

Estrella Gold Corporation
(formerly Canadian Shield Resources Ltd.)

Condensed Consolidated Interim Financial Statements

For the three-month period ended March 31, 2011

Estrella Gold Corporation

(formerly Canadian Shield Resources Ltd)

As at March 31, 2011**Unaudited, expressed in Canadian Dollars, unless otherwise stated****Notice to Reader**

Management has compiled the interim consolidated financial statements of Estrella Gold Corporation ("Estrella Gold" or the "Company") consisting of the Condensed Interim Consolidated Balance Sheets as at March 31, 2011 and the Condensed Interim Consolidated Statements of Comprehensive Income, Changes in Equity, and Cash Flows for the three months then ended. All amounts are stated in Canadian dollars. An accounting firm has not reviewed or audited these interim consolidated financial statements and management discussion and analysis thereon.

Estrella Gold Corporation

(formerly Canadian Shield Resources Ltd)

As at March 31, 2011

Unaudited, expressed in Canadian Dollars, unless otherwise stated

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Estrella Gold Corporation

(formerly Canadian Shield Resources Ltd)

Condensed Consolidated Interim Balance Sheet**As at March 31, 2011****Unaudited, expressed in Canadian Dollars, unless otherwise stated**

		March 31, 2011	December 31, 2010	January 1, 2010
	Notes		(Note 16)	(Note 16)
ASSETS				
Current assets				
Cash and cash equivalents		305,346	417,575	1,916,827
Short term investment		1,243,929	1,001,263	-
Other receivables		308,078	290,335	144,884
		<u>1,857,353</u>	<u>1,709,173</u>	<u>2,061,711</u>
Non-current assets				
Exploration and evaluation assets	8	5,389,566	4,840,452	3,625,869
Property and equipment, net	7	104,638	33,053	16,667
		<u>7,351,557</u>	<u>6,582,678</u>	<u>5,704,247</u>
EQUITY AND LIABILITIES				
Current liabilities				
Accounts payable and accruals		261,251	257,150	233,854
TOTAL LIABILITIES		<u>261,251</u>	<u>257,150</u>	<u>233,854</u>
Equity attributable to the equity holders of the company				
Issued share capital	9	13,775,492	13,030,148	12,214,277
Share based payment reserve	10	2,370,850	1,389,976	1,340,145
Warrants	11	1,582,188	2,138,073	323,325
Accumulated other comprehensive income		(670)	(63,207)	14,472
Deficit		(10,637,554)	(10,169,462)	(8,421,826)
TOTAL EQUITY		<u>7,090,306</u>	<u>6,325,528</u>	<u>5,470,393</u>
		<u>7,351,557</u>	<u>6,582,678</u>	<u>5,704,247</u>

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

These condensed interim consolidated financial statements are authorized for issue by the Board of Directors on June 29, 2011.

signed "Bernard Kraft"

Director

signed "Gregory Harris"

Director

Estrella Gold Corporation

(formerly Canadian Shield Resources Ltd.)

Condensed Consolidated Interim Statement of Comprehensive Income**For the three-months ended March 31, 2011****Unaudited, expressed in Canadian Dollars, unless otherwise stated**

	Notes	For the three months ended March 31, 2011	For the three months ended March 31, 2010 (Note 16)
Operating expenses			
Depreciation	7	2,564	296
General and administrative expenses		183,829	133,405
Professional fees		9,791	25,105
Shareholder services		35,625	24,349
Stock based payment	10	<u>232,777</u>	<u>152,593</u>
Total expenses		464,586	335,748
Loss from operations		(464,586)	(335,748)
Net Finance Charges			
Interest income		2,666	2,417
Foreign exchange loss		<u>(6,172)</u>	<u>(35,664)</u>
		(3,506)	(33,247)
Loss from continuing operations		(468,092)	(368,995)
Other comprehensive income			
Exchange differences on translating foreign operations		62,537	(13,619)
Total comprehensive income, net of tax		(405,555)	(382,614)
Earnings / (Loss) per share			
Basic and diluted		<u>(0.02)</u>	<u>(0.03)</u>
Weighted number of common shares outstanding			
Basic and Diluted		<u>17,256,845</u>	<u>11,882,948</u>

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

Estrella Gold Corporation

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Condensed Consolidated Interim Statement of Changes in Equity

For the three-months ended March 31, 2011

Unaudited, expressed in Canadian Dollars, unless otherwise stated

	Notes	Issued share capital		Share based payment reserve	Warrants	Accumulated other comprehensive income	Deficit	Total equity
		No. of shares	Amount					
Balance as at January 1, 2010	16	11,848,045	12,214,277	1,340,145	323,325	14,472	(8,421,826)	5,470,393
Comprehensive income								
Loss for the period		-	-	-	-	-	(368,995)	(368,995)
Other comprehensive income								
Foreign currency translation		-	-	-	-	(13,619)	-	(13,619)
Total comprehensive income		-	-	-	-	(13,619)	(368,995)	5,062,242
Transactions with owners, recorded directly in equity								
Warrant exercised		40,000	48,000	-	-	-	-	48,000
Fair value of warrant exercised		-	3,200	-	(3,200)	-	-	-
Share based payment charged to operations		-	-	152,593	-	-	-	152,593
Balance as at March 31, 2010	16	11,888,045	12,262,477	1,492,738	320,125	853	(8,790,821)	5,288,372
Comprehensive income								
Loss for the period		-	-	-	-	-	(1,378,641)	(1,378,641)
Other comprehensive income								
Foreign currency translation		-	-	-	-	(64,060)	-	(64,060)
Total comprehensive income		-	-	-	-	(64,060)	(1,378,641)	(1,442,701)
Transactions with owners, recorded directly in equity								
Issued share – private placement		4,118,800	1,711,995	-	-	-	-	1,711,995
Shares issued against warrants		-	(947,324)	-	947,324	-	-	-
Warrant issued		-	-	-	204,327	-	-	204,327
Warrant expired		-	-	81,800	(81,800)	-	-	-
Share based payment charged to operations		-	-	563,535	-	-	-	563,535
Balance as at December 31,	16	16,006,845	13,030,148	2,138,073	1,389,97	(63,207)	(10,169,462)	6,325,528
Comprehensive income								
Loss for the period		-	-	-	-	-	(468,092)	(468,092)
Other comprehensive income								
Foreign currency translation		-	-	-	-	62,537	-	62,537
Total comprehensive income		-	-	-	-	62,537	(468,092)	(405,555)
Transactions with owners, recorded directly in equity								
Issued share – private placement		1,250,000	745,344	-	-	-	-	745,344
Warrant issued		-	-	-	192,213	-	-	192,213
Share based payments charged to operations		-	-	232,777	-	-	-	232,777
Balance as at March 31, 2011		17,256,845	13,775,492	2,370,850	1,582.18	(670)	(10,637,554)	7,090,306

