

**ESTRELLA GOLD CORPORATION**  
(formerly “Canadian Shield Resources Ltd.”)

**Consolidated Financial Statements**

**For the Years Ended December 31, 2010 and 2009**

# ESTRELLA GOLD CORPORATION

(Formerly "Canadian Shield Resources Ltd.")

December 31, 2010 and 2009

## CONTENTS

	<u>Page</u>
Auditors' Report	3
Consolidated Balance Sheets	4
Consolidated Statements of Deficit	5
Consolidated Statements of Operations	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

## **INDEPENDENT AUDITORS' REPORT**

### **To the Shareholders of Estrella Gold Corporation**

We have audited the accompanying consolidated financial statements of Estrella Gold Corporation which comprise of the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss and deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Estrella Gold Corporation as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Collins Barrow Toronto LLP*

Licensed Public Accountants  
Chartered Accountants  
April 28, 2011  
Toronto, Ontario

# ESTRELLA GOLD CORPORATION

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

As at December 31	2010	2009
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 417,575	\$ 1,916,827
Short-term investment	1,001,263	-
Sundry assets	290,335	144,884
	1,709,173	2,061,711
<b>Equipment, net</b> (note 4)	<b>33,053</b>	16,667
<b>Mining properties and deferred exploration expenditures</b> (note 5)	<b>4,918,131</b>	3,625,869
	\$ 6,660,357	\$ 5,704,247
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 257,150	\$ 233,854
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 9)	<b>13,030,148</b>	12,214,277
<b>Warrants</b> (note 9)	<b>1,389,976</b>	323,325
<b>Contributed surplus</b> (note 9)	<b>2,138,073</b>	1,340,145
<b>Deficit</b>	<b>(10,154,990)</b>	(8,407,354)
	<b>6,403,207</b>	5,470,354
	\$ 6,660,357	\$ 5,704,247

## **Related party transactions (Note 6)**

## **Commitments (Note 11)**

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

\_\_\_\_\_  
"Bernard Kraft"  
Director (Signed)

\_\_\_\_\_  
"Keith Laskowski"  
Director (Signed)

# ESTRELLA GOLD CORPORATION

(formerly "Canadian Shield Resources Ltd.")

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31	2010	2009
<b>Expenses</b>		
Interest	\$ (5,948)	\$ 26,481
Amortization	5,139	3,570
Mining property and exploration expenditures written off (note 5)	77,448	-
Professional fees	91,359	88,767
Shareholder services	112,726	124,379
Stock-based compensation	716,128	349,579
General and administrative	750,784	616,686
	<b>1,747,636</b>	1,209,462
Loss before the undernoted items	<b>(1,747,636)</b>	(1,209,462)
<b>Other income (expenses)</b>		
Allocation of loss to non-controlling interest	-	27,626
<b>Net loss and comprehensive loss</b>	<b>(1,747,636)</b>	(1,181,836)
<b>Deficit, beginning of year</b>	<b>(8,407,354)</b>	(7,225,518)
<b>Deficit, end of year</b>	<b>\$ (10,154,990)</b>	\$ (8,407,354)
<b>Loss per share</b>		
Basic and diluted	\$ (0.14)	\$ (0.19)
<b>Weighted average number of common shares outstanding</b>		
Basic and diluted	<b>12,149,507</b>	6,303,072

See accompanying notes to consolidated financial statements.

# ESTRELLA GOLD CORPORATION

(formerly "Canadian Shield Resources Ltd.")  
Consolidated Statements of Cash Flows

For the years ended December 31	2010	2009
<b>Cash flows (used in):</b>		
<b>Operations</b>		
Net loss	\$ (1,747,636)	\$ (1,181,836)
Items not affecting cash		
Amortization	5,139	3,570
Stock-based compensation	716,128	349,579
Mining property and exploration expenditure written off	77,448	-
Shares issued for loans payable interest	-	19,203
Shares issued for services	-	40,000
Allocation of loss to non-controlling interest	-	(27,626)
	<b>(948,921)</b>	<b>(797,110)</b>
Net changes in non-cash working capital		
Sundry assets	(145,451)	(59,096)
Accounts payable and accrued liabilities	23,297	(439,404)
	<b>(1,071,075)</b>	<b>(1,295,610)</b>
<b>Investing</b>		
Equipment, net	(21,525)	(1,745)
Mining properties and deferred exploration expenditures	(1,369,710)	(683,075)
Short-term investment	(1,001,263)	-
	<b>(2,392,498)</b>	<b>(684,820)</b>
<b>Financing</b>		
Capital stock, net of share issuance costs	1,964,321	3,864,494
<b>Net change in cash</b>	<b>(1,499,252)</b>	<b>1,884,064</b>
<b>Cash, beginning of year</b>	<b>1,916,827</b>	<b>32,763</b>
<b>Cash, end of year</b>	<b>\$ 417,575</b>	<b>\$ 1,916,827</b>

**Supplemental disclosure (Note 10)**

See accompanying notes to consolidated financial statements.

