

SILVER SHIELD RESOURCES CORP.
(An Exploration Stage Company)
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE SIX MONTHS ENDED JUNE 30, 2012
(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)

		June 30 2012	December 31 2011
	<u>Notes</u>		(Note 4)
Assets			
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	3	\$25,415	\$ 5,494
GST and value added tax recoverable		15,927	115,737
Prepaid expenses and deposits	3	-	-
		<u>41,342</u>	<u>121,231</u>
MINERAL PROPERTIES			
Mineral claims	6	450,297	374,697
Deferred exploration costs		<u>3,006,208</u>	<u>2,943,576</u>
		3,456,505	3,318,273
PROPERTY, PLANT AND EQUIPMENT			
	8	<u>7,917</u>	<u>9,023</u>
		<u>3,505,764</u>	<u>3,448,527</u>

LIABILITIES

<u>CURRENT LIABILITIES</u>			
Accounts payable & accrued liabilities	16	\$136,272	\$308,045
Royalties payable		118,726	103,726
Due to Northern Nickel Mining Inc		-	446,066
Due to related parties	11	268,876	225,660
Short Term Loan	16	<u>26,000</u>	-----
		549,874	<u>1,083,497</u>

SHAREHOLDERS EQUITY

SHARE CAPITAL	9	5,139,309	4,451,367
CONTRIBUTED SURPLUS	9	929,550	929,550
WARRANTS	9	274,210	274,210
DEFICIT		<u>(3,387,179)</u>	<u>(3,290,097)</u>
		2,955,890	<u>2,365,030</u>
		<u>\$3,505,764</u>	<u>\$3,448,527</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 SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(Unaudited - Prepared by Management)**

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2012</u> (Unaudited)	<u>2011</u> (Unaudited)	<u>2012</u> (Unaudited)	<u>2011</u> (Unaudited)
EXPENSES				
Bank service charges	\$1009	\$ 258	1,670	2,575
Legal and audit	245	5,119	245	5,119
Management fees	-	-	0	10,746
Marketing and promotional fees	4,376	42,733	48,405	89,610
Office and administrative	5,327	9,319	11,556	18,116
Transfer agent and filing fees	7,703	4,611	14,824	19,630
Travel, meetings and conventions	<u>3,871</u>	<u>389</u>	<u>4,276</u>	<u>1,072</u>
	<u>22,531</u>	<u>62,429</u>	<u>\$80,976</u>	<u>146,868</u>
NET LOSS BEFORE OTHER ITEMS	<u>(22,531)</u>	<u>(62,429)</u>	<u>(80,976)</u>	<u>(146,868)</u>
Mineral exploration costs	-	-	-	-
Depreciation and amortization	(553)	(256)	(1,106)	(1,161)
Short term exchange gains (losses)	-	-	0	2,700
Royalties	<u>(7,500)</u>	<u>(7,500)</u>	<u>(15,000)</u>	<u>(15,000)</u>
	(8,053)	(7,756)	(16,106)	(13,461)
LOSS FOR THE PERIOD	(30,584)	(70,185)	(97,082)	(160,329)
Future Income Tax (Recovered)				(82,570)
Loss and Comprehensive Loss	(30,584)	(70,185)	(97,082)	(77,759)
DEFICIT, BEGINNING OF PERIOD	<u>(3,356,595)</u>	<u>(1,662,293)</u>	<u>(3,290,097)</u>	<u>(1,654,719)</u>
DEFICIT, END OF PERIOD	<u>\$(3,387,179)</u>	<u>\$(1,732,478)</u>	<u>(3,387,179)</u>	<u>(1,732,478)</u>
BASIC AND DILUTED LOSS PER COMMON SHARE	<u>\$(0.001)</u>	<u>\$(0.001)</u>	<u>\$(0.001)</u>	<u>\$(0.001)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>75,883,819</u>	<u>71,458,791</u>	<u>75,883,819</u>	<u>71,458,791</u>
Going Concern (Note 1)				

SILVER SHIELD RESOURCES CORP.

