

Consolidated Financial Statements

**CANADIAN SHIELD RESOURCES LTD.**

(Formerly "Canadian Shield Resources Inc.")

December 31, 2008 and 2007

# CANADIAN SHIELD RESOURCES LTD.

(Formerly "Canadian Shield Resources Inc.")

December 31, 2008 and 2007

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## AUDITORS' REPORT

To the Shareholders of

Canadian Shield Resources Ltd.

We have audited the consolidated balance sheets of Canadian Shield Resources Ltd. as at December 31, 2008 and 2007, and the consolidated statements of operations, deficit, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Collins Barrow Toronto LLP*

Toronto, Ontario

LICENSED PUBLIC ACCOUNTANTS

April 29, 2009

# CANADIAN SHIELD RESOURCES LTD.

(Formerly "Canadian Shield Resources Inc.")  
Consolidated Balance Sheets

As at December 31	2008	2007
<b>Assets</b>		
Current assets:		
Cash	\$ 32,763	\$ 127,890
Sundry assets	85,788	116,268
	118,551	244,158
Property and equipment, net (note 5)	18,492	21,978
Mining properties and deferred exploration expenditures (note 6)	2,704,509	4,061,293
	\$ 2,842,833	\$ 4,327,429
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 387,884	\$ 207,535
Loans payable (note 7)	598,512	-
	986,396	207,535
Non-controlling interest	27,626	27,626
Shareholders' equity:		
Capital stock (note 10)	8,007,536	7,619,242
Warrants (note 10)	45,804	8,041
Contributed surplus (note 10(b))	952,619	878,516
Deficit	(7,178,429)	(4,413,531)
	1,827,530	4,092,268
	\$ 2,841,552	\$ 4,327,429

Going Concern (note 1)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Bernard Kraft"

Director

"Gregory Harris"

Director

# CANADIAN SHIELD RESOURCES LTD.

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Consolidated Statements of Deficit

For the years ended December 31	2008	2007
Deficit, beginning of year	\$ (4,413,531)	\$ (3,477,751)
Net loss for the year	(2,764,898)	(935,780)
Deficit, end of year	\$ (7,178,429)	\$ (4,413,531)

See accompanying notes to consolidated financial statements.

# CANADIAN SHIELD RESOURCES LTD.

(Formerly "Canadian Shield Resources Inc.")  
Consolidated Statements of Operations

For the years ended December 31	2008	2007
Interest Income	\$ -	\$ 6,629
Expenses:		
General and administrative	\$ 473,337	558,317
Mining property and exploration expenditure written off (note 6)	1,782,571	-
Stock-based compensation	225,857	278,869
Shareholder services	120,781	53,641
Professional fees	131,167	38,898
Interest	23,260	5,247
Amortization	7,925	7,437
	<u>2,764,898</u>	<u>942,409</u>
	(2,764,898)	
Net loss for the year		(935,780)
Loss per share – basic and diluted	\$ (1.07)	\$ (0.40)
Weighted average number of common shares outstanding	2,575,516	2,312,096

See accompanying notes to consolidated financial statements.

# CANADIAN SHIELD RESOURCES LTD.

(Formerly "Canadian Shield Resources Inc.")  
Consolidated Statements of Cash Flows

For the years ended December 31	2008	2007
Cash flows (used in):		
Operations:		
Net loss for the period	\$ (2,764,898)	\$ (935,780)
Items not affecting cash:		
Mining property and exploration expenditure written off	1,782,571	-
Amortization	7,925	7,437
Stock-based compensation	225,857	278,869
Change in non-cash balances related to operations:		
Sundry assets	30,480	(100,464)
Accounts payable and accrued liabilities	180,351	21,587
<u>Cash used in operating activities</u>	<u>(537,714)</u>	<u>(728,351)</u>
Financing:		
Issuance of shares and warrants (note 10)	151,050	986,306
Exercise of warrants	-	561,500
Exercise compensation warrants	-	43,698
Exercise of options	158,756	-
Share issue costs	(35,505)	(63,995)
Loan Payable	598,512	(101,512)
<u>Cash provided by financing activities</u>	<u>872,813</u>	<u>1,425,997</u>
Investing:		
Cash acquired on acquisition	-	14,073
Property and equipment	(4,439)	3,505
Mining properties and deferred exploration expenditures (note 6)	(425,787)	(597,057)
<u>Cash used in investing activities</u>	<u>(430,226)</u>	<u>(579,479)</u>
Decrease in cash	(95,127)	118,167
Cash, beginning of year	127,890	9,723
<u>Cash, end of year</u>	<u>\$ 32,763</u>	<u>\$ 127,890</u>
Supplemental cash flow information:		
Interest received	\$ -	\$ 6,629
Interest paid	\$ 801	\$ 5,248

