



SILVER SHIELD
RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 & 2011

EXPRESSED IN CANADIAN DOLLARS



SILVER SHIELD

RESOURCES CORP.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Silver Shield Resources Corp. included in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. When alternative accounting methods exist, management has selected those it deems to be most appropriate in the circumstances.

The significant accounting policies used are described in Note 3 to the consolidated financial statements. The consolidated financial statements include estimates based on the experience and judgment of management in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in the annual report is consistent with that in the financial statements.

The management of the Company developed and continues to maintain systems of internal accounting controls and management practices designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibilities for ensuring that management fulfils its responsibilities for financial reporting and internal control with the assistance of its Audit Committee. The Audit Committee is appointed by the Board and all of its members are Directors of Silver Shield Resources Corp.. The Committee meets periodically to review quarterly financial reports and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors.

These consolidated financial statements have been audited by Ross, Pope & Company LLP, Chartered Accountants, the independent auditor, on behalf of the shareholders. Ross, Pope & Company LLP, Chartered Accountants, has full and free access to the Audit Committee and may meet with or without the presence of management.

Signed "Timothy Towers"
Director, President and Chief Executive Officer

Signed "Raymond Lashbrook"
Director, Vice-President

Kirkland Lake, Ontario
April 25, 2013



Ross, Pope & Company LLP

Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Silver Shield Resources Corp.

We have audited the accompanying consolidated financial statements of Silver Shield Resources Corp., which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of operations, comprehensive loss and deficit, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Emphasis of Matter

Without qualifying our audit opinion, we draw your attention to Note 2(c) of these consolidated financial statements, which states that Silver Shield Resources Corp. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters as described in Note 2 (c), indicate the existence of a material uncertainty which may cast doubt about the ability of Silver Shield Resources Corp. to continue as a going concern.

Ross, Pope & Company LLP

Kirkland Lake, Ontario
April 25, 2013

ROSS, POPE & COMPANY LLP
CHARTERED ACCOUNTANTS
Licensed Public Accountants

SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2012, AND 2011

EXPRESSED IN CANADIAN DOLLARS

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,998	\$ 5,494
Accounts receivable (Note 5)	12,382	115,737
TOTAL CURRENT ASSETS	14,380	121,231
MINERAL PROPERTIES (Note 6)		
Mineral claims	474,547	374,697
Deferred exploration costs	3,204,952	2,943,576
PROPERTY, PLANT AND EQUIPMENT (Note 7)	6,811	9,023
TOTAL ASSETS	\$ 3,700,690	\$ 3,448,527
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 297,708	\$ 308,045
Royalties payable (Note 6)	135,726	103,726
Due to related parties (Note 11)	348,152	225,660
Due to Northern Nickel Mining Inc.	58,471	446,066
TOTAL CURRENT LIABILITIES	840,057	1,083,497
SHAREHOLDERS' EQUITY (Note 8)		
Share capital	5,139,309	4,451,367
Contributed Surplus	1,203,760	1,203,760
Deficit	(3,482,436)	(3,290,097)
TOTAL SHAREHOLDERS' EQUITY	2,860,633	2,365,030
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,700,690	\$ 3,448,527

Description of business (Note 1)

Going concern (Note 2(c))

Subsequent events (Note 15)

ON BEHALF OF THE BOARD:

Signed "Timothy Towers"
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Signed "Raymond Lashbrook"
DIRECTOR

The accompanying notes are an integral part to these audited financial statements.



SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED STATEMENT OF OPERATIONS,
OTHER COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
EXPRESSED IN CANADIAN DOLLARS

	2012	2011
EXPENSES		
Bank and interest charges	\$ 6,361	\$ 4,073
Employee benefits	-	4,065
Directors' compensation	-	40,800
Salaries and wages	(6,375)	-
Legal and audit	22,247	(37,243)
Marketing and investor relations	75,261	160,288
Bad debts (Note 5)	-	94,540
Office	29,414	45,151
Royalty expenses	42,000	30,000
Transfer fees	16,909	24,083
Travel	4,073	4,447
	189,890	370,204
NET LOSS BEFORE OTHER ITEMS	(189,890)	(370,204)
Depreciation	(2,212)	(2,531)
Short term exchange gains (losses)	(236)	3,427
LOSS BEFORE OTHER ITEMS	(192,338)	(369,308)
Writedown of mineral properties	-	(982,270)
LOSS AND COMPREHENSIVE LOSS	(192,338)	(1,351,578)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), DEFICIT, BEGINNING OF THE YEAR	(3,290,100)	(1,938,522)
DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF THE YEAR	\$ (3,482,438)	\$ (3,290,100)
Weighted average number of common shares outstanding	76,745,798	69,454,169
BASIC AND DILUTED LOSS PER COMMON SHARE (Note 10)	\$ (0.003)	\$ (0.019)

The accompanying notes are an integral part to these audited financial statements.



SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

EXPRESSED IN CANADIAN DOLLARS

	2012	2011
OPERATING ACTIVITIES		
LOSS AND COMPREHENSIVE LOSS	\$ (192,338)	\$ (1,351,578)
ADD ITEMS NOT REQUIRING A CASH OUTLAY		
Depreciation	2,212	2,531
Value assigned to director stock option compensation	-	40,800
Writedown of mineral properties	-	982,270
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable	103,355	35,177
Prepaid expenses and deposits	-	5,779
Accounts payable and accrued liabilities	106,656	(300,890)
Due to related parties	122,492	77,630
Royalties payable	32,000	-
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	174,377	(508,281)
INVESTING ACTIVITIES		
Purchase of fixed assets	-	(650)
Purchase of mineral claims	(9,000)	(30,000)
Deferred exploration costs	(227,345)	(614,334)
CASH FLOWS USED IN INVESTING ACTIVITIES	(236,345)	(644,984)
FINANCING ACTIVITIES		
Due to Northern Nickel Mining Inc. (Note 11)	58,472	24,994
Issue of capital stock and warrants, net of issuance costs (Note 8(a))	-	707,000
Share subscriptions	-	(26,000)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	58,472	705,994
CHANGE IN CASH DURING THE PERIOD	(3,496)	(447,271)
CASH, beginning of period	5,494	452,765
CASH, end of period	\$ 1,998	\$ 5,494

Cash flow supplementary information (Note 16)

The accompanying notes are an integral part to these audited financial statements.



SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
EXPRESSED IN CANADIAN DOLLARS

	COMMON STOCK		CONTRIBUTED SURPLUS	DEFICIT	TOTAL
	# OF SHARES	AMOUNT			
Balance, January 1, 2011	54,802,091	\$ 3,788,406	\$ 967,920	\$ (1,938,519)	\$ 2,817,807
Share based payments	-	-	40,800	-	40,800
Non Flow-through shares issued	10,800,000	540,000	-	-	540,000
Shares issued for resource properties	250,000	15,000	-	-	15,000
Flow-through shares issued	4,170,000	250,200	-	-	250,200
	1,436,700	161,997	-	-	161,997
Share issue costs	-	(109,196)	-	-	(109,196)
Warrants issued	-	(195,040)	195,040	-	-
Loss and comprehensive loss for the year	-	-	-	(1,351,578)	(1,351,578)
Balance, December 31, 2011	71,458,791	\$ 4,451,367	\$ 1,203,760	\$ (3,290,097)	\$ 2,365,030
Shares issued for resource property	2,805,000	69,600	-	-	69,600
Share capital issued for debt	6,183,429	618,342	-	-	618,342
Loss and comprehensive loss for the period	-	-	-	(192,338)	(192,338)
Balance, December 31, 2012	80,447,220	\$ 5,139,309	\$ 1,203,760	\$ (3,482,436)	\$ 2,860,633

The accompanying notes are an integral part to these audited financial statements.



SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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.



SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

EXPRESSED IN CANADIAN DOLLARS

2. BASIS OF PRESENTATION

(a) Statement of Compliance to International Financial Reporting Standards

The consolidated financial statements of the Company for the year-ended December 31, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 Company incorporated 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.

The consolidated financial statements were authorized for issue by the Board of Directors on April 25, 2013.

(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 \$192,338 during the year ended December 31, 2012 and, as of that date the Company's deficit was \$3,482,438. 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.

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.

(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.



SILVER SHIELD RESOURCES CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

EXPRESSED IN CANADIAN DOLLARS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(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.

Note Concerning Capitalizing vs. Expensing Exploration and Evaluation Costs:

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.



SILVER SHIELD RESOURCES CORP.

(AN EXPLORATION STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 year-end. 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 YEARS ENDED DECEMBER 31, 2012 AND 2011

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 YEARS ENDED DECEMBER 31, 2012 AND 2011

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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 8.

