

SHIELD GOLD INC.
(A Capital Pool Company)

FINANCIAL STATEMENTS
YEARS ENDING OCTOBER 31, 2009 AND 2008

SHIELD GOLD INC.
(A Capital Pool Company)

FINANCIAL STATEMENTS
YEARS ENDING OCTOBER 31, 2009 AND 2008

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SIEVERT & SAWRANTSCHUK LLP CHARTERED ACCOUNTANTS

43 Colborne Street, PH
Toronto, Ontario M5E 1E3
Tel: (416) 979-7444 Fax: (416) 979-8432
e-mail: sievertca@baxter.net
www.sievert.on.ca

AUDITORS' REPORT

To the Shareholders of
Shield Gold Inc.

We have audited the balance sheets of Shield Gold Inc. as at October 31, 2009 and 2008 and the statements of operations and 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 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, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada
February 11, 2010

Sievert & Sawrantschuk LLP
Chartered Accountants, Licensed Public Accountants

SHIELD GOLD INC.
(A Capital Pool Company)
Balance Sheets
As at October 31,

	<u>2009</u>	<u>2008</u> <u>(Restated – Note 8)</u>
ASSETS		
CURRENT		
Cash and cash equivalent (Note 4)	\$ 459,409	\$ 558,198
Accounts receivable	3,359	8,590
	\$ 462,768	\$ 566,788
	\$ 462,768	\$ 566,788
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 25,414	\$ 28,944
	\$ 25,414	\$ 28,944
	\$ 25,414	\$ 28,944
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5 (a) and 8)	775,080	775,080
STOCK OPTIONS (Note 5 (f) and 8)	49,471	31,348
CONTRIBUTED SURPLUS (Note 5 (g))	42,947	37,839
DEFICIT	(430,144)	(306,423)
	437,354	537,844
	\$ 462,768	\$ 566,788

ON BEHALF OF THE BOARD:

“Paul Ankcorn”

Paul Ankcorn -- Director

“Howard Sinclair-Jones”

Howard Sinclair-Jones -- Director

See accompanying notes to the financial statements

SHIELD GOLD INC.
(A Capital Pool Company)
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT
For the year ended October 31,

	<u>2009</u>	<u>2008</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Professional fees	\$ 81,053	\$ 88,429
Stock based compensation (Note 5 (f) (b))	23,231	-
Registration and transfer agent fees	21,144	10,652
Office and general	3,229	4,457
Interest Income	<u>(4,936)</u>	<u>(4,518)</u>
Loss and comprehensive loss for the year	(123,721)	(99,020)
Deficit, beginning of year	<u>(306,423)</u>	<u>(207,403)</u>
Deficit, end of year	<u><u>\$ (430,144)</u></u>	<u><u>\$ (306,423)</u></u>
Loss per share – basic and diluted (note 2(k))	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding	12,343,236	9,516,991

See accompanying notes to the financial statements

SHIELD GOLD INC.
(A Capital Pool Company)
STATEMENTS OF CASH FLOWS
For the year ended October 31,

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Loss for the year	\$ (123,721)	\$ (99,020)
Non-cash transaction		
Stock based compensation	23,231	-
Changes in non-cash working capital		
Decrease in accounts receivable	5,231	37
Decrease in accounts payable and accrued liabilities	(3,530)	(40,174)
Cash used in operating activities	(98,789)	(139,157)
FINANCING ACTIVITIES		
Issuance of common shares for cash, net	-	626,900
Cash provided by financing activities	-	626,900
(Decrease) increase in cash and cash equivalent during the year	\$ (98,789)	\$ 487,743
Cash and cash equivalent beginning of the year	558,198	70,455
Cash and cash equivalent end of the year	\$ 459,409	\$ 558,198
CASH AND CASH EQUIVALENT		
Cash	\$ 13,360	\$ 32,135
Cash held in trust (Note 4)	446,049	526,063
	\$ 459,409	\$ 558,198
SUPPLEMENTAL INFORMATION		
Income taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

See accompanying notes to the financial statements

SHIELD GOLD INC.

(A Capital Pool Company)

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of business

Shield Gold Inc. (the “Company”) was incorporated under the laws of the Province of Ontario, by Articles of Incorporation dated February 4, 2004 and is classified as a Capital Pool Company (“CPC”) as defined in Policy 2.4 of TSX Venture Exchange Inc. (“TSX-V”). The Company has no substantive assets other than cash and accounts receivable and proposes to identify and evaluate businesses and assets with a view to potentially acquire them or an accompanying interest therein as a result of the closing of a purchase transaction, the exercising of an option or any concomitant transaction. The purpose of such an acquisition is to satisfy the related conditions of a qualifying transaction under the TSX-V rules by July 1, 2010 (the “Qualifying Transaction”).