## Non-cash transactions:

- i. Included in the share capital is \$151,755 (2007: \$73,295) representing the fair value of stock options exercised (note 10 (a) and (b)).
- ii. 138,900 warrants issued to agents in 2007 in connection with private placements (see note 10(a) are valued at \$13,951. This amount has been recorded as an increase in warrants amount with a corresponding increase in share issue costs charged against share capital.
- iii. In 2007, 2,000,000 common shares values at \$400,000 were issued consideration for the acquisition of Anderson Peru Mining and Exploration S.A.C. (note 6(a) and note 10 (a)).

See accompanying notes to consolidated financial statements.

# CANADIAN SHIELD RESOURCES LTD.

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## 1. Nature of operations, business, and going concern

Canadian Shield Resources Ltd. (formerly "Canadian Shield Resources Inc.") (the "Canadian Shield" or "Company") is engaged in the business of locating and exploring mineral resource properties. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned revenue from its mineral properties and is considered to be in the exploration stage.

### Business of the Company

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

### Going Concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has negative working capital and its ability to raise capital may be impaired by current economic conditions. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise equity financing to fund its working capital deficiency and continue its exploration program and the attainment of profitable operations. There are no assurances that the Company will be successful in achieving these goals, which raises doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

Subsequent to year end the Company converted debt into equity as disclosed in note 14.

## 2. Significant accounting policies:

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the significant accounting policies described below:

### (a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiaries, except as noted, Canadian Shield Explorations Ltd., Canadian Shield Exploration (Int'l) Ltd., Gallant Minerals Perú Ltd. S.A. ("Gallant Peru") (90%), Anderson Peru Mining and Exploration S.A.C. ("APMX") (90%) and Compañía Minera Canadian Shield Perú S.A.C. ("Canadian Shield Peru"). All inter-company transactions and balances have been eliminated.

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## 2. Significant accounting policies (continued):

### (b) Property and equipment:

Property and equipment are recorded at cost and are amortized over their respective estimated useful lives on a declining basis at rates ranging from 10% to 20% per annum.

### (c) Mining properties and deferred exploration expenditures:

The Company considers its exploration costs to have the characteristics of property, plant and equipment. All exploration costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production are deferred and are recorded as mining properties and deferred exploration expenditures. At that time, these costs will be amortized on a unit-of-production basis based on probable and proven reserves or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made. Amounts received from other parties to earn an interest in the Company's mining properties are applied as a reduction of the mining property and deferred exploration costs.

The recovery costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development, and future profitable production or proceeds from disposition of such properties.

Although the Company has taken steps to verify title to mining properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

### (d) Impairment of property and equipment:

Management reviews the carrying amounts of property and equipment if events or circumstances indicate that the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amounts of a group of assets to the future undiscounted net cash flows expected to be generated by that group of assets. If the carrying amount is not recoverable, the Corporation would recognize an impairment loss equal to the amount that the carrying value of a group of assets exceeds their fair value.

### (e) Accounting for stock-based compensation and other stock-based payments:

The Company applies a fair value based method of accounting to all stock-based compensation and stock-based payments. The fair value of the options issued in the year is determined using the Black-Scholes option pricing model. The estimated fair value of the options is expensed to income over the vesting period. For stock compensation issued to employees and non-employees, the Company recognizes an asset or expense based on the fair value of the equity instrument issued.

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## 2. Significant accounting policies (continued):

(f) Income taxes:

The Company accounts for income taxes under the liability method. Under this method, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(g) Basic and diluted loss per share:

Loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method. The loss per share reflects the share consolidation described in note 14.

(h) Asset retirement obligations

The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value.

(i) Foreign currency translation:

The operations of the Company's subsidiaries are considered to be of an integrated nature. Accordingly, all monetary assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing as at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical exchange rates applicable at the transaction dates. Revenues and expenses are translated at the average exchange rate for the year, except for those related to assets translated at historical exchange rates.

Foreign exchange gains and losses on transactions occurring during the year and on the year-end translation of the accounts of subsidiaries are reflected in operations.

(j) Share issuance costs

Costs incurred in respect of raising capital are charged to capital stock as a reduction of the equity proceeds.

