NORTHERNSHIELD
RESOURCES INC.

(A Development Stage Company)

Annual Consolidated Financial Statements

For the years ended December 31, 2012 and 2011
(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, 2012 and December 31, 2011, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, 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, 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.

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

Independent Auditor's Report (continued)

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates that, as at December 31, 2012, the Company had accumulated losses of $12,527,586 and for the year then ended had incurred a net loss of $1,636, 799 and had negative operating cash flows of $1,207,754. 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 LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

April 23, 2013
Ottawa, Ontario

Audited Consolidated Financial Statements

For the Years Ended December 31, 2012 & 2011

All amounts in Canadian Dollars

PAGE

Consolidated Statements of Comprehensive Loss	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Cash Flows	3
Consolidated Statements of Changes in Equity	4
Notes to the Consolidated Financial Statements	5 - 32

NORTHERN SHIELD RESOURCES INC.
(A Development Stage Company)
Consolidated Statements of Comprehensive Loss
for the years ended December 31, 2012 and 2011
(in Canadian Dollars)

		2012		2011
Expenses				
Expensed exploration (Note 10)	**$**	**20,434**	$	650,120
General and administrative (Note 10)		**1,562,198**		1,050,740
Loss before other income		**(1,582,632)**		(1,700,860)
Impairment of available-for-sale financial assets		**(54,167)**		-
Other income (Note 6)		**-**		338,936
NET LOSS AND COMPREHENSIVE LOSS ATTRIBUTABLE TO OWNERS		**(1,636,799)**		(1,361,924)
Weighted average common shares outstanding		**115,376,013**		96,248,390
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, 2012 and 2011

(in Canadian Dollars)

	December 31, 2012	December 31, 2011
CURRENT ASSETS		
Cash and cash equivalents (Note 7)	**$ 919,546**	$ 350,225
Unbilled receivables	**105,731**	97,496
Amounts receivable	**128,460**	336,728
Prepaid expenses	**90,163**	30,324
Asset held for sale (Note 15)	**-**	110,000
	1,243,900	924,773
NON-CURRENT ASSETS		
LONG-TERM PORTION OF DEPOSIT	**40,000**	-
INVESTMENT IN PRIVATE COMPANY (Note 8)	**8,333**	62,500
MINERAL PROPERTIES (Note 8)	**8,634,463**	6,096,687
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Note 9)	**445,085**	365,500
	$ 10,371,781	$ 7,449,460
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 373,249**	$ 867,827
Deferred exploration funding	**151,846**	-
	525,095	867,827
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	**19,716,079**	15,519,625
Reserves	**2,658,193**	1,952,795
Deficit	**(12,527,586)**	(10,890,787)
	9,846,686	6,581,633
	$ 10,371,781	$ 7,449,460

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, 2012 and 2011

(in Canadian Dollars)

	2012	2011
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss attributable to owners	**$ (1,636,799)**	$ (1,361,924)
Items not affecting cash		
Amortization - administrative	**26,492**	19,211
Share-based compensation	**420,000**	309,000
Net change in fair value of available-for-sale financial assets	**54,167**	-
Other income	**-**	(338,936)
Changes in non-cash operating working capital items:		
Unbilled receivables	**(8,235)**	2,102
Amounts receivable	**208,268**	(251,037)
Prepaid expenses	**(59,839)**	(11,212)
Asset held for sale	**110,000**	(110,000)
Accounts payable and accrued liabilities	**(494,578)**	579,804
Deferred exploration funding	**151,846**	-
Expensed exploration	**20,434**	650,120
Interest Income	**490**	403
	(1,207,754)	(512,469)
INVESTING		
Expenditures on mineral properties	**(4,432,517)**	(4,317,896)
Mineral property funding	**1,874,307**	2,141,978
Long-term portion of deposit	**(40,000)**	-
Investment in private company	**-**	(62,500)
Purchase of property, plant and equipment	**(181,702)**	(297,176)
Amortization charged to exploration	**75,625**	14,498
	(2,704,287)	(2,521,096)
FINANCING		
Interest received	**(490)**	(403)
Issuance of share capital, net of issuance costs	**4,481,852**	2,678,650
	4,481,362	2,678,247
NET CASH INFLOW (OUTFLOW)	**569,321**	(355,318)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**350,225**	705,543
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 919,546**	$ 350,225

