SHIELD GOLD INC.
(An Exploration Stage Company)

FINANCIAL STATEMENTS

OCTOBER 31, 2010 AND 2009

SHIELD GOLD INC.
(An Exploration Stage Company)

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I N D E X

SIEVERT & SAWRANTSCHUK LLP
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Shield Gold Inc.

We have audited the balance sheet of Shield Gold Inc. as at October 31, 2010 and 2009 and the statements of loss, comprehensive loss and deficit and statements of 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 audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Sievert & Sawrantschuk LLP CA's

Toronto, Canada
February 24, 2011

Sievert & Sawrantschuk LLP
Chartered Accountants
Licensed Public Accountants

SHIELD GOLD INC.
(An Exploration Stage Company)

BALANCE SHEETS

AS AT OCTOBER 31

ASSETS

	2010	2009
CURRENT		
Cash and cash equivalents (note 13)	$ 151,007	$ 459,409
Committed cash (note 13)	72,495	-
Accounts receivable	16,038	3,359
	239,540	462,768
MINERAL PROPERTIES (note 4)	277,639	-
	$ 517,179	$ 462,768

LIABILITIES

	2010	2009
CURRENT		
Accounts payable and accrued liabilities (note 6)	$ 112,290	$ 25,414

SHAREHOLDERS' EQUITY

	2010	2009
SHARE CAPITAL (note 5 (a))	876,822	775,080
WARRANTS (note 5 (c))	34,728	-
STOCK OPTIONS (note 5 (b))	18,123	49,471
CONTRIBUTED SURPLUS (note 5 (d))	74,295	42,947
DEFICIT	(599,079)	(430,144)
	404,889	437,354
	$ 517,179	$ 462,768

GOING CONCERN CONSIDERATIONS (note 1)
COMMITMENTS (note 4)

Approved by the Board:

"*Paul Ankcorn*", Director

"*Howard Sinclair-Jones*", Director

The accompanying notes are an integral part of these financial statements.

SHIELD GOLD INC.
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STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEARS ENDED OCTOBER 31

	2010	2009
EXPENSES		
Professional fees	$ 101,913	$ 81,053
Management fees (note 6)	32,000	-
Transfer agent, regulatory and filing fees	15,121	21,144
General and administrative	14,440	3,229
Consulting fees (note 6)	6,000	-
Interest and bank charges	80	-
Stock-based compensation (note 5 (b))	-	23,231
	169,554	128,657
OTHER INCOME		
Interest income	(619)	(4,936)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	168,935	123,721
DEFICIT AT BEGINNING OF THE YEAR	430,144	306,423
DEFICIT AT END OF THE YEAR	$ 599,079	$ 430,144
Basic and diluted loss per share (note 2)	$ 0.01	$ 0.01
Weighted average number of shares outstanding	13,295,565	12,343,236

The accompanying notes are an integral part of these financial statements.

SHIELD GOLD INC.
(An Exploration Stage Company)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31

	2010	2009
OPERATING ACTIVITIES:		
Net loss for the year	($ 168,935)	($ 123,721)
Add item not affecting cash:		
Stock-based compensation	-	23,231
Net changes in non-cash working capital balances:		
(Increase) decrease in accounts receivable	(12,679)	5,231
Increase (decrease) in accounts payable and accrued liabilities	86,876	(3,530)
Cash used in operations activities	(94,738)	(98,789)
INVESTING ACTIVITIES:		
Deferred exploration costs	(212,639)	-
Mineral property acquisition costs	(60,000)	-
Cash used in investing activities	(272,639)	-
FINANCING ACTIVITIES:		
Issuance of common shares, net of issue costs	131,470	-
Cash provided by financing activities	131,470	-
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(235,907)	(98,789)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	459,409	558,198
CASH, COMMITTED CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 223,502	$ 459,409
CASH AND CASH EQUIVALENTS		
Cash	$ 1,007	$ 13,360
Committed Cash	72,495	-
Guaranteed investment certificate	150,000	-
Cash held in trust (note 12)	-	446,049
	$ 223,502	$ 459,409
SUPPLEMENTARY CASH FLOW INFORMATION		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -
Non-cash activities:		
Fair value of broker's warrants issued as finder's fees	$ 2,728	$ -
Fair value of common shares issued for mineral property	$ 5,000	$ -

The accompanying notes are an integral part of these financial statements.

