

Consolidated Financial Statements

CANADIAN SHIELD RESOURCES INC.
(AN EXPLORATION STAGE ENTITY)
December 31, 2007 and 2006

CANADIAN SHIELD RESOURCES INC.

(AN EXPLORATION STAGE ENTITY)

December 31, 2007 and 2006

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AUDITORS' REPORT

To the Shareholders of

Canadian Shield Resources Inc.

We have audited the consolidated balance sheets of Canadian Shield Resources Inc. as at December 31, 2007 and 2006, and the consolidated statements of operations, deficit, and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material aspects, the financial position of the corporation as at December 31, 2007 and 2006, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

DMCT, LLP

Toronto, Ontario

LICENSED PUBLIC ACCOUNTANTS

March 7, 2008

CANADIAN SHIELD RESOURCES INC.

(AN EXPLORATION STAGE ENTITY)

Consolidated Balance Sheets

As at December 31	2007	2006
Assets		
Current assets:		
Cash	\$ 127,890	\$ 9,723
Sundry assets	116,268	12,994
	244,158	22,717
Property and equipment, net (note 5)	21,978	19,560
Mining properties and deferred exploration expenditures (note 6)	4,061,293	3,045,342
	\$ 4,327,429	\$ 3,087,619

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 207,535	\$ 177,144
Loan payable (note 7)	-	101,512
	207,535	278,656
Non-controlling interest	27,626	24,792
Shareholders' equity:		
Capital stock (note 10)	7,619,242	5,594,888
Warrants	8,041	56,003
Contributed surplus (note 10(b))	878,516	611,031
Deficit	(4,413,531)	(3,477,751)
	4,092,268	2,784,171
	\$ 4,327,429	\$ 3,087,619

Commitments and contingencies (note 13)

See accompanying notes to consolidated interim financial statements.

Approved on behalf of the Board:

Director

Director

CANADIAN SHIELD RESOURCES INC.

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Consolidated Statements of Deficit

For the years ended December 31	2007	2006
Deficit, beginning of year	\$ (3,477,751)	\$ (2,662,360)
Net loss for the year	(935,780)	(815,391)
Deficit, end of year	\$ (4,413,531)	\$ (3,477,751)

See accompanying notes to consolidated financial statements.

CANADIAN SHIELD RESOURCES INC.

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Consolidated Statements of Operations

For the years ended December 31	2007	2006
	\$ 6,629	\$ 7,414
Interest Income		
Expenses:		
General and administrative	\$ 558,317	391,158
Stock-based compensation	278,869	301,111
Shareholder services	53,641	78,569
Professional fees	38,898	42,181
Interest	5,247	7,647
Amortization	7,437	2,139
	942,409	822,805
Net loss for the year	(935,780)	(815,391)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding	46,241,914	37,556,314

See accompanying notes to consolidated financial statements.

CANADIAN SHIELD RESOURCES INC.

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Consolidated Statements of Cash Flows

For the years ended December 31	2007	2006
Cash flows (used in):		
Operations:		
Net loss for the period	\$ (935,780)	\$ (815,391)
Items not affecting cash:		
Amortization	7,437	2,139
Stock-based compensation	278,869	301,111
Non-controlling Interest	(24,792)	-
Change in non-cash balances related to operations:		
Sundry assets	(100,464)	112,983
Accounts payable and accrued liabilities	21,587	(69,132)
Cash (used in) operating activities	(728,351)	(468,290)
Financing:		
Issuance of common shares (note 10)	1,591,504	1,321,884
Share issue costs	(63,995)	(98,283)
Loan Payable	(101,512)	44,228
Cash provided by financing activities	1,425,997	1,267,829
Investing:		
Cash acquired on acquisition	14,073	(4,113)
Property and equipment	3,505	-
Mining properties and deferred exploration expenditures (note 6)	(597,057)	(810,328)
Cash (used in) investing activities	(579,479)	(814,441)
Decrease in cash	118,167	(14,902)
Cash, beginning of year	9,723	24,625
Cash, end of year	\$ 127,890	\$ 9,723
Supplemental cash flow information:		
Interest received	\$ 6,629	\$ 7,414
Interest paid	\$ 5,248	\$ 7,419

Non-cash transactions:

