Shore Gold Inc.

2nd Quarter Report
2009

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")
For the quarter ended June 30, 2009

The following discussion and analysis is prepared by management as of August 5, 2009 and should be read in conjunction with the unaudited consolidated financial statements for the period ended June 30, 2009, as well as the audited consolidated financial statements and annual MD&A for the year ended December 31, 2008 available on SEDAR at www.sedar.com. Shore Gold Inc. ("Shore", "SGF", or "the Company") prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are reported in Canadian dollars unless otherwise indicated.

Overview

During the second quarter of 2009, the Company remained focused on the Fort à la Corne ("FALC") area of central Saskatchewan. The second quarter's activities were divided between the pre-feasibility study on the Star Diamond Project and the exploration of Shore's 60 percent interest in the Fort à la Corne Joint Venture ("FALC-JV"). The FALC-JV partners are Kensington Resources Ltd. ("Kensington"), a wholly owned subsidiary of Shore, and Newmont Mining Corporation of Canada Limited ("Newmont") (40 percent). The main activities for the Star Diamond Project during the quarter ended June 30, 2009 were the ongoing desk-top engineering studies and data analysis required to convert the Mineral Resource to a Mineral Reserve conforming to National Instrument ("NI") 43-101 and Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards. Work on the FALC-JV concentrated on the diamond grade reconciliation from previously completed large diameter ("LD") drilling programs as well as the desk-top engineering studies and data analysis necessary for the pending initial NI 43-101 compliant Mineral Resource on Orion South.

Star Diamond Project

The Company is progressing on the Star Diamond Project pre-feasibility study. This primarily involves desk-top engineering studies and data analysis required to convert the Mineral Resource to a Mineral Reserve conforming to NI 43-101 and CIM standards. Shore anticipates the delivery of a final feasibility study on the Star Diamond Project by the end of the first quarter of 2010.

The Environmental Assessment Branch of the Saskatchewan Ministry of Environment, in anticipation of the environmental assessment of the Star - Orion South Diamond Project, recently made draft project-specific guidelines available for public review and comment (See SGF News Release July 13, 2009). The Company must conduct an Environmental Impact Assessment and prepare an Environmental Impact Statement, which the public and Ministry of Environment will use to evaluate the environmental implications of the proposed development.

During the quarter ended June 30, 2009, the Company also announced the reconciliation of diamond grade results from LD mini-bulk sampling with underground bulk sampling for the Star Kimberlite (See SGF News Release April 21, 2009). The reconciliation of LD mini-bulk sampling to underground bulk sampling results is necessary since diamond breakage and diamond loss occurs when sampling kimberlite by LD drilling. As a result of this breakage and loss, this method of sampling underestimates the sample grade (carats per hundred tonnes, or "cpht"). The grade reconciliation of LD mini-bulk sampling diamond results to underground bulk sampling diamond results is critical in preparing the Mineral Resource/Reserve estimates and will assist in the understanding and evaluation of the large kimberlites of the FALC area where only LD mini-bulk samples are available.

FALC-JV Programs

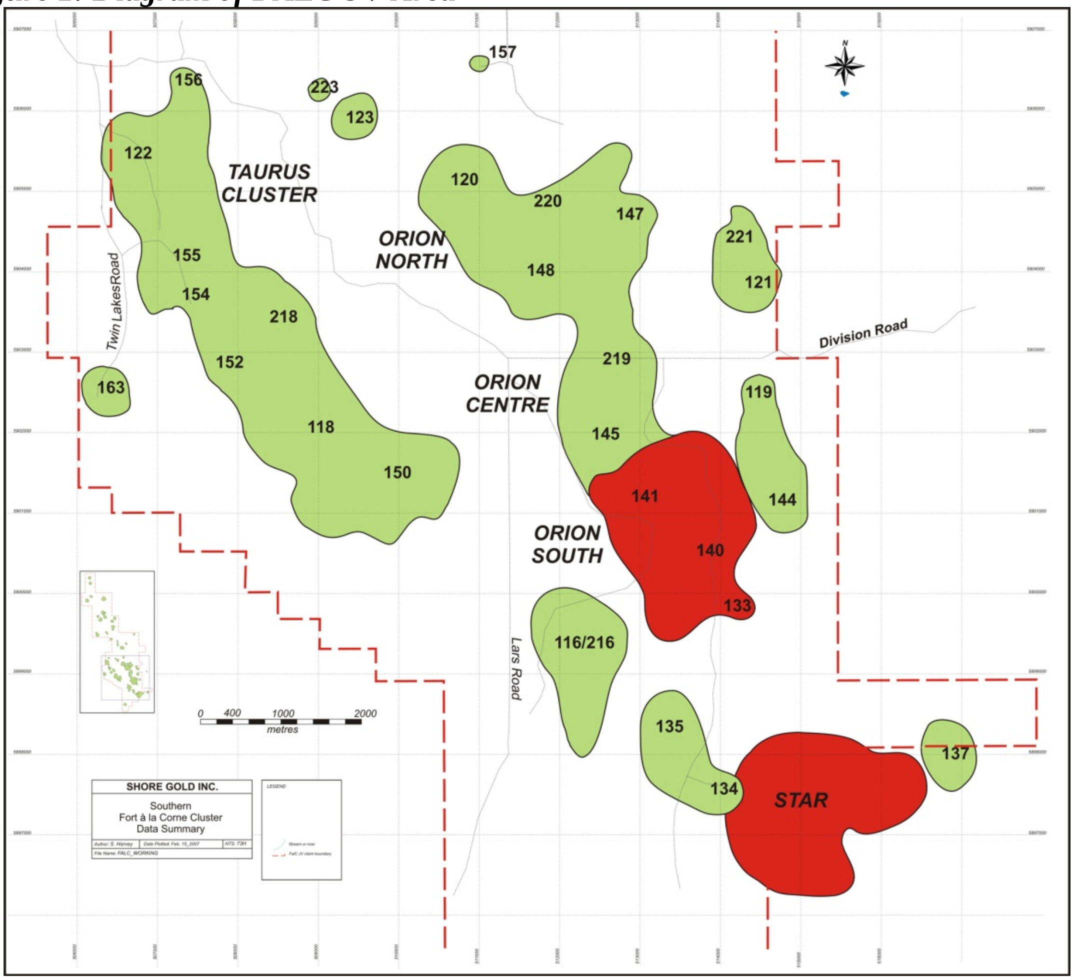
During the second quarter of 2009, the Company announced diamond results from LD drilling programs performed to date on the FALC-JV's Orion South (See SGF News Release May 6, 2009), Orion North (See SGF News Releases May 19, 2009 and June 16, 2009) and Taurus Kimberlite clusters (See SGF News Release June 4, 2009). The Early Joli Fou ("EJF") Inner Area Kimberlite Units of these bodies have been identified by Shore as high priority targets for exploration. The EJF Inner Area Kimberlite Units represent coarser grained EJF kimberlite and the EJF Outer Area Kimberlite Units include finer grained EJF kimberlite. Underground bulk and LD drilling mini-bulk samples of the Star Kimberlite and the FALC-JV's Orion South Kimberlite have shown that higher grades and larger diamonds are found within the EJF Inner Area Kimberlite Units. The following table summarizes the LD drilling results by ore body that were released during the quarter.