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

Estrella Gold Corporation

(formerly Canadian Shield Resources Ltd.)

Condensed Consolidated Interim Statement of Cash Flows

For the three-months ended March 31, 2011

Unaudited, expressed in Canadian Dollars, unless otherwise stated

	Notes	For the three months ended March 31, 2011	For the three months ended March 31, 2010 (Note 16)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss		(468,092)	(368,995)
Adjustments to net loss for non cash items:			
Depreciation	7	2,564	296
Stock based payment		232,777	152,593
Operating loss before working capital changes		(232,751)	(216,106)
Working capital adjustments:			
Increase in other receivables		(17,743)	(9,533)
Increase in accounts payable and accruals		4,101	(8,854)
Cash used in operations		(13,642)	(18,387)
Net cash flows used in operating activities		(246,393)	(234,493)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(74,149)	(23,614)
Investment in exploration and evaluation assets		(486,578)	(106,411)
Net cash flows used in investing activities		(803,394)	(130,025)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share capital issue during the period		1,000,000	-
Exercise of warrants		-	48,000
Share issue cost		(62,443)	-
Net cash flows generated from financing activities		937,558	48,000
NET DECREASE IN CASH AND CASH EQUIVALENTS		(112,230)	(316,518)
Cash and cash equivalents at the beginning of the period		417,575	1,916,827
Cash and cash equivalents at the end of the period		305,346	1,600,309

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

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(formerly Canadian Shield Resources Ltd.)

Notes to Condensed Interim Consolidated Financial Statements

March 31, 2011

Unaudited – See notice to reader

1. CORPORATE INFORMATION

Estrella Gold Corporation (formerly “Canadian Shield Resources Ltd.”) (“the Company”) is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of Ontario and its shares are listed on the TSX Venture Exchange. The condensed interim consolidated financial statements of the Company as at and for the quarter ended March 31, 2011 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The principal activities of the Group are location and exploration for and development of mineral resources properties.

The Group is currently in the process of exploring its mineral property interests. The Group’s continuing operations and the underlying value and recoverability of the amounts shown for the investment in the different projects are entirely dependent upon the existence of economically recoverable mineral reserves; the ability of the Group to obtain the necessary financing to complete the exploration and development of the projects; obtaining the necessary permits to mine; and future profitable production or proceeds from the disposition of the investment in these projects. The Group has not earned revenue from its mineral properties and is considered to be in the exploration stage. The Company is in the process of exploring its mining claims and has not yet determined whether or not the properties will contain economically recoverable reserves.

The head office, principal address and registered and records office of the Company are located at 151 Bloor Street West, Suite 703, Toronto, Ontario, M5S 1S4.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company is currently dependent upon obtaining necessary equity financing from time to time to finance its ongoing and planned exploration activities and to cover administrative costs. Management expects that the cash flows that arise from issuance of equity will be sufficient to meet immediate ongoing operating and capital cash requirements of the Group.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These condensed interim consolidated financial statements are unaudited and have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These are the Group’s first IFRS consolidated interim financial statements for part of the period covered by the Company’s first IFRS consolidated annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). These condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2010.

As these are the Group’s first set of consolidated interim financial statements in accordance with IFRS, the Company’s disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company’s accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Group’s 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Group’s interim consolidated financial statements under IFRS as the reader will be able to rely on the annual consolidated financial statements which will be prepared in accordance with IFRS. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 16.

The policies set out below in note 4 have been consistently applied to all the years presented and by all companies within the Group, unless otherwise stated.

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Notes to Condensed Interim Consolidated Financial Statements

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Unaudited – See notice to reader

2.2 Basis of measurement

These condensed interim consolidated financial statements have been prepared on the historical cost basis. The comparative figures presented in these condensed interim consolidated financial statements are in accordance with IFRS and any changes from figures previously reported under Canadian GAAP have been discussed in Note 16.

2.3 Basis of consolidation

The condensed interim consolidated financial statements comprise the financial statements of the Company and the entities controlled by the Company (i.e. subsidiaries) as at 31 March 2011. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All inter-group balances, transactions, unrealised gains and losses resulting from inter-group transactions and dividends are eliminated in full.

2.4 Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Group. These consolidated financial statements are presented in Canadian Dollar, which is the Company's functional currency and presentation currency. The functional currencies of its Peruvian subsidiaries are the Peruvian New Soles ("Soles").

The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates. Subsequent to the adoption of IFRS, all resulting translation differences are reported as a separate component of shareholders' equity titled "Accumulated Other Comprehensive Income".

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, reported amounts of assets, liabilities and contingent liabilities, revenues and expenses at the date of the consolidated financial statements and during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4.15 – Determination of functional and presentation currency

Note 4.3 – Useful life of assets and depreciation rates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 4.2 – Recoverability of development costs / exploration and evaluation expenditure/

Notes 4.3 & 4.12 – Property & Equipment, Depreciation, Impairment of assets / fair value hierarchy

Notes 14 – Factors considered for calculation of stock based payment

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March 31, 2011

Unaudited – See notice to reader

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies have been applied consistently by all the Group entities.