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## 3. Change in accounting policies

### (k) Use of estimates:

The preparation of these financial statements in conformity with the Canadian generally accepted accounting principles has required management to make various estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities and revenue and expenses for each year presented. Actual results may differ from those estimates.

Significant areas requiring the use of management estimates relate to assessing impairment relating to mineral properties and deferred exploration expenditures, valuation of warrants and options and other stock-based payments, valuation allowance on future tax assets and the fair values of financial instruments.

- (i) Effective January 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. Disclosure requirements pertaining to Section 1535 are contained in Note 11.
- (ii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862") which replaced the disclosure recommendations in former Section 3861. Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 11.
- (iii) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments - Presentation ("Section 3863") which replaced the disclosure recommendations in former Section 3861. Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instruments related presentation.
- (iv) Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

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### 3. Change in accounting policies (continued)

- (v) Effective January 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective.
- (vi) Effective January 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3855, Financial Instruments - Recognition and measurement. Section 3855 provides that all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

Following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Cash – Held-for-trading, which are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Amounts receivable – Loans and receivables, which are subsequently re-measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities – Other Liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans payable – Other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The adoption of this new section did not have any impact on the Company's financial statements.

- (vii) Effective January 1, 2007, the Company adopted the recommendations of CICA Handbook Section 1530, Comprehensive Income. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income. To date there has not been any other comprehensive income and accordingly, a statement of comprehensive income has not been presented.

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## 4. Recent Accounting Pronouncements Issued and Not Yet Applied

- (i) In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements for periods commencing January 1, 2009. Management has determined that there will be no impact of the new standard on its financial statements.
- (ii) In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable entities will be required to adopt International Financial Reporting Standards ("IFRS"). The Company must prepare its interim and annual financial statements in accordance with IFRS for periods beginning on January 1, 2011. The initial assessment of the process indicates that the most significant areas of difference applicable to the Company include stock-based compensation and the more extensive presentation and disclosure requirements under IFRS.

## 5. Property and Equipment:

Property and equipment consists of the following:

	2008	2007
Office equipment:		
Cost	\$ 54,887	\$ 46,157
Less: accumulated amortization	(36,395)	(24,179)
	\$ 18,492	\$ 21,978

## 6. Mining properties and deferred exploration expenditures:

- (a) On February 28, 2007, the Company acquired 90% of the issued and outstanding shares of APMX a private corporation. The Company issued 2,000,000 shares at \$0.20 per shares for total consideration of \$400,000 and incurred costs of \$37,500 relating to the transaction. These consolidated financial statements reflect the results of the operations of APMX from the date of acquisition with the 10% non-controlling interest shown on the balance sheet.

The purchase price of \$437,500 was allocated as follows:

Current assets	\$	16,883
Property and equipment		13,361
Mineral properties and deferred exploration expenditures		418,894
Current liabilities		(8,804)
Non-controlling interest		(2,834)
Fair value of net assets acquired	\$	437,500

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## 6. Mining properties and deferred exploration expenditures (continued):

(b) Following is the breakdown of mining properties and deferred exploration expenditures by property:

	December 31, 2007	Deferred (Recovered) Exploration Expenditures	Expensed or Written Off	December 31, 2008
Canada:				
Erickson Lake *	\$ 16,564	\$ -	\$ (16,564)	\$ -
Peru:				
Humajala *	1,766,007	-	(1,766,007)	-
Cerro Cori	449,007	(123,680)	-	325,327
Ccello Ccello	482,192	25,437	-	507,629
Apune-Pucarana	474,689	28,776	-	503,465
La Estrella	395,688	232,063	-	627,751
Pampa Poroma	139,869	54,173	-	194,042
Colpayoc	126,671	186,323	-	312,994
La Tola	52,123	20,900	-	73,023
Other	17,756	-	-	17,756
Chile:				
Trol	140,727	1,795	-	142,522
	\$ 4,061,293	\$ 425,787	\$ (1,782,571)	\$ 2,704,509

\* Deferred exploration expenditures related to Humajala Property and Erickson Lake Property were written-off after discontinuation of exploration activities in 2008.