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

for the years ended December 31, 2012 and 2011

(in Canadian Dollars)

	Share Capital (Note 3)		Reserves			
	Number of Shares	Amount	Share-based Payments	Warrants	Deficit	**Total**
		$	$	$	$	**$**
Balance at January 1, 2011	**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**
Shares issued for cash	26,981,816	4,536,000	-	-	-	**4,536,000**
Allocation of value of warrants	-	(398,638)	-	398,638	-	**-**
Amount reclassified upon expiry of warrants	-	113,240	-	(113,240)	-	**-**
Share issue costs	-	(54,148)	-	-	-	**(54,148)**
Share-based compensation	-	-	420,000	-	-	**420,000**
Loss for the year	-	-	-	-	(1,636,799)	**(1,636,799)**
Balance at December 31, 2012	**127,876,658**	**19,716,079**	**2,256,555**	**401,638**	**(12,527,586)**	**9,846,686**

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 assume that the Company will realize its assets and discharge its liabilities in the normal course of business. For the year ended December 31, 2012, the Company incurred a loss of $1,636,799 and had negative cash flows from operations of $1,207,754. At the end of the period it had an accumulated deficit of $12,527,586.

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").

The Board of Directors authorized these Financial Statements for issue on April 23, 2013.

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 23, 2013 for periods ending on or before December 31, 2012.

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 (continued)

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 recognized 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.

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 (continued)

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of the 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 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 and amounts receivable as loans and receivables, which are measured at amortized cost. Investments are classified as available-for-sale, measured at fair value.

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 (continued)

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 payable 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 (continued)

Property, Plant and Equipment and Intangible Assets

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

PP&E	
Furniture, fixtures & office equipment	20% declining balance
Field equipment	20% declining balance
Leasehold improvements	5-year straight-line
Intangible Assets	
Computer software	50% 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 amortization 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 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. If proceeds exceed capitalized costs, any excess is recorded as deferred exploration funding. Such costs include, but not are not limited to, geological and 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, 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 and 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 (continued)

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 are based on taxable profit (loss) for the year. Taxable profit (loss) differs from profit (loss) as reported in the consolidated statement 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 taxes are calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are 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 (continued)

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 taxes 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 taxes 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 the 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 (continued)

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 the going concern assumption.

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 financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement 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 statement of financial position;
- impairment of non-financial assets;
- the estimated useful lives of property, plant and equipment which are included in the statement of financial position and the related depreciation included in the statement of comprehensive loss;
- the inputs used in accounting for share-based compensation expense in the statement of comprehensive loss; and
- the inputs used in determining the various commitments and contingencies accrued in the statement of financial position.
- the inputs used in accounting for warrant value associated to reserves.

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.

IFRS 7, *Financial Instruments: Disclosures*

This amendment provides disclosure guidance on offsetting financial assets and financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2013 and is applied retrospectively. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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*, which 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

IAS 27, *Separate Financial Statements*

This amendment contains accounting and disclosure requirements 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.

IAS 32, *Financial Instruments: Presentation*

This amendment prescribes the accounting for offsetting financial assets and financial liabilities. The amendment is effective annual periods beginning on or after January 1, 2014 and is applied retrospectively. 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 (continued)

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/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 127,876,658 voting common shares issued and outstanding at December 31, 2012 (100,894,842 at December 31, 2011).

An unlimited number of preferred shares are authorized for issue in series. There were no preferred shares issued at December 31, 2012 (none at December 31, 2011).

During the year, a total of 26,981,816 common shares were issued through private placements (2011 - 4,700,000) at an average of $0.17 per share (2011 - $0.25) for gross proceeds of $4,536,000 (2011 - $1,175,000).

During the year, no flow-through common shares were issued (2011 - 4,306,704 at an average of $0.32 for gross proceeds of $1,398,812). The difference between the issue price of the shares and the market price on the dates of issuance was recorded as a deferred tax liability, reflecting the Company's commitment to renounce exploration expenditures made with funds generated from share issues.