**Estrella Gold Corporation**  
**(formerly Canadian Shield Resources Ltd.)**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**1. NATURE OF OPERATIONS**

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

The Company's principal assets are mining claims and deferred exploration expenditures made with respect to properties which are not in commercial production. 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.

As is common with exploration companies, the Company is dependent upon obtaining necessary equity financing from time to time to finance its ongoing and planned exploration activities and to cover administrative costs.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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

**Financial Instruments**

All financial instruments are recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held to maturity, loans and receivables, held for trading, available for sale or other liability.

**Financial Assets**

Held for trading assets are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Held to maturity assets are subsequently measured at amortized cost using the effective interest rate method.

Loans and receivables are subsequently measured at amortized cost using the effective interest rate method.

Available for sale assets are subsequently measured at fair value with the changes in fair value recorded in other comprehensive income, except for equity instruments without a quoted market price which are measured at cost.

**Estrella Gold Corporation**  
**(formerly Canadian Shield Resources Ltd.)**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Financial Instruments (Cont'd)**

Financial Liabilities

Held for trading liabilities are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Held for trading
Short-term investment	Held for trading
Accounts payable and accrued liabilities	Other liabilities

**Comprehensive Income**

Comprehensive income measures net earnings for the period plus other comprehensive income. Other comprehensive income consists of changes to unrealized gains and losses on available for sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self sustaining foreign operations during the period. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income. To date there has not been any other comprehensive income.

**Equipment**

Equipment is recorded at cost and is amortized over its estimated useful life on a declining basis at rates ranging from 10% to 20% per annum.

**Mining Properties and Deferred Exploration Expenditures**

All direct costs related to the acquisition and exploration and development of specific properties are capitalized as incurred. If a property is brought into production, these costs will be amortized against the income generated from the property. If a property is abandoned, sold or impaired, an appropriate charge will be made. Discretionary option payments arising on the acquisition of mining properties are only recognized when paid. Amounts received from other parties to earn an interest in the Company's mining properties are applied as a reduction of the mining property and deferred exploration costs, except for administrative reimbursements which are credited to operations. Recoveries in excess of the mining property and deferred exploration costs are recorded as income in the statement of operations.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Mining Properties and Deferred Exploration Expenditures (Cont'd)**

The amounts shown for mining claims and related deferred costs represent costs incurred to date, less amounts expensed and reimbursements, and do not necessarily reflect present or future values of the particular properties. The recoverability of these costs is dependent upon discovery of economically recoverable reserves and future production or proceeds from the disposition thereof.

(a) Impairment

Management reviews the carrying values of mining property acquisition costs and deferred exploration expenditures to assess whether there has been any impairment in value, whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. In the event that management determines the carrying values of any mining property to be permanently impaired, the carrying value will be written down or written off, as appropriate. Management considers the guidance in EIC 174 when determining whether or not its mining properties are impaired.

(b) Title

Ownership in mineral properties involves certain risks due to the difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests. The Company has investigated the ownership of its mineral properties and, to the best of its knowledge, ownership of its interests are in good standing.

**Impairment of Equipment**

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

**Stock-based Compensation and Other Stock-based Payments**

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments to employees are measured at the fair value of the equity instruments issued and to non-employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of tax losses available to be carried forward to future years. Future income tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

**Basic and Diluted Loss Per Share**

Loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method. The conversion effect of warrants and stock options to calculate diluted weighted average number of common shares is not included when the impact is anti-dilutive.

**Asset Retirement Obligations**

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

**Foreign Currency Translation**

The operations of the Company's subsidiaries are considered to be of an integrated nature. Accordingly, all monetary assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing as at the consolidated balance sheet dates. Non monetary assets and liabilities are translated at historical exchange rates applicable at the transaction dates. Revenues and expenses are translated at the average exchange rate for the year. Foreign exchange gains and losses on transactions occurring during the year and on the year end translation of the accounts of subsidiaries are reflected in operations.