	December 31, 2006	Deferred Exploration Expenditures	Deferred Exploration December 31, 2007
Canada:			
Erickson Lake	\$ 16,564	\$ -	\$ 16,564
Peru:			
Humajala	1,660,188	105,819	1,766,007
Cerro Cori (i)	435,616	13,391	449,007
Ccello Ccello	445,022	37,170	482,192
Apune-Pucarana (ii)	470,196	4,493	474,689
La Estrella	-	395,688	395,688
Pampa Porosa	-	131,869	131,869
Colpayoc (iii)	-	126,671	126,671
La Tola (iv)	-	52,123	52,123
Other	17,756	-	17,756
Chile:			
Trol	-	140,727	140,727
December 31, 2007	\$ 3,045,342	\$ 1,015,951	\$ 4,061,293

# CANADIAN SHIELD RESOURCES LTD.

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## 6. Mining properties and deferred exploration expenditures (continued):

- (i) In 2007, Canadian Shield entered into an earn-in agreement with Southern Peru Copper Corporation ("Southern Peru") for Canadian Shield's Cerro Cori Property ("Cerro Cori") located in the Department of Ayacucho in southern Peru. Accordingly, Southern Peru had the right to earn a 65% interest in the Cerro Cori mining concessions by making payments of US\$1.5 million to the Company's 90%-owned subsidiary, Gallant Minerals Perú Ltd. S.A. ("Canadian Shield Subco"), over a 30-month period and exploration expenditures of US\$3.5 million over a five-year period commencing on the earlier of the date on which a drill permit is received (the "Effective Date") or by July 30, 2007. Payments of US\$150,000 and exploration expenditures of US\$350,000 over the first 12 months from the Effective Date are mandatory. The subsequent payments and exploration expenditures increase incrementally and were at the option of Southern Peru. Southern Peru had the right to earn an additional 10% interest by completing a bankable feasibility study to acquire a total interest of 75% with Canadian Shield Subco retaining a 25% interest in Cerro Cori. Southern Peru would have become the operator of the project as of the Effective Date.

In 2008, Southern Peru has completed a 9 hole, 3,428 metre diamond drilling campaign on the Company's Cerro Cori Property. Southern Peru began drilling February 2, 2008 and terminated the last hole June 8, 2008. Difficult climatic conditions (typical of the Peruvian Andes rainy season) were largely responsible for the relatively slow progress of the program. In July 2008, Southern Peru terminated the earn-in agreement. Canadian Shield received a total of US\$180,000 in three option payments.

- (ii) In 2007, Canadian Shield finalized an earn-in agreement with Esperanza Silver ("Esperanza") whereby Esperanza can earn up to a 60% interest in Canadian Shield's Pucarana Gold Property ("Pucarana"), located in southern Peru. Esperanza has the right to earn a 60% interest in the Pucarana mining concessions by expending US\$1,300,000 over a four year period commencing upon receipt of a drill permit and by making payments of US\$80,000 to the Company's 90% owned subsidiary, Gallant Minerals Perú Ltd. S.A. Esperanza continues to seek community approval to engage in exploration activities.
- (iii) In 2007, Canadian Shield entered into an option agreement to purchase 100% participating interest in the Colpayoc gold-silver-copper-molybdenum prospect ("Colpayoc") in northern Peru. Colpayoc is comprised of 3 properties held by two owners. Compania Minera Chetilla holds the El Ferrol 15 through 18 and the Ferrol Che exploration licenses with a total of 3,608 hectares. The Francisco Jose IV and Francisco Jose V exploration licenses comprise 680 hectares and are held by Mr. Francisco Jose Santolalla, Lima, Peru. The Company can earn 100% interest in the properties by spending an aggregate of US\$4 million in exploration and making cash payments totaling US\$4 million over the option term of 54 months. Each vendor will retain a 2% Net Smelter Return (NSR) on all metals produced on their respective properties. Each vendor will receive US\$100,000 per year from the date of completion of the option until commercial production starts as a royalty advance which will be deducted over time from ensuing NSR royalties. Canadian Shield has completed additional surface exploration work including geological mapping and sampling 600 meters of ground magnetometry.

In 2008, due to economic hardship throughout the industry and within the Company, the Company renegotiated property payments to a later date on the Colpayoc Property. This added time will allow the Company to complete the restructuring process and raise the financing necessary to continue exploring the property.

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## 6. Mining properties and deferred exploration expenditures (continued):

The proposed drill program will follow earlier work carried out by Newcrest Mining, Granges Resources and Balaclava Resources in the mid-to-late 1990's where economically significant gold and copper mineralization was encountered in 4 of 11 drill holes. Mineralization comprises porphyry style stockwork and sheeted quartz veins with magnetite, pyrite and chalcopyrite. Magnetometry effectively shows this mineralization associated with magnetite as strong magnetic highs. The Company now has excellent drill targets defined by magnetic highs covered by weakly marblized, pyritic limestone, de-calcified calc-arenite and skarn.