During the year, the Company issued no shares as part of property-purchase transactions (2011 – shares deemed to be worth $9,000 were issued).

During the year, there were no warrants exercised (2011 - 852,500 at an average strike price of $0.17 for gross proceeds of $144,925).

During the year, share issue costs totaled $54,148 (2011 - $49,087).

3. SHARE CAPITAL (continued)

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, 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**
Issued during the year	13,490,908	0.32	June 18, 2014
Expired during the year	(2,311,127)	0.21	June 27, 2012
Balance, December 31, 2012	**13,490,908**	**$ 0.32**	**June 18, 2014**

Additional information regarding warrants outstanding at year ends:

Quantity	Exercise Price	Expiry Date
As at December 31, 2012:		
6,672,727	$ 0.40	February 1, 2014
454,545	$ 0.40	April 2, 2014
6,363,636	$ 0.22	November 15, 2014
13,490,908		
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		

3. SHARE CAPITAL (continued)

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, 2012, 12,787,666 common share options were authorized to be issued and outstanding under the Plan (December 31, 2011 - 10,089,484). 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, 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**
Options expired during the period	(635,000)	$ 0.40
Options issued during the period	2,225,000	$ 0.24
Balance, December 31, 2012	**8,815,000**	**$ 0.22**

At December 31, 2012, the remaining pool of options available for grant was 3,972,666 (2011 - 2,864,484).

3. SHARE CAPITAL (continued)

Stock options (continued)

Additional information regarding options outstanding at year ends:

Issue Date	Exercise Price	Quantity	Expiry Date	Exercisable
As at December 31, 2012:				
July 21, 2008	$ 0.59	150,000	July 21, 2013	150,000
June 3, 2009	$ 0.19	1,660,000	June 3, 2014	1,660,000
November 26, 2009	$ 0.14	175,000	November 26, 2014	175,000
October 29, 2010	$ 0.18	2,055,000	October 29, 2015	2,055,000
October 5, 2011	$ 0.25	2,550,000	October 5, 2016	1,700,012
March 26, 2012	$ 0.25	1,850,000	March 26, 2017	616,665
July 3, 2012	$ 0.20	375,000	July 3, 2017	125,002
		8,815,000		**6,481,679**
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**

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	***2012***	***2011***
Lifetime	5-years	5-years
Interest Rate	1.45%	2.50%
Annual Volatility	111%	116%
Dividends	None	None

During the year ended December 31, 2012, the Company expensed $420,000 relating to options granted during the current and previous periods with periodic vesting dates (2011 - $309,000). 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, 2012 and 2011:

	2012	2011
Stock options	**8,390,273**	5,564,795
Stock purchase warrants	**8,372,005**	2,567,979
	16,762,278	8,132,774

5. DEFERRED TAXES

During the year, the Company renounced no flow-through expenditures (2011 - 1,398,812) as at December 31, 2012 on eligible Canadian Exploration Expenditures ("CEE").

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:

	2012	**2011**
Loss before income taxes	(1,636,799)	(1,361,924)
Expected recovery of tax	(433,752)	(384,744)
Increase resulting from:		
Renounced expenditures	-	(95,749)
Permanent differences – share-based compensation	111,300	87,293
Permanent differences - meals and donations	3,334	2,961
	114,634	(5,495)
Unrecorded benefit of loss carryforward and timing differences	517,214	341,563
Change in future tax rates	(49,751)	-
Provision true-up	(179,215)	-
Other	30,870	**48,646**
Tax recovery recorded	**-**	**-**

5. DEFERRED TAXES (continued)

Effective January 1, 2012, the Canadian Federal corporate tax rate decreased from 16.5% to 15%. 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 28.25% to 26.50%.

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

Tax losses	1,791,252
Undeducted share issuance costs	31,189
Unused tax credits	693,920

The unrecognized tax losses will expire between 2014 and 2032.

Deferred income tax liabilities

In accordance with IFRS, the Company has not recognized a future tax asset or liability on initial recognition of the asset or liability that affects neither accounting nor taxable profit and loss. The Company is in a deferred income tax asset position as at December 31, 2012. 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:

	2012	2011
Premium on issuance of flow-through common shares	**-**	338,936

During the year ended December 31, 2012, no amounts were transferred from deferred premium on flow-through shares to other income (2011 - $338,936).