- i. Included in the share capital is \$73,295 (2006: \$78,665) representing the fair value of stock options, warrants and compensation warrants exercised (note 10 (a)).
- ii. 138,900 (2006: 506,400) Warrants issued to agents in connection with private placements (see note 10(a) are valued at \$13,951 (2006: \$49,512). This amount has been recorded as an increase in Warrants amount with a corresponding increase in share issue costs charged against share capital.
- iii. In 2006: 585,000 common shares valued at \$234,000 of the Company were issued as part consideration for the acquisition of Gallant Minerals Peru Ltd. S.A. (note 6 and note 10 (a)).
- iv. In 2007, 2,000,000 common shares values at \$400,000 were issued consideration for the acquisition of Anderson Peru Mining and Exploration S.A.C. (note 6(a) and note 10 (a)).

See accompanying notes to consolidated financial statements.

CANADIAN SHIELD RESOURCES INC.

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Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. Nature of operations

Canadian Shield Resources Inc. (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.

As is common with exploration companies, the Company's ability to continue its on-going and planned exploration activities is dependant upon obtaining necessary equity financing from time to time.

2. Significant accounting policies:

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

(a) Basis of presentation:

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

(b) Property and equipment:

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

(c) Mining properties and deferred exploration expenditures:

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

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2. Significant accounting policies (continued):

(c) Mining properties and deferred exploration expenditures:

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

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

(d) Impairment of property and equipment:

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

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

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

(f) Income taxes:

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

(g) Basic and diluted loss per share:

Loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method. When the effect of computing diluted loss per share is anti-dilutive, this information is not presented.

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2. Significant accounting policies (continued):

(h) Foreign currency translation:

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

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

(i) Share issuance costs

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

(j) Use of estimates:

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

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

3. Change in accounting policies

(a) Section 3855, "Financial Instruments – Recognition and Measurement" provides guidance on the recognition and measurement of financial assets, financial liabilities and derivative financial instruments. This new standard requires that all financial assets and liabilities be classified as either: held-to-maturity, held-for-trading, loans and receivables, available-for-sale, or other financial liabilities. The subsequent recognition depends on their initial classification.

- Held-to-maturity financial assets are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net earnings in the period in which they arise.

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3. Change in accounting policies (continued)

- Held-for-trading financial instruments are carried at fair value with changes in the fair value charged or credited to net earnings in the period in which they arise.
- Loans and receivables are initially recognized at their fair values, with any resulting premium or discount from the face value being amortized to income or expense using the effective interest method. Impairment losses are charged to net earnings in the period in which they arise.
- Available-for-sale financial instruments are carried at fair value with changes in the fair value charged or credited to other comprehensive income. Impairment losses are charged to net earnings in the period in which they arise.
- Other financial liabilities are initially measured at cost or at amortized cost depending upon the nature of the instrument with any resulting premium or discount from the face value being amortized to income or expense using the effective interest method.
- All derivative financial instruments meeting certain recognition criteria are carried at fair value with changes in fair value charged or credited to income or expense in the period in which they arise.

The standard requires the Company to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. This new section also requires that transaction costs incurred in connection with the issuance of financial instruments either be capitalized and presented as a reduction of the carrying value of the related financial instrument or expensed as incurred. If capitalized, transaction costs must be amortized to income using the effective interest method. This section does not permit the restatement of financial statements of prior periods.

Following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007 and/or December 31, 2007:

Cash - Held-for-trading
Amounts receivable - Loans and receivables
Accounts payable and accrued liabilities - Other liabilities
Loans payable – Other liabilities

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

- (b) Section 1530, "Comprehensive Income", along with Section 3251, "Equity" which amends Section 3250, "Surplus", require enterprises to separately disclose comprehensive income and its components as well as net income in their financial statements. Further, they require enterprises to separately present changes in equity during the period as well as components of equity at the end of the period, including comprehensive income. Since the Company does not have any elements of comprehensive income other than net loss, the adoption of these sections did not have any impact on the Company's financial statements.

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3. Change in accounting policies (continued)

- (c) Section 3865, "Hedges" allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. Since the Company does not currently have hedging programs in place which qualify for hedge accounting, the adoption of this section did not have any impact on the Company's financial statements.
- (d) The new Section 1506 "Accounting Changes" permits voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in account estimates are applied prospectively by including these changes in earnings. The adoption of this section did not have any impact on the Company's financial statements.