**Share Issuance Costs**

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

**Use of Estimates**

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles has required management to make various estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities and revenue and expenses for each year presented. Actual results may differ from those estimates. Significant areas requiring the use of management estimates relate to assessing impairment relating to mineral properties and deferred exploration expenditures, valuation of warrants and options and other stock-based payments, valuation allowance on future tax assets and the fair values of financial instruments.

**Estrella Gold Corporation**  
**(formerly Canadian Shield Resources Ltd.)**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**3. CHANGE IN ACCOUNTING POLICIES**

**Recent Accounting Pronouncements Issued and Not Yet Applied**

**International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable entities will be required to adopt International Financial Reporting Standards ("IFRS"). The Company must prepare its interim and annual financial statements in accordance with IFRS for periods beginning on January 1, 2011.

**Business Combinations, Consolidated Financial Statements and Non-Controlling Interests**

In January 2009, the Canadian Institute of Chartered Accountants has recently issued CICA Handbook section 1582, Business Combinations, section 1601, Consolidated Financial Statements, and section 1602, Non-Controlling Interests. These new sections replace the currently existing standards in CICA Handbook section 1581, Business Combinations, and section 1600, Consolidated Financial Statements. These new standards are effective for fiscal periods beginning on or after January 1, 2011, however, early adoption is permitted. These standards are harmonized with international financial reporting standards.

Section 1582 amends the standards for measurement, presentation and disclosure of a business combination. A number of changes are specified, including an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses.

These standards will require a change in the measurement and presentation of non-controlling interest. As a result of these changes, net earnings will include 100% of the subsidiary's results and non-controlling interest will be presented as part of shareholders' equity on the balance sheet.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

**4. EQUIPMENT**

	<b>2010</b>	2009
Office equipment		
Cost	\$ 85,068	\$ 56,632
Less: Accumulated amortization	(52,015)	(39,965)
	<b>\$ 33,053</b>	<b>\$ 16,667</b>

**Estrella Gold Corporation**  
(formerly Canadian Shield Resources Ltd.)  
Notes to Consolidated Financial Statements  
December 31, 2010 and 2009

**5. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

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

	December 31, 2009	Deferred (Recovered) Exploration Expenditures	Expensed or Written Off	December 31, 2010
Peru:				
Colpayoc	\$ 707,833	\$ 669,097	\$ -	\$ 1,376,930
La Estrella	927,298	143,567	-	1,070,865
Cerro Cori	384,390	66,387	-	450,777
Pampa Poroma	237,060	62,145	-	299,205
Ccello Ccello*	562,317	55,968	-	618,285
Apune-Pucarana	540,930	36,909	-	577,839
La Tola*	105,763	35,524	-	141,287
Isy	-	30,853	-	30,853
Yanque	-	27,808	-	27,808
Sense	-	17,997	-	17,997
Other	17,756	209,679	(77,448)	149,987
Chile:				
Trol	142,522	13,776	-	156,298
	\$ 3,625,869	\$ 1,369,710	\$ (77,448)	\$ 4,918,131

	December 31, 2008	Deferred (Recovered) Exploration Expenditures	Expensed or Written Off	December 31, 2009
Peru:				
Colpayoc	\$ 312,994	\$ 394,839	\$ -	\$ 707,833
La Estrella	866,036	61,262	-	927,298
Cerro Cori	325,327	59,063	-	384,390
Pampa Poroma	194,042	43,018	-	237,060
Ccello Ccello*	507,629	54,688	-	562,317
Apune-Pucarana	503,465	37,465	-	540,930
La Tola*	73,023	32,740	-	105,763
Other	17,756	-	-	17,756
Chile:				
Trol	142,522	-	-	142,522
	\$ 2,942,794	\$ 683,075	\$ -	\$ 3,625,869

\*These two properties were combined in 2010.

**5. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)**

**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 project.

**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.

**5. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)**

**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.

Subsequent to year end, Estrella Gold established a Joint Venture with Cliffs Natural Resources Exploration Inc. for the exploration and potential development of the Pampa Poroma project, see Note 15.

**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.

**5. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)**

**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.

Subsequent to year end, 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 Ccello. The formal agreement extends the timing of the payments noted above to February 14, 2015. 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.