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2012 and 2011 comprised the following:

	2012	2011
Cash	**919,546**	300,225
GIC	**-**	50,000
	919,546	350,225

8. MINERAL PROPERTIES

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

	Highbank Lake	Wabassi	Max	Storm	Idefix	Lac D'Argent	Faint Hope	Eastbank	Q-1	Other Properties	Total
Percent Ownership	*60%*	*49%*	*59%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	
At December 31, 2010	**$ 1,149,365**	**$ 606,383**	**$2,210,627**	**$ -**	**$ -**	**$ -**	**$ 342,809**	**$ 219,925**	**$ 15,605**	**$ 26,175**	**$ 4,570,889**
Expenditures											
Acquisition	-	169,925	-	100,656	3,341	19,000	7,200	-	-	-	**300,122**
Exploration	128,790	2,256,384	4,565	1,402,841	36,960	121,353	4,090	-	-	62,791	**4,017,774**
Total Expenditures	128,790	2,426,309	4,565	1,503,497	40,301	140,353	11,290	-	-	62,791	**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**	**$1,503,497**	**$ 40,301**	**$ 140,353**	**$ -**	**$ -**	**$ -**	**$ 28,475**	**$ 6,096,687**
Expenditures											
Acquisition	5,095	1,682	234	16,880	43,513	-	-	-	-	25,506	**92,910**
Exploration	13,330	1,254,963	19,397	2,174,618	817,190	52	-	-	-	60,057	**4,339,607**
Total Expenditures	18,425	1,256,645	19,631	2,191,498	860,703	52	-	-	-	85,563	**4,432,517**
External Funding	-	(686,868)	-	(300,000)	(887,439)	-	-	-	-	-	**(1,874,307)**
Write-Down	-	-	-	-	-	-	-	-	-	(20,434)	**(20,434)**
At December 31, 2012	**$ 1,296,580**	**$ 1,460,491**	**$2,234,823**	**$3,394,995**	**$ 13,565**	**$ 140,405**	**$ -**	**$ -**	**$ -**	**$ 93,604**	**$ 8,634,463**

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 $2,375,000 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 now-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. As part of this arrangement, in 2011 NSRI received 250,000 common shares of Discovery, valued at $62,500, and recorded this amount as an increase in external funding of the project. These shares have been classified as available for sale and were written down by $54,167 in 2012.

8. MINERAL PROPERTIES (continued)

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%.

Although still holding a 100% stake in two other properties, agreements are in place, which may affect the future ownership shares.

Storm: late in the year ended December 31, 2012 the Company entered into a royalty option agreement with Callinan Royalties Corporation ("Callinan") whereby Callinan paid the Company $300,000 to acquire a royalty option on one of the six Storm properties of its choosing. The royalty option allows Callinan to acquire a 1% Net Smelter Returns royalty by paying the Company $2 million at any time up to the later of five years or the mine development stage. The Company will also grant to Callinan a Right of First Refusal on the sale of any other royalties on the Storm property group owned by the Company.

Idefix: midway through the year ended December 31, 2012 the Company signed an Option and Joint Venture Agreement with Impala allowing 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. 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 of the projects.

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Field Equipment	Furniture and Fixtures	Office Equipment	Leasehold Improvements	Software	Total
Cost						
December 31, 2010	84,847	16,235	62,763	23,418	2,553	**189,816**
Additions	250,507	11,746	16,621	-	18,302	**297,176**
December 31, 2011	335,354	27,981	79,384	23,418	20,855	**486,992**
Additions	151,238	2,000	16,111	-	12,353	**181,702**
December 31, 2012	486,592	29,981	95,495	23,418	33,208	**668,694**
Accumulated Amortization						
December 31, 2010	(33,376)	(10,934)	(30,625)	(10,538)	(2,310)	**(87,783)**
Amortization	(14,498)	(2,393)	(7,521)	(4,684)	(4,613)	**(33,709)**
December 31, 2011	(47,874)	(13,327)	(38,146)	(15,222)	(6,923)	**(121,492)**
Amortization	(75,625)	(3,046)	(9,724)	(4,683)	(9,039)	**(102,117)**
December 31, 2012	(123,499)	(16,373)	(47,870)	(19,905)	(15,962)	**(223,609)**
Carrying Values						
December 31, 2010	51,471	5,301	32,138	12,880	243	**102,033**
December 31, 2011	287,480	14,654	41,238	8,196	13,932	**365,500**
December 31, 2012	363,093	13,608	47,625	3,513	17,246	**445,085**