4. Canadian Accounting Pronouncements Issued and Not Yet Adopted

- (a) The new Section 1535, "Capital Disclosures", requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company.

This standard will impact the Company's disclosures provided, but will not affect the Company's results or financial position.

- (b) The new Sections 3862 and 3863 replace Handbook Section 3861 "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company.

This standard will impact the Company's disclosures provided, but will not affect the Company's results or financial position.

- (c) In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian generally accepted accounting principles for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective in calendar year 2011. The conversion to IFRS will be required, for the Corporation, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual

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4. Canadian Accounting Pronouncements Issued and Not Yet Adopted (Continued)

framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible assets", thus mitigating the impact of adopting IFRS at the mandatory transition date. The Corporation has not yet determined the impact of the adoption of IFRS on its financial statements.

5. Property and Equipment:

Property and equipment consists of the following:

	2007	2006
Office equipment:		
Cost	\$ 46,157	\$ 44,100
Less: accumulated amortization	(24,179)	(24,539)
	\$ 21,978	\$ 19,560

6. Mining properties and deferred exploration expenditures:

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

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

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

(b) Pursuant to a Share Purchase Agreement, dated August 30, 2004, between the Company, Gallant Minerals Limited ("Gallant") and Canadian Shield Explorations (Int'l) Ltd., ("Subsidiary"), Subsidiary completed a series of transactions resulting in the acquisition of 90% of the issued and outstanding shares of Gallant Peru in 2006, formerly a wholly-owned subsidiary of the Gallant, as outlined below.

In 2004, the Company acquired an initial 33% interest in Gallant Peru by paying US\$200,000 and issuing 1,000,000 common shares of the Company at a deemed price of \$0.25 per share.

In 2005, the Company increased its interest in Gallant Peru to 66% by completing US\$500,000 exploration expenditures and by paying US\$175,000 and issuing 585,000 common shares of the Company at a deemed price of \$0.40 per share and 585,000 non-transferable common share purchase

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

warrants. Each warrant ("Warrants") entitled Gallant Minerals to purchase one common share of the Company at \$0.40 per share until August 30, 2006. These warrants expired without exercise.

On August 30, 2006, the Company increased its interest in Gallant Peru to 90% by acquiring an additional 24% interest in Gallant Peru by incurring US\$1.5 million cumulative exploration expenditures and by paying US\$175,000 and issuing of 585,000 common shares of the Company at a deemed price of \$0.40 per share and 585,000 non-transferable common share purchase warrants. Each warrant ("Warrants") entitled Gallant Minerals to purchase one common share of the Company at \$0.40 per share until August 30, 2007. These warrants expired without exercise.

The purchase price of \$2,788,890 was allocated as follows:

Current assets	\$	65,414
Property and equipment		17,586
Mineral properties and deferred exploration expenditures		2,742,817
Current liabilities		(12,136)
Minority interest		(24,792)
Fair value of net assets acquired	\$	2,788,890

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

	January 1, 2007	Deferred Exploration Expenditures	Deferred Exploration December 31, 2007
Canada:			
Erickson Lake	\$ 16,564	\$ -	\$ 16,564
Peru:			
Humajala	1,660,188	105,819	1,766,007
Cerro Cori (i)	435,616	13,391	449,007
Ccello Ccello	445,022	37,170	482,192
Apune-Pucarana (ii)	470,196	4,493	474,689
La Estrella	-	395,688	395,688
Pampa Porosa	-	139,869	139,869
Colpayoc (iii)	-	126,671	126,671
La Tola (iv)	-	52,123	52,123
Other	17,756	-	17,756
Chile:			
Trol	-	140,727	140,727
December 31, 2007	\$ 3,045,342	\$ 1,015,951	\$ 4,061,293

CANADIAN SHIELD RESOURCES INC.