4.1 BUSINESS COMBINATION

Acquisitions on or after January 1, 2010

From January 1, 2010, acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the consideration transferred i.e. assets transferred by the Group, liabilities incurred or assumed by the Group to the former owners of acquiree and equity instruments issued by the Group, in exchange for control of the acquired entity. Acquisition costs incurred are expensed and included in income statement.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for:

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5");
- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12, Income Taxes and IAS 19, Employee Benefits, respectively; and
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share - based payment awards, which are measured in accordance with IFRS 2, Share based Payment.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

The Group had no acquisitions or business combinations on or after January 1, 2010.

Acquisitions prior to January 1, 2010

Business combinations that occurred prior to January 1, 2009 were not accounted for in accordance with IFRS 3 Business Combinations in accordance with the IFRS 1 First time Adoption of International Financial Reporting Standards exemption discussed in Note 16.

Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The financial statements of subsidiaries are included in the consolidated

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Notes to Condensed Interim Consolidated Financial Statements

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4.1 BUSINESS COMBINATION (Cont'd)

financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisition of non-controlling interest

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

4.2 EXPLORATION AND EVALUATION COSTS

Pre-license costs are expensed in the period in which they are incurred

Exploration and evaluation costs include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation costs are capitalized as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and the commercial viability of the project. The capitalized costs are presented as either tangible or intangible exploration or evaluation assets according to the nature of the assets acquired.

Capitalized costs include costs directly related to exploration and evaluation activities in the area of interest. General and administrative costs are only allocated to the asset to the extent that those costs can be directly related to operational activities in the relevant area of interest. When a license is relinquished or a project is abandoned, the related costs are recognized in income statement immediately.

Exploration and evaluation assets are assessed for impairment if

- (i) sufficient data exists to determine technical feasibility and commercial viability, and
- (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist, the rights of tenure are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area, or alternatively by sale of the property. Upon determination of proven reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within non-current assets. Expenditure deemed to be unsuccessful is recognized in profit or loss immediately.

4.3 PROPERTY AND EQUIPMENT

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred. The present value of the expected cost for the

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4.3 PROPERTY AND EQUIPMENT (Cont'd)

decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a reducing balance method at rates ranging from 10% to 20% per annum.

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

4.4 INTANGIBLE ASSETS

Intangible assets include mineral rights, computer software etc. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

4.5 SHARE-BASED PAYMENT

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The board of directors grants such options for periods of up to ten years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

Equity-settled share-based payment to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the period in which the performance and/or service conditions are fulfilled (vesting period), based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

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4.5 SHARE-BASED PAYMENTS (Cont'd)

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognized in income statement for the year.

4.6 INCOME TAXES

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Income tax expense is recognized in the income statement. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit
- goodwill
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized in the foreseeable future is not probable.

The Group recognizes neither the deferred tax asset regarding the temporary difference on the rehabilitation liability, nor the corresponding deferred tax liability regarding the temporary difference on the rehabilitation asset. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

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4.6 INCOME TAXES (Cont'd)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

4.7 PROVISION

Provisions are recognized when the Group has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as cost.

4.8 TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from supplies. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

4.9 SHARE CAPITAL

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

4.10 FINANCE COSTS

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange gains and losses on foreign currency transactions.

4.11 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Group does not have any derivative financial instruments. The Group determines the classification of its financial assets at initial recognition whereby all financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group's financial assets include cash and cash equivalents, short term investments, and other receivables.

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4.11 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (Cont'd)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in profit or loss.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment, if any. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset. The EIR amortization is included in profit or loss. The losses arising from impairment are recognized in profit or loss.

Held to maturity investment

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in the income statement. The losses arising from impairment are recognized in the income statement. The Group did not have any held-to-maturity investments during the periods ended December 31, 2010 and March 31, 2011.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized in the income statement in finance costs and removed from the available-for-sale reserve.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

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4.11 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (Cont'd)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings or other liabilities. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include accounts payable and accruals.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

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4.11 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (Cont'd)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings and other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in the income statement.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 13.

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4.12 IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in the statement of comprehensive income. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

4.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at banks and on hand, and bank overdraft/deposit with an original maturity of three months or less, which are readily convertible into a known amount of cash.

4.14 REVENUE RECOGNITION

Revenue from the sale of metals will be recognized when all of the following conditions are satisfied:

- the specific risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

The Group has not earned any revenue from its exploration activities to date.

Interest income

Interest income is recognized in the income statement as it accrues, using the effective interest method.

4.15 FOREIGN CURRENCY TRANSLATION

The Group's consolidated financial statements are presented in Canadian dollars, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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4.15 FOREIGN CURRENCY TRANSLATION (Cont'd)

All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognized in other comprehensive income until the disposal of the net investment, at which time they are recognized in the income statement.

Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Group companies

For the purposes of presenting consolidated financial statements, the assets and liabilities of Groups foreign operations are translated into Canadian dollar at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On disposal of a foreign operation i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary, the component of other comprehensive income relating to that particular foreign operation attributable to the owners of the Company is reclassified in the income statement.

4.16 EARNINGS PER SHARE

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

5. EXEMPTIONS – IFRS FIRST TIME ADOPTION

A number of optional exemptions from full retrospective application are available to the Group upon adoption of IFRS. The impact of all these optional exemptions on the Group is listed below.

The Group has applied the following exemptions:

Exemption	Application of exemption
Share-based payment transaction exemption	The Group has elected to apply the share-based payment exemption. It applied IFRS 2 from March 1, 2008 to those options that were issued after November 7, 2002 but that have not vested by January 1, 2010.
Business Combinations exemption	The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the January 1, 2010 transition.
Cumulative translation differences exemption	The Group has applied the cumulative translation differences exemption in IFRS 1. It has not restated translation differences that occurred prior to the January 1, 2010 transition.