LD Drilling Mini-bulk Sampling Diamond Results Announced During the Quarter

	Overall		EJF Inner Area Kimberlite Unit		Largest Diamond
FALC-JV Kimberlite	**Grade (cpht)**	**Tonnes Processed**	**Grade (cpht)**	**Tonnes Processed**	**Recovered (carats)**
Orion South– K140/K141	11	9,302	19	3,519	10.53
Orion North – K120	11	2,668	15	1,730	7.53
Orion North – K147/K148	8	2,284	12	1,088	6.89
Taurus – K122	9	1,153	11	610	7.99
Taurus – K118	11	889	13	464	3.42
Taurus – K150	10	677	12	498	2.85

Note: Figure 1 on the following page presents the relative size and location of the above kimberlites relative to the Star Kimberlite on which a NI 43-101 compliant Mineral Resource has been estimated.

Figure 1: Diagram of FALC-JV Area



Orion South

The LD drilling and underground grade data both show that the EJF Inner Area Kimberlite Unit at Orion South has a similar grade to the EJF Inner Area Kimberlite Unit of the near-by Star Kimberlite. The Company is currently performing the necessary desk-top engineering studies and data analysis for the pending initial NI 43-101 compliant Mineral Resource on Orion South. During the fourth quarter of 2008, a project proposal for a Star-Orion South Diamond Project was submitted to the Environmental Assessment Branch of the Saskatchewan Ministry of Environment and to various Federal agencies (See SGF News Release November 3, 2008). The project proposal contains a detailed project description of the Star-Orion South Diamond Project, which includes an open pit on the Star Kimberlite, a potential second open pit at Orion South, a common processing plant and associated infrastructure.

Orion North

The Orion North Kimberlite Cluster ("Orion North") is one of the largest diamond bearing kimberlites in the world. Though a resource estimate has not yet been determined for Orion North, kimberlite tonnage estimates of 800-870 million tonnes of kimberlite, which are conceptual in nature, were published in the SGF News Release of November 21, 2006. No underground bulk sampling has been undertaken to date in Orion North.

The K120 Kimberlite within Orion North has a surface area totaling some 102 hectares situated within claims of the FALC-JV. The preliminary grade from LD drilling performed to date in the EJF Inner Area Kimberlite Unit of the K120 Kimberlite compares favourably with the grades of the EJF Inner areas in the Star and Orion South kimberlites. The EJF Inner Area Kimberlite Unit of the K120 Kimberlite is an extensive, relatively homogenous kimberlite unit that extends from the kimberlite-till interface to depths of more than 350 metres below surface. The extent and vertical continuity of this EJF Inner Area Kimberlite Unit are favourable factors in the event of future mining.

The K147-148 Kimberlite Complex located within Orion North has a surface area totaling some 394 hectares situated within claims of the FALC-JV. The drilling results from the EJF Inner Area Kimberlite Unit of the K147-148 Kimberlite Complex shows that large volumes of diamond bearing kimberlite exist and that these units require more detailed evaluation.

Taurus

Taurus lies to the west of the Orion Cluster and includes eight coalescing kimberlites (K150, K118, K152, K218, K154, K155, K122 and K156) that result in over six kilometres of contiguous kimberlite (See SGF News Release February 25, 2008). While an initial geological model is currently in preparation for Taurus, examination of the internal geology, determined from core drilling, has confirmed extensive areas of EJF Inner Area Kimberlite Units within the K122, K118 and K150 Kimberlites. No underground bulk sampling has been undertaken to date in Taurus. The preliminary diamond grades and size of the largest stones recovered from the EJF Inner Area Kimberlite Units from the LD drilling performed to date confirm Taurus as a key target for future detailed exploration and evaluation.

Buffalo Hills Joint Venture Exploration Program

The Buffalo Hills Property is located in northern Alberta. The Buffalo Hills Joint Venture participants are Shore (22.5 percent), Diamondex Resources Ltd. ("Diamondex") (22.5 percent), EnCana Corporation (43 percent) and Pure Diamonds Exploration Inc. (12 percent). Diamondex is the operator of the Buffalo Hills Joint Venture. Exploration work during the quarter ended June 30, 2009 included the completion of the required remediation work on drill sites from previous drill programs as well as the completion of the remaining 2008 drillcore logging. Work is currently underway on the preliminary geological model for the K6 pipe.

Financial Highlights

Selected financial information of the Company for the quarters ended June 30, 2009 and 2008 is summarized as follows:

	Three Months Ended June 30, 2009 $	Three Months Ended June 30, 2008 $	Six Months Ended June 30, 2009 $	Six Months Ended June 30, 2008 $
Revenues (millions)	-	0.3	0.1	1.0
Net and comprehensive loss (millions)	2.2	2.8	6.1	5.0
Net loss per share [(1)]	0.01	0.02	0.03	0.03
Total assets (millions)	246.9	813.8	246.9	813.8
Working capital (millions)	19.0	40.8	19.0	40.8

(1) Basic and diluted.

Results of Operations

For the quarter ended June 30, 2009, the Company recorded a net loss of $2.2 million or $0.01 per share compared to a net loss of $2.8 million or $0.02 per share for the same period in 2008. Contributing to the loss during the quarter ended June 30, 2009 was the $0.6 million write-down of mineral property expenditures incurred during the second quarter by the Company on certain of its mineral properties as well as the $0.1 million impairment in fair value of long-term investments held by the Company. The loss for the quarter ended June 30, 2008 was primarily due to the $2.0 million impairment in fair value of third-party asset-backed commercial paper ("ABCP") held by the Company that was recorded during the quarter.

Revenues

The Company invested excess cash reserves in short-term deposits to maximize return while ensuring funds would be available for cash outflow requirements associated with the Company's pre-feasibility study and exploration projects. For the quarter ended June 30, 2009 the Company reported interest and other revenue of $29 thousand as compared to $341 thousand for the quarter ended June 30, 2008. This decrease in revenue from the quarter ended June 30, 2008 was from a reduction in the Company's cash and cash equivalents after incurring on-going exploration expenditures on the Fort à la Corne and Buffalo Hills projects and from lower interest earned by the Company as a result of falling interest rates.