SHIELD GOLD INC.
(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

1. NATURE OF BUSINESS AND GOING CONCERN CONSIDERATIONS:

Shield Gold Inc. (the "Company") was incorporated under the laws of the Province of Ontario, by Articles of Incorporation dated February 4, 2004. The Company is in the business of mineral exploration and is actively engaged in the acquisition and exploration of mineral properties in Canada.

The Company was classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of TSX Venture Exchange Inc. ("TSX-V"). During 2010, the Company completed its Qualifying Transaction whereby the Company entered into an Option and Joint Venture Agreement with Eloro Resources Ltd. to earn a 50% interest in certain mineral claims referred to as the Summit-Gaber Property in Quebec, Canada (refer to note 4). In addition, the Company concurrently completed a private placement consisting of 2,600,000 flow-through units and 600,000 units at $0.05 per flow-through unit or unit for aggregate gross proceeds of $160,000 (refer to note 5). As a result, the Company began trading as a TSX Venture Tier 2 Company listed under the symbol "SHG" and is no longer considered a capital pool company and is classified as a junior mineral exploration company.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on the basis of a going concern assumption meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties relating to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, as explained in the following paragraph.

As at October 31, 2010, the Company had a working capital of $127,250 (2009- $437,354), including $223,502 (2009- $459,409) in cash and cash equivalents. The Company anticipates having sufficient cash to meet its planned exploration work on its mineral property interests and meet its corporate administrative expenses for several months. However, the Company will require additional financing, through various means including but not limited to equity financing, to continue the exploration program and to meet its future option payment obligations and all of its general and administrative costs. There is no assurance that the Company will be successful in raising the additional required funds.

The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. If management is unsuccessful in securing capital, the Company's assets may not be realized or its liabilities discharged at their carrying amounts and these differences could be material.

2. SIGNIFICANT ACCOUNTING POLICIES:

The preparation of the financial statements has been prepared in accordance with Canadian generally accepted accounting principles and within the framework of the significant accounting policies summarized below.

USE OF ESTIMATES:

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include the determination of the recoverable amount of accounts receivable and deferred mineral acquisition and exploration costs, the determination of asset retirement obligations, the future income tax valuation allowance, and the assumptions used in determining the fair value of stock-based compensation, non-cash share issue cost and warrants. Management reviews these estimates on a periodic basis and, where necessary, makes adjustments prospectively.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

MINERAL PROPERTIES:

All costs occurred in the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable mineral reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amount shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents include liquid investments that can be converted into a known cash amount and which mature within less than three months from the date of acquisition.

STOCK-BASED COMPENSATION:

The Company measures the compensation cost of stock options issued under employee and non-employee compensation plans using the Black-Scholes option pricing model. Under the Black-Scholes model, stock-based payments to employees are measured at fair value and amortized over the vesting period and the stock-based payments to non-employees are measured at either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable, and are recognized over the vesting period as long as services continue to be provided. If the stock options or agent options are exercised, the proceeds are credited to share capital and the fair value of the options or agent options exercised is reclassified from contributed surplus to share capital.

ENVIRONMENTAL AND RECLAMATION COSTS:

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company’s policy is to meet or, if possible, surpass standards set by relevant legislation by the application of technically proven and economically feasible measures.

An estimate for the future costs of site restoration is made based upon estimates that consider the anticipated method and extent of site reclamation required to meet legal standards. If required, a provision for the estimated costs is recognized by increasing the carrying amount of the related long-lived asset by the same amount as the liability. Since the Company is not at the production stage yet, no such provision is to be estimated.

Reclamation costs incurred are charged against this provision. The effects of changes in regulations and cost assumptions are recognized when determined. As at October 31, 2010 and 2009, the Company was not committed to a material asset retirement obligation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

INCOME TAXES:

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company recognizes future income tax assets only when it is more likely than not that some or all of the future income tax assets will be realized.

IMPAIRMENT OF LONG-LIVED ASSETS:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

REVENUE RECOGNITION:

Interest income is recognized based on the number of days the investment was held during the year.

LOSS PER SHARE:

Basic loss per share is computed by dividing the net loss for the year available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion or exercise of securities only when such conversion or exercise would have a dilutive effect on earnings per share. Diluted earnings per share are calculated giving effect to the potential dilution that could occur if securities or other contracts to common shares were exercised or converted to such shares at the later of the beginning of the year or the issuance date. The treasury stock method is used when computing dilution effect upon the exercise of options and warrants. The computation of diluted loss per share assumes the conversion or the exercise of securities only when such conversion or exercise would have a dilutive effect on earnings per share. All options and warrants described in note 5 have been excluded since they have an anti-dilutive effect.