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6. BUSINESS COMBINATIONS

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting rights held		
			March 31, 2011	December 31, 2010	January 1, 2010
Canadian Shield Exploration Limited	Exploration	Canada	100%	100%	100%
Canadian Shield Explorations (Int'l) Limited	Exploration	Canada	100%	100%	100%
Gallant Minerals Peru Limited S.A.	Exploration	Peru	90%	90%	90%
Estrella Gold Perú S.A.C	Exploration	Peru	100%	100%	100%
Canadian Shield (Barbados) Inc.	Exploration	Barbados	100%	100%	100%
Canadian Shield (Barbados II) Inc.	Exploration	Barbados	100%	100%	100%

7. PROPERTY AND EQUIPMENT

	Office equipment and furniture	Trucks and field equipment	Total
Cost, January 1, 2010	21,030	34,320	55,350
Additions	8,149	19,192	27,341
Cost, December 31, 2010	29,179	53,512	82,691
Additions	10,165	63,984	74,149
Cost, March 31, 2011	39,344	117,496	156,840
Accumulated depreciation, January 1, 2010	13,709	24,974	38,683
Charge for the year	5,992	4,963	10,955
Accumulated depreciation, December 31, 2010	19,701	29,937	49,638
Charge for the period	809	1,755	2,564
Accumulated depreciation, March 31, 2011	20,510	31,692	52,202
Net book value, January 1, 2010	7,321	9,346	16,667
Net book value, December 31, 2010	9,478	23,575	33,053
Net book value, March 31, 2011	18,834	85,804	104,638

Foreign exchange differences arise on translation of foreign operations are insignificant.

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8. EXPLORATION AND EVALUATION ASSETS

All exploration and evaluation assets are intangible assets. Following is the breakdown of mining properties and deferred exploration expenditures by property:

	January 1, 2010	Deferred / (Recovered) Exploration Expenditures	March 31, 2010	Deferred / (Recovered) Exploration Expenditures	Expensed (Recovered)	December 31, 2010	Deferred / (Recovered) Exploration Expenditures	March 31, 2011
Peru								
Cerro Cori	384,390	9,838	394,228	56,548	-	450,776	5,163	455,939
Ccello Ccello	562,317	9,743	572,060	46,225	-	618,285	5,078	623,363
Apune-Pucarana	540,930	9,743	550,673	27,166	-	577,839	4,971	582,810
La Estrella	927,298	22,843	950,141	120,724	-	1,070,865	47,492	1,118,357
Pampa Poroma	237,060	7,673	244,733	54,472	-	299,205	(37,681)	261,524
Colpayoc	707,833	18,197	726,030	650,900	-	1,376,930	266,617	1,643,547
La Tola	105,763	4,938	110,701	30,586	-	141,287	45,271	186,558
Yanque	-	6,815	6,815	20,993	-	27,808	45,486	73,294
Isy	-	-	-	30,853	-	30,853	45,578	76,431
Sense	-	-	-	17,997	-	17,997	45,271	63,268
Other	17,756	16,620	34,376	193,059	(77,448)	149,987	13,331	163,319
Chile								
Trol	142,522	-	142,522	13,776	-	156,298	-	156,298
	3,625,869	106,411	3,732,280	1,263,299	(77,448)	4,918,131	486,577	5,404,708
Effect of exchange rate charges	-		(13,619)			(77,678)		(15,142)
	3,625,869		3,718,661			4,840,452		5,389,566

Colpayoc

In 2007, Estrella Gold entered into an option agreement to purchase 100% participating interest in the Colpayoc gold-silver-copper-molybdenum property ("Colpayoc") in northern Peru. Colpayoc is comprised of 3 properties held by two owners with a total of 3,608 hectares. 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.

In 2008, due to economic hardship throughout the industry, the Company renegotiated property payments to a later date.

During 2009 the Company re-acquired community agreements, and obtained a drilling permit from the Government of Peru, to conduct additional drilling. A drill program was planned for December, however an adjacent community opposed the drilling which was delayed. All exploration data was compiled and documented in several news releases issued during the year.

Colpayoc mineral exploration license was held in good standing, the Company continued to seek community approval to engage in exploration activities and upon final agreement plan to apply for the drilling permit.

During 2010 Estrella Gold contracted SRK Consulting (U.S.) to prepare NI 43-101 Technical Reports on this property. In December 2010, the company commenced a core drilling program at the Daylight Zone of the project.

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Colpayoc (Cont'd)

Estrella suspended drilling in the first quarter of 2011 following the dissolution of the local Community government after elections in late 2010. The Company continued to conduct surface exploration programs and its program of cooperative work projects with all surrounding communities. Estrella completed an initial trenching program in February, located less than two kilometers northwest of the Daylight Zone. Three trenches totaling 231.8 meters identified high grade silver and gold replacement style mineralization, hosted in fault zones within sedimentary and volcanic rocks. Trench sampling was restricted and drilling will help to determine the true width of these mineralized zones. Further drilling is planned for July.

La Estrella

La Estrella property ("La Estrella") is located in the Department of Huancavelica, District of Paucara and Acoria, Provinces of Huancavelica and Acobamba, approximately 260 km southeast of Lima, Peru. La Estrella was originally acquired through the acquisition of Anderson Peru Mining and Exploration SAC.

In 2007, additional 1,000 hectare claim was staked expanding property to 2,300 hectares.

In 2009, La Estrella mineral exploration license was held in good standing the Company has obtained community approval to engage in exploration activities and plan to apply for the drilling permit.

La Estrella received its Phase II drill permit during the fourth quarter of 2010 and is now considering additional drilling or establishing a Joint Venture.