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 YEARS ENDED DECEMBER 31, 2012 AND 2011

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Share-Based Payments

The fair value 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, 2015. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

Amendments to IFRS 9: Financial Instruments (Effective for 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. (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. (Effective for annual periods beginning on or after January 1, 2013)



SILVER SHIELD RESOURCES CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. (Effective for annual periods beginning on or after January 1, 2013)

IFRS 13: Fair Value Measurement is to improve consistency and reduce complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The guidance also serves to align the fair value measurement and disclosure requirements in U.S. GAAP and IFRS. (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. (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. (Effective for annual periods beginning on or after January 1, 2013)

4. CRITICAL ACCOUNTING 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.

(b) Income Taxes



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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

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 8.

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.

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
Welsh Silver Mine	\$ 152,000	\$ 152,000
Lost Dog Property	87,500	80,000
Ogden & Carscallen	105,900	77,550
Jaripo & LaCumbre	65,147	65,147
Hislop Township	61,000	-
Temixco	3,000	-
	\$ 474,547	\$ 374,697

	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
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	-	371	-	769
Supplies	615	8,565	11,446	865	17,034	38,525
Permits, taxes and fees	75	-	-	-	(29,945)	(29,870)
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



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6. MINERAL PROPERTIES (continued)

	Hislop	Welsh Silver Mine	Lost Dog Property	Ogden & Carscallen	Jaripo & LaCumbre	Total
Balance - December 31, 2011	\$ -	\$ 1,427,683	\$ 372,351	\$ 29,685	\$ 1,113,857	\$ 2,943,576
Expenditures for the year ended December 31, 2012						
Geological & consulting	17,750	35,088	31,700	2,250	4,313	91,101
Core shack refit	-	4,800	-	-	1,084	5,884
Travel, vehicle & fieldwork	3,168	10,855	-	-	-	14,023
Technical & professional	24,875	19,271	25,924	554	-	70,624
Equipment rental, fuel and maintenance	2,500	24,900	5,000	-	-	32,400
Survey & mapping	-	-	(136)	-	-	(136)
Assay work	-	-	-	240	-	240
Labour costs	-	-	4,500	-	-	4,500
Supplies	-	1,661	72	-	1,407	3,140
Permits, taxes and fees	-	-	-	476	39,124	39,600
Balance - December 31, 2012	\$ 48,293	\$ 1,524,258	\$ 439,411	\$ 33,205	\$ 1,159,785	\$ 3,204,952



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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 companies 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 & Carscallen 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 100% owned 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 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 December 31, 2012, this has not been paid however the Company is has 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 totaling \$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.

(h) Hislop Property

The Company holds 21 staked mining claim units in Hislop Township (the Property) approximately 7 km south east of Matheson Ontario. The Property was acquired by outright purchase, with no additional payments to be made. The Company paid the vendors a total of \$ 6,000 and issued them 2,200,000 common shares. A 2% NSR Royalty on all production from the claims was retained by the vendors and the Company has the option to buy back 1% of NSR for the sum of \$ 1,000,000.

i) Temixco Property

The Company acquired the Temixco concession in the state of Guerrero, Mexico by denouncing (staking). The concession totals 1,058 ha in size. The concession hosts from 350,000 to 500,000 tonnes of tailings along with 3 old mines. The tailings were produced by milling on site of mineralization that came from a massive sulfide deposit located approximately 5km to the east and was last worked in 1943. Advancing to production by re-processing this tailing deposit is a priority project for the Company. The Company has only performed preliminary work at this stage to evaluate the potential of the tailings. The old mines, hosted within Tertiary age rhyodacite and rhyodacite tuff, are located approximately 3km to the northwest of the tailings area. Mineralization is located in veins and consists of gold, silver and copper. No work has been performed by the company at this time on the property.



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7. PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value 2012
Equipment	\$ 18,035	\$ 11,224	\$ 6,811
Computer equipment	6,225	6,225	-
	<u>\$ 24,260</u>	<u>\$ 17,449</u>	<u>\$ 6,811</u>

	Cost	Accumulated Amortization	Net Book Value 2011
Equipment	18,035	9,257	8,778
Computer equipment	6,225	5,980	245
	<u>\$ 24,260</u>	<u>\$ 15,237</u>	<u>\$ 9,023</u>

Depreciation expense for the year amounted to \$2,212 (2011 - \$2,531).