**Estrella Gold Corporation**  
**(formerly Canadian Shield Resources Ltd.)**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**5. MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)**

**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.

**Sense**

Also acquired during 2010, the Sense Property contains 3,500 hectares and is located 20 km south of the Chucapaca gold discovery, which is the newest gold discovery in Peru. The Sense property contains regional LANDSAT alteration anomalies, favourable structural/fault zones, and elevated gold concentrations in stream sediment samples reported by regional surveys conducted by the Government of Peru. 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.

**Trol**

Trol property ("Trol") consists of 100 hectares located in Region 9, Quadrangle Malalhue, Chile. Trol was originally acquired through the acquisition of Anderson Peru Mining and Exploration SAC.

During 2010 Estrella Gold submitted applications for eight additional claims covering 2,200 hectares of land surrounding the initial license making Trol a viable gold exploration project.

Trol mineral exploration license is held in good standing while the Company seeks a joint venture partner for this property.

**6. RELATED PARTY TRANSACTIONS**

During the year, the Company had the following transactions with related parties made in the normal course of operations and are accounted for at an amount of consideration established and agreed to by the Company and the related parties.

	<b>2010</b>	<b>2009</b>
Administration, rent, office charges, and telecommunication paid to a corporation with a director in common	\$ <b>84,085</b>	\$ 78,375
Consulting fees paid to corporations controlled by directors and/or officers	\$ <b>289,616</b>	\$ 248,663
Interest paid to directors and shareholders	\$ -	\$ 21,319
Accounts payable to directors and shareholders	\$ <b>56,069</b>	\$ 58,342

**Estrella Gold Corporation**  
**(formerly Canadian Shield Resources Ltd.)**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**7. FOREIGN EXCHANGE GAIN OR LOSS**

Included in general and administrative is a foreign exchange loss of approximately \$2,706 (2009 – gain of \$100,562) relating to the changes in currency translation rates in respect of the Company's activities denominated in foreign currencies.

**8. INCOME TAXES**

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

	2010	2009
Combined basic Canadian federal and provincial income tax rate	31.0%	31.0%
Effective income tax charge (recovery) on income (loss) before income taxes	\$ (532,000)	\$ (337,000)
Increase (decrease) resulting from:		
Change in the valuation allowance for future tax assets allocated to income tax expense	140,000	107,000
Change in future tax rate and other	56,000	133,000
Non-deductible items and other	220,000	97,000
Expired non-capital losses	116,000	-
	\$ -	\$ -

The tax effects of temporary differences that give rise to significant portion of the future tax assets and future tax liabilities as at December 31, 2010 and 2009 are as follows:

	2010	2009
Future tax assets		
Tax losses carry forward	\$ 1,782,000	\$ 1,646,000
Share issue costs and other	50,000	46,000
	1,832,000	1,692,000
Less: Valuation allowance	(1,832,000)	(1,692,000)
	\$ -	\$ -

The Company has approximately \$7,117,000 of tax losses that expire between 2014 and 2029 as follows:

2014	395,000
2015	680,000
2026	480,000
2027	903,000
2028	2,800,000
2029	865,000
2030	994,000
	\$ 7,117,000

**Estrella Gold Corporation**  
**(formerly Canadian Shield Resources Ltd.)**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**9. CAPITAL STOCK, OPTIONS, WARRANTS AND CONTRIBUTED SURPLUS**

**(a) Capital Stock**

Authorized

Unlimited number of common shares

Common shares - issued and outstanding:

	<b>Number</b>	<b>Amount</b>
<b>Balance, January 1, 2009</b>	<b>52,045,455</b>	<b>\$ 8,007,536</b>
Share Consolidation: 20:1 <sup>(i)</sup>	(49,443,180)	-
Issued:		
Issuance of shares for debt settlement <sup>(ii)</sup>	3,985,259	617,715
Less: Share issue costs	-	(10,583)
Private placement <sup>(iii)</sup>	1,062,500	850,000
Less: Share issue costs <sup>(iii)</sup>	-	(50,900)
Less: Warrants <sup>(iii)</sup>	-	(85,000)
Issuance of shares <sup>(iv)</sup>	43,011	40,000
Less: Share issue costs	-	(1,450)
Private placement <sup>(v)</sup>	1,625,000	1,300,000
Less: Share issue costs <sup>(v)</sup>	-	(152,079)
Less: Warrants <sup>(v)</sup>	-	(120,000)
Options exercised	30,000	22,857
Private placement <sup>(vi)</sup>	2,500,000	2,000,000
Less: Share issue costs <sup>(vi)</sup>	-	(103,819)
Less: Warrants <sup>(vi)</sup>	-	(100,000)
<b>Balance, December 31, 2009</b>	<b>11,848,045</b>	<b>\$ 12,214,277</b>
Warrants exercised	40,000	48,000
Fair value of warrants exercised	-	3,200
Private placement <sup>(vii)</sup>	2,118,800	1,059,400
Less: Share issue costs <sup>(vii)</sup>	-	(189,850)
Less: Warrants <sup>(vii)</sup>	-	(487,324)
Private placement <sup>(viii)</sup>	2,000,000	1,000,000
Less: Share issue costs <sup>(viii)</sup>	-	(157,555)
Less: Warrants <sup>(viii)</sup>	-	(460,000)
<b>Balance December 31, 2010</b>	<b>16,006,845</b>	<b>\$ 13,030,148</b>