Where a Qualifying Transaction is warranted, additional funding may be required. The ability of the Company to complete a Qualifying Transaction and to fund its operations and commitments is dependent upon the ability of the Company to obtain additional financing. There is no assurance that the Company will identify a Qualifying Transaction by July 1, 2010, at which time the TSX-V may suspend or de-list the Company’s shares from trading.

The Company has no source of cash flows other than equity offerings. Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and meet its liabilities of the ensuing twelve months as they fall due. 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 this reporting period. The Company’s ability to continue operations is dependent on management’s ability to secure additional financing, completing a Qualifying Transaction and achieving profitable operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with the Canadian Generally Accepted Accounting Principles. Outlined below are those policies considered particularly significant.

a. 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 disclosure of contingent assets and liabilities at the date of these financial statements and the related reported amounts of revenue and expense during the reporting period. Significant estimates and assumptions were used to determine stock based compensation and non cash share issue cost. Actual results could differ from those estimates. Management believes that these estimates are reasonable.

b. Financial instruments - disclosures

The Company adopted section 3862, Financial Instruments – Disclosure, which increase the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity’s financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk. The Company has included disclosure recommend by this section in note 3.

SHIELD GOLD INC.

(A Capital Pool Company)

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments – presentation

The Company adopted the new recommendations of CICA Handbook Section 3863, Financial Instruments – Presentation, which replaces the existing requirements on presentation of financial instruments. The Company classifies for presentation on the balance sheet its financial assets, financial liabilities and equity based upon the substance of the instrument at the date of issuance, and separately classifies the components of any instrument that contains elements of financial liability and equity while appropriately classifying costs or gains associated with issuing financial liabilities within the income statement and distributions to holders of equity instruments in the equity section of the balance sheet.

d. Financial instruments

All financial instruments are categorized into one of the following categories: held-for-trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments disclosures depends on their initial categorization. For financial instruments other than those held-to-maturity, the Company's policy is to add transaction costs to the fair value:

Held-to-maturity assets, loans and receivables, and financial liabilities, other than held-for-trading financial liabilities, are initially measured at fair value and subsequently measured at amortized cost.

Available-for-sale financial assets are measured at fair value. Changes in fair value are included in other comprehensive income (loss) until the gain or loss is recognized in income. The Company has no available-for-sale financial instruments.

Held-for-trading financial instruments will be measured at fair value. All changes in fair value are included in net earnings (loss) in the period in which they arise. The Company has no held-for-trading financial instruments.

All derivative financial instruments will be measured at fair value, even when they are part of a hedging relationship. All changes in fair value are included in net earnings (loss) in the period in which they arise, except for hedge transactions, which qualify for hedge accounting treatment, in which case gains and losses will be recognized in other comprehensive income. The Company has no derivative financial instruments.

The Company's cash is measured at fair value. Accounts receivable is classified as loans and receivable, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. As at October 31, 2009 and 2008, the carrying and fair value amounts of the Company's financial instruments are the same.

e. Hedging

CICA Handbook Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company does not engage in hedging transactions and therefore does not have any financial instruments, which are subject to hedge accounting.

f. Comprehensive income

CICA Handbook Section 1530 requires other comprehensive income to be presented below net income on the Consolidated Statements of Income, Comprehensive Income and Retained Earnings. Other comprehensive income

SHIELD GOLD INC.

(A Capital Pool Company)

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Comprehensive income (continued)

includes unrealized gains and losses on translation of net investment in self-sustaining foreign operations and, to the extent that cash flow hedges are effective, the change in their fair value, net of taxes. Comprehensive income is composed of net income and other comprehensive income.

Accumulated other comprehensive income is a separate component of shareholders' equity which includes the accumulated balances of all components of other comprehensive income which are recognized in comprehensive income but excluded from net income.