Expenses

Total operating costs for the quarter ended June 30, 2009 were $1.5 million, consistent with the quarter ended June 30, 2008. Once the effect of accounting for stock-based compensation is removed, the specific categories of expenses become more comparable year over year. The fair value of stock-based compensation that was expensed during the second quarter of 2009 was $0.4 million, compared to $0.5 million for the second quarter of 2008. After removing the effect of accounting for stock-based compensation, expenses for the quarter ended June 30, 2009 were $1.1 million; an increase of $0.1 million from the quarter ended June 30, 2008. This increase was primarily due to a higher proportion of operating costs being borne by Shore as a result of Newmont's decision to not fully participate in the FALC-JV work programs during 2009.

Write-down of mineral properties

Due to the current economic crisis, the Company's share price, as with many other junior exploration companies, remains significantly below mid-2008 levels. This decline resulted in the Company assessing an impairment on certain of its mineral properties at December 31, 2008 and at March 31, 2009. As circumstances have not significantly changed, a similar assessment was performed for the period ending June 30, 2009.

For the Star Diamond Project, which includes Star West (a component of the FALC-JV), an assessment of impairment was performed by comparing the carrying value of the mineral properties with the estimated undiscounted future cash flows, as required by Canadian GAAP. Based on this analysis, the Company did not adjust the carrying value of the Star Property or the FALC-JV's Star West Property at June 30, 2009.

As there are currently no independent estimates of reserves or resources for any of the Company's other mineral properties, the Company was unable to apply undiscounted future cash flow methodologies as an initial step in assessing impairment. As a result, the Company wrote down $0.6 million of expenditures that were incurred on these mineral properties during the quarter.

Change in fair value of long-term investments

At June 30, 2009 the Company held floating rate notes (collectively, the "Notes") with a total par value of $14.3 million. The Notes were received in January 2009 upon the restructuring of the ABCP. The $14.3 million total par value is net of the $4.4 million principal payment that was received by the Company during the quarter ended June 30, 2009. Since there is currently no active market for these Notes, the fair value was determined by the Company using a discounted cash flow approach which considered available information regarding the credit risk attributable to the underlying assets, relevant market interest rates, and the expected amount and timing of principal and interest payments. During the quarter ended June 30, 2009, the fair value of these long-term investments was reduced by $0.1 million (2008 – $2.0 million) to $8.4 million predominantly as a result of falling interest rates over this period.

Investing

Mineral properties additions totaled $1.5 million (excluding the $0.6 million write-down) for the quarter ended June 30, 2009 compared to $11.1 million for the quarter ended June 30, 2008. The additions represent approximately $0.6 million on the Star Diamond Project, $0.7 million on the FALC-JV Programs and $0.2 million on other properties. The main activities for the Star Diamond Project (including Star West) were the ongoing desk-top engineering studies and data analysis required to convert the Mineral Resource to a Mineral Reserve. Expenditures on FALC-JV programs (other than Star West) primarily related to the desk-top engineering studies and data analysis necessary for the pending initial NI 43-101 compliant Mineral Resource on Orion South.

Financing
No financing activities occurred during the three-month period ended June 30, 2009.

Year to Date

Results of Operations
For the six-month period ended June 30, 2009, the Company recorded a net loss of $6.1 million or $0.03 per share compared to a net loss of $5.0 million or $0.03 per share for the same period in 2008. Contributing to the loss during the six-month period ended June 30, 2009 was the $6.3 million write-down of mineral property expenditures incurred by the Company on certain of its mineral properties as well as the $0.5 million impairment in fair value of long-term investments held by the Company. For the six-month period ended June 30, 2009 the Company reported interest and other revenue of $0.1 million compared to $1.0 million for the six-month period ended June 30, 2008. This $0.9 million decrease in revenue from the six-month period ended June 30, 2008 was from a reduction in the Company's cash and cash equivalents after incurring on-going exploration expenditures on the Fort à la Corne and Buffalo Hills projects and from lower interest earned by the Company as a result of falling interest rates. The net loss for the comparative period in 2008 was primarily due to the fair value of stock-based compensation expensed ($2.5 million) as well as the $2.0 million impairment in fair value of ABCP.

Revenues
The Company invested excess cash reserves in short-term deposits to maximize return while ensuring funds would be available for cash outflow requirements associated with the Company's exploration projects. For the six-month period ended June 30, 2009 the Company reported interest and other revenue of $0.1 million compared to $1.0 million for the six-month period ended June 30, 2008. This decrease in revenue from the six-month period ended June 30, 2008 was from a reduction in the Company's cash and cash equivalents after incurring on-going exploration expenditures on the Fort à la Corne and Buffalo Hills projects and from lower interest earned by the Company as a result of falling interest rates.

Expenses
Total operating costs for the six-month period ended June 30, 2009 were $2.7 million compared to $4.6 million for the same period ended June 30, 2008. This $1.9 million decrease is largely attributed to the fair value of stock-based compensation that was expensed during the six-month period ended June 30, 2008 ($2.5 million) as compared to the same period in 2009 ($0.4 million). Once the effect of accounting for stock-based compensation is removed, the comparison between specific categories of expenses

becomes more meaningful. The following discussion related to expense variances removes the effect of stock-based compensation for comparative purposes. Total operating costs for the Company during the six-month period ended June 30, 2009 increased by $0.2 million to $2.3 million compared to $2.1 million for the six-month period ended June 30, 2008. This increase was primarily due to a higher proportion of operating costs being borne by Shore as a result of Newmont's decision to not fully participate in the FALC-JV work programs during 2009.

Write-down of mineral properties

For the six-month period ended June 30, 2009, the Company wrote down $6.3 million (2008 – nil) of expenditures that were incurred on mineral properties other than the Star Diamond Project.

Change in fair value of long-term investments

For the six-month period ended June 30, 2009, the fair value of the Company's Notes were reduced by $0.5 million compared to a fair value reduction of $2.0 million to the Company's ABCP for the six-month period ended June 30, 2008.

Investing

Additions to mineral properties totaled $7.8 million for the six-month period ended June 30, 2009 (excluding $6.3 million in write-downs) compared to $24.2 million for the six-month period ended June 30, 2008. The 2009 additions represented approximately $0.8 million on the Star Diamond Project, $6.8 million on the FALC-JV Project and $0.2 million on other properties. The main activities for the Star Diamond Project were the ongoing desk-top engineering studies and data analysis required to convert the Mineral Resource to a Mineral Reserve. The expenditures on the FALC-JV Programs primarily related to underground bulk sampling, LD drilling, sample processing, diamond analyses and consulting costs to produce an initial Mineral Resource estimate for Orion South.