(An Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (Unaudited - Prepared by Management)

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
CASH PROVIDED BY (USED FOR)				
OPERATING ACTIVITIES				
Loss and comprehensive loss for the period	\$(30,784)	\$(70,185)	\$(97,082)	\$(77,759)
Add items not involving cash				
- depreciation and amortization	553	256	1,106	1,161
- future income taxes	-	-	-	(82,570)
	(30,031)	(69,929)	(95,976)	(159,168)
Change in non-cash working capital items	(552,450)	(24,102)	(433,813)	(379,242)
Net cash flow from operations	(582,481)	(94,031)	(529,789)	(538,410)
Issuance of capital stock	680,442	(508)	687,942	883,997
Stock subscribed				(26,000)
INVESTING ACTIVITIES				
Purchase of mineral claims	(62,100)	-	(75,600)	(37,800)
Deferred exploration costs	(10,780)	(363,200)	(62,632)	(441,472)
	(72,880)	(363,200)	(138,232)	(479,272)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	25,081	(457,739)	19,921	(159,685)
CASH AND CASH EQUIVALENTS				
- beginning of period	334	750,819	5,494	452,765
CASH AND CASH EQUIVALENTS				
- end of period	<u>\$25,415</u>	<u>\$293,090</u>	<u>\$25,415</u>	<u>\$293,080</u>
 Change in non-cash working capital items:				
GST and value added tax recoverable	\$100,424	\$(42,277)	99,810	(53,022)
Prepaid expenses and deposits	-	4,450	-	(30,700)
Accounts payable and accrued liabilities	(215,107)	5,815	171,773	(208,625)
Royalties payable	7,500	7,500	15,000	15,000
Due to related parties	799	410	43,216	101,894
Due to Northern Nickel Mining	(446,066)		(446,066)	
Short term loan			26,000	
	<u>\$(552,450)</u>	<u>\$24,102</u>	<u>\$(433,813)</u>	<u>\$379,242</u>
 Supplemental disclosure with respect to non-cash transactions:				
Issuance of common shares	\$ 62,100	\$ -	\$ 75,600	\$15,000
Purchase of mineral claims	(62,100)	\$ -	\$(75,600)	\$(15,000)
Share issue cost	-			\$(26,200)
Contributed surplus	-			26,200
Issuance of common shares	618,342	-	618,342	161,997
Payables extinguished for shares	(618,342)		(618,342)	(161,997)

SILVER SHIELD RESOURCES CORP.
(AN EXPLORATION STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDING JUNE 30, 2012
EXPRESSED IN CANADIAN DOLLARS

	<u>Common Stock</u>		Contributed Surplus	Deficit	Total
	# of shares	Amount			
Balance, Jan 1, 2010	45,863,759	\$3,416,510	\$745,050	\$(1,548,857)	\$2,612,703
Share based payments	-	-	121,600	-	121,600
Shared capital issued	8,333,332	420,830	-	-	420,830
Issued for properties	605,000	36,300	-	-	36,300
Warrants issued	-	-	79,170	-	79,170
Share issue costs	-	(111,234)	22,100	-	(89,134)
Loss and comprehensive loss for the period	-	-	-	(389,662)	(389,662)
Share subscriptions	-	26,000	-	-	26,000
Balance, Dec 31, 2010	54,802,091	\$3,788,406	\$967,920	\$(1,938,518)	\$2,817,808
Share based payments	-	-	40,800	-	40,800
Non flow-through shares issued	10,800,000	540,000	-	-	540,000
Flow-through shares issued	4,170,000	250,200	-	-	250,200
Shares issued for resource property	250,000	15,000	-	-	15,000
Share capital issued for debt	1,436,700	161,997	-	-	161,997
Share issue costs	-	(109,196)	-	-	(109,196)
Fair value of broker warrants issued with private placements	-	(195,040)	195,040	-	-
Loss and comprehensive loss for the period	-	-	-	(1,351,578)	(1,351,578)
Balance, Dec 31, 2011	71,458,792	\$4,451,367	\$1,203,760	\$(3,290,097)	\$2,365,030
Shares issued for property	250,000	7,500			
Comprehensive Loss				(66,498)	
Balance March 31, 2012	71,708,792	\$ 4,458,867	\$ 1,203,760	\$(3,356,595)	\$2,306,032
Comprehensive Loss				(30,584)	
Shares for Debt	6,183,428	618,342			
Shares for property	355,000	7,100			
Shares for property	2,200,000	55,000			
Balance June 30, 2012	80,447,220	5,139,309	\$1,203,760	\$(3,387,179)	2,955,890

SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED JUNE 30, 2012
EXPRESSED IN CANADIAN DOLLARS

1. DESCRIPTION OF BUSINESS

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. ("SSRC"). The Company is a reporting issuer in Ontario, Alberta and British Columbia and trades on the TSX Venture Exchange as a Tier II reporting issuer under the symbol "SSR.V". The address of the Company's corporate office and principal place of business is 4034 Mainway Drive, Unit C, Burlington, Ontario, Canada.