Shares held in escrow, other than where their release is subject only to the passage of time, have not been included in the calculation of the weighted average number of common shares outstanding for basic or diluted earnings per share.

SHARE CAPITAL:

Share capital issued for non-monetary consideration is recorded at an amount based on the quoted trading price of those shares on the TSX Venture for a reasonable period before and after the transaction.

Share issue costs are recorded as a reduction of share capital when the related shares are issued.

Proceeds from unit placements are allocated between shares and warrants issued according to the residual value method. The fair value of the shares is determined based on the quoted market price on the date the shares are issued with the residual value being allocated to the warrants.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

EXPLORATION CREDITS:

The Company is entitled to refundable mineral exploration tax credits and refundable mining duties as a result of incurring mineral exploration expenses in Quebec.

The Company recognizes these amounts when the amount to be received can be reasonably estimated and collection is reasonably assured. In addition, once recovered, these amounts are treated as a reduction of the carrying value of mineral properties.

FINANCIAL INSTRUMENTS:

The Company follows the recommendations of the CICA Handbook Section 1530 “Comprehensive Income”, Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and Measurement”, Section 3861 “Financial Instruments – Disclosure and Presentation” and Section 3865 “Hedges”. These sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

The Company classifies its cash and cash equivalents as held-for-trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. The Company has chosen to recognize all transaction costs to the statement of operations on all financial liabilities that have been designated as other than held for-trading.

The Company adopted CICA Handbook Section 3862, Financial Instruments – which increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity’s financial position and performance, including disclosures about fair value. CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. Refer to note 10 for the recommended disclosures.

SHIELD GOLD INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

COMPREHENSIVE INCOME:

Comprehensive income represents a change in shareholders' equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments, and foreign currency gains and losses related to self-sustaining foreign operations.

CAPITAL DISCLOSURES:

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by Handbook section in note 9 to these financial statements.

FLOW-THROUGH SHARES:

The Company accounts for flow-through shares using the recommendations of the Emerging Issues Committee EIC-146. Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

If the Company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

CHANGES IN ACCOUNTING POLICIES:

GOODWILL AND INTANGIBLE ASSETS:

The Canadian Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company has adopted the new standards for its fiscal year beginning November 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this new Section did not have a material impact on the Company's financial statements.

FINANCIAL INSTRUMENTS - DISCLOSURES:

In June 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements.

SHIELD GOLD INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

CHANGES IN ACCOUNTING POLICIES (continued):

FINANCIAL INSTRUMENTS – DISCLOSURES (continued):

Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

Financial instruments classified as level 1 – quoted prices in active markets include cash and cash equivalents.

3. RECENT ACCOUNTING PRONOUNCMENTS ISSUED BUT NOT YET EFFECTIVE:

BUSINESS COMBINATIONS, NON-CONTROLLING INTEREST AND CONSOLIDATIONS:

Section 1582 - Business Combinations, which replaces Section 1581 - Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. The new standard applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

Section 1601 & 1602 - The new Sections 1601 - Consolidated Financial Statements and Section 1602 - Non-Controlling Interest, together replace Section 1600 - Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes the accounting for a non-controlling interest in a subsidiary, in the consolidated financial statements, subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

The adoption of these new sections is not expected to have a significant impact of the Company's financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS"):

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles ("Canadian GAAP") with IFRS over an expected five year transitional period. The AcSB announced in February 2008 that 2011 will be the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP.

The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. These standards will apply to the Company for interim and fiscal reporting periods commencing November 1, 2011.

The transition date of November 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ending October 31, 2012. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS, however, at this time, the financial reporting impact of the transition to IFRS has not been determined.

SHIELD GOLD INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

4. MINERAL PROPERTIES AND COMMITMENTS:

Accumulated mineral property costs have been incurred as follows:

Year ended October 31, 2010

	Balance, beginning of year	Acquisition	Exploration	Write-downs (recoveries)	Balance, end of year
Quebec					
Summit-Gaber (i)	$ -	$ 55,000	$ 212,639	$ -	$ 267,639
La Grande Nord (ii)		10,000	-	-	10,000
	$ -	$ 65,000	$ 212,639	$ -	$ 277,639

i) *Summit-Gaber Property*

On September 29, 2010, the Company entered into an Option and Joint Venture Agreement (the "Agreement") with Eloro Resources Ltd. to acquire a 50% interest over a three year period in certain mineral claims referred to as the Summit-Gaber Property in La Grande Greenstone Belt, Quebec.

