

**SILVER SHIELD RESOURCES CORP.**  
(An Exploration Stage Company)  
**CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**  
(Unaudited - Prepared by Management)

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**SILVER SHIELD RESOURCES CORP.**  
(An Exploration Stage Company)  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Unaudited-Prepared by Management)

		Sept 30 2011	December 31 2010
	<u>Notes</u>		(Note 4)
<b>Assets</b>			
<b><u>CURRENT ASSETS</u></b>			
Cash and cash equivalents	3	\$ 71,897	\$452,765
GST and value added tax recoverable		210,684	150,912
Prepaid expenses and deposits	3	<u>27,580</u>	<u>5,779</u>
		310,161	609,456
<b>MINERAL PROPERTIES</b>			
Mineral claims	8	554,113	516,313
Deferred exploration costs		<u>3,614,594</u>	<u>3,114,897</u>
		4,168,707	3,631,210
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
	7	8,839	10,904
		<u>4,487,707</u>	<u>4,251,570</u>
 <b>LIABILITIES</b>			
<b><u>CURRENT LIABILITIES</u></b>			
Accounts payable & accrued liabilities		\$351,894	\$687,602
Royalties payable		105,226	73,726
Due to Northern Nickel Mining Inc		446,067	421,072
Due to related parties	11	<u>149,465</u>	<u>251,359</u>
		<u>1,052,652</u>	<u>1,433,759</u>
 <b>SHAREHOLDERS EQUITY</b>			
SHARE CAPITAL	9	4,084,997	3,478,610
CONTRIBUTED SURPLUS	9	719,060	692,860
WARRANTS	9	443,900	275,060
SHARE SUBSCRIPTIONS		-	26,000
DEFICIT		<u>(1,812,902)</u>	<u>(1,654,719)</u>
		<u>3,435,055</u>	<u>2,817,811</u>
		<u>\$4,487,707</u>	<u>\$4,251,570</u>

APPROVED ON BEHALF OF THE BOARD:  
Signed Timothy Towers, President and Chief Executive Officer

Signed Raymond Lashbrook, Director

**SILVER SHIELD RESOURCES CORP.**

(An Exploration Stage Company)

**INTERIM CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE  
LOSS AND DEFICIT****FOR THE THREE AND NINE MONTHS ENDED SEPT 30, 2011 AND 2010**

(Unaudited - Prepared by Management)

	Three Months Ended		Nine Months Ended	
	Sept 30		Sept 30	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>EXPENSES</b>				
Bank service charges	101	322	2676	2665
Legal and audit	-	(18411)	5119	(7856)
Management fees	3000	-	13746	-
Marketing and investor relations	38087	20193	127697	69575
Office and administrative	5373	1637	23489	8707
Transfer agent and filing fees	3063	4910	22693	18198
Travel, meetings and conventions	<u>2746</u>	<u>170</u>	<u>3818</u>	<u>8183</u>
	<u>(52,370)</u>	<u>8821</u>	<u>199238</u>	<u>99472</u>
NET LOSS BEFORE OTHER ITEMS	<u>(52,370)</u>	<u>(8821)</u>	<u>(199238)</u>	<u>99472</u>
Mineral exploration costs	( 10,000)	-	(10000)	2363
Depreciation and amortization	(1554)	(803)	(2715)	(2409)
Short term exchange gains (losses)	-	-	2700	-
Mineral Royalty costs	<u>(16,500)</u>	<u>(7500)</u>	<u>(31,500)</u>	<u>(22500)</u>
	<u>(28,054)</u>	<u>(8303)</u>	<u>(41,515)</u>	<u>(22546)</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(80,424)	(17124)	(240753)	(122018)
Future Income Tax (Recovered)	-	-	(82570)	-
LOSS AND COMPREHENSIVE LOSS	(80,424)	-	(158,183)	-
DEFICIT, BEGINNING OF PERIOD	<u>(1732,478)</u>	<u>(1,534,951)</u>	<u>(1,654,719)</u>	<u>(1,430,057)</u>
DEFICIT, END OF PERIOD	<u>\$(1,819,202)</u>	<u>\$(1,562,015)</u>	<u>\$(1,812,902)</u>	<u>\$(1,552,075)</u>
BASIC AND DILUTED LOSS PER COMMON SHARE	(0.001)	(0.001)	(.001)	(.002)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>71,458,791</u>	<u>46,468,759</u>	<u>71,458,791</u>	<u>46,468,579</u>

**SILVER SHIELD RESOURCES CORP.**

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited - Prepared by Management)