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Notes to Consolidated Financial Statements

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

	January 1, 2006	Deferred Exploration Expenditures	Deferred Exploration December 31, 2006
Canada:			
Erickson Lake	\$ 24,564	\$ (8,000)	\$ 16,564
Peru:			
Humajala	54,732	1,605,456	1,660,188
Cerro Cori (i)	54,732	380,884	435,616
Ccello Ccello	54,732	390,290	445,022
Apune-Pucarana (ii)	54,732	415,464	470,196
Other	14,092	3,664	17,756
December 31, 2006	\$ 257,584	\$ 2,757,758	\$ 3,045,342

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

(ii) In 2007, Canadian Shield finalized an earn-in agreement with Esperanza Silver whereby Esperanza can earn up to a 60% interest in Canadian Shield's Pucarana Gold Property ("Pucarana"), located in southern Peru. Esperanza has the right to earn a 60% interest in the Pucarana mining concessions by expending US\$1,300,000 over a four year period commencing upon receipt of a drill permit and by making payments of US\$80,000 to the Company's 90% owned subsidiary, Gallant Minerals Peru Ltd. S.A.

(iii) In 2007, Canadian Shield entered into an option agreement to purchase 100% participating interest in the Colpayoc gold-silver-copper-molybdenum prospect in northern Peru. Colpayoc is comprised of 3 properties held by two owners. Compania Minera Chetilla holds the El Ferrol 15 through 18 and the Ferrol Che exploration licenses with a total of 3,608 hectares. The Francisco Jose IV and Francisco Jose V exploration licenses comprise 680 hectares and are held by Mr. Francisco Jose Santolalla, Lima, Peru. The Company can earn 100% interest in the properties by spending an aggregate of US\$4 million in exploration and making cash payments totalling US\$4 million over the option term of 54 months. Each

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

vendor will retain a 2% 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.

(iv) In 2007, Canadian Shield entered into a earn-in agreement with Solitario Resources Corporation to acquire La Tola, an epithermal gold-silver prospect (the "Property") in the Caylloma Province of the Department of Arequipa, southern Peru. The Property comprises 1,000 hectares in one exploration license, Zoraida Uno Canadian Shield has a 4 year earn-in option to purchase 100% of the Property by incurring exploration expenditures of US\$2 million over the next 4 years, and by making a cash payment of US\$2 million at the end of the 4 year option period. Solitario Resources Corporation ("Solitario") will retain a 2% Net Smelter Return that the Company may purchase at its option for US\$1.5 million prior to commercial production.

7. Loan payable:

Loans from shareholders bore interest at 12% per annum were unsecured and due on demand. These loans were repaid during the current year.

8. Related party transactions:

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

	2007	2006
Management fees paid to a corporation controlled by a director of the Company	\$ 60,000	\$ 55,000
Administration, rent, office charges, and telecommunication paid to a corporation with two directors in common	57,000	58,000
Consulting fees paid to a director	12,000	-
Interest earned on a loan to a corporation controlled by the spouse of one of the directors	4,567	-
Interest paid to directors and a shareholder	1,265	3,110

As at December 31, 2007, \$96,132 (2006 - \$42,786) was included in accounts payable in respect of the above amounts. During 2007, the Company borrowed \$50,000 (2006 - \$nil) pursuant to loan agreements with certain of its directors. The loans from the related parties are interest bearing at 12% per annum and were due on demand. The interest paid/accrued related to those loans during 2007 was \$1,265 (2006 - \$1,841). At December 31, 2007, \$nil (2006 - \$nil) was outstanding.

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8. Related party transactions (Continued):

In 2007, the Company advanced \$170,000 to a corporation owned by the spouse of a director of the Company. These advances had a guaranteed interest rate of 10% per annum and were due on demand. These funds with interest were paid in full during 2007.

9. Income taxes:

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

	2007	2006
Combined basic Canadian federal and provincial income tax rate	36.12%	36.12%
Effective income tax charge (recovery) on Income (loss) before income taxes	\$ (338,000)	\$ (294,000)
Increase (Decrease) resulting from:		
Change in the valuation allowance for future tax assets allocated to income tax expense	28,000	175,600
Change in future tax rate	225,000	-
Non-deductible items and other	85,000	118,400
	\$ -	\$ -

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, 2007 and 2006 are as follows:

	2007	2006
Future tax assets:		
Operating losses carry forward	\$ 847,000	\$ 821,000
Share issue costs and other	73,000	71,000
	920,000	892,000
Valuation allowance	(920,000)	(892,000)
	\$ -	\$ -

The Company has approximately \$2,919,700 of operating losses that expire between 2007 and 2016 as follows:

2008	\$ 139,000
2009	91,000
2010	337,800
2014	408,000
2015	630,000
2016	581,200
2027	732,700
	\$ 2,919,700

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

(a) The following details the changes in issued and outstanding shares for the two years ended December 31, 2007.