- (i) On March 11, 2009, the Company consolidated its common share capital on the basis of one post-consolidation common share for every twenty pre-consolidated common shares held. The 52,045,455 pre-consolidation common shares of the Company were reduced to approximately 2,602,273 post-consolidation common shares. No fractional shares were issued. Outstanding stock options and warrants were similarly adjusted.

**9. CAPITAL STOCK, OPTIONS, WARRANTS AND CONTRIBUTED SURPLUS (Cont'd)**

**(a) Capital Stock (Cont'd)**

- (ii) On May 8, 2009, the Company issued 3,985,259 common shares at a price of \$0.155 per share to settle outstanding debts totaling \$617,715. Common shares issued are subject to restrictions on resale under securities laws in force in Canada, which restrictions expired on August 24, 2009, and are subject to contractual restrictions on disposition under a voluntary agreement amongst the Settlement Shareholders (the "Lock-Up & Leak-Out Covenant"), which provides that these shares will be deposited in escrow, with an escrow agent to be designated, and not sold prior to release of such shares from escrow. Under the Lock-Up & Leak-Out Covenant these shares were/will be released pro rata to the Settlement Shareholders on August 24, 2009 as to 548,904 of such shares; on the 24th days of December, 2009, April, 2010, August, 2010, December, 2010, April, 2011, and August, 2011, as to 478,231 of such shares; and on December 24, 2011, as to 566,969 of such shares.
- (iii) On July 10, 2009, the Company issued 1,062,500 units at \$0.80 per unit for gross proceeds of \$850,000. Each unit comprised of one common share and one non-transferable Warrant. Each Warrant entitles the holder to purchase one additional common share at \$1.20 per share until July 10, 2010. The Warrant is callable, at the option of Estrella Gold, after November 10, 2009 in the event its common shares trade at or over \$1.60 per share for 10 consecutive trading days. The value attributable to the warrants, being 10% of the total proceeds, in the amount of \$85,000 has been allocated to warrants. In connection with the financing, the Company agreed to pay finders fees of \$44,500, representing 10% of the gross proceeds from the units placed by qualified finders. The 1,062,500 common shares issued under the private placement and any shares issuable upon the exercise of the Warrants were subject to a four month regulatory hold period.
- (iv) On August 10, 2009, the Company issued 43,011 common shares at \$0.93 per common share for gross proceeds of \$40,000. The common shares were issued as a result of a share for services arrangement approved at the annual shareholders' meeting.
- (v) On September 28, 2009, the Company issued 1,500,000 units at \$0.80 per unit for gross proceeds of \$1,200,000. Each unit 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 September 24, 2011. The warrant is callable, at the option of the Company after January 26, 2010, if the closing price of the common shares is at least \$1.60 for 10 consecutive trading days. The value attributable to the warrants, being 10% of the total proceeds, in the amount of \$120,000 has been allocated to warrants. If the Company elects to call the Warrants, it has 5 trading days to give notice of acceleration of the expiry date to the holders of the Warrants and the holders of the unexercised warrants have 20 trading days to exercise their warrants, failing which the unexercised warrants shall expire.

In connection with the financing, the Company agreed to pay a finder's fee of 125,000 units, valued at \$100,000, (comprising 125,000 common shares and 125,000 compensation warrants), representing 10% of the units sold to the purchasers introduced by a finder and a finder's fee of \$12,000, representing 10% of the gross proceeds of the units sold to a purchaser introduced by another finder. The value attributable to the compensation warrants, being 10% of the total proceeds, in the amount of \$10,000 has been included in share issuance costs and allocated to warrants.

All shares issued in connection to this private placement and any common shares issuable upon the exercise of warrants are subject to a 4 months regulatory hold period.