Cerro Cori

Cerro Cori Property ("Cerro Cori") located in the Department of Ayacucho in southern Peru was originally acquired through the acquisition of Gallant Minerals Peru Ltd. S.A.

In 2007, Estrella Gold entered into an earn-in agreement with Southern Peru Copper Corporation ("Southern Peru") for Cerro Cori. 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 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. 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 Estrella 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 completed a 9 hole, 3,428 metre diamond drilling campaign on the Cerro Cori Property. Southern Peru began drilling February 2, 2008 and terminated the last hole June 8, 2008. In July 2008, Southern Peru terminated the earn-in agreement and returned the property back to Estrella Gold. Estrella Gold received a total of US\$180,000 in three option payments.

In 2009, Cerro Cori mineral exploration license was held in good standing - community relations were maintained and the property was put on maintenance. In 2010, the Company began preparing formal reports and the property is available for Joint Venture.

Pampa Poroma

Pampa Poroma property ("Pampa Poroma") located 20km south-southeast of the town of Nasca within the Marcona District and Coastal Copper Gold Belt of southern Peru. Pampa Poroma was originally acquired through the acquisition of Anderson Peru Mining and Exploration SAC.

The property comprises 1000 hectares over a flat covered area and is easily accessible lying 7 km from the paved Panamerican Highway. In 2009 and 2010, Pampa Poroma mineral exploration license was held in good standing while the Company seeks a joint venture partner for this property.

In the first quarter of 2011, Estrella Gold established a Joint Venture with Cliffs Natural Resources Exploration Inc. for the exploration and potential development of the Pampa Poroma project.

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Ccello Ccello

Ccello Ccello Property (“Ccello”) located in Caylloma Province of the Department of Arequipa, southern Peru was originally acquired through the acquisition of Gallant Minerals Peru Ltd. S.A.

In 2009, Ccello mineral exploration license was held in good standing while the Company seeks a joint venture partner for this property.

In 2010, this property was combined with La Tola.

Apune Pucarana

Apune Pucarana Property (“Pucarana”) located in southern Peru was originally acquired through the acquisition of Gallant Minerals Peru Ltd. S.A.

In 2007, Estrella Gold entered an earn-in agreement with Esperanza Silver (“Esperanza”) whereby Esperanza can earn up to a 60% interest in Estrella Gold’s Pucarana 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.

In 2009, Pucarana mineral exploration license was held in good standing by Esperanza, community relations were maintained while Esperanza continued to seek community approval to engage in exploration activities and upon final agreement plan to apply for the drilling permit.

In 2010, Esperanza’s program was delayed due to permitting however they received drilling permits in early 2011 and Esperanza has announced a Phase I drilling program planned for the second quarter of 2011, including 10 holes and 2,500 meters of drilling.

La Tola

In 2007, Estrella Gold entered into a earn-in agreement with Solitario Resources Corporation to acquire La Tola, an epithermal gold-silver prospect (“La Tola”) located adjacent to the Company’s Ccello property in the Caylloma Province of the Department of Arequipa, southern Peru. The Property comprises 1,000 hectares in one exploration license, Zoraida Uno. Estrella Gold 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.

In 2009, La Tola mineral exploration license was held in good standing while the Company seeks a joint venture partner for this property.

During the first quarter of 2011, Estrella Gold signed a formal Purchase Option Agreement, replacing its initial letter agreement with Solitario Resource and Royalty Corporation, to acquire the 1,000 hectare La Tola Property and combined it with Ccello. By combining these properties, Estrella has established an attractive, district scale exploration target. Estrella will complete surface mapping at La Tola and is seeking Joint Venture partners for this property.

Isy

This new acquisition contains 3,100 hectares underlain primarily by Miocene volcanic rocks, containing extensive alteration. The target was identified based on regional analysis of LANDSAT alteration anomalies, structural geology, and regional metallogenic studies. Estrella Gold has field teams sampling and mapping this new property, to evaluate the distribution and composition of the rock-alteration and to determine if significant gold mineralization is present.

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Yanque

This property was acquired during 2010; it contains 600 hectares and is located adjacent to the Humajala gold occurrence and 20 km west of the Company's Ccello-La Tola Project. The geology of the property consists mainly of Miocene felsic volcanic rocks containing extensive epithermal alteration mineral assemblages. Estrella Gold conducted significant exploration drilling (+30 holes) at the Humajala gold occurrence previously. Estrella Gold has field teams sampling and mapping this new property, to evaluate the distribution and composition of the rock-alteration and to determine if significant gold mineralization is present.

9. SHARE CAPITAL

a) Common shares - Authorized

Unlimited number of common shares

b) Common shares - Issued and outstanding:

Particular	Note	Common shares	
		Number	Amount
Balance as of January 1, 2010		11,848,045	\$ 12,214,277
Issued : Exercise of warrants		40,000	48,000
Balance as of March 31, 2010		11,888,045	12,262,277
Fair value of warrant exercised		-	(3,200)
Private placement	(a)	2,118,800	1,059,400
Less: Share issue costs	(a)	-	(189,850)
Less: Warrants issued	(a)	-	(487,324)
Private placement	(b)	2,000,000	1,000,000
Less: Share issue costs	(b)	-	(157,555)
Less: Warrants	(b)	-	(460,000)
Balance as of December 31, 2010		16,006,845	13,030,148
Private placement	(c)	1,250,000	1,000,000
Less: Share issue costs	(c)	-	(62,443)
Less: Warrants issued	(c)	-	(192,213)
Balance as of March 31, 2011		17,256,845	\$ 13,775,492

- (a) On November 18, 2010, the Company issued 2,000,000 units at \$0.50 per unit gross proceeds of \$1,000,000. Each unit is comprised of one common share and one non-transferable warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.80 per share until November 17, 2012. The warrant is callable, at the option of the Company, after March 18, 2011, in the event its common shares trade at or over \$1.00 per share for 20 consecutive trading days. The number of Common Shares issuable pursuant to the financing, if all Warrants are exercised, is 4,000,000 Common Shares for gross proceeds of \$2,600,000.