The Company had no comprehensive income or loss transactions, other than its net loss, which are presented in the Statements of Loss and Deficit, nor accumulated other comprehensive income during the periods that have been presented.

g. Cash and equivalents

Cash and cash equivalents consist of bank deposits and guaranteed investment certificates, with a recognized Canadian financial institution, with original maturity of thirty days or less, and are recorded at cost, which approximate the market.

h. Revenue recognition

Interest revenue is recognized on the accrual basis.

i. Stock option compensation

CICA Section 3870 "Stock-based compensation and other stock-based payments" requires that the fair value based method be applied to awards granted to employees. The Company recognizes the stock-based compensation cost related to options granted on the basis of fair value at the date of grant in accordance with the fair value method of accounting for stock-based compensation.

j. Income taxes

The company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted and substantively enacted income tax rates for the years in which differences are expected to reverse. Future tax assets are recorded only to the extent that, based on available evidence, it is more likely than not that they will be realized.

k. Loss per share

The basic loss per share is computed based on the weighted average number of common shares outstanding during the year. The diluted loss per share is calculated using the treasury method, and is equal to the basic loss per share due to the anti-dilutive effect of share purchase options.

SHIELD GOLD INC.

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NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Assessing going concern

The AcSB amended CICA Handbook Section 1400 to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The standard became effective for fiscal years beginning on or after January 1, 2008 and is applicable to the Company as of November 1, 2008. The effect of this accounting change increases disclosures in the financial statements.

m. Capital disclosure

The Company adopted CICA Handbook Section 1535 Capital Disclosures, which 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 non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 3 to these financial statements.

n. Recent accounting pronouncements

- a) Future accounting changes – International financial reporting standards “IFRS”

The CICA plans to incorporate IFRS into the CICA Handbook as a replacement for current Canadian Generally Accepted Accounting Principles for most publicly accountable enterprises effectively for fiscal years beginning on or after January 1, 2011. The transition date of November 1, 2011 for the Company will require restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS has not been determined at this time.

- b) Business combinations

In January 2009, the CICA published Section 1582, “Business Combinations” to replace Section 1581. The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities, and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. Acquisition-related costs are to be expensed. This standard becomes effective January 1, 2011. This new standard only has an impact on the financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

- c) Consolidated financial statements and non-controlling interests

In January 2009, the CICA published Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests” replacing Section 1600. Section 1601 carries forward guidance from Section 1600 with the exception of non-controlling interests, which are addressed in a separate section. This standard requires the Company to report non-controlling interests within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions. These standards become effective January 1, 2011. The Company currently does not have any significant equity investment in other entities and therefore the application of this new standard is not expected to have any impact on the financial statements of the Company.

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NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

3. FINANCIAL INSTRUMENTS

a. Fair value

The fair value of cash, accounts receivable and accounts payable and accrued liabilities approximate carrying value due to the relatively short-term maturities of these instruments.

b. Risk management

The Company may be exposed to risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives. The main objective of the Company's risk management processes is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below:

- **Capital risk**

The Company manages its capital with the objective of providing adequate capital resources for the Company. The capital structure of the Company consists of shareholder's equity and depends on the ability of the Company to raise capital.

- **Credit risk**

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's credit risk is low as it is primarily attributable to funds held in Canadian banks.

- **Liquidity risk**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

- **Interest rate risk**

The Company has cash balances and no interest-bearing debt. The Company's current policy is to deposit excess cash in interest bearing accounts at its banking institutions.

c. Sensitivity analysis

Based on management's knowledge and experience of the financial markets, 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.

4. CASH AND CASH EQUIVALENT

Cash and cash equivalent includes \$446,049 (2008 - \$526,063) held in trust by the Company's legal council. The full amount (2008 - \$Nil) was invested in thirty day guaranteed investment certificates as at October 31, 2009.

SHIELD GOLD INC.

(A Capital Pool Company)

NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

5. CAPITAL STOCK

▪ **Authorized Shares issued outstanding**

The Company is authorized to issue an unlimited number of common shares, an unlimited number of preferred shares issuable in series and classes and an unlimited number of special non-voting shares issuable in series and classes, each as may be determined by the Directors of the Company.