2. BASIS OF PRESENTATION

(a) Statement of Compliance and Conversion to International Financial Reporting Standards

The consolidated financial statements of the Company for the three months ended June 30, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP"). These financial statements for the six months ended June 30, 2012 have been prepared in accordance with IFRS1. First-time Adoption of International Financial Reporting Standards has been applied. These financial statements should be read in conjunction with the Company's 2011 annual financial statements. The explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Schedule 1.

The consolidated financial statements were authorized for issue by the Board of Directors on August 27, 2012.

(b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(c) Going Concern of Operations

The Company has not generated revenue from operations. The Company incurred a net loss of \$97,082 during the six months ended June 30, 2012 and, as of that date the Company's deficit was \$3,387,179. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2012

EXPRESSED IN CANADIAN DOLLARS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position as at January 1st, 2010 for the purposes of transition to IFRS, unless otherwise indicated.

(a) Foreign Currencies

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the consolidated statement of loss and comprehensive loss. Non monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(b) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

(c) Mineral Exploration and Evaluation Expenditures

Pre-exploration costs are expensed in the period in which they are incurred.

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the consolidated statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

If the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2012

EXPRESSED IN CANADIAN DOLLARS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Note Concerning Capitalizing vs. Expensing Exploration and Evaluation Costs:

Under IFRS 6, upon transition to IFRS, an entity may continue to follow their current accounting policies, whereby exploration and evaluation expenditures are capitalized or a Company may elect to expense all exploration and evaluation costs. Current industry practice on the capitalization vs. expensing of exploration and evaluation activities varies by company. Significant management judgment is required to determine appropriate accounting policies relating to the treatment of exploration and evaluation expenditures upon transition to IFRS. Silver Shield Resources Corp. has elected to continue to capitalize exploration and evaluation activities that are directly related to the discovery, acquisition or development of exploration and evaluation activities upon transition to IFRS.

(d) Plant and Equipment

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions. Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is provided at rates calculated to write off the cost of the property, plant and equipment, less their estimated residual value, using the straight line method at various useful lives:

Equipment 20% declining balance

Computers 55% declining balance

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

(e) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial yearend. Other non-financial assets, including mineral exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash generating unit for which impairment testing is performed. An impairment loss is charged to the profit or loss, except to the extent they reverse gains previously recognized in other comprehensive loss/income.

SILVER SHIELD RESOURCES CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2012

EXPRESSED IN CANADIAN DOLLARS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments

Financial assets and liabilities are classified into one of the following categories based on the purpose for which the asset was acquired or for which the liability was incurred.

Cash and cash equivalents Fair value through profit or loss

Accounts receivable Loans and receivables

Accounts payable and accrued liabilities Other financial liabilities

Royalties payable Other financial liabilities

Fair Value Through Profit or Loss

Fair value through profit or loss makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Other Financial Liabilities

Other financial liabilities are recognized initially at fair value net of any directly attributable transactions costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

(g) Income Taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

SILVER SHIELD RESOURCES CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2012

EXPRESSED IN CANADIAN DOLLARS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(h) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Flow-through Shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as flow-through share proceeds in Note 9.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

Loss Per Share

Basic loss per share is computed by dividing the net loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted loss per common share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

SILVER SHIELD RESOURCES CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2012
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Share-Based Payments

The fair values of share options granted to employees are recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized 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.

(j) Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2011 or later periods.

The Company has early adopted the amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for the Company to restate derecognition transactions that occurred before the date of transition to IFRSs. The amendment is effective for year-ends beginning on or after July 1, 2011; however, the Company has early adopted the amendment. The impact of the amendment and early adoption is that the Company only applies IAS 39 derecognition requirements to transactions that occurred after the date of transition.