In connection with the financing, the Company paid eligible finders fees in Units (equal to 6% of the Units issued through each finder under the financing and also issued compensation warrants equal to 10% of the total number of units issued through each finder under the financing. Each finder unit consists of one common share and one warrant. The value attributed to the finder units was \$59,400. Each compensation warrant entitles the holder to acquire one common share of Estrella Gold at \$0.60 until November 17, 2012. On closing, the Company issued 118,800 finder units and 198,000 compensation warrants to the finders.

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9. SHARE CAPITAL (Cont'd)

- (b) On December 3, 2010, the Company issued 2,000,000 units at \$0.50 per unit gross proceeds of \$1,000,000. Each unit is comprised of one common share and one non-transferable warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.80 per share until December 3, 2012. The warrants are callable, at the option of Estrella Gold, after April 4, 2011 if its common shares trade at or over \$1.00 per share for 20 consecutive trading days. The number of common shares issuable pursuant to the financing, if all warrants are exercised, is 4,000,000 common shares for gross proceeds of \$2,600,000.

In connection with the financing, the Company paid eligible finders a cash fee equal to 6% of the gross proceeds placed through each finder under the financing and also issued compensation warrants equal to 10% of the total number of units, issued through each finder, under the financing. Each compensation warrant entitles the holder to acquire one common share of Estrella Gold at \$0.60 until December 3, 2012. On closing, the Company paid \$45,600 and issued 152,000 compensation warrants to the finders.

- (c) On January 12, 2011, the Company issued 1,250,000 units at \$0.80 per unit gross proceeds of \$1,000,000. Each unit is comprised of one common share and one non-transferable warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$1.20 per share until July 12, 2012. The warrants are callable, at the option of Estrella Gold, after May 13, 2011 if its common shares trade at or over \$1.60 per share for 10 consecutive trading days. The number of common shares issuable pursuant to the financing, if all warrants are exercised, is 2,500,000 common shares for gross proceeds of \$2,500,000.

In connection with the financing, the Company paid eligible finders a cash fee equal to 6% of the gross proceeds placed through each finder under the financing and also issued compensation warrants equal to 10% of the total number of units, issued through each finder, under the financing. Each compensation warrant entitles the holder to acquire one common share of Estrella Gold at \$0.80 until July 12, 2012. On closing, the Company paid \$48,600 and issued 101,250 compensation warrants to the finders.

10. SHARE BASED PAYMENT RESERVE

	Amount
Balance as of January 1, 2010	\$ 1,340,145
Share based payments charged to operations	152,593
Balance as of March 31, 2010	1,492,738
Share based payments charged to operations	563,535
Warrants expired	81,800
Balance as of December 31, 2010	2,138,073
Share based payments charged to operations	232,777
Balance as of March 31, 2011	\$ 2,370,850

Share options program – Equity settled

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 the year 2010, the Plan was amended. The maximum number of common shares issuable to any one participant under the 2001 Plan was fixed at 2,377,609 (2009 - 1,530,007) common shares. The maximum number of common shares issuable to any one participant under the plan is 20% of the issued and outstanding common shares at the time of the Annual and General Meeting of shareholders. The period during which the options may be exercised is determined by the Board of Directors and cannot be extended beyond a maximum of ten years from the date the option is granted. 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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The following summarizes the options outstanding:

	Number of options	Weighted Average exercise price
Outstanding as at January 1, 2010	1,231,250	1.35
Granted	100,000	
Expired	(16,250)	
Outstanding as at March 31, 2010	1,315,000	1.32
Granted	530,000	
Expired	(248,667)	
Outstanding as at December 31, 2010	1,596,333	1.08
Granted	665,000	
Outstanding as at March 31, 2011	2,258,833	1.08
Options exercisable as at January 1, 2010	318,000	2.39
Options exercisable as at March 31, 2010	495,883	1.91
Options exercisable as at December 31, 2010	1,154,667	1.12
Options exercisable as at March 31, 2011	1,350,498	1.10

The following table summarizes information about stock options outstanding at March 31, 2011.

Expiry date	Options exercisable			Options outstanding	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding	Weighted average exercise price
7/26/2011	14,583	0.32	2.60	14,583	0.32
3/20/2012	28,500	0.97	4.20	28,500	4.20
4/27/2012	99,999	1.08	0.67	200,000	0.80
8/1/2012	2,500	1.34	5.60	2,500	5.60
10/26/2012	631,666	1.58	1.00	775,000	1.00
3/16/2013	100,000	1.96	1.00	100,000	1.00
8/10/2013	180,000	2.36	0.60	180,000	0.60
8/28/2013	143,250	2.41	2.00	143,250	2.41
12/01/2013	150,000	2.67	0.71	150,000	0.71
1/20/2014	Nil	Nil	Nil	665,000	1.10
	1,350,498			2,258,833	

The weighted average grant date fair value of stock options granted to employees and directors during the period ended 31 March 2011 has been estimated at \$0.97 (2010 - \$0.64) 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 1.91% (2010 – 2.31%), weighted average expected dividend yields of NIL (2010 - NIL), weighted average expected common stock price volatility of 264% (2010 – 130%) and a weighted average expected life of 3 years (2010 – 3.2 years).