	Common shares	
	Number	Amount
Balance, January 1, 2006	29,826,781	\$ 4,108,134
Issued:		
Private placement (i)	8,000,000	1,000,000
Private placement (ii)	1,000,000	200,000
Options exercised	486,713	105,926
Compensation warrants exercised	450,587	94,623
Issuance of shares pursuant to Gallant acquisition (note 6)	585,000	234,000
Less: Share issue costs		(147,795)
Balance, January 1, 2007	40,349,081	\$ 5,594,888
Issued:		
Private placement (iii)	3,100,000	625,000
Private placement (v)	1,000,001	300,000
Options exercised	500,834	110,259
Compensation warrants exercised	216,150	68,050
Warrants exercised	2,552,500	561,500
APMX Acquisition (iv)	2,000,000	400,000
Finder's fees for APMX (iv)	187,500	37,500
Less: Share issue costs		(115,455)
Balance, December 31, 2007	49,906,066	\$ 7,581,472

(i) In March 2006, the Company completed a non-brokered private placement offering of 8,000,000 Units at \$0.125 per Unit for gross proceeds of \$1 million. Each Unit is comprised of one common share and one-half non-transferable Warrant. Each whole Warrant (Series J) entitles the holder to purchase one common share at an exercise price of \$0.20 per share until September 1, 2007. The Warrant is callable, at the option of the Company, after July 3, 2006 in the event the common shares trade at or over \$0.40 per share for 10 consecutive trading days. The common shares issued pursuant to the private placement and any shares issuable upon the exercise of the warrants were subject to a four-month hold period which expired July 3, 2006. Qualified agents received finders' fees of 7% of the gross proceeds from the 7,150,000 Units placed by the finders and 429,000 non-transferable Compensation Warrants equal to 6% of the number of Units placed by the finders. Each Compensation Warrant entitles the holder to purchase one common share at an exercise price of \$0.20 per share until September 1, 2007. The Compensation Warrants are callable, at the option of the Company, after July 3, 2006 in the event the common shares trade at or over \$0.40 per share for 10 consecutive trading days.

(ii) In May 2006, the Company closed a non-brokered private placement offering of 1,000,000 Units at \$0.20 per Unit for gross proceeds of \$200,000. Each Unit is comprised of one common share and one-half non-transferable Warrant. Each whole Warrant (Series K) entitles the holder to purchase one common share at an exercise price of \$0.30 per share until May 29, 2007. The Warrant is callable, at the option of the Company, after September 30, 2006 in the event the common shares trade at or over \$0.50 per share for 10 consecutive

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December 31, 2007 and 2006

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

trading days. Qualified agents received a finder's fee of 7% of the gross proceeds from the 500,000 Units placed by them and 25,000 nontransferable Compensation Warrants. Each Compensation Warrant entitles the holder to purchase one common share at an exercise price of \$0.30 per share until May 29, 2007. The Compensation Warrants are callable, at the option of the Company, after September 30, 2006 in the event the common shares trade at or over \$0.50 per share for 10 consecutive trading days.

(iii) In March 2007, the Company completed a private placement of 2,000,000 units at \$0.175 per unit ("L Units") and a second private placement of 1,100,000 units at \$0.25 per unit ("M Units") for total gross proceeds of \$625,000. Each L Unit is comprised of one common share and one-half non-transferable Series L Warrant ("L Warrant"). Each whole L Warrant entitles the holder to purchase one common share at an exercise price of \$0.30 per share for a period of 24 months from closing. The L Warrant is callable, at the option of the Company after July 2, 2007, in the event the common shares trade at or over \$0.45 per share for 10 consecutive trading days. Each M Unit is comprised of one common share and one-half non-transferable Series M Warrant ("M Warrant"). Each whole M Warrant entitles the holder to purchase one common share at an exercise price of \$0.40 per share for a period of 24 months from closing. The M Warrant is callable, at the option of the Company after July 3, 2007, in the event the common shares trade at or over \$0.60 per share for 10 consecutive trading days. For the L Unit offering, the qualified selling agents were paid finders' fees of 7% of the gross proceeds from the L Units placed by the agent and Compensation L Warrants equal to 6% of the number of L Units placed by the agent. Each Compensation L Warrant entitles the agent to purchase one common share at an exercise price of \$0.175 per share for a period of 24 months from the date of closing of the private placement offering. The Compensation L Warrants are callable, at the option of Canadian Shield, four months after the date of closing in the event the common shares trade at or over \$0.45 per share for 10 consecutive trading days. For the M Unit offering, the qualified selling agents were paid finders' fees of 7% of the gross proceeds from both M Units placed by the agent and Compensation M Warrants equal to 6% of the number of M Units placed by the finders. Each Compensation M Warrant entitles the agent to purchase one common share at an exercise price of \$0.25 per share for a period of 24 months from the date of closing of the private placement offering. The Compensation M Warrants are callable, at the option of Canadian Shield, four months after the date of closing in the event the common shares trade at or over \$0.60 per share for 10 consecutive trading days.