The property is subject to a 1% net smelter royalty.

In order to earn a 50% interest in the Summit-Gaber Property the Company is required to fulfil the following commitments:

Due Date	Cash Payment	Shares	Exploration Expenditures
November 30, 2009	$ 25,000 (fulfilled)	-	$ -
September 29, 2010	25,000 (fulfilled)	100,000 (fulfilled)	-
September 29, 2011	30,000	-	250,000
September 29, 2012	-	200,000	450,000
September 29, 2013	-	300,000	800,000
	$ 80,000	600,000	$ 1,500,000

Upon the satisfaction of the above mentioned commitments, the Company will have exercised the option and acquired an undivided 50% interest in the Summit-Gaber Property. Once the option has been exercised, the Company and Eloro Resources Ltd. intend on forming a joint venture for the purposes of further exploration and development of the Summit-Gaber Property.

Eloro Resources Ltd. and the Company have common directors.

4. MINERAL PROPERTIES AND COMMITMENTS (continued):

ii) La Grande Nord Property

On September 10, 2010, the Company entered into an Option and Joint Venture Agreement (the "Agreement") with Virginia Mines Inc. to earn a 50% interest over a five year period in certain mineral claims referred to as the La Grande Nord Property located in the La Grande Greenstone Belt, Quebec.

The property is subject to a 1.5% net smelter royalty.

In order to earn a 50% interest in the La Grande Nord Property the Company is required to fulfil the following commitments:

Due Date	Cash or Shares Payment (see below)	Exploration Expenditures
October 10, 2010	$ 10,000 (fulfilled)	$ -
September 10, 2011	10,000	50,000
September 10, 2012	10,000	200,000
September 10, 2013	-	200,000
September 10, 2014	-	250,000
September 29, 2015	-	300,000
	$ 30,000	$ 1,000,000

The above mentioned option payments can be made in cash or shares at the discretion of the Company. The number of common shares to be issued by the Company and the price of issuance will be determined by dividing the cash payment owed to Virginia Mines Inc. by the weighted average closing price of the Company's shares on the Exchange for the 3 trading days immediately preceding the date of payment pursuant to the Agreement, subject to regulatory approval.

Upon the satisfaction of the above mentioned commitments, the Company will have exercised the option and acquired an undivided 50% interest in the La Grande Nord Property. Once the option has been exercised, the Company and Virginia Mines Inc. intend on forming a joint venture for the purposes of further exploration and development of the La Grande Nord Property.

5. SHARE CAPITAL:

a) Common shares:

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares issuable in series and classes as may be determined by the Directors of the Company

Unlimited number of special non-voting shares issuable in series and classes as may be determined by the Directors of the Company

Issued and outstanding:

	2010		2009	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	12,343,236	$ 775,080	12,343,236	$ 775,080
Issued pursuant to flow-through private placement at $0.05 per unit (i)	2,600,000	130,000	-	-
Issued pursuant to private placement at $0.05 per unit (i)	600,000	30,000	-	-
Less fair market value of warrants issued concurrently with above private placements (i)	-	(32,000)	-	-
Less fair value of broker's warrants issued as finders' fees (i)	-	(2,728)	-	-
Issued pursuant to the Summit-Gaber Option and Joint Venture Agreement at $0.05 per share (ii)	100,000	5,000	-	-
Share issue costs	-	(28,530)	-	-
Balance, end of the year	15,643,236	$ 876,822	12,343,236	$ 775,080

SHIELD GOLD INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

5. SHARE CAPITAL (continued):

a) Common shares (continued):

i) On July 16, 2010, the Company closed a $160,000 non-brokered private placement equity financing. The Company issued 2,600,000 flow-through units ("FT units") and 600,000 units, at a price of $0.05 per FT unit or unit, for gross proceeds of $130,000 and $30,000 respectively (the "Financing"). Each FT unit consists of one flow-through common share and one common share purchase warrant entitling the holder to purchase one common share at a price of $0.10 for a period of 18 months from the closing of the financing. In addition, each unit consists of one common shares and one common share purchase warrant entitling the holder to purchase one common shares at a price of $0.10 for a period of 18 months from the closing of the financing.