Outstanding	Common shares	
	Number of shares	Amount
Balance at October 31, 2007	2,640,209	\$259,668
Share split in December 2007 (Note b)	2,640,209	—
Issued for cash Shares (Note c)	600,000	30,000
Shares cancelled in January 2008 (Note d)	(537,182)	(26,860)
Initial Public Offering June 2008 (Note e)	7,000,000	543,620
Non-cash share issue costs (Note 5 (f) (a) & 8))	-	(31,348)
Balance at October 31, 2008 (Note 8)	12,343,236	\$775,080
Balance at October 31, 2009	12,343,236	\$775,080

- a) Due to the prior expenses incurred by the Company, the Company had exceeded the Restricted Expense Limit. Following discussion with the Exchange regarding the basis on which the Exchange would be prepared to grant a waiver of the Restricted Expense Limit, the directors of the Company agreed to cancel common shares registered in their own name (at \$0.10 per share) equal to the amount by which the Company had exceeded its expense limit. Accordingly, on May 29, 2007, 109,791 common shares registered in the names of the directors were cancelled on a pro rata basis. In June 2007, the Exchange granted a waiver of the Restricted Expense Limit to the Company.
- b) On December 14, 2007 at a special meeting of the shareholders, the shareholders unanimously approved a resolution subdividing the existing common shares on 2 for 1 basis. On December 19, 2007 articles of amendment for the Company were filed with the Ministry of Government Services giving effect to this resolution. Upon completion of the subdivision there were 5,280,418 common shares issued and outstanding.
- c) To raise additional funds to complete the CPC offering on January 24, 2008, the Company completed a private placement of 600,000 common shares at an offering price of \$0.05 per share for gross proceeds of \$30,000. The subscribers in this private placement were the directors of the Company (see Note 6). Upon completion of this private placement there were 5,880,418 common shares issued and outstanding.
- d) In its discussions with the TSX Venture Exchange concerning the additional delays in closing the CPC offering caused by the state of the capital markets, the Company again exceeded the Restricted Expense Limit. Accordingly, the Company applied, concurrently to the filing of the Prospectus, for a waiver of the spending limit. Consistent with the previous actions, the directors of the Company agreed to cancel common shares registered in their own name (at \$0.05 per share) equal to the amount by which the Company had exceeded its expense limit. Accordingly, on January 24, 2008, an additional 537,182 common shares registered in the names of the directors were cancelled on a pro rata basis. Upon completion of the share cancellation, there were 5,343,236 common shares issued and outstanding.
- e) The Company closed the Initial Public Offering (the “IPO”) in June 2008 for 7,000,000 units at \$0.10 per share for gross proceeds of \$700,000. After cash expenses of the issue the Company netted \$543,620. Upon the completion of the IPO, Global Securities Corporation and Integral Wealth Securities Limited (the “Agents”) were granted a total of 700,000 option (the “Agents Options”). The Agents Options entitles the Agents to purchase one

SHIELD GOLD INC.

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NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

5. CAPITAL STOCK (CONTINUED)

common share of the Company at a price of \$.10 for a period of twenty-four months from the date the Company is listed on the TSX Venture Exchange.

f) Stock options

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.

During the years ended October 31, 2009 and 2008, stock options were granted and cancelled as follows:

	<u>2009</u>		<u>2008</u> <u>Restated – Note 8</u>	
	Number of options	Weighted average exercise	Number of options	Weighted average exercise
Beginning of year (Note 8)	700,000	\$ 0.10	-	\$ -
Granted ((Note 5 (f) (a) and note 8)			700,000	0.10
Granted (Note 5 (f) (b))	1,234,324	0.10		
Cancelled (Note 5 (f) (c))	<u>(268,870)</u>	<u>0.10</u>	<u>-</u>	<u>-</u>
End of year	<u>1,665,454</u>	<u>\$ 0.10</u>	<u>700,000</u>	<u>\$ 0.10</u>

a) In June 2008 the Company granted 700,000 Agents Options to Global Securities Corporation and Integral Wealth Securities Limited upon completion of the IPO detailed in note 5 (e) above. The estimated fair value of these options totaled \$31,348 and this amount was recorded as a non-cash share issue cost. See Note 8 for "Correction Of Error".

b) On May 29, 2009 1,234,324 (2008 – Nil) 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 \$.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.

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NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

5. CAPITAL STOCK (CONTINUED)

- c) During the quarter ended October 31, 2009 two directors resigned and as a result their stock options granted in May 2009, as detailed above in note 5 (f) (b) were cancelled. The aggregate number of these stock options were 268,870 (2008 – Nil) with an estimated fair value of \$5,108 (2008 – Nil).

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:

	<u>2009</u>	<u>2008</u>
Expected dividend yield	Nil	Nil
Risk-free interest rate	2.11%	3.40%
Expected life	5 years	2 years
Expected volatility	80%	80%

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.