**9. CAPITAL STOCK, OPTIONS, WARRANTS AND CONTRIBUTED SURPLUS (Cont'd)**

**(a) Capital Stock (Cont'd)**

- (vi) On December 30, 2009, the Company issued 2,500,000 units at \$0.80 per unit gross proceeds of \$2,000,000, of which \$39,600 is a share subscription receivable that was received subsequent to year end in full. Each unit is comprised of one common share and one-half of a non-transferable warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$1.20 per share until June 28, 2011. The warrant is callable, at the option of the Company, after April 30, 2010, in the event its common shares trade at or over \$1.60 per share for 10 consecutive trading days. The value attributable to the warrants, being 5% of the total proceeds, in the amount of \$100,000 has been allocated to warrants. If the Company elects to call the warrants, it has 5 trading days to give notice of acceleration of the expiry date to the holders of the warrants and the holders of the unexercised warrants have 20 trading days to exercise their warrants, failing which the unexercised warrants shall expire.

In connection with the financing, the Company agreed to pay 5% cash finders' fees in the aggregate of \$83,250 in respect of the gross proceeds from the sale of 2,081,250 units and to issue an aggregate of 104,063 non-transferable compensation warrants representing 5% of the 2,081,250 units sold to the purchasers introduced by qualified finders. Each compensation warrant entitles the holder to purchase one common share at an exercise price of \$1.20 per share until June 28, 2011. The compensation warrants are callable, at the option of the Company, after April 30, 2010 on the same terms as the warrants. The value attributable to the compensation warrants, in the amount of \$8,325 has been allocated to warrants.

The 2,500,000 common shares issued under the private placement and any common shares issuable upon the exercise of the 1,250,000 warrants and the 104,063 compensation warrants are subject to a 4 month regulatory hold period.

- (vii) 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.

**Estrella Gold Corporation**  
**(formerly Canadian Shield Resources Ltd.)**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**9. CAPITAL STOCK, OPTIONS, WARRANTS AND CONTRIBUTED SURPLUS (Cont'd)**

**(a) Capital Stock (Cont'd)**

(viii) 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.

**(b) Contributed Surplus**

	<b>Amount</b>
Balance, January 1, 2009	\$ 952,619
Stock-based compensation	349,579
Warrants expired	45,804
Stock options exercised	(7,857)
<b>Balance, December 31, 2009</b>	<b>\$ 1,340,145</b>
Stock-based compensation	716,128
Warrants expired	81,800
<b>Balance, December 31, 2010</b>	<b>\$ 2,138,073</b>

**(c) Stock Option Plan**

In 2001, the Company established a stock option plan (the "2001 Plan") whereby the directors could grant options to directors, employees and consultants to the Company. During 2009 the 2001 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.

**Estrella Gold Corporation**  
(formerly Canadian Shield Resources Ltd.)  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**9. CAPITAL STOCK, OPTIONS, WARRANTS AND CONTRIBUTED SURPLUS (Cont'd)**

**(c) Stock Option Plan (Cont'd)**

The following summarizes the options outstanding:

	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2009	349,500	\$ 2.80
Granted	952,500	0.92
Cancelled	(40,750)	4.02
Exercised	(30,000)	0.50
<b>Outstanding, December 31, 2009</b>	<b>1,231,250</b>	<b>\$ 1.35</b>
Granted	630,000	0.75
Expired	(264,917)	1.57
<b>Outstanding, December 31, 2010</b>	<b>1,596,333</b>	<b>\$ 1.08</b>
<b>Options exercisable, end of year</b>	<b>1,154,667</b>	<b>\$ 1.12</b>

An amount of \$0 (2009 - \$7,857) was transferred from contributed surplus to share capital upon exercise of options. The following table summarizes information about stock options outstanding at December 31, 2010:

Options Exercisable			Options Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$0.50 – 1.00	963,334	2.12	\$ 0.85	1,405,000	\$ 0.89
\$2.00 – 2.60	157,833	2.47	\$ 2.06	157,833	\$ 2.06
\$3.40 – 5.60	33,500	1.28	\$ 4.41	33,500	\$ 4.41
	<b>1,154,667</b>			<b>1,596,333</b>	

**(d) Fair Value of Options**

The weighted average grant-date fair value of stock options granted to employees and directors during 2010 has been estimated at \$0.64 (2009 - \$0.93) 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 2.31% (2009 – 1.98%), weighted average expected dividend yields of NIL (2009 - NIL), weighted average expected common stock price volatility of 248% (2009 – 233%) and a weighted average expected life of 3.2 years (2009 – 4.77 years).