The fair value of the warrants and broker's warrants issued in connection with the above private placement was $32,000 and $2,728, respectively. The fair value of the aforementioned securities was calculated using the residual value method and the Black-Scholes option pricing model, respectively.

In connection with the above mentioned financings, the Company paid finders' fees of $9,200 in cash and issued 220,000 broker's warrants with respect to the above noted private placements. Each broker's warrant is exercisable until July 16, 2012 into one unit at an exercise price of $0.10 per unit. Each unit is comprised of one common share and one-half of one common shares purchase warrant (each whole warrant a "warrant"). Each warrant entitles the holder to acquire one common share for a purchase price of $0.10 up to July 16, 2012.

ii) During 2010, the Company issued 100,000 common shares at a deemed price of $0.05 per share pursuant to the Option and Joint Venture Agreement with Eloro Resources Ltd.

b) Stock options and stock-based compensation:

The shareholders have approved a Stock Option Plan (the "Plan") that provides for the issue of up to 10% (the "Threshold) of the number of issued and outstanding common shares of the Company to eligible employees, directors, officers and consultants of the Company ("Participants"). The issuance of stock options may exceed the Threshold if the Company receives the permission of the stock exchange.

The Plan authorizes the granting of options to purchase common shares of the Company at a price that is not less than that permitted under the rules of any stock exchange or exchanges on which the Company's shares are then listed. The vesting of options is determined by the board of directors, but cannot exceed a maximum term of 10 years.

The aggregate number of common shares reserved for issuance to any one Participant of the Plan shall not exceed 5% of the total number of issued and outstanding common shares of the Company in any twelve month period unless the Company receives the permission of the stock exchange.

The number of options granted to any one consultant in a twelve month period shall not exceed 2% of the total number of issued and outstanding common shares.

The aggregate number of options granted to persons employed to provide investor relations activities shall not exceed 2% of the total number of issued and outstanding Shares in any twelve month period.

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FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

5. SHARE CAPITAL (continued):

b) Stock options and stock-based compensation (continued):

The following summarizes the stock options that have been granted, exercised, forfeited or cancelled during the years ended October 31, 2010 and 2009:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of the year	1,665,454	$ 0.10	700,000	$ 0.10
Granted (i)	-	-	1,234,324	0.10
Exercised	-	-	-	-
Forfeited or cancelled (ii)	(700,000)	0.10	(268,870)	0.10
Balance, end of the year	965,454	$ 0.10	1,665,454	$ 0.10

i) On May 29, 2009 1,234,324 stock option (the “Options”) were granted to directors and officers of the Company. Each Option entitles the holder to purchase one common share of the Company at a price of $0.10 per share until May 29, 2014. The estimated fair value of these options totaled $23,231 and this amount was recorded as stock based compensation.

ii) During the year ended October 31, 2010, 700,000 agents’ options to Global Securities Corporation and Integral Wealth Securities Limited issued upon the completion of the Company’s initial public offering were forfeited without exercise. As a result, the fair value of $31,348 relating to these stock options has been reallocated to contributed surplus.

During the year ended October 31, 2009, two directors resigned and as a result their stock options granted in May 2009, as detailed above, were cancelled. The aggregate number of these stock options was 268,870 with an estimated fair value of $5,108. On cancellation, the recorded fair value of these options was reallocated to contributed surplus.

The following table summarizes the options outstanding and exercisable at October 31, 2010:

Number of Options	Exercise Price	Expiry Date
965,454	0.10	May 29, 2014

The fair value of stock options to Agents, officers and directors was estimated at the vesting date and the options to service providers were estimated at the service completion date based on the Black-Scholes pricing model, using the following weighted average assumptions:

	2010	2009
Risk-free interest rate	-	2.11%
Expected life	-	5 years
Expected volatility	-	80%
Expected dividend yield	-	0.00%

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5. SHARE CAPITAL (continued):

b) Stock options and stock-based compensation (continued):

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

The fair value of stock options are comprised of the following during the years ended October 31, 2010 and 2009:

	2010	2009
Balance, beginning of year	$ 49,471	$ 31,348
Fair value of options granted (note 5 (b)(i))	-	23,231
Fair value of options cancelled (note 5 (d))	-	(5,108)
Fair value of options forfeited (note 5 (d))	(31,348)	-
Balance, end of year	$ 18,123	$ 49,471

c) Warrants:

A summary of the status of the warrants as of October 31, 2010 and 2009 and changes during the years are presented below:

	2010		2009	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of the year	-	$ -	-	$ -
Issued pursuant to private placements (note 5 (a)(i))	3,200,000	0.10	-	-
Broker's warrants issued (note 5(a)(i))	220,000	0.10		
Exercised	-	-	-	-
Expired	-	-	-	-
Balance, end of the year	3,420,000	$ 0.10	-	$ -

As of October 31, 2010, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Number of Warrants	Weighted average exercise price	Fair value
July 16, 2012	220,000 (i)	$0.10	$ 2,728
January 16, 2012	3,200,000 (ii)	$0.10	32,000
	3,420,000		$ 34,728

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5. SHARE CAPITAL (continued):

c) Warrants (continued):

(i) In connection with private placements during the year ended October 31, 2010, the Company issued 220,000 broker's warrants. Each broker's warrant is exercisable until July 16, 2012 into one unit at an exercise price of $0.10 per unit. Each unit is comprised of one common share and one-half of one common shares purchase warrant (each whole warrant a "warrant"). Each warrant entitles the holder to acquire one common share for a purchase price of $0.10 up to July 16, 2012.

(ii) Each warrant entitles the holder to purchase one common shares at a price of $0.10 until January 16, 2012.

d) Contributed surplus:

	2010	2009
Balance, beginning of year	$ 42,947	$ 37,839
Fair value of options granted	-	-
Fair value of options cancelled (note 5 (b))	-	5,108
Fair value of options forfeited (note 5 (b))	31,348	-
Balance, end of year	$ 74,295	$ 42,947

e) Escrow Agreement:

Pursuant to the Escrow Agreement, as of October 31, 2010, 4,838,915 (2009- 12,343,236) common shares were held in escrow.

The Escrow Agreement provides for a three-year escrow release mechanism with:

a) 10% of the escrowed securities being releasable upon the issuance of the Final Exchange Bulletin; and

b) 15% of the escrowed securities being releasable in 6 month intervals on each of 6, 12, 18, 24, 30 and 36.

6. RELATED PARTY TRANSACTIONS:

The following related party transactions occurred and were reflected in the consolidated financial statements during the years ended October 31, 2010 and 2009 as follows:

	2010	2009
Management fees expense:		
Management fees were charged by a company Controlled by the Chief Executive Officer for corporate administrative and investor relations services	$ 24,000	$ -

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6. RELATED PARTY TRANSACTIONS (continued):

		2010		2009
Management fees expense (continued):				
Management fees were charged by the Chief Financial Officer for financial management services	$	8,000	$	-
Consulting fees expense:				
Consulting fees were charged by an officer for corporate administrative services	$	6,000	$	-

As at October 31, 2010, accounts payable and accrued liabilities include $1,500 (2009 - $nil) owing to an officer of the Company.

Refer to notes 4 and 5 for additional related party information.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. INCOME TAXES:

(a) The Company's provision for income taxes differ from the amounts computed by applying the basic current rates to loss for the year before taxes, as shown in the following table:

	2010	2009
Net loss before income taxes	($ 168,935)	($ 123,721)
Expected income tax recovery	(42,234)	(35,879)
Differences resulting from:		
Stock-based compensation	-	6,737
Share issue costs	(3,874)	(2,839)
Non-deductible portion of meals	-	1,944
Unrecognized tax losses	46,108	30,037
Future income tax (recovery)	$ -	$ -

(b) The tax effects of these losses and other temporary differences that give rise to future income tax assets which a valuation allowance has been applied at October 31, 2010 and 2009 are as follows:

	2010	2009
Future tax assets:		
Non-capital loss carry forwards	$ 152,521	$ 123,440
Share issue costs	10,601	8,517
	163,122	131,957
Less valuation allowance	(163,122)	(131,957)
Net future income tax asset	$ -	$ -

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7. INCOME TAXES (continued):

The potential tax benefit of these losses has not been recognized in these financial statements. The Company has recorded a valuation allowance in the financial statements since the Company does not consider it more likely than not that the future tax assets will be realized in the foreseeable future.

(b) As of October 31, 2010, the Company has non-capital losses of approximately $610,086 (2009-$425,655) available for deductions against future taxable income, the balances of which will expire as follows:

2024	$ 17,460
2025	14,298
2026	117,829
2027	57,816
2028	99,020
2029	119,232
2030	184,431
	$ 610,086

8. COMPARATIVE FIGURES:

Certain figures shown for comparative purposes have been reclassified to conform with the classifications adopted in the current period.