Financing

No financing activities occurred during the six-month period ended June 30, 2009.

Summary of Quarterly Results

	2009		2008				2007	
	Qtr 2	**Qtr 1**	**Qtr 4**	**Qtr 3**	**Qtr 2**	**Qtr 1**	**Qtr 4**	**Qtr 3**
Revenues [1] ($millions)	-	0.1	0.2	0.3	0.3	0.7	0.6	0.9
Net income (loss) [2] ($millions)	**(2.2)**	(3.9)	(452.2)	(0.8)	(2.8)	(2.2)	12.4	(2.4)
Net income (loss)/share [3] ($)	**(0.01)**	(0.02)	(2.45)	(0.00)	(0.02)	(0.01)	0.06	(0.01)
Shares outstanding [4] (millions)	**199.9**	199.9	199.9	183.2	183.2	182.7	182.7	177.5

(1) *The trend of declining interest revenue from the third quarter of 2007 to the second quarter of 2009 resulted from a reduction in the Company's cash and cash equivalents after incurring exploration expenditures throughout the periods and the acquisition of the Company's interest in the Buffalo Hills Joint Venture, ABCP not earning interest during 2008 and lower interest rates earned by the Company as a result of falling interest rates.*

(2) *The net loss during the first and second quarters of 2009 and the fourth quarter of 2008 was primarily related to the write-down of certain mineral properties held by the Company. The fourth quarter of 2007 had net income as a result of a reduction of future income tax liabilities after the federal government substantively enacted reduced corporate income tax rates. The net loss during the second quarter of 2008 and the third quarter of 2007 primarily related to changes in the fair value of the Company's ABCP. The first quarter of 2008 saw increases in operating costs primarily associated with the fair value of stock-based compensation granted during that quarter.*

(3) *Basic and diluted.*

(4) *The Company completed private placement financings on November 24, 2008 and November 23, 2007 resulting in the issuance of 16.67 million and 4.76 million flow-through common shares from treasury, respectively. Other changes in the number of shares outstanding are the result of option exercises in the respective periods.*

Related Party Transactions

Messrs. Kenneth E. MacNeill (President and Chief Executive Officer), Harvey J. Bay (Chief Financial Officer and Chief Operating Officer), George H. Read (Senior Vice-President of Exploration and Development) and Pieter Du Plessis (Vice-President of Exploration), through their respective consulting companies, hold management and consulting contracts with the Company. During the three-month period ended June 30, 2009, Messrs. MacNeill, Bay, Read and Du Plessis's monthly contracted fees were $30 thousand (2008 – $30 thousand), $23 thousand (2008 – $23 thousand), $18 thousand (2008 – $18 thousand), and $16 thousand (2008 – $16 thousand), respectively. During the six-month period ended June 30, 2009, management and consulting fees of $0.5 million were paid to companies controlled by these officers, compared to $0.5 million for the same period in 2008. Of these fees, $0.1 million (2008 – $0.1 million) were capitalized as additions to mineral properties; $0.2 million (2008 – $0.2 million) were included in administration expense and $0.2 million (2008 – $0.2 million) were included in consulting and professional fees expense.

During the six-month period ended June 30, 2009, the Company charged $24 thousand (2008 – $18 thousand) to Wescan Goldfields Inc. for administration services. Accounts receivable includes $33 thousand (2008 – $3 thousand) due from Wescan Goldfields Inc.

The above transactions were in the normal course of operations and are measured at an amount agreed to by the related parties.

Liquidity

The Company does not currently operate any producing properties and, as such, is dependent upon the issuance of new equity to finance its ongoing obligations and advance its exploration properties. Until the Company's surplus cash is required to fund exploration or development activities it is invested in a variety of highly rated instruments. The Company expects its current capital resources will be sufficient to carry out its exploration plans through 2010.

At June 30, 2009 the Company had $19.1 million in cash and cash equivalents and short-term investments. In addition, the Company held $14.3 million in long-term Notes ($8.4 million carrying value), the liquidity of which is limited. Since there is currently no active market for the remaining Notes, the timing and amount ultimately recovered by the Company may differ materially from this fair value estimate.

As of June 30, 2009, the Company is committed to spend $0.3 million of qualifying Canadian Exploration Expenses as defined by the *Canadian Income Tax Act* prior to December 31, 2009.

Capital Resources and Outstanding Share Data

As at June 30, 2009, the Company had working capital of $19.0 million as compared to $40.8 million at June 30, 2008. This does not include the Company's $14.3 million in floating rate Notes (2008 – $18.7 million in ABCP). Working capital of the Company will be sufficient for meeting the Company's remaining 2009 budget requirements. Shore's current cash position will ensure the Company's financial stability through 2010.

At June 30, 2009 the Company had 199,904,242 shares issued and outstanding compared to 183,234,242 at June 30, 2008. As at August 5, 2009, the Company's common shares issued and outstanding remained unchanged from the end of the second quarter. At August 5, 2009, a total of 9,890,560 options were outstanding at a weighted average exercise price of $3.16. Approximately 3.6 million of these options are currently in-the-money and would add an additional $1.1 million to the Company's capital if exercised.

Financial Instruments

As at June 30, 2009, the fair value of all of the Company's financial instruments approximates their carrying value. Certain financial instruments are exposed to the following financial risks:

<u>Credit risk</u>
Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company's credit risk primarily relates to its investments in Notes which were received in exchange for the Company's investment in ABCP.

At June 30, 2009, the Company held Notes with a par value of $14.3 million (carrying value of $8.4 million), as outlined in the Company's consolidated financial statements. The consolidated financial statements of the Company reflect management's best estimate of the fair value of these investments. The amount and timing of future cash flows received by the Company may differ materially from this estimate. Due to the nature of certain Notes which are not backed by traditional securitized assets (a significant component is comprised of collateral debt obligations), credit risk could potentially be significant. However, as part of the restructuring, certain financial institutions and stakeholders, as well as the governments of Canada, Ontario, Quebec and Alberta, have provided margin funding facilities that significantly reduce the risk of credit default on these investments. The maximum exposure to credit risk related to the Company's investments at June 30, 2009 is represented by the carrying amount of $8.4 million.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing this risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. As at June 30, 2009, the Company had working capital of $19.0 million. Based on current budgets and exploration plans, management believes this working capital will be sufficient to meet financial obligations as they fall due.