Total	Share Capital		Equity Reserves			
	Number of Shares	Amount	Shares Subscribed	Contributed Surplus	Warrants	Deficit
Balance, Jan 1/2010	45,863,759	\$3,297,710	\$497,160	\$247,890	\$(1,430,057)	\$ 2,612,703
Warrants expired	-	-	-	-	-	-
Tax benefits renounced	-	-	-	-	-	-
Resource Interest acquired	605,000	36,300	-	-	-	36,300
Share-based compensation	-	-	-	-	-	-
Net loss and Comprehensive loss	-	-	-	-	(48,700)	(48,700)
Balance, Mar 31/2010	46,468,759	3,334,010	497,160	247,890	(1,478,757)	2,600,303
Warrants issued	-	-	-	79,170	-	79,170
Warrants expired	-	-	52,000	(52,000)	-	(52,000)
Value assigned warrants	-	(101,270)	-	-	-	(101,270)
Stock based compensation	-	-	143,700	-	-	143,700
FloThru Shares issued	8,333,332	500,000	-	-	-	500,000
Share Issuance Costs	-	(89,130)	-	-	-	(89,130)
Tax benefits renounced	-	(165,000)	-	-	-	(165,000)
Stock subscribed	-	-	26,000	-	-	26,000
Net loss and Comprehensive loss	-	-	-	-	(175,962)	(175,962)
Balance Dec 31/2010	54,802,091	3,478,610	26,000	692,860	(1,654,719)	2,817,811
Non flo thru shares issued	10,800,000	540,000	-	-	-	540,000
Flo Thru shares issued	4,170,000	250,200	(26,000)	-	-	224,200
Shares for debt issued	1,436,700	161,997	-	-	-	161,997
Resource Interest acquired	250,000	15,000	-	-	-	15,000
Share issuance cost	-	(82,692)	-	-	-	(82,692)
Value assigned warrants	-	(195,040)	-	-	-	(195,040)
Tax benefits renounced	-	(82,570)	-	-	-	(82,570)
Warrants issued	-	-	-	168,840	-	168,840
Stock based compensation	-	-	26,200	-	-	26,200
Net loss and Comprehensive loss	-	-	-	-	(7,574)	(7,574)
Balance Mar 31/2011	<u>71,458,791</u>	<u>4,085,505</u>	<u>719,060</u>	<u>443,900</u>	<u>(1,662,293)</u>	<u>3,586,172</u>
Share Issuance cost	-	(508)	-	-	-	(508)
Comprehensive loss	-	-	-	-	(70,185)	(70,185)
Balance June 30,2011	<u>71,458,791</u>	<u>4,084,997</u>	<u>719,060</u>	<u>443,900</u>	<u>(1,732,478)</u>	<u>3,515,479</u>
Comprehensive loss	-	-	-	-	(80,424)	(80,424)
Balance Sept 30,2011	<u>71,458,791</u>	<u>4,084,997</u>	<u>719,060</u>	<u>443,900</u>	<u>(1,812,902)</u>	<u>3,435,055</u>

See accompanying notes to these unaudited condensed consolidated interim financial statements.

**SILVER SHIELD RESOURCES CORP.**  
(An Exploration Stage Company)  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**  
(Unaudited - Prepared by Management)

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>CASH PROVIDED BY (USED FOR)</b>				
<b>OPERATING ACTIVITIES</b>				
Loss and comprehensive loss for the period	\$(80,424)	\$(17,124)	\$(158,183)	\$(122,018)
Add items not involving cash				
- depreciation and amortization	904	803	2065	2409
- future income taxes	-	-	(82,570)	-
	(79,520)	(16,321)	(238,688)	(119,609)
Change in non-cash working capital items	<u>(83,438)</u>	<u>90,108</u>	<u>(462,680)</u>	<u>258,123</u>
Net cash flow from operations	<u>(162,958)</u>	<u>73,787</u>	<u>(701,368)</u>	<u>138,514</u>
Issuance of Capital Stock		-	883,997	-
Stock Subscribed	-	-	<u>(26,000)</u>	-
	-	-	<u>857,997</u>	-
<b>INVESTING ACTIVITIES</b>				
Mineral Property	-	-	(37,800)	-
Purchase of property, plant and equipment	-	-	-	-
Purchase of mineral claims	-	(51,900)	-	(152,452)
Deferred exploration costs	<u>(58,225)</u>	<u>(143,353)</u>	<u>(499,697)</u>	<u>(496,566)</u>
	<u>(58,225)</u>	<u>(195,253)</u>	<u>(537,497)</u>	<u>(649,018)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>(221,183)</b>	<b>(121,466)</b>	<b>(380,868)</b>	<b>(510,504)</b>
CASH - beginning of period	<u>293,080</u>	<u>146,143</u>	<u>452,765</u>	<u>535,181</u>
CASH - end of period	<u>\$71,897</u>	<u>\$24,677</u>	<u>71,897</u>	<u>24,677</u>
<b>Change in non-cash working capital items:</b>				
GST and value added tax recoverable	(6,749)	(39,004)	(59,782)	(56,569)
Prepaid expenses and deposits	8,899	2,845	(21,801)	(10,162)
Accounts payable and accrued liabilities	102,088	107,361	(335,698)	292,287
Royalties	16,500	7500	31,500	22,500
Due to related parties	-	11,406	<u>(76,899)</u>	<u>10,067</u>
	<u>\$(83,428)</u>	<u>\$90,108</u>	<u>(462,680)</u>	<u>\$258,123</u>
<b>Supplemental disclosure with respect to non-cash transactions</b>				
Issuance of common shares	-	-	15,000	36,298
Purchase of mineral claims	-	-	(15,000)	(36,298)
Share issuance costs	-	-	(26,200)	--
Contributed surplus	-	-	26,200	--
Issuance of common shares	-	-	161,997	--
Payables extinguished for shares	-	-	(161,997)	-

## **SILVER SHIELD RESOURCES CORP.**

(An Exploration Stage Company)

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

(Unaudited - Prepared by Management)

#### **1. NATURE AND CONTINUANCE OF OPERATIONS**

Gemini Acquisitions Inc. ("the Company") was incorporated under the Ontario Business Corporations Act on June 1, 2006. The Company's principal business activity is the exploration of mineral resource properties primarily in Ontario and Mexico.