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11. WARRANTS

The following summarizes the warrants outstanding:

	Weighted Average Remaining Contractual Life (years)	Series	Number of Warrants	Weighted Average Exercise Price
January 1, 2010	1.31		3,812,500	0.80
Warrants exercised			(40,000)	0.80
March 31, 2010	1.06		3,772,500	0.80
Expired			(1,022,500)	
Issued	1.88	S	2,118,800	0.80
Issued	1.93	T	2,000,000	0.80
December 31, 2010	1.39		6,868,800	0.96
Issued	1.28	U	1,250,000	1.20
March 31, 2011	1.17		8,118,800	1.00

The following summarizes the compensation warrants outstanding:

	Weighted Average Remaining Contractual Life (years)	Series	Number of Warrants	Weighted Average Exercise Price
January 1, 2010	1.62		229,063	1.20
March 31, 2010	1.37		229,063	1.20
Expired				
Issued	1.88	S	198,000	0.60
Issued	1.93	T	152,000	0.60
December 31, 2010	1.79		579,063	0.84
Issued	1.28	U	101,250	0.80
March 31, 2011	1.17		680,313	0.83

SUPPLEMENTAL DISCLOSURE FOR NON-CASH TRANSACTIONS

- Included in share capital is \$Nil (2010 - \$3,200) representing the fair value of warrants exercised.
- In the first quarter of 2011, 1,250,000 (2010 – 4,118,800) warrants were issued in connection with private placements (see Note 9(b)) are valued at \$192,213 (2010 - \$947,324)). This amount has been recorded as an increase in warrants amount with a corresponding decrease in capital stock.
- In the first quarter of 2011, 101,250 (2010 – 350,000) compensation warrants were issued to agents in connection with private placements (see Note 9 (c)) are valued at \$17,213 (2010 - \$84,000)) This amount has been recorded as an increase in warrants amount with a corresponding increase in share issue costs charged against capital stock.
- In the first quarter of 2011, Nil common shares valued at \$Nil were issued for services in connection with private placements as compared to 118,800 common shares valued at \$59,400 in 2010

12. COMMITMENTS

The Company is committed to various payments under option agreements on certain properties as disclosed in Note 8. It also has future minimum lease payments under operating lease for a premise as well as obligations under a consulting agreement.

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12. COMMITMENTS (Cont'd)

These future minimum committed payments are as follows:

	Amount
2010	506,101
2011	906,433
2012	2,774,934

13. FINANCIAL INSTRUMENTS

Fair Values

The carrying value of cash and short-term investments approximates its fair value due to the liquidity of this instrument. The carrying value of accounts payables and accrued liabilities approximates its fair value due to the requirement to extinguish the liability on demand.

Financial risk management objectives and policies

The financial risk arising from the Group's operations are currency risk and liquidity risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Group's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries. 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 Comprehensive Income. A strengthening of \$0.01 in the Canadian Dollar against the Soles would have increased the net loss by approximately \$374 (2009 - \$6,917) for the year. A \$0.01 weakening of the Canadian against the Sole would have an equal, but opposite, effect. At December 31, 2010, one Canadian Dollar was equal to 2.8217 Soles.

Balances in non-Canadian dollar currencies are as follows:

	Amount
Cash	671,237
Accounts payable and accrued liabilities	(264,317)
	<u>406,920</u>

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 March 31, 2011, the Company had cash and short term investment of \$1,549,275 to settle current liabilities of \$261,251.

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13. FINANCIAL INSTRUMENTS (Cont'd)

Fair Hierarchy and Liquidity Risk

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP.

1. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
2. Level two includes inputs that are observable other than quoted prices included in level one.
3. Level three includes inputs that are not based on observable market data.

All of the Company's cash is a level one as per the fair value hierarchy included in GAAP.

14. 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, 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.

15. SEGMENTED INFORMATION

(a) Reportable Segments:

In 2011 and 2010, the Company has one operating segment in mineral exploration.

(b) Enterprise Wide Disclosure – Geographic Information:

As at March 31, 2011 \$5,574,159 (December 31, 2010 - \$5,231,763) and \$156,299 (December 31, 2010 - \$156,299) of Company's assets were held in Peru and Chile respectively and the balance in Canada.

As at March 31, 2011 \$93,028 (2010 - \$27,677) of Company's equipment was held in Peru and the balance in Canada.

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16. EXPLANATIONS OF TRANSITION TO IFRS

The accounting policies in note 4 have been applied in preparing the condensed interim consolidated financial statements for the quarter ended March 31, 2011 and the preparation of an opening IFRS statement of financial position on January 1, 2010, the Transition Date. An explanation of how the transition from GAAP to IFRS has affected the Group's statement of financial position and statement of comprehensive loss is set out in the following statements.