Critical Accounting Estimates

Shore's consolidated financial statements are prepared in conformity with Canadian GAAP. The Company's accounting policies are described in note 2 to the annual consolidated financial statements. Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The uncertainties related to these areas could significantly impact the Company's results of operations, financial condition and cash flows.

A critical accounting estimate in determining the Company's financial results relates to the recoverability of the carried amounts of mineral properties. Management assesses carrying values of non-producing properties each time it issues financial statements. Where information and conditions suggest impairment, estimated future cash flows are calculated using estimated future prices, reserves and resources, weighted probable outcomes and operating, capital and reclamation costs on an undiscounted basis. If it is determined that the future cash flows are less than the carrying value, a write-down to the estimated fair value is expensed for the period. Where no independent estimates of reserves or resources are available for which to estimate future net cash flows and where other conditions suggest impairment, carried costs are written down. As at June 30, 2009, the Company has not yet determined whether any of its mineral properties contain economically recoverable reserves.

Accounting Changes

Goodwill and Other Intangible Assets

Effective January 1, 2009, the Company adopted a CICA handbook section relating to goodwill and intangible assets, which replaced previous standards relating to goodwill and intangible assets and research and development costs. The standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard also harmonizes Canadian standards with IFRS and applies to annual and interim financial statements for fiscal years beginning on or after October 1, 2008. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Mining Exploration Costs (Emerging Issues Committee Abstract 174)

In March 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 174, "Mining Exploration Costs". The EIC provides guidance on the accounting and the impairment review of exploration costs. This abstract applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The adoption of this new accounting policy did not have any impact on the Company's consolidated financial statements.

Future Accounting Changes

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. The Company's first financial statements presented in accordance with IFRS will therefore be the three-month period ended March 31, 2011. Though IFRS uses a conceptual framework similar to Canadian GAAP, there are some significant differences on recognition, measurement and disclosure requirements. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating some of the impact of adopting IFRS at the changeover date. The International Accounting Standard Board ("IASB") will, however, also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Company's financial statements will only be measurable once all IFRS applicable at the conversion date are known.

As a result of this convergence, the Company has developed a plan to convert its financial statements to IFRS. Regular reporting to the Company's Audit Committee on the status of the IFRS implementation project has been established to ensure proper oversight.

The Company's plan consists of several phases including:

Timing	Plan Phase
2008	**An initial scoping phase** including the identification of key differences, important dates, development of milestones, and potential training issues;
2009	**Detailed evaluation phase** which will include a detailed comparison of Canadian GAAP and IFRS in a priority sequence including policy alternatives and business process implications, information systems, internal controls over financial reporting, disclosure controls and procedures and compensation arrangements; and,
2009-2010	**Implementation and review phase** which will include final policy selection with the culmination of the necessary information systems and data required to prepare IFRS compliant financial statements and disclosures and any necessary adjustments to other business processes that may be impacted.

The initial scoping phase was completed by the Company in 2008. The Company identified the accounting related to the carrying value of the Company's mineral properties to be the area of the most significant potential difference. The carrying value of the Company's mineral properties may potentially be impacted by several standards in IFRS, including the treatment of exploration expenditures, and how potential impairments are analyzed. Other areas of less significance that will require adjustments relate to share-based payments, asset retirements obligations and property and equipment. Currently, Canadian GAAP and IFRS both allow a Company to establish an accounting policy that either capitalizes or expenses exploration expenditures incurred. IFRS related to exploration costs, however, are currently under review and are anticipated to change after January 1, 2011. The full extent of the changes are not yet known and, as a result, the Company may change its current policy of capitalizing exploration expenditures retroactively on the date of transition in order to minimize the impact future IFRS changes may have on the Company's financial statements.

As a result of the initial scoping exercise and given the stage of the Company's development, management does not anticipate that the conversion to IFRS will have any significant impact to its business processes. Certain of the Company's information systems have already been converted which will allow for the recognition, measurement and disclosure requirements of property and equipment in accordance with IFRS. Certain members of the conversion team have been provided training regarding IFRS. More specific training is anticipated and additional involvement of the Company's external auditors may be required once management has fully evaluated the implications of the differences between Canadian GAAP and IFRS.

Management has not yet completed its quantification of the effects of adopting IFRS, however the detailed evaluation phase is underway. Discussions with the Company's external auditors have commenced to validate management's interpretation of certain IFRS before detailed calculations are performed. The consolidated financial performance and financial position as presented in the Company's Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods, and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information. In accordance with the requirements of *National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings*, the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining disclosure controls and procedures and have caused these to be designed to provide reasonable assurance that material information is made known to management, particularly during the period in which the interim filings are being prepared; and information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in securities legislation.

There have been no significant changes in the Company's disclosure controls during the quarter ended June 30, 2009 that could significantly affect disclosure controls subsequent to the date the Company carried out its evaluation.

Internal Controls over Financial Reporting Procedures

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. In accordance with the requirements of *National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings*, the Company's management, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, have designed the Company's internal controls over financial reporting as of the end of the period covered by the interim filings so that the internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no significant changes to internal controls over financial reporting during the quarter ended June 30, 2009 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Outlook

As of August 5, 2009, the Company had approximately $18.3 million in cash and cash equivalents and short-term investments. These funds will be used to complete the Star Diamond Project pre-feasibility study, to fund the planned FALC-JV and the Buffalo Hills Joint Venture exploration programs and for general corporate matters. Cash and cash equivalents and short-term investments may also be used to fund various other exploration activities as well as acquisition and exploration of additional properties as opportunities warrant.

The Company continues with the Star Diamond Project pre-feasibility study. This primarily entails desk-top engineering studies and data analysis to convert the Mineral Resource to a Mineral Reserve conforming to NI 43-101 and CIM standards. The Company's intent is to have a NI 43-101 compliant Reserve estimate for the Star Diamond Project completed during the third quarter of 2009. Shore anticipates the delivery of a final feasibility study for the Star Diamond Project by the end of the first quarter of 2010. In addition, the Company anticipates an initial Mineral Resource estimate for Orion South to be available in the near term. It is the present focus to continue to evaluate the Star and Orion South Kimberlites to the point where a production decision can be made.

Risks and Uncertainties

The Company attempts to mitigate risks by identifying, assessing, reporting and managing risks of significance. The following are risks relating to the business of the Company. This information is a summary only of risks currently facing the Company based on its stage of development. Additional risks and uncertainties not presently known may also impact the Company's operations. Management's view on risks facing the Company will evolve as the Company progresses in its stage of development.

Risks Associated With an Exploration Stage Company

The principal risks faced by the Company during the exploration stage involve: Shore's ability to obtain financing to further the exploration and development of mineral properties in which Shore holds interests; maintaining title to its property claims; obtaining the required permits from various federal, provincial and local governmental authorities; and the ultimate economic feasibility of any future development projects.