On December 14, 2007, the Company acquired all of the issued and outstanding shares of Silver Shield Resources Inc. by issuing common shares of the Company. This business combination had been accounted for as a reverse takeover with Silver Shield Resources Inc. as the accounting parent. Silver Shield Resources Inc. was incorporated under the Ontario Business Corporations Act on May 2, 2006.

On March 4, 2008, the Company received Articles of Amendment to change the name of the Company to Silver Shield Resources Corp.

The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain economically recoverable reserves. The recovery of expenditures on mineral properties and the related deferred exploration costs are dependent upon the existence of economically recoverable mineralization, the ability of the Company to obtain financing necessary to complete the exploration, the development of mineral properties, and upon future profitable production or alternatively, on the sufficiency of proceeds from disposition.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristics of many mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, such ownership interests are in good standing.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, under which the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of business for foreseeable future. The Company is an exploration company and has no revenue to finance its operations. It is therefore required to fund its activities through debt financing and the issuance of equity securities. The Company reported net losses of \$80,424 for the period ended September 30, 2011 and \$158,183 for the nine months ended September 30, 2011, and has an accumulated deficit of \$1,812,902 which raises doubts about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is therefore dependent upon its ability to raise funds in the capital markets.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate because management believes actions already taken or planned will mitigate the adverse conditions and events that raise doubts about the validity of the going concern assumption used in preparing these financial statements.

#### **2. BASIS OF PREPARATION**

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to raise financing, the achievement of profitable operations or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. Some of the Company's mining assets are located outside of Canada and are subject to the risk of foreign investment, including currency exchange fluctuations.

These condensed consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue to do so is dependent on the ability of the Company to raise equity financing and the attainment of profitable operations. There

are no assurances that the Company will be successful in achieving these goals. These condensed consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

The condensed consolidated financial statements have been prepared in a historical cost basis, except financial instruments that have been measured at fair value. The condensed consolidated financial statements are presented in Canadian dollars except when otherwise indicated.

(a) Statement of Compliance:

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”). They do not include all of the information required for full annual financial statements, IFRS 1, *First-time Adoption of IFRS* (“IFRS”) has been applied and the impact of the transition from Canadian GAAP to IFRS is explained in note 4. Previously, the Company prepared its financial statements in accordance with Canadian GAAP.

The accounting policies set out below have been applied consistently to all periods presented including preparing the opening balance sheet at January 1, 2010 (Note 4) for purposes of transition to IFRS.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of August 29, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010, note 4 discloses IFRS information that is material to an understanding of these consolidated financial statements also include required annual IFRS disclosures if the same disclosure was not previously made under Canadian GAAP.

(b) Basis of consolidation:

The consolidated interim financial statements comprise the financial statements of Silver Shield Resources Corp. and Silver Shield Resources S.A. de CV., its 100% owned Mexican subsidiary as at March 31, 2011.

Subsidiaries are fully consolidated from the date of formation or acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-Group balances, income and expenses and unrealized gains and losses resulting from intra-Group transactions are eliminated in full.



### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basics of presentation

The Company incorporated in the Mexican subsidiary on April 10, 2007 in order to formalize the option agreement for the La Cumbre property in Mexico. The shares of the Mexican subsidiary are held in trust by certain Directors of the Company and are beneficially owned by Silver Shield Resources Corp. All material intercompany transactions and balances have been eliminated.

#### (b) Estimates and measurement uncertainty

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and the functional currency is the Canadian dollar.

The consolidated financial statements include the accounts of the following companies:

Silver Shield Resources Corp. parent company incorporated in Ontario, Canada

Silver Shield Resources, S.A. de C.V. 100% owned subsidiary company incorporated in Mexico

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Significant areas where management judgment is applied in these financial statements include: the carrying values of mineral properties, determination of impairment of long-lived assets, useful lives for depletion and amortization, and current and future income tax provisions.

#### (c) Translation of foreign currencies

The Company's functional currency is the Canadian dollar. The accounts of its subsidiary, which is an integrated operation, is translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars at year-end exchange rates and non-monetary assets and liabilities are translated at historical rates. Expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings except for amortization of mineral properties, property, plant and equipment which are translated at the same rates as the assets to which they relate. Gains and losses on translation of monetary assets and monetary liabilities are included in results from operations for the year.

#### (d) Cash and cash equivalents

Cash represents cash on hand and demand deposits. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Such short-term investments would include treasury bills and term deposits with original maturities of less than 90 days. Treasury bills and term deposits with original maturities in excess of 90 days are classified under short-term investments. Equity investments are excluded from cash equivalents.

#### (e) Prepaid expenses and deposits

Prepaid expenses and deposits represent payments made in advance of the receipt of goods or rendering of services. Prepaid expenses and deposits are included in current assets on the consolidated balance sheet for the reason that if they were not paid in advance, the items would require the use of current assets during the operating cycle.

#### (f) Mineral properties

Costs related to the acquisition and exploration of mineral properties are capitalized by property until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and development costs are not

recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value. The amount at which mineral properties and deferred exploration costs are recorded do not necessarily reflect present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and/or development, and future profitable production or proceeds from the disposition thereof.