The following new standards, amendments and interpretations, that have not been early adopted in these financial statements, will or may have an effect on the Company's future results and financial position:

The following new standards, amendments and interpretations, that have not been early adopted in these financial statements, will not have an effect on the Company's future results and financial position:

IFRS 9: Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

IFRS 1: Severe Hyperinflation (Effective for periods beginning on or after July 1, 2011).

IAS 12: Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12 (Effective for periods beginning on or after January 1, 2012) Amendments to IFRS 9: Financial Instruments (Effective for periods beginning on or after January 1, 2013). IFRS 10 Consolidated Financial Statements (Effective for annual periods beginning on or after January 1, 2013) IFRS 10, Consolidated Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces SIC 12 Consolidation – Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2012

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 11 Joint Arrangements (Effective for annual periods beginning on or after January 1, 2013)

IFRS 11, Joint Arrangements, establishes principles for financial reporting by parties to a joint arrangement. The IFRS is to be applied by all entities that are a party to a joint arrangement. It provides a new definition of joint arrangement focusing on the rights and obligations of the arrangement, rather than its legal form. The IFRS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

IFRS 12 Disclosure of Interests in Other Entities (Effective for annual periods beginning on or after January 1, 2013) IFRS 12, Disclosure of Interests in Other Entities, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. It enables users of financial statements to evaluate: (1) the nature of, and risks associated with, its interests in other entities; and (2) the effects of those interests on its financial position, financial performance and cash flows.

IAS 27 Separate Financial Statements (Effective for annual periods beginning on or after January 1, 2013)

IAS 27, Separate Financial Statements, makes consequential amendments to IAS 27, Consolidated and Separate Financial Statements, and together with IFRS 10, replaces IAS 27, Consolidated and Separate Financial Statements. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements and is issued concurrently with IFRS 10. IAS 28 Investments In Associates and Joint Ventures (Effective for annual periods beginning on or after January 1, 2013)

IAS 28, Investments in Associates and Joint Ventures, makes consequential amendments to IAS 28, Investments in Associates, to describe the application of the equity method to investments in joint ventures in addition to associates.

4. CRITICAL ACCOUNT ESTIMATES AND JUDGMENTS

Silver Shield Resources Corp. makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim financial statements within the next financial year are discussed below:

(a) Mineral Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

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4. CRITICAL ACCOUNT ESTIMATES AND JUDGMENTS (continued)

(b) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

(c) Share-Based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model. This estimate also requires determining the most appropriate inputs to the Black Scholes valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for stock-based payment transactions are disclosed in Note 9.

5. ACCOUNTS RECEIVABLE

The accounts receivable are input tax credits due from the Government of Canada. In prior years, they also included the value added taxes receivable in Mexico. Due to problems with the collection of these amounts in Mexico, management has decided to write off the balance receivable in 2011 in the amount of \$94,540.

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6. 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.

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.

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6. MINERAL PROPERTIES (Continued)

The Company's mineral property interests consist of various early stage exploration projects as detailed below:

	2012	2011
Hislop	\$ 61,000	-
Welsh Silver Mine	\$ 152,000	152,000
Lost Dog Property	87,500	25,000
Ogden & Carscallen	84,650	77,550
Jairpo & LaCumbre	65,147	169,263
	\$ 450,297	\$ 374,697

	Wilder Duggan Mine	Welsh Silver Mine	Lost Dog Property	Ogden & Carscallen	Jaripo & LaCumbre	Total
Balance - December 31, 2009	\$535,671	\$1,026,602	-	-	\$937,838	\$2,500,111
Trenching, line cutting and road construction			22,400			22,400
Geological & consulting	50,000	29,000	56,635	11,528		147,163
Core shack refit	-	3,600	-	-	-	3,600
Travel, vehicle & field work	9,484	4,578	1,300	-	-	15,362
Technical & professional	11,955	5,333	19,837	500		37,625
Equipment rental, fuel and maintenance	3,750	7,500	20,250	-	12,993	44,493
Construction costs	-	-	-	-	35,485	35,485
Survey & mapping	3,591	-	70,400	600	-	74,591
Assay work	791	-	-	8,752	11,232	20,775
Drilling and site work	-	-	-	-	138,571	138,751
On site accommodation	-	-	-	-	18,595	18,595
Labour costs	2,000	-	-	500	20,428	22,928
Supplies	-	7,300	5,051	1,569	8,301	22,221
Permits, taxes and fees	910	50	-	-	101,017	10,977
Balance - December 31, 2010	\$618,152	\$1,083,963	\$195,873	\$23,449	\$1,193,460	\$3,114,897