The further development and exploration of mineral properties in which Shore holds interests or which Shore acquires may depend upon Shore's ability to obtain financing through joint ventures, debt financing, equity financing or other means. The Company does not have sufficient funds to put any of its property interests into production from its own financial resources. There is no assurance that Shore will be successful in obtaining required financing as and when needed. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or joint operations or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on Shore's future cash flows, earnings, results of operations and financial condition. The relative prices of diamonds and future expectations for such prices have a significant impact on the market sentiment for investment in diamond mining and exploration companies. To ensure that exploration procedures are being performed effectively and those results are interpreted and reported in a proper manner, management ensures that qualified individuals, service providers and external consultants are utilized in the verification and quality assurance of analytical results.

Title disputes could have adverse consequences to the Company. Managing these issues is an integral part of exploration, development and mining in Saskatchewan and Alberta and Shore is committed to managing these issues effectively. The Company has diligently investigated title to its claims in the Star, FALC-JV and Buffalo Hills Joint Venture Properties. However, no assurance can be given that title to these properties will not be challenged or impugned in the future by third parties or governments. Management maintains a database to monitor the status of the Company's claims to ensure all claims are in good standing.

The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, provincial and local governmental authorities. Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. To the best of the Company's knowledge, it is operating in compliance with all applicable rules and regulations. The Company utilizes qualified individuals, service providers and external consultants and maintains constant communications with governmental authorities to ensure that the Company is in compliance with all applicable rules and regulations.

All of Shore's property interests are currently in the exploration stage and are without a known body of commercial ore. The exploration, development and production of precious metals and gems are capital-intensive, subject to the normal risks and capital expenditure requirements associated with mining operations. While the rewards can be substantial if commercial quantities of minerals or gems are found, there can be no assurance that Shore's past or future exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable.

Technical Information

All technical information in this report has been prepared under the supervision of George Read, Senior Vice-President of Exploration and Development, Professional Geoscientist in the Provinces of Saskatchewan and British Columbia, and Shawn Harvey, Geology Manager, Professional Geoscientist in the Province of Saskatchewan, who are the Company's "Qualified Persons" under the definition of NI 43-101.

Caution regarding Forward-looking Statements

This news release may contain forward-looking statements as defined by certain securities laws, including the "safe harbour" provisions of the Ontario Securities Act and the United States Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements, and, in particular, statements regarding Shore's future operations, future exploration and development activities or other development plans contain forward-looking statements.

These forward-looking statements are based on Shore's current beliefs as well as assumptions made by and information currently available to it and involve inherent risks and uncertainties, both general and specific. Risks exist that forward-looking statements will not be achieved due to a number of factors including, but not limited to, developments in world diamond markets, changes in diamond valuations, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration, development or mining plans due to exploration results and changing budget priorities of Shore or its joint venture partners, the effects of competition in the markets in which Shore operates, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks and the additional risks described in Shore's most recently filed Annual Information Form, annual and interim MD&A. Shore's anticipation of and success in managing the foregoing risks could cause actual results to differ materially from what is anticipated in such forward-looking statements.

Although management considers the assumptions contained in forward-looking statements to be reasonable based on information currently available to it, those assumptions may prove to be incorrect. When making decisions with respect to Shore, investors and others should not place undue reliance on these statements and should carefully consider the foregoing factors and other uncertainties and potential events. Unless required by applicable securities law, Shore does not undertake to update any forward-looking statement that may be made.

Additional Information

Additional information related to the Company, including the latest available Annual Information Form, is available on SEDAR at www.sedar.com

SHORE GOLD INC.
Unaudited Interim Consolidated Financial Statements

For the Six-Month Period Ended
June 30, 2009

Notice to Reader

Management has compiled the unaudited consolidated financial statements of Shore Gold Inc. for the six-month period ended June 30, 2009 (along with the comparative interim period in 2008). The Corporation's external auditors have not reviewed these statements.

Shore Gold Inc.
(A Development Stage Entity)
Consolidated Balance Sheets

	June 30, 2009 (in thousands)	December 31, 2008 (in thousands)
Assets		
Current assets:		
Cash and cash equivalents	$ 2,870	$ 22,619
Short-term investments	16,197	5,079
Receivables	345	7,584
Prepaids	195	139
	19,607	35,421
Restricted cash	1,807	1,807
Investments (note 4)	8,350	14,064
Mineral properties (note 5)	213,958	212,361
Investment in Wescan Goldfields Inc. (note 6)	2,177	2,234
Property and equipment	973	1,091
	$ 246,872	$ 266,978
Liabilities & Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 550	$ 11,722
Current portion of asset retirement obligations	30	68
	580	11,790
Asset retirement obligations	1,591	1,564
Shareholders' equity:		
Share capital (note 7)	769,447	772,822
Contributed surplus	26,390	25,885
Deficit	(551,136)	(545,083)
	244,701	253,624
	$ 246,872	$ 266,978

See accompanying notes to consolidated financial statements

Shore Gold Inc.
(A Development Stage Entity)
Consolidated Statements of Loss and Deficit

	Three Months Ended June 30, 2009 (in thousands)	Three Months Ended June 30, 2008 (in thousands)	Six Months Ended June 30, 2009 (in thousands)	Six Months Ended June 30, 2008 (in thousands)
Revenue				
Interest and other income	$ 29	$ 341	$ 84	$ 997
Expenses				
Administration	1,030	1,244	1,932	3,102
Consulting and professional fees	314	109	469	1,001
Corporate development	80	85	161	209
Amortization and accretion	82	74	161	144
	1,506	1,512	2,723	4,456
Loss before the under noted items	(1,477)	(1,171)	(2,639)	(3,459)
Write-down of mineral properties (note 5)	(569)	-	(6,316)	-
Change in fair value of investments (note 4)	(134)	(2,035)	(469)	(2,035)
Investment in Wescan Goldfields Inc.	(51)	(81)	(57)	(110)
Net loss before income taxes	(2,231)	(3,287)	(9,481)	(5,604)
Future income taxes (note 8)	49	519	3,428	614
Net and comprehensive loss	(2,182)	(2,768)	(6,053)	(4,990)
Deficit, beginning of period	(548,954)	(89,332)	(545,083)	(87,110)
Deficit, end of period	$ (551,136)	$ (92,100)	$ (551,136)	$ (92,100)
Net loss per share				
Basic and diluted	(0.01)	(0.02)	(0.03)	(0.03)
Weighted average number of shares outstanding (000's)	199,904	182,949	199,904	182,817