(g) Property, plant and equipment

Property, plant and equipment is recorded at cost. Depreciation is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Equipment - 20% diminishing balance

Computers - 55% diminishing balance

(h) Asset impairment - long-lived assets

The Company reviews and evaluates the carrying value of its mineral properties, property, plant and equipment when events or changes in circumstances indicate that the carrying amounts of related assets or groups of assets might not be recoverable. In assessing impairment for these assets, if the fair value or total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and recorded based on discounted cash flows. Future cash flows are based on estimated future recoverable mine production, expected sales prices (considering current and historical prices), production levels and costs, and further expenditures. All long-lived assets at a particular operation or project are combined for purpose of performing the recoverability test and estimating future cash flows.

(i) Flow-through shares

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow through shares, whereby the investor can claim the tax deductions arising from the renunciation by the Company of the related resource expenditures. When expenditures are renounced to the subscribers and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital. If the Company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as a reduction of income tax expense to the amount of future income tax liability that was previously recognized on the renounced expenditures.

(j) Loss per share

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. For diluted per share computations, assumptions are made regarding potential common shares outstanding during the period. The weighted average number of common shares is increased to include the number of additional common shares that would be outstanding if, at the beginning of the period, or at the time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's common shares at their average market price during the period, thereby reducing the weighted average number of common shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

(k) Share capital

The Company records proceeds from the exercise of stock options and warrants as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value. The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, wherein the fair value of the common shares is based on the market close on the date the units are issued, and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

(l) Stock-based compensation

On February 29, 2008, the Company's shareholders approved a stock option plan to provide incentive compensation to the Company's directors, officers, employees and consultants (the "Stock Option Plan"). The Stock Option Plan is administered by the Company's Board of Directors. Stock options may be granted at any time to any director, senior officer, key employee or other person providing services to the Company, taking into consideration his or her contribution to the success of the Company and any other factor which the Board of Directors of the Company may deem proper and relevant. The aggregate number of common shares which may be reserved for issuance pursuant to the Stock Option Plan and any other share compensation arrangements of the Company will not exceed 10% of the total number of issued and outstanding common shares (calculated on a non-diluted basis) from time to time. Stock options granted under the Stock Option Plan are exercisable over a period not exceeding five years, subject to earlier cancellation upon termination of the optionee's employment, upon the optionee ceasing to be an employee, senior officer, director or consultant of the Company, as applicable, or upon the optionee retiring, becoming permanently disabled or dying. The stock options are non-assignable and non-transferable. The Stock Option Plan contains provisions for adjustment in the number of shares issuable in the event of a subdivision, consolidation, reclassification or change of the common shares, or a merger or other relevant changes in the Company's capitalization. The Stock Option Plan does not contain any provision for financial assistance by the Company in respect of stock options granted thereunder.

The Company uses the fair value method of accounting for stock options, units or warrants granted to employees, senior officers, directors or consultants. The fair value of any stock options, units or warrants issued is recorded over the vesting period of the options granted using the Black Scholes option pricing model and management's assumptions. The primary estimates impacting the fair value of stock based compensation are the volatility of the share price and the expected life of the stock options, units or warrants. These estimates are based on historical information and accordingly cannot be relied upon to predict future behavior. The fair value of all stock options units or warrants granted is recorded as a charge to operations or share issuance cost over the vesting period with a corresponding credit to either contributed surplus or warrants. Upon exercise of the stock options, units or warrants, consideration paid by the holder together with the amount previously recognized in warrants or contributed surplus is recorded as an increase to share capital.

(m) Income taxes

Income taxes are accounted for using the asset and liability method. Under this method of tax allocation, future tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences") and losses carried forward. Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

(n) Asset retirement obligations

The Company recognizes estimates of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Amounts are recorded once they become known or can be readily estimated. At present, the Company has determined that it has no material AROs.

(o) Financial instruments - recognition and measurement

Financial assets and liabilities, including derivative instruments, are initially recognized at fair value and subsequently measured based on their classification as follows:

- Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period.

- Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet.

- Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period unless the instrument is a cash flow hedge and hedge accounting applies in which case changes in fair value are recognized in other comprehensive income

The Company has designated its financial instruments as follows:

- Cash and cash equivalents are classified as held-for-trading;

- GST and value added tax recoverable are classified as loans and receivables;

- Accounts payable and accrued liabilities, due to related parties and due to Northern Nickel Mining Inc. are classified as other financial liabilities.

-

The Company does not have any derivatives or embedded derivatives and does not use any hedges to manage various risks.

#### (p) Financial instruments – disclosures and presentation

The Company also applies CICA Handbook Sections 3862 and 3863 relating to Financial Instruments - Disclosure and Presentation. These sections require the Company to provide disclosure of quantitative and qualitative information in its financial statements that enable the user to evaluate:

-the significance of financial instruments for the entity's financial position and performance; and

-the nature and extent of risks arising from the financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

Entities are required to disclose the measurement basis or bases used and the criteria used to determine classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of fair value are:

Level 1-Unadjusted quoted prices in active markets for identical assets or liabilities:

Level 2-Inputs other than quoted prices that are observable for assets or liabilities either directly or indirectly; and

Level 3-Inputs that are not based on observable market data.

The required disclosures of this section for the different types of instruments and the levels or fair values are included in Note 5 of these financial statements.