(iv) In April 2007, the Company acquired 90% of the outstanding shares of APMX in exchange for 2,000,000 Canadian Shield treasury shares. These shares are subject to a four-month regulatory hold period. At the end of the four-month hold period 750,000 shares will be released and thereafter the balance of 1,250,000 shares will become free trading at the rate of 62,500 shares per month over 24 months. The Company paid a finder's fee of 187,500 common shares of the Company to Buckingham Group Limited for the APMX acquisition.

(v) On December 18, 2007 the Company completed a private placement of 1,000,001 Units at a price of \$0.30 per Unit for gross proceeds of \$300,000. Each Unit is comprised of one common share and one-half non-

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December 31, 2007 and 2006

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

transferable Series N Warrant. Each whole Series N Warrant ("Warrant") entitles the holder to purchase one common share at an exercise price of \$0.50 for a period of 12 months from the date of closing. The Warrant is callable, at the option of the Company, four months after the date of closing in the event its common shares trade at or over \$0.75 per share for 10 consecutive trading days.

(b) Contributed Surplus:

Balance, January 1, 2006	\$	296,599
Stock based compensation during 2006		301,112
Warrants expired		64,950
Stock options exercised		(51,630)
Balance, December 31, 2006	\$	611,031
Stock based compensation during 2007		278,869
Warrants expired		37,560
Stock options exercised		(48,944)
Balance, December 31, 2007		878,516

(c) Stock option plan:

In 2001 the Company established a stock option plan (the "2001 Plan") whereby the directors could grant options to directors, employees and consultants to the Company. During 2007, the Plan was amended. The maximum number of common shares issuable to any one participant under the Plan is 20% (2006 - 5%) of the issued and outstanding common shares. The period during which the options may be exercised is determined by the Board of Directors and cannot be extended beyond a maximum of five years from the date the option is granted. The maximum number of shares which may be reserved for issuance under the Plan is fixed at 9,081,673 (2006 - 5,421,342) common shares. Options granted to eligible persons shall vest in stages over at least 18 months from the date of grant with no more than 16.67% of the options granted vesting in any 3 month period. The directors of the Company may from time to time amend or revise the terms of the Plan or may terminate the Plan at any time.

The following summarizes the options outstanding:

	Number of options		Weighted average exercise price
Outstanding, January 1, 2006	3,831,713	\$	0.17
Granted	2,180,000		0.13
Cancelled	(1,495,000)		0.17
Exercised (i)	(486,713)		0.11
Outstanding, December 31, 2006	4,030,000	\$	0.16
Granted	1,320,000		0.23
Cancelled	-		-
Exercised	(500,834)		0.12
Outstanding, December 31, 2007	4,849,166	\$	0.18
Options exercisable, end of year	3,623,888	\$	0.16

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December 31, 2007 and 2006

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

An amount of \$48,944 was transferred from contributed surplus to share capital upon exercise of these options

The following table summarizes information about stock options outstanding at December 31, 2007:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding	Weighted average exercise price	
\$0.10 – 0.12	191,666	2.31	\$ 0.11	174,999	\$ 0.11	
\$0.13 – 0.17	2,742,500	2.84	0.15	2,493,889	0.15	
\$0.20 – 0.30	1,915,000	2.87	0.23	955,000	0.23	

(d) Fair value of options:

The weighted average grant-date fair value of stock options granted to employees and directors during 2007 has been estimated at \$0.150 (2006 - \$0.112) 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 4.17% (2006 – 4.15%), weighted average expected dividend yields of nil (2005 - nil), weighted average expected common stock price volatility of 140% (2006 – 136%) and a weighted average expected life of 3 years (2006 – 3 years).

