that requires payment by a specific date. As at December 31, 2011 over 95% of accounts that are payable are under sixty days.

Fair values

a) The fair value of cash, unbilled receivables, amounts receivable, prepaid expenses, accounts payable and accrued liabilities is approximately equal to their carrying value due to their short-terms to maturity.

b) Fair value hierarchy

Financial instruments recorded at fair value on the Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The fair value of the investment in private company is determined based on recent market transactions for similar instruments issued by that company.

18. CAPITAL MANAGEMENT

The Company's aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to fund future exploration and provide the ability to continue as a going concern. Capital is defined as the Company's shareholders' equity. The Company does not have any long-term debt and the Company does not intend to assume any until any given development project warrants it. The Board of Directors does not establish quantitative capital criteria for management; but rather promotes the use of periodic equity financing events as the primary method of funding administrative operations and exploration and development. Other methods open to management to fund exploration include extending joint-venturing or earn-in opportunities to other parties relating to specific properties.

There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

19. SUBSEQUENT EVENTS

Subsequent to the year-end, the Company closed two tranches of a private placement with a total of 14,254,544 units being sold for gross proceeds of $3,136,000. Each unit comprised one common share and one half of one share purchase warrant. Each warrant has a term of two years with an exercise price of $0.40. If, however, the Company's stock price closes above $0.50 for any 20 successive trading days, holders will have a 5-day period, starting the day after the 20th successive day, during which to exercise the warrants, after which the warrants will expire.

On March 26, 2012 the Company issued 1,850,000 stock options to directors, employees and consultants. The first third of each option grant vests immediately, the second third on the first anniversary of the grant and the final third on the second anniversary of the grant. The options expire on March 26, 2017, the fifth anniversary of the grant. Each vested option allows the holder to purchase one common share of the Company for $0.25.

On January 23, 2012, the Company announced it had signed a letter of intent ("LOI") with Impala Platinum Holdings Limited of South Africa ("Impala") regarding an option on Northern Shield's 100% owned Idefix PGE property in Quebec. The LOI contemplates the parties signing (subject to South African regulatory approval) an Option and Joint Venture Agreement that would allow Impala to earn a 50% interest in Idefix by making cash payments to Northern Shield totaling $300,000 over two years and incurring $3.2 million in exploration expenditures at Idefix or the surrounding area over three years, with total expenditures of $1,950,000 committed for the first two years of the agreement. Impala can also earn a 50% interest in up to two additional "designated properties" within an agreed upon area of mutual interest in Quebec by incurring a further $1.25 million of expenditures per additional property. The property expenditures to be incurred include a 10% project management fee to be paid to Northern who will be the operator of the projects. 50/50 joint ventures would be formed as interests are earned in each project.

20. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and were effective on December 31, 2011, the Company's first annual reporting date.

As stated in Note 2, these are the Company's first consolidated financial statements prepared in accordance with IFRS.

In preparing the opening IFRS statement of financial position, comparative information, and the financial statements for the year ended December 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP.

An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. In preparing these financial statements, the Company has elected to apply the following transitional arrangements:

A) RECLASSIFICATION OF RESTRICTED CASH
For comparatives, the GAAP amount "Restricted cash" was reclassified as "Cash" since IFRS 7 states that restrictions on the use of any cash does not alter its classification on the statements of financial position or cash flow. This results in the reclassification of $50,000 to cash from restricted cash at January 1, 2010 and December 31, 2010.

B) RECLASSIFICATION WITHIN EQUITY SECTION
For comparatives, "Contributed surplus" was reclassified as "Share-based payment reserve" as certain terminologies are different under IFRS.

C) FLOW-TROUGH SHARES
Under previous Canadian GAAP, flow through shares were recorded to share capital at the gross amount. IFRS required that excess to market value upon issuance of flow through common shares be recorded in other income (deferred liability of flow through raised funds at time of issuance of flow through common shares and charged to income as the necessary expenditures to be renounced under flow through common shares are spent). This results in the reversal of $15,350 and $797,088 of future income tax recovery and the inclusion of $6,822 and $128,414 in other income for the year-ended December 31, 2010 and the opening balance as at January 1, 2010, respectively. The net effect to the consolidated statements of financial position is an increase to share capital and a decrease to deficit at January 1, 2010, and December 31, 2010.

20. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

D) SHARE-BASED COMPENSATION

The Company has elected to apply IFRS 2 to all option grants unvested at the date of transition to IFRS. IFRS 2 and previous CGAAP are largely converged, with the exception of two main differences affecting the Company's stock option grants. IFRS 2 does not allow straight-line amortization of compensation expense related to stock options granted with a graded vesting schedule. The attribution method is instead required which effectively splits the grant into separate units for valuation purposes based on the vesting schedule. Additionally, IFRS 2 requires the incorporation of an estimate of forfeiture rates. Under previous CGAAP, the Company's policy was to account for forfeitures as they occurred. This results in an increase in share-based compensation expense and a resulting increase to deficit of $31,000 at January 1, 2010, and an increase to share-based compensation of $12,000 for the year-ended December 31, 2010.

Mandatory exceptions

The application of the following mandatory exemptions did not have a financial impact on the Company's consolidated statements of comprehensive loss for the year ended December 31, 2010.

A) DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

The Company has applied the de-recognition requirements in IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), prospectively from the Transition Date. As a result, any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with Previous CGAAP have not been reviewed for compliance with IAS 39.

B) ESTIMATES

The estimates made by the Company under Previous CGAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy. As a result, the Company has not used hindsight to revise estimates.

Reconciliation of Consolidated Statements of Comprehensive Loss

	Year ended December 31, 2010		
	CGAAP	Effect of Transition to IFRS	IFRS
Expenses			
Mineral properties - abandonment	$ 126,982	$ -	$ 126,982
General and administrative	713,043	209,500	922,543
Stock-based compensation	197,500	(197,500)	-
Loss before other income (expenses) and income taxes	(1,037,525)	(12,000)	(1,049,525)
Future income tax recovery (Note 9)	15,350	(15,350)	-
Other Income (Note 9)	-	6,822	6,822
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(1,022,175)	(20,528)	(1,042,703)

Reconciliation of Consolidated Statements of Financial Position

	As at January 1, 2010			As at December 31, 2010		
	CGAAP	Effect of Transition to IFRS	IFRS	CGAAP	Effect of Transition to IFRS	IFRS
CURRENT ASSETS						
Cash	$ 365,412	$ 50,000	$ 415,412	$ 655,543	$ 50,000	$ 705,543
Unbilled receivables	-	-	-	99,598	-	99,598
Amounts receivable	54,704	-	54,704	85,691	-	85,691
Prepaid expenses	27,111	-	27,111	19,112	-	19,112
	447,227	50,000	497,227	859,944	50,000	909,944
RESTRICTED CASH	50,000	(50,000)	-	50,000	(50,000)	-
MINERAL PROPERTIES	4,000,816	-	4,000,816	4,570,889	-	4,570,889
PROPERTY, PLANT AND EQUIPMENT	89,894	-	89,894	102,033	-	102,033
	$ 4,587,937	$ -	$ 4,587,937	$ 5,582,866	$ -	$ 5,582,866
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 187,845	$ -	$ 187,845	$ 288,023	$ -	$ 288,023
	187,845	-	187,845	288,023	-	288,023
SHAREHOLDERS' EQUITY						
Share capital	10,736,523	668,674	11,405,197	12,460,690	677,202	13,137,892
Warrants	415,234	(415,234)	-	158,259	(158,259)	-
Contributed surplus	1,034,821	(1,034,821)	-	1,484,555	(1,484,555)	-
Reserves	-	1,481,055	1,481,055	-	1,685,814	1,685,814
Deficit	(7,786,486)	(699,674)	(8,486,160)	(8,808,661)	(720,202)	(9,528,863)
	4,400,092	-	4,400,092	5,294,843	-	5,294,843
	$ 4,587,937	$ -	$ 4,587,937	$ 5,582,866	$ -	$ 5,582,866

Reconciliation of Consolidated Statements of Cash Flows

	Year ended December 31, 2010		
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:	CGAAP	Effect of Transition to IFRS	IFRS
OPERATING			
Net loss	$ (1,022,175)	$ (20,528)	$ (1,042,703)
Items not affecting cash			
Amortization - administrative	22,418	-	22,418
Mineral properties - abandonment	126,982	-	126,982
Stock-based compensation	197,500	12,000	209,500
Future income tax recovery	(15,350)	15,350	-
Other income	-	(6,822)	(6,822)
Changes in non-cash operating working capital items:			
Amounts receivable	(30,987)	-	(30,987)
Unbilled receivables	(99,598)	-	(99,598)
Prepaid expenses	7,999	-	7,999
Accounts payable and accrued liabilities	100,178	-	100,178
	(713,033)	-	(713,033)
INVESTING			
Expenditures on mineral properties	(2,399,114)	-	(2,399,114)
Mineral property funding	1,702,059	-	1,702,059
Purchase of property, plant and equipment	(34,557)	-	(34,557)
	(731,612)	-	(731,612)
FINANCING			
Issuance of share capital, net of issuance costs	1,734,776	-	1,734,776
NET CASH OUTFLOW	290,131	-	290,131
CASH, BEGINNING OF PERIOD	365,412	50,000	415,412
CASH, END OF PERIOD	$ 655,543	$ 50,000	$ 705,543
Supplementary information:			
Interest paid	$ -	$ -	$ -
Interest received	-	-	-

Reconciliation of Consolidated Statements of Equity

	As at January 1, 2010			As at December 31, 2010		
	CGAAP	Effect of Transition to IFRS	IFRS	CGAAP	Effect of Transition to IFRS	IFRS
SHAREHOLDERS' EQUITY						
Share capital	**10,736,523**	**668,674**	**11,405,197**	**12,460,690**	**677,202**	**13,137,892**
Warrants	**415,234**	**(415,234)**	**-**	**158,259**	**(158,259)**	**-**
Contributed surplus	**1,034,821**	**(1,034,821)**	**-**	**1,484,555**	**(1,484,555)**	**-**
Reserves	**-**	**1,481,055**	**1,481,055**	**-**	**1,685,814**	**1,685,814**
Deficit	**(7,786,486)**	**(699,674)**	**(8,486,160)**	**(8,808,661)**	**(720,202)**	**(9,528,863)**
	$ 4,400,092	**$ -**	**$ 4,400,092**	**$ 5,294,843**	**$ -**	**$ 5,294,843**