#### (q) Capital disclosures

The Company applies CICA Handbook Section 1535, Capital Disclosures. This Section requires disclosure of an entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. This information enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. This disclosure is included in Note 7 of these financial statements.

#### (r) New accounting standards:

##### (i) IFRS 9 Financial Instruments

On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplified the mixed measurement model and established two primary measurement categories for financial assets: amortized cost and fair value. The Basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures including added disclosures about investments in equity instruments measured at fair value in OCI, and guidance on financial liabilities and de-recognition of financial instruments. IFRS 9 must be applied starting January 1, 2013 with early adoption permitted. We are currently assessing the impact of adopting IFRS 9.

#### 4. TRANSITION TO IFRS

As stated in Significant Accounting Policies Note 3, these are the Company's condensed financial statements prepared in accordance with IAS 34, using accounting policies consistent with IFRS.

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the nine months ended September 30, 2011, the comparative information presented in these financial statements for the nine months ended September 30, 2011..

(a) Elected exemptions from full retrospective application:

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

- To apply IFRS 2 Share based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 Business Combinations prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

The Company's Transition Date IFRS unaudited consolidated statement of financial position is included as comparative information in the unaudited condensed consolidated interim statements of financial position in these financial statements.

(b) Notes to the reconciliation of assets, liabilities, equity and net loss and comprehensive loss

(i) Mineral properties and deferred exploration costs

IFRS permits the retention of existing Canadian GAAP policies with respect to the capitalization of exploration and evaluation costs. The Company has elected to retain its accounting policy under Canadian GAAP.

(ii) Property, plant and equipment

IFRS sets out more detailed criteria with respect to the use of the component approach as compared to Canadian GAAP. Under IFRS, a separate component may be either a physical component, or a non-physical component that represents a major inspection or overhaul when an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately over its useful life. The Company has reviewed its capitalization policies under Canadian GAAP and determined that its approach to componentizing the assets under Canadian GAAP did not result in a significant transitional impact.

(iii) Functional Currency

The Company uses the Canadian dollar as both its functional and reporting currency. IFRS contains a comprehensive framework for the determination of functional currency. The Company has determined that there is no transitional impact as the Company's functional and reporting currency is the Canadian dollar under both IFRS and Canadian GAAP.

(iv) Stock based compensation

Under IFRS graded vesting awards are accounted for as though each instalment is a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis which was permissible under Canadian GAAP. Under IFRS, the estimates of the number of equity-settled awards that vest are adjusted to the actual number that vest, unless forfeitures are due to market-based conditions. There is no choice to accrue compensation cost as if all instruments granted were expected to vest and recognize the effect of the forfeitures as they occur as elected by the Company under Canadian GAAP. On August 23, 2010 the company granted 3,800,000 options under its existing plan. Under Canadian GAAP, the date of recognition and valuation is the date of shareholder approval. Under IFRS the associated compensation recorded is based on the actual employment service period, which may be prior to the grant date, which could be the date the options were legally issuable (the date of shareholder approval). Under IFRS, an entity estimates the grant date fair value of the stock options by estimating the fair value of the stock options at the end of the reporting period and updates the estimated fair value once shareholder approval has been granted. The company has determined that no portion of the stock options granted relate to the service period prior to granting and the difference in value at the grant date compared to the shareholder approval date was not significant and no transitional adjustment was required.

(v) Impact on cash flows

The adoption of IFRS has had no impact on the net cash flows of the Company.

## 5. FINANCIAL INSTRUMENTS-RISK MANAGEMENT

The Company has classified its cash and cash equivalents as held for trading, and is measured at fair value. GST and value added tax recoverable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost.

As at September 30, 2011, the carrying and fair value amounts of the Company's financial instruments are the same. The Company holds cash balances and incurs receivables and payables that are denominated in United States dollars and Mexican Pesos. These balances are subject to fluctuations in the exchange rate between the United States dollar, Mexican Peso and the Canadian dollar, resulting in currency gains or losses for the Company.

The Company's financial risk factors are discussed in detail below in Note 5.

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

a) Fair value

Fair values of assets and liabilities approximate amounts at which these items could be exchanged in a transaction between knowledgeable parties. Fair value is based on available public market information or when such information is not available, estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk. The calculation of estimated fair value is based on market conditions at the specific point in time and in the respective geographic locations and may not be reflective of future fair values.

Cash and cash equivalents are recorded at fair value and are measured using Level 1 (in accordance with Section 3862 of the CICA Handbook). GST and value added tax recoverable, accounts payable and accrued liabilities, due to related parties and due to Northern Nickel Mining Inc. approximate their fair values due to their short term to maturity.

(b) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Mexico and a portion of its costs and expenses are incurred in Canadian dollars, United States dollars and Mexican pesos. A significant change in the currency exchange rates between the United States dollar and/or the Mexican peso relative to the Canadian dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. At September 30th, 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in United States dollars and Mexican pesos:

	Sept 30 <u>2011</u>	December 31 <u>2010</u>
Denominated in United States dollars:	Cdn\$	Cdn\$
Cash and cash equivalents	\$8,486	\$190
Accounts payable and accrued liabilities	<u>(66,076)</u>	<u>(132,780)</u>
	<u>(57,590)</u>	<u>(132,590)</u>

Based on the above net exposure as at September 30th, 2011, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the United States dollar against the Canadian dollar would result in an increase/decrease of \$5,759 in the Company's net earnings.