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	Hislop	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 year ending December 31, 2011:							
Trenching, line cutting and road construction	-	-	-	32,400	-	6,700	39,100
Geological & consulting	4,375	108,192	30,400	5,000	18,417	166,384	
Core shack refit	-	4,800	-	-	-	4,800	
Travel, vehicle & fieldwork	140	18,665	-	-	4,245	23,050	
Technical & professional	-	12,615	2,812	-	8,997	24,424	
Equipment rental, fuel and maintenance	-	34,400	8,750	-	700	43,850	
Survey & mapping	11	8,414	90,670	-	6,000	105,095	
Assay work	-	5,590	-	-	31,521	37,111	
Drilling and site work	-	142,081	-	-	3,025	145,106	
On site accommodation	-	398	-	-	-	398	
Labour costs	-	-	-	-	375	375	
Supplies	615	8,565	11,446	(4)	17,034	37,656	
Permits, taxes and fees	75	-	-	865	(29,945)	(29,005)	
Writedown of mineral properties	(623,368)	-	-	-	(146,297)	(769,665)	
Balance – December 31, 2011		-	\$1,427,683	\$372,351	\$29,685	\$1,113,857	\$2,943,576
Geological & consulting	16,060			15,000			31,060
Technical & professional	7,000		6,000				13,000
Equipment rental, fuel and maintenance	2,500		292	5,000			7,792
Balance – March 31, 2012	25,500		1,433,975	392,351	29,685	1,113,857	2,995,428
Geological & Consulting			5,248				5,248
Technical & Professional	210			367	213	4,802	5,532
Equipment rental, Fuel							
Balance June 30, 2012	25,710	-	1,439,223	392,718	29,898	1,118,659	3,006,208

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FOR THE SIXMONTHS ENDED JUNE 30, 2012

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6. MINERAL PROPERTIES (continued)

PROPERTY DESCRIPTIONS

(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. The company has not paid the royalties and therefore has written off the property from the company's books.

(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 were to be paid 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. The company has paid with the acceptance of the vendors the shares and cash payments due. These payments were made in March 2012 and accepted by the vendors. The property is now owned 100 % by the company.

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6. MINERAL PROPERTIES (continued)

(e) Timmins Joint Venture Agreement, Ontario

On March 5, 2010, the Company entered into a purchase and joint venture agreement, whereby the Company and Mhakar Gold Corp. ("Mhakar") 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 Mhakar 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. The vendor has received his shares and has extended the payment of the cash till December 31, 2012. 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 was in negotiations with the vendor for a new term and new payments. While in negotiations with the vendors the vendors opted to sell the property to another party. As such the company maintains it's staked property Jaripo III and has written off the costs associated with the other Jaripo I and Jaripo II.

7. FLOW THROUGH FUNDING

As at June 30, 2012, there was \$146,880 of unspent flow through dollars which have to be spent on qualifying exploration and evaluation expenses prior to December 31, 2012.

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8. PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value 2012
Equipment	\$18,035	10,118	7,917
Computer equipment	6,225	6,625	-
	\$24260	16,743	7,917
	Cost	Accumulated Depreciation	Net Book Value 2011
Equipment	17385	9,257	8,778
Computer equipment	6225	5,980	245
	\$23610	15,237	9,023

9. SHAREHOLDERS' EQUITY

(a) (i) Common Shares- the Company is authorized to issue an unlimited number of common shares.