**Estrella Gold Corporation**  
(formerly Canadian Shield Resources Ltd.)  
Notes to Consolidated Financial Statements  
December 31, 2010 and 2009

**9. CAPITAL STOCK, OPTIONS, WARRANTS AND CONTRIBUTED SURPLUS (Cont'd)**

**(e) Warrants**

	<b>Amount</b>
Balance, January 1, 2009	\$ 45,804
Warrants issued	323,325
Warrants expired	(45,804)
<b>Balance, December 31, 2009</b>	<b>\$ 323,325</b>
Warrants exercised	(3,200)
Warrants issued	1,151,651
Warrants expired	(81,800)
<b>Balance, December 31, 2010</b>	<b>\$ 1,389,976</b>

The above balances include warrants and compensation warrants as summarized below:

Warrants outstanding:

	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Series</b>	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
January 1, 2009	0.46		52,675	\$ 6.57
Expired		M	(27,500)	8.00
Expired		O	(25,175)	5.00
Issued	0.52	P	1,062,500	1.20
Issued	1.73	Q	1,500,000	1.20
Issued	1.49	R	1,250,000	1.20
<b>December 31, 2009</b>	<b>1.31</b>		<b>3,812,500</b>	<b>\$ 0.80</b>
Expired		P	(40,000)	1.20
Expired		P	(1,022,500)	1.20
Issued	1.88	S	2,118,800	0.80
Issued	1.93	T	2,000,000	0.80
<b>December 31, 2010</b>	<b>1.39</b>		<b>6,868,800</b>	<b>\$ 0.96</b>

Compensation warrants outstanding:

	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Series</b>	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
January 1, 2009 and 2010	1.62		229,063	\$ 1.20
Issued	1.88	S	198,000	0.60
Issued	1.93	T	152,000	0.60
<b>December 31, 2010</b>	<b>1.79</b>		<b>579,063</b>	<b>\$ 0.84</b>

**Estrella Gold Corporation**  
**(formerly Canadian Shield Resources Ltd.)**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**10. SUPPLEMENTAL DISCLOSURE FOR NON-CASH TRANSACTIONS**

- (a) Included in share capital is \$0 (2009 - \$7,857) representing the fair value of stock options exercised (see Note 9(a) and (b)).
- (b) Included in share capital is \$3,200 (2009 – Nil) representing the fair value of warrants exercised.
- (c) In 2010, 4,118,800 (2009 – 3,812,500) warrants were issued in connection with private placements (see Note 9(a) are valued at \$947,324 (2009 - \$305,000)). This amount has been recorded as an increase in warrants amount with a corresponding decrease in capital stock.
- (d) In 2010, 350,000 (2009 – 229,063) compensation warrants were issued to agents in connection with private placements (see Note 9 (a) are valued at \$204,326 (2009 - \$18,325)) This amount has been recorded as an increase in warrants amount with a corresponding increase in share issue costs charged against capital stock.
- (e) In 2009, 3,985,259 common shares valued at \$617,715 were issued in connection with conversion of loan and accounts payable and accrued liability balances (see Note 10(a)) as compared to NIL in 2010.
- (f) In 2009, 43,011 common shares valued at \$40,000 were issued in connection with the terms of a consulting agreement (see Note 9(a)) as compared to NIL in 2010.
- (g) In 2010, 118,800 common shares valued at \$59,400 were issued for services in connection with private placements as compared to 125,000 common shares valued at \$100,000 in 2009.

**11. COMMITMENTS**

The Company is committed to various payments under option agreements on certain properties as disclosed in Note 5. It also has future minimum lease payments under operating lease for a premise as well as obligations under a consulting agreement.

These future minimum committed payments are as follows:

2011	906,433
2012	2,774,934
<hr/>	
	<b>3,681,367</b>
<hr/>	

**Estrella Gold Corporation**  
**(formerly Canadian Shield Resources Ltd.)**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**12. FINANCIAL INSTRUMENTS**

**(a) Fair Values**

The carrying value of cash and short-term investment 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 short-term to maturity.