9. CAPITAL MANAGEMENT:

The Company considers its capital to include components of shareholders' equity.

The Company's objectives in managing capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue investments and new projects of merit; and to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions.

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

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will continue to assess its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

There were no changes in the Company's approach to capital management during the year ended October 31, 2010. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Overview

The Company is engaged primarily in the mineral exploration field and accordingly it may be at risk for environmental issues and fluctuations in commodity pricing relating to the mineral extraction and exploration industry. The Company is subject to provincial and federal environmental regulations. Management has designed procedures and policies to provide for environmental compliance however, due to the diversity of environmental laws and regulations, compliance at all times cannot be assured.

Although management has taken steps to verify title on the properties on which it conducts exploration and in which it has an interest, these procedures may not guarantee the Company’s title. Property title may be at risk from unregistered prior agreements, unregistered claims, other land claims and noncompliance with regulatory and environmental requirements.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity and funding risk
- Market risk

The Board of Directors approves and monitors the risk management processes.

Credit risk

Credit risk is the risk of loss associated with counterparty’s inability to fulfill its payment obligations. The Company's exposure to credit risk is on its cash and cash equivalents and accounts receivable. Cash and cash equivalents consist of cash bank balances and a guaranteed investment certificate (“GIC”) issued by its financial institution. The Company manages the credit exposure related to cash by holding its funds with reputable financial institutions. Accounts receivable consists of GST receivable. An allowance of $nil (2009- $nil) has been recorded for tax credits recoverable to reflect uncertainty with regards to the timing of collection of these tax credits. As of October 31, 2010, the Company’s maximum credit exposure for cash and cash equivalents and accounts receivable is the carrying value of $239,540 (2009- $462,768).

Liquidity risk

Liquidity and funding risk is the risk that the Company will not have sufficient capital to meet short-term operating requirements, after taking into account the Company’s holdings of cash and cash equivalents.

As at October 31, 2010, the Company’s working capital surplus is $127,250 (October 31, 2009- $437,354). In the case of cash deficits arising from exploration commitments and general operating budgets, the Company will have to seek debt or equity financing. There are no assurances that such financing will be available on terms acceptable to the Company.

The Company determined that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company’s holdings of cash and cash equivalents. The Company’s cash and cash equivalents is invested in business accounts and a GIC and is available on demand.

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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Market risk

(a) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments.

The Company's interest rate risk is limited to the rate of return on its investment in cash and a GIC. The Company's return on its cash deposits and GIC is tied to the Canadian short-term interest rates which have declined during the year ended October 31, 2010, which results in lower interest income. The Company is otherwise not subject to any significant interest rate risk.

(b) Equity price risk

The Company is exposed to price risk with respect to 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. The Company monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

(c) Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company. The Company monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(d) Foreign currency risk

The Company is not exposed to any fluctuation in foreign exchange rates because the Company does not hold any foreign dominated financial assets or liabilities.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period.

- Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of minerals may be produced in the future, a profitable market will exist for them.

- The Company believes that the movements in interest rates that are reasonably possible over the next twelve month period will not have a significant impact on the Company.

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NOTES TO FINANCIAL STATEMENTS

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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Sensitivity analysis (continued)

As of October 31, 2010, the Company is not a producer of minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

Fair value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are comparable to their carrying value due to the relatively short period to maturity of these instruments.

11. SEGMENTED INFORMATION:

The Company operates in one operating reporting segment, being mineral exploration and development. In addition, all of the Company's assets and expenses are in Canada.

12. COMMITMENT AND CONTINGENCY:

Minimum cash expenditures on Canadian exploration and development.

The Company is committed to spend proceeds of a flow-through share issuance resulting from a private placement of 2,600,000 flow through shares in 2010 (2009 - nil) (Note 5(a)). The stock qualified as flow through shares under the Income Tax Act (Canada) and the corresponding expenditures are to be made by the Company on or before December 31, 2011. The Company is committed to expend $72,495 (2009 - $nil) of these funds.

13. CASH, COMMITED CASH AND CASH EQUIVALENTS:

Cash and cash equivalents includes $nil (2009- $446,049) held in trust by the Company's legal counsel. Committed cash relates to exploration work to be undertaken from flow-through funds raised in the amount of $72,494 (2009 - $nil)