(ii) Issued

	Number of shares	Amount
Balance, December 31, 2009	45,863,759	\$3,416,510
Flow-through share equity financing (Note 9(a)(ii))	8,333,332	500,000
Shares issued as part of the various property agreements	605,000	36,300
Black Scholes value of warrants issued with private placements	-	(79,170)
Share issuance costs	-	(111,234)
Balance, December 31, 2010	54,802,091	3,788,406
Private placement equity financing (Note 9(a)(vi))	10,800,000	540,000
Private placement equity financing (Note 9(a)(v))	4,170,000	250,200
Share issued for mineral property	250,000	15,000
Share capital issued to extinguish debt (Note 9(a)(iv))	1,436,700	161,997
Fair value of warrants issued with private placement	-	(195,040)
Share issue costs	-	(109,196)
Balance, December 31, 2011	71,458,792	4,451,367
Shares issued for mineral property	250,000	7,500
Balance, March 31, 2012	71,708,792	\$4,458,867
Shares issued for debt	6,183,428	618,342
Shares issued for property	2,555,000	62,100
Balance June 30, 2012	80,447,220	5,139,309

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9. SHAREHOLDERS' EQUITY (continued)

(iii) December 31, 2010 Private Placement On December 31, 2010, the Company closed a private placement of 8,333,332 flow-through units ("FT Unit") at a price of \$0.06 per unit for proceeds of \$500,000. Each FT Unit consists of one flow-through common share issued on a flow-through basis and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 until December 31, 2012. The values attributed to the shares and warrants were \$420,830 and \$79,170 respectively. The Company compensated the brokers of the private placement a cash commission of \$20,000, plus 533,333 finder's units. Each finder's unit is exercisable into one common share and one-half of one common share purchase warrant of the Company at a price of \$0.06 per unit, expiring December 31, 2012. These common share purchase warrants have an exercise price of \$0.15 per share and also expire December 31, 2012. The value assigned to these finder's units was determined to be \$22,100 and has been recorded as a share issuance cost and an addition to contributed surplus.

(iv) Shares for Debt Settlement

On May 17, 2012, the Company issued a total of 6,183,428 shares to settle outstanding payables in the amount of \$618,342.

On January 2, 2011, the Company issued a total of 1,436,700 common shares to settle the outstanding \$40,000 cash payment due on the Wilder Duggan Mine (see Note 6), \$18,670 in trade accounts payable and a \$103,327 advance from a director of the Company.

(v) January 25, 2011 Flow-Through Share Equity Financing

On January 25, 2011, the Company closed a private placement of 4,170,000 flow-through units ("FT Unit") at a price of \$0.06 per unit for proceeds of \$250,200. Each FT Unit consists of one flow-through common share issued on a flow-through basis and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 until January 13, 2013. The Company compensated the brokers of the private placement a cash commission of \$20,016, plus 333,600 finder's units. Each finder's unit is exercisable into one common share and one-half of one common share purchase warrant of the Company at a price of \$0.15 per unit, expiring January 31, 2013. Share subscriptions of \$26,000 were received prior to December 31, 2010 and have been recorded on the balance sheet of the Company.

(vi) February 23, 2011 Non-Flow-Through Share Equity Financing

On February 23, 2011, the Company closed a private placement of 10,800,000 non flow-through units ("Unit") at a price of \$0.05 per unit for proceeds of \$540,000. Each Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.10 until August 31, 2011, or \$0.15 until February 28, 2013. The Company compensated the brokers of the private placement a cash commission of \$26,600, plus 520,000 finder's units. Each finder's unit is exercisable into one common share of the Company at a price of \$0.10 per unit, expiring February 28, 2013.

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9. SHAREHOLDERS' EQUITY (continued)

(b)

Warrants	Number of Warrants	Amount	Weighted Average Exercise Price
Balance, December 31, 2010	13,066,665	\$327,060	\$0.15
Warranty issued during the period	13,738,600	\$195,040	0.12
Warrants expired during the period	(8,899,999)	(247,890)	0.12
<u>Balance, December 31, 2011</u>	<u>17,905,266</u>	<u>274,210</u>	<u>0.12</u>

The warrants expire as follows:

Number of Warrants	Exercise price	Expiry Date
2,418,600	0.15	January 2013
11,320,000	0.10	February 2013
<u>4,166,666</u>	<u>0.15</u>	<u>December 2012</u>
<u>17,905,266</u>	<u>0.12</u>	

The fair value at the issue date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the warrant, the impact of dilution, the share price at the issue date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the warrant. The company issues all warrants an exercise price equal to or greater than the market value of the underlying common shares on the date of issue. The fair value of these warrants was calculated using Black Scholes valuation model with the following assumptions: 24 month expected term; 150% expected volatility (2010 - 100%); risk-free interest rate of 1.45% (2010 - 1%); and a dividend yield of Nil% (2010 - Nil%). This pricing model requires the input of highly subjective assumptions noted above. 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.