8. 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, 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
Shares issued as part of the various property agreements	250,000	15,000
Share capital issued to extinguish debt (Note 9(a)(iv))	1,436,700	161,997
Black Scholes value of warrants issued with private placements	-	(195,040)
Share issuance costs	-	(109,196)
Balance, December 31, 2011	71,458,791	4,451,367
Share issued for mineral properties (Note 9(a)(vii))	2,805,000	69,600
Share capital issued to extinguish debt (Note 8(a)(iv))	6,183,429	618,342
Balance, December 31, 2012	80,447,220	\$ 5,139,309

(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.



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8. SHAREHOLDERS' EQUITY (continued)

(iv) Shares for Debt Settlement

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. On July 3, 2012 the company issued 6,183,428 shares to extinguish debt in the amount of \$618,342. Debt in the amount of \$446,067 was due to a private company controlled by three of the Directors of Silver Shield Resources Corp.

(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 shares 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, 2011 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.

(vii) Shares Issued as Part of Property Payments

There were 2,200,000 shares issued on March 15, 2012 as per the Hislop property agreement. These shares were valued at \$55,000. There were also 250,000 shares issued for the Lost Dog property (valued at \$7,500), and 355,000 shares for the Mikhari property (valued at \$7,100).

(b) Warrants

	Number of Warrants	Amount	Weighted Average Exercise Price
Balance, December 31, 2011	17,905,266	\$ 274,210	\$ 0.11
Warrants issued during the period	-	-	-
Warrants expired during the period	(4,166,666)	(79,170)	0.12
Balance, December 31, 2012	13,738,600	\$ 195,040	\$ 0.12

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
13,738,600	0.11	



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8. SHAREHOLDERS' EQUITY (continued)

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 (2011 - 150%); risk-free interest rate of 1.45% (2011 - 1.45%); and a dividend yield of Nil% (2011 - Nil%).

This pricing model 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 warrants.

(c) Stock Options

There was not any option activity during 2012. During 2011 1,200,000 options valued at \$40,800 were issued. The change in stock options issued during the year ended December 31, 2012 are as follows:

		Weighted average exercise price	Amount
Options outstanding - December 31, 2011	5,000,000	\$ 0.10	\$ 162,400
Issued	-	-	-
Options outstanding - December 31, 2012	5,000,000	\$ 0.10	\$ 162,400

The following table summarizes information about stock options outstanding and exercisable at December 31, 2012:

Exercise Price	Number of Options	Number of Options Vested	Expiry Date
\$ 0.10	3,800,000	3,800,000	August 23, 2015
\$ 0.10	1,200,000	1,200,000	August 23, 2015

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, 2012 was \$NIL (2011 - \$40,800). The fair value of these options was calculated using Black Scholes valuation model with the following assumptions: 60 month expected life; 150% expected volatility (2011 - 150%); risk-free interest rate of 1.45% (2011 - 1.45%); and a dividend yield of Nil% (2011 - 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.



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8. SHAREHOLDERS' EQUITY (continued)

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:

	2012	2011
Options reserve	\$ 162,400	\$ 162,400
Warrants reserve	195,040	274,210
Contributed surplus	846,320	767,150
Total contributed surplus	\$ 1,203,760	\$ 1,203,760

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

	2012	2011
Balance, beginning of year	\$ 1,203,760	\$ 967,920
Options issued during the year	-	40,800
Warrants issued during the year	-	195,040
Balance, end of year	\$ 1,203,760	\$ 1,203,760

(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.



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9. 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 26.3% (2011 - 28.3%) with the reported taxes is as follows:

	December 31, 2012	December 31, 2011
Loss before income taxes	\$ (192,338)	\$ (1,351,578)
Expected income tax recovery	(50,585)	(339,482)
Non-deductible expenses	-	11,546
Share issue costs	(4,271)	(30,000)
Write off of mineral property	-	277,982
Change in deferred tax asset	54,856	79,954
Provision for income taxes	\$ -	\$ -

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

	December 31, 2012	December 31, 2011
Temporary differences	\$ 153,210	\$ 114,903
Operating losses carried forward	624,000	566,000
	777,210	680,903
Deferred tax asset recognized to offset deferred tax liability	(54,856)	(79,954)
Unrecognized deferred tax asset	\$ 722,354	\$ 600,949

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.

10. BASIC AND DILUTED LOSS PER SHARE

	2012	2011
Loss for the year	\$ (192,338)	\$ (1,351,578)
Weighted average number of common shares outstanding	76,745,798	69,454,169
Basic loss per share	\$ (0.003)	\$ (0.019)
Diluted loss per share	\$ (0.003)	\$ (0.019)

Dilutive stock options and warrants were determined using the Company's average share price for the period. The average share price used was \$.017. All stock options and warrants were excluded from the dilutive calculation as they would have been anti-dilutive due to the loss for the year.