In addition, high grade gold-silver mineralization has been identified on surface along 500 metres of strike length. This mineralization is hosted in limestone along a regional structure and synclinal axis and adjacent to a 300 metre in diameter diatreme/vent breccia. High level silica typical of epithermal gold deposits characterises this mineralization which lies to the north and peripheral to the porphyry style mineralization.

- (iv) In 2007, Canadian Shield entered into a earn-in agreement with Solitario Resources Corporation to acquire La Tola, an epithermal gold-silver prospect (the "Property") in the Caylloma Province of the Department of Arequipa, southern Peru. The Property comprises 1,000 hectares in one exploration license, Zoraida Uno. Canadian Shield has a 4 year earn-in option to purchase 100% of the Property by incurring exploration expenditures of US\$2 million over the next 4 years, and by making a cash payment of US\$2 million at the end of the 4 year option period. Solitario Resources Corporation ("Solitario") will retain a 2% Net Smelter Return that the Company may purchase at its option for US\$1.5 million prior to commercial production.
- (v) In 2008, Management decided to abandon its Humajala Gold Property after it was unable to attract a joint venture partner. Over the course of time from its discovery in 2001, the property received some 42 drill holes where gold was intersected in volcanic hosted epithermal mineralization. Despite the limited drilling success management believes the ultimate potential of the property is limited to a small tonnage deposit that does not meet the Company's exploration objectives. In addition, there are inherent political obstacles to mine development in the area, given the area's active and growing tourist industry. Consistent with the Company's business strategy and exploration objectives, the property has been abandoned and therefore written off.

## 7. Loans payable:

Loans from directors and shareholders bear interest at 12% per annum are unsecured and due on demand.

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## 8. Related party transactions:

During the year, the Company had the following transactions with related parties made in the normal course of operations and are accounted for at an amount of consideration established and agreed to by the Company and the related parties. These transactions have not been disclosed elsewhere in the financial statements:

	2008	2007
Management fees paid to a corporation controlled by a director of the Company	\$ 60,000	\$ 60,000
Administration, rent, office charges, and telecommunication paid to a corporation with a director in common	40,200	57,000
Consulting fees paid to a director	33,000	12,000
Interest earned on a loan to a corporation controlled by the spouse of one of the directors	-	4,567
Interest paid to directors and shareholders	23,260	1,265
Loans payable to directors and shareholders (12% per annum; due on demand)	598,512	-

## 9. Income taxes:

The provision for income taxes reflects an effective income tax rate, which differs from the Canadian corporate income tax rate, as follows:

	2008	2007
Combined basic Canadian federal and provincial income tax rate	33.5%	36.1%
Effective income tax charge (recovery) on Income (loss) before income taxes	\$ (950,000)	\$ (338,000)
Increase (decrease) resulting from:		
Change in the valuation allowance for future tax assets allocated to income tax expense	664,000	28,000
Change in future tax rate	203,000	225,000
Non-deductible items and other	83,000	85,000
	\$ -	-

The tax effects of temporary differences that give rise to significant portion of the future tax assets and future tax liabilities as at December 31, 2008 and 2007 are as follows:

	2008	2007
<b>Future tax assets:</b>		
Operating losses carry forward	\$ 1,500,000	\$ 847,000
Share issue costs and other	85,000	73,000
	1,585,000	920,000
Valuation allowance	(1,585,000)	(920,000)
	\$ -	\$ -

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## 9. Income taxes (continued):

The Company has approximately \$5,798,000 of operating losses that expire between 2009 and 2028 as follows:

2009	\$	80,000
2010		140,000
2011		156,000
2012		164,000
2013		395,200
2014		680,700
2015		480,000
2027		903,000
2028		2,800,000
	\$	5,798,000

## 10. Capital stock, options, warrants and contributed surplus:

### Authorized Capital

Unlimited number of common shares

The following details the changes in issued and outstanding shares for the two years ended December 31, 2008.