	Sept 30 <u>2011</u>	December 31 <u>2010 Cdn\$</u>
Denominated in Mexican Pesos		
Cash and cash equivalents	\$2,212	223
Other current assets	110,477	100,319
Accounts payable and accrued liabilities	<u>(1,437)</u>	<u>(78,370)</u>
	<u>\$111,252</u>	<u>\$22,172</u>

Based on the above net exposure as at September 30th, 2011, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Mexican peso against the Canadian dollar would result in an increase/decrease of \$11,125 in the Company's net earnings.

(c) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third-party to a financial instrument fails to meet its contractual obligations.

Of the Company's cash and cash equivalents, \$69,685 is held at a large Canadian financial institution and \$2,212 is held at a large Mexican financial institution and management believes the risk of loss to be remote. GST (\$116,145) and value added tax recoverable (\$94,540) are recoverable from the Federal Government of Canada and the Government of Mexico respectively. Management believes that the credit risk concentration with respect to GST and value added tax recoverable is remote. Management does not believe the GST and value added tax recoverable is impaired.

(d) 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 manages liquidity risk through the management of its capital structure and financial leverage as outlined above in Note 6.

(e) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of cash and cash equivalents is remote. The Company has no interest-bearing debt.

(f) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general

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

## 6. CAPITAL MANAGEMENT

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

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust existing working capital. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

There were no changes in the Company's approach to capital management during the nine months ended September 30, 2011.

## 7. PROPERTY, PLANT AND EQUIPMENT

	Accumulated		Sept 30	December 31
	<u>Cost</u>	<u>Depreciation</u>	<u>2011</u>	<u>2010</u>
Equipment	\$17,385	\$8,807	8,578	\$9,990
Computers	<u>6,225</u>	<u>5,964</u>	<u>261</u>	<u>914</u>
	<u>\$23,610</u>	<u>\$14,771</u>	<u>8,839</u>	<u>\$10,904</u>

## 8 .MINERAL PROPERTIES

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

As mentioned in Note 1, title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveying history characteristics of many mineral properties. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its properties are in good standing.



Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

The Company enters into exploration agreements whereby they may earn an interest in certain mineral properties by issuing Common Shares, making cash option payments and/or incurring expenditures in varying amounts by specified dates. Failure by the Company to meet such requirements can result in a reduction of ownership interest.

The following is a summary of mineral claims and deferred exploration costs by property:

Mineral Claims	September 30 <u>2011</u>	December 31 <u>2010</u>
Lost Dog Property	\$60,000	\$25,000
Mountjoy and Carscallan	42,550	42,550
Wilder Duggan Mine	92,500	92,500
Welsh Silver Mine	152,000	152,000
Ogden Property	35,000	35,000
Jaripo Property	104,116	104,116
La Cumbre Property	65,147	65,147
Temixco Property	<u>3,000</u>	<u>0.0</u>
Totals	<u>554,113</u>	<u>516,313</u>

8 .MINERAL PROPERTIES (Continued)

Deferred exploration costs

	Wilder Duggan Mine	Welsh Silver Mine	Lost Dog Property	Ogden & Carscallen	Jaripo & LaCumbre	Total
Balance - December 31, 2010	\$618,152	\$1,083,963	\$195,873	\$23,449	1,193,460	\$ 3,114,897
Expenditures for the period ending March 31, 2011:						
Trenching, line cutting and road construction			10,000			10,000
Geological & consulting		15000	9,063			24,063
Travel, vehicle & field work		11467	2,500			13,967
Technical & professional		14250	2,649			16,899
Equipment rental, fuel and maintenance					500	500
Assay work		1600				1,600
Labour costs	875	55				930
Supplies			163			163
Permits, taxes and fees	75	75			10,000	10150
Balance - March 31, 2011	<u>\$619,102</u>	<u>\$1,126,410</u>	<u>\$220,248</u>	<u>\$23,449</u>	<u>\$1,203,960</u>	<u>\$ 3,193,169</u>
Expenditures April 1, 2011 to June 30 <sup>th</sup> , 2011:						
Trenching, line cutting and road construction			22,400		7,201	29,601
Geological & consulting		11475	12,400		7,500	31,375
Travel, vehicle & field work	1140	14438	3,750		1,128	20,456
Technical & professional		8750	89,700		3,000	101,450
Equipment rental, fuel and maintenance		2842			7,496	10,338
Assay work		10983				10,983
Drilling and site work		147,051				147,051
Labour costs						-
Supplies		1563	1685			3248
Permits, taxes and fees					8,698	8698
Balance - June 30 <sup>th</sup> , 2011	<u>\$620,242</u>	<u>\$1,323,512</u>	<u>\$350,183</u>	<u>\$23,449</u>	<u>\$1,238,983</u>	<u>\$3,556,369</u>

	Wilder Duggan Mine	Welsh Silver Mine	Lost Dog Property	Ogden & Carscallen	Jaripo & LaCumbre	Total
Expenditures April 1, 2011 to June 30 <sup>th</sup> , 2011:						
Trenching, line cutting and road construction					6,700	6,700
Geological & consulting		12,320			6,000	18,320
Travel, vehicle & field work		8,398			2,770	11,168
Technical & professional		7123	996	375		8,494
Supplies		478				478
Permits, taxes and fees				865	12,200	13,065
Balance – September 30 <sup>th</sup> , 2011	<u>\$620,242</u>	<u>\$1,351,831.</u>	<u>\$351,179</u>	<u>\$24,689</u>	<u>\$1,266,653</u>	<u>\$3,614,594</u>