Reconciliation of assets, liabilities and equity

ASSETS	Note	As at January 1, 2010			As at March 31, 2010			As at December 31, 2010		
		CGAAP	Effect of transition	IFRS	CGAAP	Effect of transition	IFRS	CGAAP	Effect of transition	IFRS
Current assets										
Cash and cash equivalents		1,916,827	-	1,916,827	1,600,309	-	1,600,309	1,418,838	-	1,418,838
Short term investment										
Other receivables		144,884	-	144,884	154,417	-	154,417	290,335	-	290,335
		<u>2,061,711</u>	<u>-</u>	<u>2,061,711</u>	<u>1,754,726</u>	<u>-</u>	<u>1,754,726</u>	<u>1,709,173</u>	<u>-</u>	<u>1,709,173</u>
Non-current assets										
Exploration and evaluation assets		3,625,869	-	3,625,869	3,732,280	(13,619)	3,718,661	4,918,131	(77,679)	4,840,452
Property, plant and equipment		16,667	-	16,667	39,985	-	39,985	33,053	-	33,053
		<u>3,642,536</u>	<u>-</u>	<u>3,642,536</u>	<u>3,772,265</u>	<u>(13,619)</u>	<u>3,758,646</u>	<u>4,951,184</u>	<u>(77,679)</u>	<u>4,873,505</u>
TOTAL ASSETS		<u>5,704,247</u>	<u>-</u>	<u>5,704,247</u>	<u>5,526,991</u>	<u>(13,619)</u>	<u>5,513,372</u>	<u>6,660,357</u>	<u>(77,679)</u>	<u>6,582,678</u>
EQUITY AND LIABILITIES										
Current liabilities										
Accrued liabilities and other payables		233,854	-	233,854	225,000	-	225,000	257,150	-	257,150
TOTAL LIABILITIES		<u>233,854</u>	<u>-</u>	<u>223,854</u>	<u>225,000</u>	<u>-</u>	<u>225,000</u>	<u>257,150</u>	<u>-</u>	<u>257,150</u>
Equity attributable to the equity holders of the company										
Issued share capital		12,214,277	-	12,214,277	12,262,277	-	12,262,277	13,030,148	-	13,030,148
Share warrants		323,325	-	323,325	323,325	-	323,325	2,138,073	-	2,138,073
Share based payment reserve		1,340,145	-	1,340,145	1,492,738	-	1,816,063	1,389,976	-	1,389,976
Accumulated other comprehensive incomes		-	14,472	14,472	-	(853)	(853)	-	(63,207)	(63,207)
Accumulated loss		(8,407,354)	(14,472)	(8,421,826)	(8,776,349)	(14,472)	(8,790,821)	(10,154,990)	(14,472)	(10,169,462)
TOTAL EQUITY		<u>5,470,393</u>	<u>-</u>	<u>5,470,393</u>	<u>5,301,991</u>	<u>(13,619)</u>	<u>5,288,372</u>	<u>6,403,207</u>	<u>(77,679)</u>	<u>6,325,528</u>
TOTAL EQUITY AND LIABILITIES		<u>5,704,247</u>	<u>-</u>	<u>5,704,247</u>	<u>5,526,991</u>	<u>(13,619)</u>	<u>5,513,372</u>	<u>6,660,357</u>	<u>(77,679)</u>	<u>6,582,678</u>

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Reconciliation of loss and comprehensive loss

	3 Months ended March 31, 2010			12 months ended December 31, 2010		
	CGAAP	Effect of transition	IFRS	CGAAP	Effect of transition	IFRS
Operating expenses						
Amortization / Depreciation	296	-	296	5,139	-	5,139
General and administrative expenses	169,069	(35,664)	133,405	750,784	(4,999)	745,785
Write off				77,448	-	77,448
Professional fees	25,105	-	25,105	91,359	-	91,359
Shareholder services	24,349	-	24,349	112,726	-	112,726
		-	152,593	716,128	-	
Share based compensation	152,593					716,128
Total expenses	371,412	(35,664)	335,748	1,753,584	(4,999)	1,748,585
Loss from operations	(371,412)	(35,664)	(335,748)	(1,753,584)	(4,999)	(1,748,585)
Other income / expenses						
Interest income	2,417	-	2,417	5,984	-	5,984
Foreign exchange (loss)	-	(35,664)	(35,664)	-	(4,999)	(4,999)
Loss from continuing operations	(368,995)	-	(368,995)	(1,747,636)	-	(1,747,636)
Other comprehensive income						
Exchange differences on translating foreign operations	--	(13,619)	(13,619)	-	(64,060)	(64,060)
Total comprehensive income, net of tax	(368,995)	(13,619)	(382,614)	(1,747,636)	(64,060)	(1,683,576)

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The following reconciliation provides a quantification of the effect, after taxation, of the transition to IFRS

Reconciliation of equity	Note	As at transition date January 1, 2010	For the 3 months ended March 31, 2010	For the year ended December 31, 2010
Equity previously reported under Canadian GAAP		5,470,393	5,301,991	6,403,207
Items separately disclosed in the shareholders equity				
- Non controlling interest, previously disclosed within accumulated loss		-	-	-
- Accumulated other comprehensive incomes on translation and subsequent transfers		14,472	(853)	(63,207)
- Adjustment to accumulated deficit due to separate disclosure of above items		(14,472)	853	63,207
		<u>5,470,393</u>	<u>5,301,991</u>	<u>6,403,207</u>
Adjustment upon adoption of IFRS				
- Differences arising from applying the closing rate for all reporting periods to non-monetary assets		-	(13,619)	(77,679)
- Differences arising from applying the closing rate for all reporting periods to non-monetary liabilities		-	-	-
Equity reported under IFRS		<u>5,470,393</u>	<u>5,288,372</u>	<u>6,325,528</u>

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Restatement of statement of cash flows from Canadian GAAP to IFRS

The restatement from Canadian GAAP to IFRS had no significant effect on the reported cash flows generated by the Group. The reconciling items between Canadian GAAP and IFRS presentation have no net effect on the cash flows generated.

Notes to reconciliation

IFRS 1 – First-time Adoption of International Financial Reporting Standards (“IFRS”) sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Group had adjustments to its balance sheet at January 1, 2010, March 31, 2010 and December 31, 2010 and to its income statements for periods ended March 31, 2010 and December 31, 2010:

a) Functional currency and foreign operations

IFRS requires that the functional currency of each entity in the consolidated Group be determined separately in accordance with the indicators as per IAS 21 – *Foreign exchange* and should be measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The functional currency of some companies of the Group is the Peruvian Sole (“Soles”). The consolidated financial statements are presented in Canadian dollars (“\$”) which is the group’s presentation currency. Under IFRS, the results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

As a result of the application of the translation rules contained in IAS 21, for the period ended March 31, 2011, non-monetary assets, which includes property and equipment and exploration and evaluation assets, will decrease by \$77,679 with a corresponding adjustment to the accumulated other comprehensive income.

b) Share-based payment transactions

The fair value of share options under the employee share incentive schemes and other equity instruments granted to Group employees is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and expensed over the period during which the employee becomes unconditionally entitled to the equity instruments. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

The fair value of the instruments granted is measured using the Black-Scholes option pricing formula, taking into account the terms and conditions upon which the instruments are granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

This accounting policy has been applied to all equity instruments granted after November 7, 2002 that has not yet vested at January 1, 2005.

As under IFRS 2, Canadian GAAP also requires the Company to measure stock-based compensation related to stock-options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the option.