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11. RELATED PARTY TRANSACTIONS

	December 31, 2012	December 31, 2011
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. Includes all directors.

During 2012, NIL (2011 - 1,200,000) stock options valued at \$NIL (2011 - \$40,800) were issued to directors.

- (a) Management, vehicle and consulting fees of \$3,000 (2011 - \$45,000) were paid or accrued to a company controlled by the Company's President. Expense reimbursements totaling \$47,215 (2011 - Nil) were also paid or accrued for this director. As of December 31, 2012 the Company had accrued \$92,829 (2011 - \$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 all unpaid management fees and a severance compensation of \$100,000 if terminated without cause.
- (b) Geological fees of \$30,068 (2011 - \$53,000) were paid or accrued to a company controlled by the Company's Vice-President of Exploration. As of December 31, 2012 the Company had accrued \$126,799 (2011 - \$96,731) 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.
- (c) Engineering and consulting fees of \$19,450 (2011 - \$44,250) were paid or accrued to a director of the Company. Expense reimbursements totaling \$32,000 (2011 - \$31,110) were also paid or accrued directly to this director. This director has also provided the Company with non-interest bearing short term advances. As of December 31, 2012 the Company has accrued \$128,523 (2011 - \$61,050) in geological and consulting costs and advances as due to a related party.
- (d) Northern Nickel Mining Inc. ("NNMI"), is related to the Company in that the President and two directors of the Company are also directors of NNMI. As of December 31, 2012, the property expenditures and other costs paid on the Company's behalf by NNMI, in addition to a 10% fee to manage and operate properties totaled \$58,471 (2011 - \$446,066 has been accrued as a current liability. On July 3, 2012 an amount of \$446,066 owed to NNMI was extinguished by the issuance of 4,460,700 shares.

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:

	2012	2011
<u>Mineral Properties:</u>		
Canada	\$ 2,451,567	\$ 2,139,269
Mexico	1,227,932	1,179,004
	\$ 3,679,499	\$ 3,318,273



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12. SEGMENTED INFORMATION (continued)

	2012		2011	
<u>Total Assets:</u>				
Canada	\$	2,489,372	\$	2,283,833
Mexico		1,211,318		1,164,694
	\$	3,700,690	\$	3,448,527

	Canada		Mexico	
Other items relating to operations	2012	2011	2012	2011
Comprehensive loss	\$ (191,874)	\$ (1,202,678)	\$ (464)	\$ (148,900)
Depreciation	\$ 544	\$ 1,707	\$ 1,668	\$ 824
Share based payments	\$ -	\$ 40,800	\$ -	\$ -
Writedown of mineral properties	\$ -	\$ 835,973	\$ -	\$ 146,297

13. 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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14. 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 December 31, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in United States dollars and Mexican pesos:

Denominated in United States dollars:	2012 Cdn\$	2011 Cdn\$
Cash and cash equivalents	\$ 172	\$ 417
Accounts payable and accrued liabilities	-	(547)
	\$ 172	\$ (130)

Based on the above net exposure as at December 31, 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/decrease of \$17 (2011 - \$13) in the Company's net earnings.

Denominated in Mexican Pesos:	2012 Cdn\$	2011 Cdn\$
Cash and cash equivalents	\$ 90	\$ 101
Other current assets	97	-
Accounts payable and accrued liabilities	(54,207)	(19,898)
	\$ (54,020)	\$ (19,797)

Based on the above net exposure as at December 31, 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 \$950 (2011 - \$9,502) 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 December 31, 2012, the Company's current liabilities totaled \$840,057 while cash and equivalents totaled \$1,998. 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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14. 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.

15. SUBSEQUENT EVENTS

On April 11, 2013 the Company reached an agreement with a number of Creditors for settlement of debt for shares, and will issue a total of 2,123,130 shares to settle \$106,157 of debt, subject to the Toronto Stock Exchange approval not received as at April 25, 2013

Between January 1, 2013 and February 28, 2013 all 13,738,600 outstanding warrants valued at \$195,040 expired.

16. CASH FLOW SUPPLEMENTARY INFORMATION

	2012	2011
Common shares issued as part of property agreements	\$ 69,600	\$ 15,000
Interest paid	\$ 1,100	\$ 4,073
	\$ 1,100	\$ 4,073

17. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