(c) Stock Options

There was not any option activity during 2009. During 2010, 3,800,000 options valued at \$121,600 were issued.

		Weighted Average Exercise price	Amount
Options outstanding – December 31, 2010	3,800,000	0.10	\$121,600
Issued	1,200,000	0.10	\$ 40,800
Options outstanding – December 31, 2011	5,000,000	0.10	\$162,400
Cancelled	1,200,000	0.10	\$ 40,800

There were no options issued in the period ending June 30, 2012.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2012:

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

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9. SHAREHOLDERS' EQUITY (continued)

Options Issued to Employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The company grants all employee stock options with an exercise price equal to or greater than the market value of the underlying common shares on the date of grant. Compensation expense recorded for the year ended December 31, 2011 was \$NIL (2010 - \$121,600). The fair value of these options was calculated using Black Scholes valuation model with the following assumptions: 60 month expected life; 150% expected volatility (2010 - 100%); risk-free interest rate of 1.45% (2010 - 1.45%); and a dividend yield of Nil% (2010 - Nil%). Option pricing models require the input of highly subjective assumptions noted above. 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 purchase options.

Options Issued to Non-Employees

Options issued to non-employees, are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

(d) Contributed Surplus and Reserves

Contributed surplus is made up of the following amounts:

	<u>2011</u>	<u>2010</u>
Options reserve	\$162,400	\$121,600
Warrants reserve	274,210	275,060
Contributed surplus	<u>767,150</u>	<u>571,260</u>
Total contributed surplus	\$1,203,760	\$ 967,920

The following events have impacted contributed surplus during the current period:

Balance, beginning of period	\$1,203,760
Balance, end of March 31, 2012	\$ 1,203,760
Balance end of June 30, 2012	\$ 1,203,760

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9. SHAREHOLDERS' EQUITY (continued)

(e) Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's balance sheet include 'Contributed Surplus' and 'Deficit'. 'Contributed Surplus' is used to recognize the value of stock option grants and share warrants prior to exercise. 'Deficit' is used to record the Company's change in deficit from earnings and losses from period to period.

10. INCOME TAXES

Income tax expense is recognized based on the current income tax rate. A reconciliation of income taxes at the rates expected to apply when the asset is realized of approximately 28.3% (December 31, 2010 - 31.0%) with the reported taxes is as follows:

	December 31, 2011	December 31 2010
Loss before income taxes	\$(1,351,578)	\$ (389,662)
Expected income tax recovery	(339,482)	(120,795)
Non-deductible expenses	11,546	42,113
Share issue costs	(30,000)	(27,630)
Write off of mineral property	277,982	-
Change in deferred tax asset	79,954	106,312
Provision for income taxes	-	-

The significant components of the Company's deferred income tax assets are as follows:

	December 31 2011	December 31 2010
Temporary differences	\$ 114,903	\$ 115,949
Operating losses carried forward	566,000	485,000
	680,903	600,949
Deferred tax asset recognized to offset		
Deferred tax liability	(79,954)	(106,312)
<u>Unrecognized deferred tax asset</u>	<u>\$ 600,949</u>	<u>\$ 494,637</u>

Recognition of deferred tax assets for unused tax losses and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. The amounts recognized above offset the tax liability created by the renunciation the tax benefits related to flow-through shares. The balance of the deferred tax asset has not been recognized in the financial statements. The unspent flow through in the amount of \$203,000 will create a deferred tax liability of approximately \$53,000 when spent in 2012. Management believes there will be sufficient tax assets available to offset this liability

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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11. BASIC AND DILUTED LOSS PER SHARE

	<u>2012</u>	<u>2011</u>
Loss for the period ended June 30	\$97,082	\$77,759
Weighted average number of common shares Outstanding	75,883,819	71,458,791
Basic loss per share	(0.001)	(0.001)
Diluted loss per share	(0.001)	(0.001)

12. RELATED PARTY TRANSACTIONS

	<u>June 30</u>	<u>December 31</u>
	<u>2012</u>	<u>2011</u>
Share-based compensation	\$ -----	\$40,800

Key personnel is defined as those who have authority and responsibility for planning, directing, controlling the activities of the company, directly or indirectly

Expenses were reimbursed to the President for out of pocket costs in the amount of \$ 12,330.24, the VP of Exploration \$ 8,438 and the VP of Engineering for \$ 9,834.