Amortization of exploration-related assets in the amount of $75,625 was allocated to mineral properties during the year ended December 31, 2012 (2011 - $14,498).

10. NATURE OF EXPENSES

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

	2012	2011
Remuneration and consulting fees	**$ 529,318**	$ 476,006
Share-based compensation	**420,000**	309,000
Office expenses	**273,405**	146,597
Travel expenses	**161,531**	117,949
Marketing expenses	**196,121**	96,927
Professional fees	**108,072**	95,851
Public company expenses	**31,792**	28,437
Insurance expense	**13,804**	14,038
	1,734,043	1,284,805
General and administration recovery	**(171,845)**	(234,065)
	$ 1,562,198	$ 1,050,740

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

	2012	2011
Expensed prospecting activities	**$ 20,434**	$ 60,491
Write-down of mineral properties	**-**	589,629
	$ 20,434	$ 650,120

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.

	2012	2011
Fees incurred during the years ended December 31	**$ 94,703**	$ 44,231
Amounts payable as at December 31	**$ 6,557**	$ 8,877

12. KEY MANAGEMENT COMPENSATION

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

	2012	2011
Salaries	**$ 323,525**	$ 271,538
Benefits	**1,343**	1,176
Share-based payments	**137,430**	61,541
	$ 462,298	$ 334,255

13. COMMITMENTS

The Company is committed to operating leases as follows:

	2013	**2014**	**2015**	**2016**	**Total**
Premises lease	$ 191,000	$ 124,800	$ 116,800	$ 92,000	**$ 524,600**

14. EMPLOYEE BENEFITS EXPENSE

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

	2012	2011
Salaries	**$ 752,173**	$ 523,664
Benefits	**55,761**	23,268
Share-based payments	**225,399**	109,321
	1,033,333	$ 656,253

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

15. ASSET HELD FOR SALE

Near the end of the 2011 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 asset was re-sold to a newly formed drill company, which continued to work on the property using the same rig. The Company has been fully paid for the re-sale.

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, 2012, two business partners represented 100% of the Company's $105,731 of unbilled receivables (December 31, 2011 – one of the two partners represented 100% of the Company's $97,496 of unbilled receivables).

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

b) Credit risk exposure

The carrying amounts of the cash, unbilled receivables, amounts receivable and long-term deposit represent the maximum exposure to credit risk. The maximum exposure to credit risk at December 31, 2012 was $1,193,737 (2011 - $784,449). 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.

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, 2012, the Company had a cash and cash equivalents balance of $919,546 (2011 - $350,255). 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, 2012, over 75% of accounts payable are under sixty days.

Fair values

a) The fair value of cash, unbilled receivables, amounts receivable, long-term deposit, 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 Statement of Financial Position 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;

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair values (continued)

b) Fair value hierarchy (continued)

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 aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to fund future exploration and maintain 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 venture 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 period ending December 31, 2012, the Company signed a binding Letter of Agreement with Greenland Gold Resources Ltd., ("Greenland Gold"), whereby Northern Shield has the option to earn a 50% interest in the Ikertoq nickel project in west Greenland. To earn a 50% interest, Northern Shield must incur €1,000,000 ($CDN 1,350,000) by February 25, 2014 and a further €1,750,000 ($CDN 2,400,000) of exploration expenditures on the project by February 25, 2016. The first year's exploration must include a minimum of 1,250 metres of diamond drilling.

19. SUBSEQUENT EVENTS (continued)

After Northern Shield has earned the 50% interest, Northern Shield and Greenland Gold will explore the project under a 50/50 joint venture. Northern Shield will be the operator of the project.