See accompanying notes to consolidated financial statements

Shore Gold Inc.
(A Development Stage Entity)
Consolidated Statements of Cash Flows

	Three Months Ended June 30, 2009 (in thousands)	Three Months Ended June 30, 2008 (in thousands)	Six Months Ended June 30, 2009 (in thousands)	Six Months Ended June 30, 2008 (in thousands)
Cash provided by (used in):				
Operations:				
Net and comprehensive loss	$ (2,182)	$ (2,768)	$ (6,053)	$ (4,990)
Non-cash items:				
Amortization and accretion	82	74	161	144
Write-down of mineral properties	569	-	6,316	-
Change in fair value of investments	134	2,035	469	2,035
Investment in Wescan Goldfields Inc.	51	81	57	110
Fair value of stock options expensed	355	537	355	2,468
Future income taxes	(49)	(519)	(3,428)	(614)
Net change in non-cash operating working capital items:				
Prepaids	75	51	(56)	(234)
Receivables	(39)	(29)	17	20
Accounts payable and accrued liabilities	821	(182)	(209)	(1,050)
	(183)	(720)	(2,371)	(2,111)
Investing:				
Mineral properties	(1,462)	(11,002)	(7,764)	(24,138)
Property and equipment	-	(15)	-	(18)
Short-term investments	(7,128)	10,221	(11,118)	19,423
Restricted cash	-	-	-	(849)
Investments	4,601	-	5,245	-
Net change in non-cash investing working capital items:				
Receivables	288	399	7,222	(1,776)
Accounts payable and accrued liabilities	(3,882)	(866)	(10,963)	(2,622)
	(7,583)	(1,263)	(17,378)	(9,980)
Financing:				
Issue of common shares (net of issue costs)	-	530	-	530
	-	530	-	530
Decrease in cash and cash equivalents	(7,766)	(1,453)	(19,749)	(11,561)
Cash and cash equivalents, beginning of period	10,636	21,746	22,619	31,854
Cash and cash equivalents, end of period	$ 2,870	$ 20,293	$ 2,870	$ 20,293
Cash and cash equivalents consists of:				
Cash	$ 327	$ 886	$ 327	$ 886
Treasury bills	2,543	19,407	2,543	19,407
	$ 2,870	$ 20,293	$ 2,870	$ 20,293

See accompanying notes to consolidated financial statements

SHORE GOLD INC.
(A Development Stage Entity)

Notes to Consolidated Financial Statements (for the six-month period ended June 30, 2009)
(In thousands of Canadian dollars except as otherwise noted)

1. Nature of operations

Shore Gold Inc. was incorporated under the Canada Business Corporations Act on April 29, 1985. Shore Gold Inc. and its subsidiaries (collectively, "Shore" or "the Company") are engaged primarily in the exploration, development, mining and sale of precious metals and gems. Substantially all of the Company's efforts are devoted to the exploration of its mineral properties. The Company has not earned significant revenue and is therefore considered to be in the development stage with respect to its current mineral property holdings.

2. General

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting principles and methods of application as the most recent annual audited consolidated financial statements except for the recent accounting standards adopted as described below. These consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements filed on SEDAR.

3. Changes in accounting policies

Goodwill and other intangible assets

Effective January 1, 2009, the Company adopted a CICA handbook section relating to goodwill and intangible assets, which replaces existing standards relating to goodwill and intangible assets and research and development costs. The standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard also harmonizes Canadian standards with IFRS and applies to annual and interim financial statements for fiscal years beginning on or after October 1, 2008. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Mining Exploration Costs (Emerging Issues Committee Abstract 174)

In March 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 174, "Mining Exploration Costs". The EIC provides guidance on the accounting and the impairment review of exploration costs. This abstract applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The adoption of this new accounting policy did not have any impact on the Company's consolidated financial statements.

4. Investments

At June 30, 2009 the Company held $8.4 million in floating rate notes (collectively, the "Notes") with a total par value of $14.3 million. These Notes were received during January 2009 in exchange for the Company's Canadian third party asset-backed commercial paper ("ABCP") upon the successful implementation of the ABCP restructuring plan. The Company has designated the Notes as held-for-trading, which are measured at fair value.

Master Asset Vehicle ("MAV")	Class	Par Value[(a)]	Percent of Investment	Fair Value[(b)]
MAV2	Class A-1 Notes	$ 6,213	43.3%	$ 4,221
MAV2	Class A-2 Notes	6,467	45.1%	4,092
MAV2	Class B Notes	1,174	8.2%	-
MAV2	Class C Notes	428	3.0%	-
MAV3	Class 9 Notes	58	0.4%	37
Total		$ 14,340	100.0%	$ 8,350

(a) Notional amount

The notional amount of the Notes received represents the amortized cost of the Company's investments at the time the ABCP market ceased to trade, less principal repayments received to date. During the quarter ended June 30, 2009, the Company received a principal payment of $4.4 million, which represented 99 percent of the MAV3, Class 9 notes that were received at the time of the implementation of the ABCP restructuring plan. The total notional amount of Notes received at the time of the implementation of the ABCP restructuring plan was $18.7 million.

(b) Fair value

The fair value of the Company's Notes at June 30, 2009 was determined using a discounted cash flow approach with the following assumptions:

	Assumption
Timing of cash flows	7 - 8 years
Interest rate	nil(1)
Weighted average discount rate	5.75 percent(2)

(1) Interest on MAV2 Notes is the 90-day Bankers' Acceptance rate less 50 basis points. The 90-day Bankers' Acceptance rate at June 30, 2009 was less than 0.5 percent, therefore the Company assumed nil interest.
(2) Excludes Class B and C Notes as fair values have been assessed as nil.

As a result of the fair value assessment of the Notes, the Company recorded a fair value adjustment of $0.1 million during the quarter ended June 30, 2009 (2008 – $2.0 million) and $0.5 million for the six months ended June 30, 2009 (2008 – $2.0 million). A one percent change in the discount rate of this fair value assessment would result in a $0.6 million pre-tax change in the fair value of the Notes held by the Company.

During the quarter, the Company also received an interest payment of $0.2 million (net of restructuring costs) from the ABCP previously held by the Company representing interest from August 2008 to January 21, 2009 after which the Company is entitled to receive quarterly interest payments. Interest payments received or receivable are included in the fair value calculation of the Notes.