Due to lack of funding the named individuals received no cash for services in the period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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13. SEGMENTED INFORMATION

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

	<u>2012</u>	<u>Dec 2011</u>
<u>Mineral Properties:</u>		
Canada	\$2,272,701	\$2,204,416
Mexico	<u>1,183,804</u>	<u>1,113,853</u>
	\$3,456,505	\$3,318,273
	<u>2012</u>	<u>2011</u>
<u>Total Assets:</u>		
Canada	\$2,311,259	\$2,037,401
Mexico	<u>1,194,505</u>	<u>1,411,126</u>
	<u>\$3,505,764</u>	<u>\$3,448,527</u>

14. 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 Company considers its capital to be shareholders' equity, which is comprised of capital stock, contributed surplus, and deficit. The Company's objective when managing capital is to obtain adequate levels of funding to support its exploration activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the identification and development of precious metals deposits. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company invests all capital that is surplus to its immediate operational needs in short term, liquid and highly rated financial instruments, such as cash, and short term guarantee deposits, all held with major Canadian financial institutions. The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during 2011 and 2012.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 June 30, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in United States dollars and Mexican pesos:

	2012	Dec
	Cdn\$	Cdn\$
Denominated in United States dollars:		
Cash and cash equivalents	\$ 450	\$ 417
Accounts payable and accrued liabilities	<u>(1453)</u>	<u>(547)</u>
	(1003)	(130)

Based on the above net exposure as at June 30, 2012, 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 of \$ 100 in the Company's net earnings.

	2012	Dec
	Cdn\$	Cdn\$
Denominated in Mexican Pesos:		
Cash and cash equivalents	\$ 2,334	\$ 101
Other current assets	-	-
Accounts payable and accrued liabilities	<u>(20,420)</u>	<u>(29,051)</u>
	\$ (18,086)	\$(28,950)

Based on the above net exposure as at June 30, 2012, 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 \$1809 in the Company's net earnings.

Commodity Price Risk The ability of the Company to develop its mining properties and the future profitability of the Company is directly related to the market price of silver.

Liquidity Risk

Liquidity risk is the risk that the Company is not 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 in . As at June 30, 2012, the Company's current liabilities totaled \$549,874 while cash and equivalents totaled \$41,342. As a result, the Company will require additional funding to maintain corporate and administrative functions and to fund its continuing exploration activities and commitments.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

16. SHORT TERM LOAN

On March 5, 2012 the company signed a promissory note in the amount of \$26,000. The Company agreed to pay an amount of \$27,100 to the lenders on or before September 5, 2012 in settlement of the promissory note including all applicable interest. The lenders have as security the Company's 100% interest in the Lost Dog Property located in Denton Township. On February 29, 2012 the company issued 250,000 common shares as required under the terms of the Lost Dog property agreement.

The company has been notified of a statement of claim by Elk Lake Enterprises of Elk Lake, Ontario in the amount of \$16598.40 for services. The company is not negotiating to resolve this claim and will offer company shares as settlement with shareholder approval.

17. CASH FLOW SUPPLEMENTARY INFORMATION

	2012	Dec 2011
Common shares issued as part of property agreements	\$ 69,600	\$ 15,000
Brokers' warrants issued as part of private placements	-	-
Capital stock issued to extinguish debt	618,342	161,997
Interest paid	501	4,073

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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18. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company's consolidated financial statements for the year-ended December 31, 2011 are the first annual financial statements that have been prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company is at December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

OPTIONAL EXEMPTIONS

Share-based Payment Transactions

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and had vested before the Transition Date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as at the Transition Date to IFRS.

MANDATORY EXEMPTIONS

Derecognition of Financial Assets and Liabilities

The Company has applied the derecognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39.

Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

RECONCILIATIONS OF PRE-CHANGEOVER CANADIAN GAAP EQUITY AND COMPREHENSIVE INCOME TO IFRS IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive income as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no material adjustments to the net cash flows, no reconciliation of the statement of cash flows has been prepared