## 8. MINERAL PROPERTIES (Continued)

### (a) Wilder Duggan Mine, Ontario

The Wilder Duggan Property, consisting of 4 mining leases and 7 mining claims is located in Donovan Township, Larder Lake Mining District, Ontario. Under the terms of the agreement dated May 2006, the Company can acquire a 100% mining interest in the Wilder Duggan Properties. The Company has paid to the vendor a sum of \$10,000 upon the signing of the agreement plus an additional \$20,000 in April 2007. The Company has also issued, as required, 250,000 common shares of the Company that were valued at \$32,500. Additional payments of \$30,000 were paid in May 2008 and \$40,000 was taken as shares for debt. The Vendors have agreed on a share for debt settlement on this final payment. The vendors retain a 2% Net Smelter Return and are entitled to advance royalties of \$6,000 every six months being due commencing on the 42nd month of the agreement. The Vendor has been issued 250,000 shares in lieu of the \$ 40,000 cash payment due.

### (b) Welsh Silver Mine, Ontario

The Welsh Silver Mine Property, consisting of one mining lease and nine mining claims is located in Mickle Township near the town of Elk Lake in Ontario. Under the terms of the Welsh Property Option Agreement dated July 17, 2006, the Company can earn a 100% interest in the property. The Company paid the vendor a cash payment of \$20,000 upon signing the agreement plus an additional \$20,000 in July 2007, and has issued to the vendor 400,000 common shares valued at \$46,000. The Company was also required and has satisfied the \$50,000 expenditure commitment. The Company has paid the vendor an additional \$40,000 and 260,000 common shares July 17, 2008. A 2 % Net Returns Royalty ("NSR") is on the property with advance royalties being due of \$30,000 per year commencing in 2009.

### (c) Ogden Property, Ontario

On August 19, 2009, the Company entered into an agreement to acquire 2 mining claims in the West Timmins Area of Ontario. Under the terms of the agreement, the Company has issued 500,000 common shares of the Company valued at \$35,000. The Company is also required to expend \$500,000 in exploration costs over a two year period. The vendors of the property will retain a 1.5% NSR which the Company has the right to purchase at any time for \$1,250,000. A director of the Company is one of the vendors of the property with a 25% interest. The Company has renewed the property for an additional one year term at no additional cost to the company.

### (d) Lost Dog Property, Ontario

On December 2, 2009, the Company entered into an agreement to acquire 36 mining claims in Denton Township, 30 kilometres south-west of Timmins, Ontario. Under the terms of the agreement, the Company can acquire a 100% interest in the property by paying the vendors \$10,000 and issuing to the vendors 250,000 common shares of the Company upon regulatory acceptance (paid cash and issued common shares subsequent to year-end on January 23, 2010), an additional \$20,000 and 250,000 common shares have been paid and issued.

An additional \$20,000 and 250,000 common shares prior to December 31, 2011. The vendors of the property will retain a 2% NSR which the Company has the right to purchase 1% NSR at any time for \$1,000,000.

(e) Timmins Joint Venture Agreement, Ontario

On March 5, 2010, the Company entered into a purchase and joint venture agreement, whereby the Company and Mhakari Gold Corp. ("Mhakari") can each acquire a 50% interest in a collection of 17 mining claim units in Ogden, Mountjoy, Denton and Carscallen Townships of Ontario. Under the terms of the agreement, the Company and Mhakari must each pay the vendors \$21,250 and issue 355,000 common shares upon regulatory approval of the agreement (the Company paid its portion of cash and issued shares on March 18, 2010) and each an additional \$21,250 and 355,000 common shares on the first anniversary of the agreement. As of May 30<sup>th</sup>, 2011, this has not been paid however the Company is asking for an extension. The vendor of the property has retained a 2% NSR.

(f) La Cumbre Property, Mexico

On June 29, 2007, the Company entered into an agreement to acquire 2 mining concessions in the State of Guerrero, Mexico. Under the terms of the agreement, the Company can acquire a 100% interest in the two concessions by paying the vendor \$68,000 U.S. The Company paid the vendor scheduled payments totalling \$40,000 U.S. plus taxes of \$6,000 during 2007. A final payment of \$28,000 U.S. plus taxes was paid in 2008 and the company owes no further payments. The vendor of the property will retain a royalty of \$1.00 U.S. for each tonne of ore extracted, milled and processed from the Mining Lots.

(g) Jaripo Property, Mexico

On July 1, 2009, the Company entered into an agreement to acquire the Jaripo concession in Michoacan State of Mexico. Under the terms of the agreement, the Company can acquire a 100% interest in the concession by paying the vendor \$25,000 U.S. upon signing of the agreement (paid July 31, 2009), \$25,000 U.S. prior to January 31, 2010(Paid) \$50,000 U.S. prior to July 31, 2010,(Paid) \$75,000 U.S. prior to July 31, 2011 and a final payment of \$1,825,000 U.S. prior to July 31, 2012. The company has not paid the July 31,2011 payment and is in negotiations with the vendor for a new term and new payments. As of November 12,2011 the negotiations continue. It is the companies belief that a new less onerous deal will be reached with the next few months.