	Common shares	
	Number	Amount
Balance, January 1, 2007	40,349,081	\$ 5,594,888
Issued:		
Private placement (i)	3,100,000	625,000
Private placement (iii)	1,000,001	300,000
Options exercised	500,834	110,259
Compensation warrants exercised	216,150	68,050
Warrants exercised	2,552,500	561,500
APMX Acquisition (ii)	2,000,000	400,000
Finder's fees for APMX (ii)	187,500	37,500
Less: Share issue costs		(77,685)
Balance, December 31, 2007	49,906,066	7,619,242
Issued:		
Private placement (iv)	1,007,002	151,050
Options exercised	1,132,387	310,511
Less: Share issue costs		(35,505)
Less: Warrants		(37,763)
Balance, December 31, 2008	52,045,455	\$ 8,007,536

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## 10. Capital stock, options, warrants and contributed surplus (continued):

### (a) Share Capital

- (i) In March 2007, the Company completed a private placement of 2,000,000 units at \$0.175 per unit ("L Units") and a second private placement of 1,100,000 units at \$0.25 per unit ("M Units") for total gross proceeds of \$625,000. Each L Unit was comprised of one common share and one-half non-transferable Series L Warrant ("L Warrant"). Each whole L Warrant entitled the holder to purchase one common share at an exercise price of \$0.30 per share for a period of 24 months from closing. The L Warrant was callable, at the option of the Company after July 2, 2007, in the event the common shares trade at or over \$0.45 per share for 10 consecutive trading days. Each M Unit was comprised of one common share and one-half non-transferable Series M Warrant ("M Warrant"). Each whole M Warrant entitled the holder to purchase one common share at an exercise price of \$0.40 per share for a period of 24 months from closing. The M Warrant was callable, at the option of the Company after July 3, 2007, in the event the common shares trade at or over \$0.60 per share for 10 consecutive trading days. For the L Unit offering, the qualified selling agents were paid finders' fees of 7% of the gross proceeds from the L Units placed by the agent and Compensation L Warrants equal to 6% of the number of L Units placed by the agent. Each Compensation L Warrant entitled the agent to purchase one common share at an exercise price of \$0.175 per share for a period of 24 months from the date of closing of the private placement offering. The Compensation L Warrants were callable, at the option of Canadian Shield, four months after the date of closing in the event the common shares traded at or over \$0.45 per share for 10 consecutive trading days. For the M Unit offering, the qualified selling agents were paid finders' fees of 7% of the gross proceeds from both M Units placed by the agent and Compensation M Warrants equal to 6% of the number of M Units placed by the finders. Each Compensation M Warrant entitled the agent to purchase one common share at an exercise price of \$0.25 per share for a period of 24 months from the date of closing of the private placement offering. The Compensation M Warrants were callable, at the option of Canadian Shield, four months after the date of closing in the event the common shares traded at or over \$0.60 per share for 10 consecutive trading days.
- (ii) In April 2007, the Company acquired 90% of the outstanding shares of APMX in exchange for 2,000,000 Canadian Shield treasury shares. These shares were subject to a four-month regulatory hold period. At the end of the four-month hold period 750,000 shares were released and thereafter the balance of 1,250,000 shares became free trading at the rate of 62,500 shares per month over 24 months. The Company paid a finder's fee of 187,500 common shares of the Company to Buckingham Group Limited for the APMX acquisition.

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## 10. Capital stock, options, warrants and contributed surplus (continued):

- (iii) On December 18, 2007 the Company completed a private placement of 1,000,001 Units at a price of \$0.30 per Unit for gross proceeds of \$300,000. Each Unit was comprised of one common share and one-half non-transferable Series N Warrant. Each whole Series N Warrant ("Warrant") entitled the holder to purchase one common share at an exercise price of \$0.50 for a period of 12 months from the date of closing. The Warrants was callable, at the option of the Company, four months after the date of closing in the event its common shares trade at or over \$0.75 per share for 10 consecutive trading days.
- (iv) In April 11, 2008, the Company completed a private placement of 1,007,002 units at \$0.15 per unit for gross proceeds of \$151,050. Each Unit was comprised of one common share and one-half non-transferable Series O Warrant. Each whole Series O Warrant ("Warrant") entitles the holder to purchase one common share at an exercise price of \$0.25 for a period of 18 months from the date of closing. The Warrant is callable, at the option of Canadian Shield, four months after the date of closing in the event its common shares trade at or over \$0.50 per share for 10 consecutive trading days. The net proceeds from this private placement will be used for working capital and general corporate purposes. The selling agent was paid a finder's fee of 10% of the gross proceeds from the Units placed. The 1,007,002 common shares issued under the private placement and any shares issuable upon the exercise of the Warrants are subject to a four month regulatory hold period.