**(b) Risk Management**

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

**(i) Currency Risk**

The Company operates internationally and is exposed to foreign exchange risk as certain expenditures are denominated in non-Canadian dollar currencies. The exposure is predominantly to the Peruvian New Soles ("Soles"). Soles denominated balances generate foreign exchange gains and losses that are reported on the Statement of Operations. A strengthening of \$0.01 in the Canadian Dollar against the Soles would have increased the net loss by approximately \$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:

	<b>Peruvian New Soles</b>
Cash	\$ 601,717
Accounts payable and accrued liabilities	(304,893)
	<b>\$ 296,824</b>

**(ii) Liquidity Risk**

The Company manages its liquidity risk by preparing and monitoring forecasts of cash expenditures to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities generally have maturities of less than 90 days. At December 31, 2010, the Company had cash and short-term investment of \$1,418,838 to settle current liabilities of \$257,151.

## **12. FINANCIAL INSTRUMENTS**

### **(c) Fair Value 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 on the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP.

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

All of the Company's cash is in level one and short-term investments are in level two as per the fair value hierarchy included in GAAP.

## **13. 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. At December 31, 2010 this amount was \$6,403,207 (2009 – 5,470,247).

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

## **14. SEGMENTED INFORMATION**

### **(a) Reportable Segments:**

In 2010 and 2009, the Company has one operating segment in mineral exploration.

### **(b) Enterprise Wide Disclosure – Geographic Information:**

As at December 31, 2010 \$5,231,763 (2009 - \$3,686,825) and \$156,299 (2009 - \$142,522) of Company's assets were held in Peru and Chile respectively and the balance in Canada.

As at December 31, 2010 \$27,677 (2009 - \$5,515) of Company's equipment was held in Peru and the balance in Canada.

**15. SUBSEQUENT EVENTS**

- (a) Subsequent to the year end, the Company signed a Formal Agreement with Cliffs Natural Resources Exploration Inc. establishing an exploration alliance (the "Alliance") to explore for Iron Oxide Copper Gold deposits in southern Peru. Cliffs Natural Resources Exploration Inc. ("Cliffs"), is an international mining and natural resources company. The term of the Alliance is two years, commencing on February 9, 2011 and provides for subsequent exploration of new properties acquired within the Alliance.

Estrella will be the operator of the Alliance and Cliffs will provide all funding with \$400,000 per year for regional exploration. The Alliance will focus on the discovery of Iron Oxide Copper Gold deposits ("IOCG"), a type of deposits present in Peru and Chile. Each new property will be held in a jointly owned company (50:50) and Cliffs will have an exclusive right to acquire up to 80% interest in each property. Prospective properties with a minimum of \$50,000 in expenditures will be nominated to Cliffs as a "Property of Merit". Any "Property of Merit" accepted by Cliffs then becomes a Project for Continued Exploration ("Project") with Cliffs and Estrella each owning a 50% interest. Any Property of Merit which is declined by Cliffs shall become 100% owned by Estrella.

Cliffs can acquire an additional 20% interest in selected Projects, to a total 70% by spending a minimum of \$4,000,000 and completing 3,000 meters of drilling within four years of selection. Cliffs will be required to expend a firm commitment of \$500,000. Cliffs can acquire an additional 10% interest to a total of 80% in selected Projects by completing a NI 43-101 Compliant Pre-Feasibility Study or by defining a compliant Mineral Resource containing a minimum of 1,000,000 ounces of gold or gold equivalent, within four years of earning its 70% interest. If Cliffs elects not to earn an additional 10% interest, Cliffs will pay Estrella \$2,000,000 within 60 days and the parties will fund their proportional interest, subject to conventional dilution. If either Party's interest is reduced to 10%, that interest will be converted to a 2% NSR royalty. The Agreement also provides Cliffs with the option to acquire up to an 80% interest in the Company's Pampa Poroma property, subject to the same terms described above, except Cliffs must spend a minimum of \$2,000,000 within two years to earn its initial 50% interest.

- (b) In addition, subsequent to the end of the year, Estrella Gold completed a non-brokered private placement offering of 1,250,000 units (each a "Unit") at \$0.80 per Unit for gross proceeds of \$1,000,000 (the "Financing").

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.

**15. SUBSEQUENT EVENTS**

- (c) The Company, subsequent to the year end, granted 665,000 incentive stock options on January 20, 2011. Of the 665,000 stock options awarded, 475,000 were granted as performance incentives to two current directors and one officer of the Company. The remaining 190,000 stock options were awarded to the Company's staff and consultants. The stock options have an exercise price of \$1.10 per share and vest quarterly over an 18-month period expiring January 20, 2014. All options granted and any common shares issued upon the exercise of the options will be subject to a statutory four-month hold period expiring May 20, 2011.