5. Mineral properties

Mineral properties for the six-month period ended June 30, 2009 are made up of the following:

	Star Property	Fort à la Corne Property	Other Diamond Properties	Total
Balance – December 31, 2008	$ 171,136	$ 41,225	$ -	$ 212,361
Expenditures during 2009				
Exploration	1,001	6,684	228	7,913
Write-down of carrying value(a)	-	(6,088)	(228)	(6,316)
Balance – June 30, 2009	$ 172,137	$ 41,821	$ -	$ 213,958

(a) Write-down of carrying value

As there are currently no independent estimates of reserves or resources for any of the FALC-JV properties other than Star West (the portion of the Star Kimberlite within the FALC-JV) or any of the Company's other mineral properties, the Company was unable to apply undiscounted future cash flow methodologies as an initial step in assessing impairment. As a result, the Company wrote down $0.6 million of expenditures that were incurred on these mineral properties during the quarter ended June 30, 2009 and $6.3 million for the six months ended June 30, 2009.

6. Investment in Wescan Goldfields Inc.

At June 30, 2009, Shore held 12,955,567 (2008 – 11,474,086) shares and 0.74 million share purchase warrants of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. Each full warrant is exercisable at $0.35 per warrant and will expire on October 20, 2009. The Company accounts for its 17.2% investment in Wescan on an equity basis.

At June 30, 2009, the carrying value of the Company's equity interest in Wescan was $2.2 million (2008 – $2.2 million) with a fair value of $2.2 million (2008 – $13.2 million).

7. Share capital

Authorized

The authorized share capital of the Company consists of unlimited common shares.

Issued and outstanding (in thousands)

	Common Shares	Amount
Balance – December 31, 2008	199,904	$ 772,822
Future income taxes on flow-through expenditures renounced to shareholders[a]	-	(3,375)
Balance – June 30, 2009	199,904	$ 769,447

(a) Flow-through shares

During 2008, the Company issued, through a private placement, 16,670,000 flow-through shares for gross proceeds of $12.5 million. In January 2009, the Company renounced $12.5 million of tax deductions associated with qualified expenditures required to be incurred by the end of 2009. The Company recorded a future income tax liability of $3.4 million, with a corresponding reduction in share capital.

(b) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, employees and service providers to purchase common shares of the Company. The aggregate number of shares reserved for issuance under this plan, and any other security based compensation arrangement of the Company, shall not, at the time of the stock option grant, exceed 15,768,360 shares. Options granted have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of Shore on the trading day prior to the date on which the option is granted. Certain options vest immediately while others vest six to twelve months after grant date and all options expire 5 years from the date of the grant of the options.

The fair value of stock options issued in the six-month period ended June 30, 2009 was estimated using the Black-Scholes option-pricing model with the following assumptions: 5 year weighted average expected option life, no expected forfeiture rate, dividend yield of 0.0%, a volatility factor of 88.6% (2008 – 64.9% to 66.0%) and a risk free rate of 1.87% (2008 – 3.24% to 3.34%). During the quarter ended June 30, 2009, the Company granted 3,245,000 (2008 – 150,000) options to directors, officers or employees at an average strike price of $0.27 (2008 – $3.40). The fair value in respect of stock options granted for the quarter ended June 30, 2009 was $0.6 million (2008 – $0.3 million). The amount that vested from this issue and previous issues during the quarter was $0.5 million (2008 – $0.8 million). Of this amount $0.1 million (2008 – $0.2 million) was capitalized as an addition to mineral properties and $0.4 million (2008 – $0.6 million) was expensed. The fair value in respect of stock options granted for the six-month period ended June 30, 2009 was $0.6 million (2008 – $2.1 million). The amount that vested from these issues and previous issues during the six-month period was $0.5 million (2008 - $3.2 million). Of this amount $0.1 million (2008 – $0.7 million) was capitalized as an addition to mineral properties and $0.4 million (2008 – $2.5 million) was expensed.

As at June 30, 2009 the fair value of stock-based compensation related to options that will vest over the next 12 months is $0.1 million (2008 – $0.4 million).

For options outstanding (in thousands) at June 30, 2009, weighted average exercise prices are as follows:

	Options	Average Price
Balance – December 31, 2008	7,745	$ 4.78
Granted	-	-
Exercised	-	-
Expired and cancelled	(1,244)	4.76
Balance – March 31, 2009	6,501	$ 4.78
Granted	3,245	0.27
Exercised	-	-
Expired and cancelled	(138)	1.55
Balance – June 30, 2009	9,608	$ 3.30

The options expire between the dates of July 2009 to April 2014.

8. Future income taxes

The Company finances a portion of its exploration activities through the issuance of flow-through shares. During the first quarter of 2009, the Company renounced the deductions to investors and accordingly recorded share issue costs related to the future tax liability as a temporary difference arising from the renunciations. As a result, share capital is reduced and future income tax liabilities are increased by the estimated tax cost of the deductions renounced by the Company to the investors in the amount of $3.4 million. To the extent the Company has unrecorded tax assets, the future income tax liabilities were reduced with a corresponding credit to future income taxes.

9. Related party transactions

During the six-month period ended June 30, 2009, management and consulting fees of $520 thousand (2008 – $495 thousand) were paid to companies controlled by certain officers of the Company. Of these fees, $96 thousand (2008 – $91 thousand) were capitalized as additions to mineral properties; $180 thousand (2008 – $171 thousand) were included in administration expense and $244 thousand (2008 – $233 thousand) were included in consulting and professional fees expense.

During the six-month period ended June 30, 2009, the Company charged $24 thousand (2008 – $18 thousand) to Wescan for administration services. Accounts receivable includes $33 thousand (2008 – $3 thousand) due from Wescan.

The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. Financial instruments

As at June 30, 2009, the fair value of all of the Company’s financial instruments approximates their carrying value. Certain financial instruments are exposed to the following financial risks:

(a) Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company’s credit risk primarily relates to its investments in Notes which were received in exchange for the Company’s investment in ABCP.

At June 30, 2009, the Company held Notes with a par value of $14.3 million (carrying value of $8.4 million), as outlined in note 4. The consolidated financial statements of the Company reflect management’s best estimate of the fair value of these investments. The amount and timing of future cash flows received by the Company may differ materially from this estimate. Due to the nature of the MAV2 Notes which are not backed by traditional securitized assets (a significant component is comprised of collateral debt obligations), credit risk could potentially be significant. However, as part of the restructuring, certain financial institutions and stakeholders, as well as the governments of Canada, Ontario, Quebec and Alberta, have provided margin funding facilities that significantly reduce the risk of credit default on these investments. The maximum exposure to credit risk related to the

Company's investments in these Notes at June 30, 2009 is represented by the carrying amount of $8.4 million.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows, to ensure that it will have sufficient liquidity to meet its obligations when due. As at June 30, 2009, the Company had working capital of $19.0 million. Based on current budgets and exploration plans, management believes this working capital will be sufficient to meet financial obligations as they fall due.

11. Comparative figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

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