### (b) Contributed Surplus:

Balance, January 1, 2007	\$	611,031
Stock based compensation during 2007		278,869
Warrants expired		37,560
Stock options exercised		(48,944)
Balance, December 31, 2007		878,516
Stock based compensation during 2008	\$	225,857
Stock options exercised		(151,754)
Balance, December 31, 2008	\$	952,619

### (c) Stock option plan:

In 2001, the Company established a stock option plan (the "2001 Plan") whereby the directors could grant options to directors, employees and consultants to the Company. During 2007 the Plan was amended. The maximum number of common shares issuable to any one participant under the Plan is 20% (2007 - 20%) of the issued and outstanding common shares. The period during which the options may be exercised is determined by the Board of Directors and cannot be extended beyond a maximum of five years from the date the option is granted. The maximum number of shares which may be reserved for issuance under the 2001 Plan is fixed at 9,081,673 (2007 - 9,081,673) common shares. Options granted to eligible persons shall vest in stages over at least 18 months from the date of grant with no more than 16.67% of the options granted vesting in any 3 month period. The directors of the Company may from time to time amend or revise the terms of the 2001 Plan or may terminate the Plan at any time.

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## 10. Capital stock, options, warrants and contributed surplus (continued):

The following summarizes the options outstanding:

	Number of options	Weighted average exercise price
Outstanding, January 1, 2007	4,030,000	\$ 0.16
Granted	1,320,000	0.23
Exercised	(500,834)	0.12
Outstanding, December 31, 2007	4,849,166	\$ 0.18
Granted	4,090,000	0.10
Cancelled	(816,779)	0.19
Exercised	(1,132,387)	0.13
Outstanding, December 31, 2008	6,990,000	\$ 0.14
Options exercisable, end of period	3,406,667	\$ 0.17

An amount of \$151,755 (2007 - \$48,944) was transferred from contributed surplus to share capital upon exercise of these options. The following table summarizes information about stock options outstanding at December 31, 2008:

Range of exercise prices	Options exercisable			Options outstanding	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding	Weighted average exercise price
\$0.10 – 0.12	681,667	2.94	\$ 0.10	4,090,000	\$ 0.10
\$0.13 – 0.17	1,405,000	1.39	0.15	1,405,000	0.15
\$0.20 – 0.30	1,320,000	1.33	0.23	1,495,000	0.23
	3,406,667			6,990,000	

### (d) Fair value of options:

The weighted average grant-date fair value of stock options granted to employees and directors during 2008 has been estimated at \$0.23 (2007 - \$0.15) using the Black-Scholes option-pricing model. The estimated fair value of these options granted is amortized to expense over the options vesting periods. The pricing model assumes weighted average risk free interest rates of 3.1% (2007 – 4.17%), weighted average expected dividend yields of nil (2007 - nil), weighted average expected common stock price volatility of 130% (2007 – 140%) and a weighted average expected life of 3 years (2007 – 3 years).

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## 10. Capital stock, options, warrants and contributed surplus (continued):

### (e) Warrants:

The following summarizes the warrants outstanding:

	Weighted average remaining contractual life (years)	Series	Number of warrants		Weighted average exercise price
January 1, 2007	0.62		5,885,000	\$	0.23
Expired		J	(2,757,500)		0.20
Expired		L	(585,000)		0.40
Exercised		H	(800,000)		0.20
Exercised		J	(1,242,500)		0.20
Exercised		K	(500,000)		0.30
Exercised		L-1	(10,000)		0.30
Issued		L-1	1,000,000		0.30
Issued		M	550,000		0.40
Issued		N	500,000		0.50
December 31, 2007	1.10		2,040,000	\$	0.43
Expired		L-1	(990,000)		0.30
Expired		N	(500,000)		0.50
Issued		O	503,501		0.25
December 31, 2008	1.19		1,053,501	\$	0.95

### (f) The following summarizes the compensation warrants outstanding:

	Weighted average remaining contractual life (years)	Series	Number of warrants		Weighted average exercise price
January 1, 2007	1.44		506,400	\$	0.20
Expired		H	(31,200)		0.125
Expired		J	(317,250)		0.20
Exercised		H	(21,200)		0.125
Exercised		J	(111,750)		0.20
Exercised		K	(25,000)		0.30
Exercised		L-1	(44,700)		0.175
Expired		M	(13,500)		0.25
Issued		L-1	105,900		0.175
Issued		M	33,000		0.25
December 31, 2007 & 2008	1.10		80,700	\$	0.19

In 2007, amount of \$24,532 was transferred from contributed surplus to share capital upon exercise of these warrants.