(e) Warrants:

The following summarizes the warrants outstanding:

	Weighted average remaining contractual life (years)	Series	Number of warrants	Weighted average exercise price
January 1, 2006	0.34		5,856,996	\$ 0.30
Expired		F	(3,439,993)	0.30
Expired		G	(1,032,003)	0.40
Expired		I	(585,000)	0.40
Issued		J	4,000,000	0.20
Issued		K	500,000	0.30
Issued		L	585,000	0.40
December 31, 2006	0.62		5,885,000	\$ 0.23
Expired		J	(2,757,500)	0.20
Expired		L	(585,000)	0.40
Exercised		H	(800,000)	0.20
Exercised		J	(1,242,500)	0.20
Exercised		K	(500,000)	0.30
Exercised		L-1	(10,000)	0.30
Issued		L-1	1,000,000	0.30
Issued		M	550,000	0.40
Issued		N	500,000	0.50
December 31, 2007	1.10		2,040,000	\$ 0.43

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Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

(f) The following summarizes the compensation warrants outstanding:

	Weighted average remaining contractual life (years)	Series	Number of warrants		Weighted average exercise price
January 1, 2006	0.32	-	678,476	\$	0.17
Exercised		A	(450,587)		0.15
Expired		A	(31,011)		0.15
Expired		B	(144,478)		0.25
Issued		D	429,000		0.20
Issued		E	25,000		0.30
December 31, 2006	1.44		506,400	\$	0.20
Expired		H	(31,200)		0.125
Expired		J	(317,250)		0.20
Exercised (i)		H	(21,200)		0.125
Exercised (i)		J	(111,750)		0.20
Exercised (i)		K	(25,000)		0.30
Exercised (i)		L-1	(44,700)		0.175
Issued		M	(13,500)		0.25
Issued		L-1	105,900		0.175
Issued		M	33,000		0.25
December 31, 2007	1.10		80,700	\$	0.19

An amount of \$24,532 was transferred from contributed surplus to share capital upon exercise of these options

(g) Fair value of compensation warrants:

During 2007, the Company issued 138,900 (2006: 454,000) Compensation Warrants to agents in connection with private placements (see note 7 (a)). The fair value of these Warrants granted to agents during 2007 has been estimated at \$0.10 using (2006:\$0.11) using the Black-Scholes option-pricing model. The pricing model assumes weighted average risk free interest rates of 3.97% (2006: 4.00%), weighted average expected dividend yields of nil (2006: nil) weighted average expected common stock price volatility of 120% (2006: 110%) and a weighted average expected life of 3 year (2006: 1 year).

(h) Loss per share:

	2007	2006
Numerator:		
Loss for the year	(935,780) \$	(815,391)
Denominator:		
Weighted average number of common shares	46,241,914	37,556,314
Loss per share	\$ (0.02) \$	(0.02)

Fully diluted loss per share is not represented as the effect would be anti-dilutive.

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December 31, 2007 and 2006

11. Financial instruments:

Fair values:

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

12. Segmented Information:

(a) Reportable Segments:

In 2007 and 2006, the Company has one operating segment in mineral exploration.

(b) Enterprise wide disclosure – Geographic Information:

As at December 31, 2007, \$4082,726 (2006: \$3,072,938) of the Company's assets were held in Peru, and the balance in Canada.

13. Subsequent Event:

(i) Subsequent to the year end, the Company successfully completed a non-brokered expedited private placement of 1,007,002 Units at a price of \$0.15 per Unit for gross proceeds of \$151,050. Each Unit is comprised of one common share and one-half non-transferable Series O Warrant. Each whole Series O Warrant ("Warrant") entitles the holder to purchase one common share at an exercise price of \$0.25 for a period of 18 months from the date of closing. The Warrant is callable, at the option of Canadian Shield, four months after the date of closing in the event its common shares trade at or over \$0.50 per share for 10 consecutive trading days.

(ii) Subsequent to year-end, the Company borrowed \$50,000 from a director. The loan is due on demand and bears interest at 12% per annum. On March 5, 2008, the Company repaid \$30,000 relating to this loan.