(h) Sandeb Property

The Sandeb Property agreement with Trueclaim Exploration has not been approved by the TSX-Venture and has not been set up due to the non- agreement status . Subsequent to quarter end the deal with Trueclaim has been cancelled to the length and time to complete the deal. Due to the length of time Silver Shield desires to allocate company funds to more advanced projects already owned by the company. The property has been written off the company books.

## 9. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of Common shares without par value.

(b) Options

As of September 30, 2011 the Company had the following common share purchase options outstanding:

Number of Options	Exercise Price	Expiry Date
3,800,000	\$0.10	August 23rd, 2015

The 3,800,000 options were issued to directors, officers and consultants of the Company on August 23, 2010 and were valued at \$121,600. 1,200,000 were issued subsequent to quarter end to new directors.

No options expired or were issued in the quarter ended September 30, 2011.

(c) Warrants

As of September 30, 2011 the Company had the following share purchase warrants outstanding

Number of Warrants	Exercise Price (\$)	Expiry Date
2,085,000	0.15	January 31, 2013
10,800,000	0.10 *	February 28, 2013/Aug 13/11
6,900,000	0.10	December 15, 2011
1,999,999	0.20	December 31, 2011
4,166,666	0.15	December 31, 2012

Changes in outstanding share purchase warrants were as follows:

\*The warrant price is .10 till August 13, 2011 then .15 thereafter.

The fair value of each option at the date of issue was estimated using the Black-Scholes option pricing model with the following assumptions:

Expected life of options	5 years
Risk free interest rate	1.45%
Expected stock price volatility	100%
Expected dividend yield	0%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's warrants.

(d) Flow-through Shares

On December 31, 2010 8,333,332 flow-through shares were issued for gross proceeds of \$500,000, all of which with an effective date of renunciation of December 31, 2010. The

Company is required to incur \$500,000 in qualifying exploration expenditures by December 31, 2011 and expects to incur sufficient qualifying exploration costs to meet this requirement. On February 14, 2011, the company issued shares for 4,170,000 for \$250,200, all of which with an effective date of renunciation of December 31, 2011. The company is required to spend \$250,200 by December 31, 2011 and expects to incur sufficient qualifying exploration costs to meet this requirement.

(e) Non-Flow-through Shares

The company issued 10,800,000 for gross proceeds of \$540,000 with a full warrant at 0.10 until August 14, 2011, and continuing at 0.15 thereafter till February 14, 2013.

## 10. INCOME TAXES

The Company has losses of approximately \$1,942,510 available to reduce future taxable income. These losses expire as follows:

2025	\$ 85,343
2026	909,077
2028	403,536
2029	233,040
2030	311,514

The benefit relating to these loss carry forward amounts has not been recognized in the financial statements as the amount to be recorded under generally accepted accounting principles is limited to the amount which is more likely than not to be realized.

Income for taxation purposes differs from the amounts that would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to loss before income taxes. This difference results from the following:

	2009	2010
Loss and comprehensive loss before income taxes	\$(256,977)	\$(389,662)
Combined basic federal and provincial tax rate	33.00%	31.00%
Expected income tax recovery	\$(84,802)	\$(20,795)
Increase (decrease) in income taxes resulting from		
Deductible share issuance costs	(17,004)	(27,630)
Non-deductible expenses	(24,904)	(42,113)
Change in valuation allowance	<u>126,710</u>	<u>190,538</u>
Total	<u>0.00</u>	<u>0.00</u>

Significant components of the company's future tax assets are as follows:

	2010	2009
Tax loss carry forwards	600,949	538,229
Valuation allowance	600,949	(538,229)

## 11. RELATED PARTY TRANSACTIONS

(a) Management, vehicle and consulting fees of \$ 45,000 (2010 - Nil) were paid or accrued to a company controlled by the Company's President. The management fees paid covers the costs of maintaining an office for the Company. Expense reimbursements totaling \$25,396 were also paid or accrued directly to the Company's President. As of September 30, 2011 the Company had accrued \$67,388 in fees and expenses as a due to related party, to be reimbursed to the Company's President. Under the terms of a consulting agreement with the Company, the President of the Company is entitled to severance compensation of \$100,000 if terminated without cause.

(b) Geological fees of \$53,000 (2010 – 24,000) and other exploration, administration and travel costs of \$25,766 were paid or accrued to a company controlled by the Company's Vice-President of Exploration. As of September 30, 2011 the Company had accrued \$72,539 in geological fees and other costs as a due to related party, to be reimbursed to the company controlled by the Company's Vice-President of Exploration.

## 12. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the exploration of mineral properties. The Company's geographical information is as follows:

	Sept <u>2011</u>	December <u>2010</u>
Mineral properties:		
Canada	\$ 2,729,791	\$ 2,268,488
Mexico	<u>1,438,916</u>	<u>1,362,722</u>
	<u>\$ 4,168,707</u>	<u>\$ 3,631,210</u>
Total assets:	2011	2010
Canada	\$ 2,935,562	\$ 2,784,099
Mexico	<u>1,552,145</u>	<u>1,467,471</u>
	<u>\$ 4,487,707</u>	<u>\$ 4,251,570</u>