	<u>2009</u>	<u>2008</u>
		<u>Restated – Note 8</u>
Beginning of year (Note 8)	\$ 31,348	\$ -
Granted ((Note 5 (f) (a) and note 8)	-	31,348
Granted (Note 5 (f) (b))	23,231	-
Cancelled (Note 5 (f) (c))	(5,108)	-
End of year	<u>\$ 49,471</u>	<u>\$ 31,348</u>

As at October 31, 2009, the following options were vested and outstanding:

<u>Option Price</u>	<u>Number of Options</u>		<u>Weighted Average Remaining Contractual Life</u>
	<u>Unvested</u>	<u>Vested</u>	
\$.10	-	965,454	4.59 years
\$.10	-	700,000	.75 years

- g) Contributed Surplus

	<u>2009</u>	<u>2008</u>
Beginning of year	\$ 37,839	\$ -
Common shares cancelled (Note 5 (a))	-	10,979
Common shares cancelled (Note 5 (d))	-	26,860
Stock option cancelled (Note 5 (f) (c))	5,108	-
End of year	<u>\$ 42,947</u>	<u>\$ 37,839</u>

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NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

5. CAPITAL STOCK (CONTINUED)

Escrow Agreement

As at July 31, 2009, 12,343,236 common shares are issued and outstanding as fully paid and non-assessable and no other shares are outstanding.

Under the Escrow Agreement, all of the 12,343,236 common shares outstanding as at October 31, 2009 were deposited with the Trustee.

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

There were Nil (2008 – 600,000) common shares issued to directors and officers of the Company for gross proceeds of \$Nil (2008 – \$30,000). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

On May 29, 2009 1,234,324 (2008 – Nil) 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 \$.10 per share until May 29, 2014. During the quarter ended October 31, 2009 two directors resigned and as a result 268,870 (2008 – Nil) stock options granted in May 2009, as detailed above in note 5 (f) (c) were cancelled.

7. INCOME TAXES

	<u>2009</u>	<u>2008</u>
Loss before income taxes	\$ (123,721)	\$ (99,020)
Income Tax recovery at the combined federal and provincial tax rate of 29% (2008 – 29%)	(35,879)	(33,171)
Stock based compensation	6,737	-
Share issue costs	(2,839)	(2,839)
Non-deductible portion of meals	1,944	-
Taxable benefit not recognized	30,037	36,010
Total income tax recovery	-	-

The tax effect at 29% (2008 – 29%) of these losses and other temporary differences give rise to the future income tax assets against which a valuation has been applied as follows:

	<u>2009</u>	<u>2008</u>
Non capital loss carry forwards	\$ 123,440	\$ 91,886
Share issue costs	8,517	11,356
Valuation allowance	(131,957)	(103,242)
Net future income tax asset	\$ -	\$ -

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NOTES TO THE FINANCIAL STATEMENTS

OCTOBER 31, 2009

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.

As of October 31, 2009, the Company has non-capital losses of approximately \$425,655 (2008 - \$306,423) available for deductions against future taxable income, the balances of which will expire as follows:

2025	\$ 17,460
2026	14,298
2027	117,829
2028	57,816
2029	99,020
2030	<u>119,232</u>
	<u>\$ 425,655</u>

8. CORRECTION OF PRIOR YEAR ERROR

During the quarter ended October 31, 2009 it was discovered that the 700,000 Agents Option, as described in Note 5 (e) were omitted from the audited October 31, 2008 balance sheet. As a result the capital stock was overstated and options were understated.

Using Black Scholes, as detailed in Note 5 (f) and Note 5 (f) (a), the estimated fair value of the Agents Option is \$31,348. The correction of this error has resulted in the following line item changes:

- Reduction of the October 31, 2008 capital stock balance of \$806,428 to 775,080,
- Increase of the October 31, 2008 option balance of Nil to \$31,348 and
- No change to the October 31, 2008 shareholders' equity balance.

9. COMMITMENT

During the year, the Company entered into a letter of intent (the "Letter") with Eoro Resources Limited, an unrelated third party, to acquire 50% option in the Summit-Gaber property owned by Eoro for \$80,000 and incurring an aggregate of CAN\$1,500,000 in deferred exploration and development expenditure and issuing an aggregate of 600,000 common share of the Company over a three year period. The Letter requires the completion of a definitive agreement (the "Definitive Agreement") on or by March 15, 2010. Subsequent to the year, the Company has met the first requirement on the letter of intent, which required a payment of \$25,000 on or before November 30, 2009.

Upon the signing of a Definitive Agreement, management believes the Company will have met the requirement to complete a Qualifying Transaction by the July 1, 2010 dead line imposed by the TSX – V.