### (g) Fair value of compensation warrants:

During 2007, the Company issued 138,900 compensation warrants to agents in connection with private placements (see note 10 (a)). The fair value of these warrants granted to agents during 2007 has been estimated at \$0.10 using the Black-Scholes option-pricing model. The pricing model assumes weighted average risk free interest rates of 3.97%, weighted average expected dividend yields of nil, weighted average expected common stock price volatility of 120% and a weighted average expected life of 1 year.

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## 11. Financial instruments:

### (a) Fair values:

The carrying values of cash, amounts receivable and loans payable approximate their fair values due to the liquidity of these instruments. The carrying value of accounts payables and accrued liabilities approximate their fair value due to the requirements to extinguish the liabilities on demand.

### (b) Risk Management

The Company has exposure to the following risks associated with its financial instruments.

### (c) Currency Risk

The Company operates internationally and is exposed to foreign exchange risk as certain expenditures are denominated in non-Canadian dollar currencies. The exposure is predominantly to the Peruvian New Soles ("Soles"). Soles denominated balances generate foreign exchange gains and losses that are reported on the Statement of Operations. A strengthening of \$0.01 in the Canadian Dollar against the Soles would have increased the net loss by approximately \$21,294 for the year ended December 31, 2008. A \$0.01 weakening of the Canadian against the Sole would have an equal, but opposite, effect. At December 31, 2008, one Canadian Dollar was equal to 2.5628 Soles.

Balances in non-Canadian dollar currencies are as follows:

	<b>Peruvian New Soles</b>
Cash	81,676
Long term investment	2,727,444
Accounts payable and accrued liabilities	(679,684)
	<u>2,129,436</u>

### (d) Interest Rate Risk

The Company has cash balances with a Canadian bank in Peru and no interest-bearing debt in foreign currencies. The Company manages its interest rate risk on these investments by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash and cash equivalents do not have a significant impact on the Company's results of operations due to the small balance of the long term investment. The effect of a one basis point increase or decrease on the short-term investments to net loss is not material.

### (e) Credit Risk

The Company's credit risk is primarily attributable to sundry receivables. The Company has no significant concentration of credit risk arising from operations. Sundry receivables consist of goods and services tax due from the Federal Government of Canada and advances to employees and suppliers. Management believes that the credit risk associated with amounts receivable is remote.

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## 11. Financial instruments (continued):

### (f) Liquidity Risk

The Company manages its liquidity risk by preparing and monitoring forecasts of cash expenditures to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities generally have maturities of less than 90 days. At December 31, 2008, the Company had cash and cash equivalents of \$32,763 to settle current liabilities of \$986,396 and therefore has liquidity risk. Subsequent to year end the Company converted debt into equity as disclosed in note 14.

## 12. Capital Management

The Company's primary objectives when managing capital are to (a) safeguard the Company's ability to explore and develop mineral properties to which it has an interest, and (b) provide a sound capital structure for raising capital at a reasonable cost for the funding of ongoing exploration, development and new growth initiatives. The Board of Directors does not establish quantitative capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company includes equity, comprised of issued capital stock, share purchase warrants, contributed surplus and deficit, in the definition of capital.

The properties in which the Company currently has interests are in the exploration and development stage. The Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

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

## 13. Segmented Information

### (a) Reportable Segments:

In 2008 and 2007, the Company has one operating segment in mineral exploration.

### (b) Enterprise wide disclosure – Geographic Information:

As at December 31, 2008 \$2,761,937 (2007 - \$4,347,431) of Company's assets were held in Peru and the balance in Canada.

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## 14. Subsequent Events

On March 10, 2009, the Company changed its name from Canadian Shield Resources Inc. to Canadian Shield Resources Ltd. and consolidated its common share capital on the basis of one post-consolidation common share for every twenty pre-consolidation common shares held. Effective March 12, 2009, common shares of Canadian Shield started trading on the TSX Venture Exchange ("TSX-V") on the post-consolidated basis under its new trading symbol EXP.

The share consolidation and change of name was approved by shareholders at the Company's Special Meeting held on February 2, 2009 and subsequently accepted by the TSX-V. The 52,045,457 pre-consolidation common shares of Canadian Shield were reduced to 2,602,273 post-consolidation common shares. Outstanding stock options and warrants were adjusted on similar basis.

On March 30, 2009, Canadian Shield entered into agreements with certain creditors, including insiders of the Company, to settle debts in the aggregate of \$617,715 by the issuance of 3,985,261 common shares of the Canadian Shield at a price of \$0.155 per share. Of this amount \$543,252 existed at December 31, 2008.