



**1st Quarter Report
2011**



MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")

For the quarter ended March 31, 2011

The following discussion and analysis is prepared by Management as of June 2, 2011 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the period ended March 31, 2011 ("financial statements for the period ended March 31, 2011") available on SEDAR at www.sedar.com. Shore Gold Inc. ("Shore", "SGF", or "the Company") prepared its financial statements for the period ended March 31, 2011 in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements for the period ended March 31, 2011 are the Company's first interim IFRS condensed consolidated interim financial statements. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In this MD&A, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. In accordance with the standard related to the first time adoption of IFRS, the Company's transition date to IFRS was January 1, 2010 and therefore the comparative information for 2010 has been prepared in accordance with the Company's IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared following Canadian GAAP and has not been re-presented on an IFRS basis. The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 13 of the financial statements for the period ended March 31, 2011.

Overview

During the first quarter of 2011, the Company's main focus was working towards the completion of a final feasibility study on the Star – Orion South Diamond Project ("Final Feasibility Study"), which will incorporate the updated diamond valuations as announced in March 2011. The Company also entered into various agreements to both assist in maintaining the project schedule as contemplated by the timelines of the combined pre-feasibility study ("PFS") and Mineral Reserve estimate on the Star – Orion South Diamond Project ("Combined PFS") as well as to ensure that the environmental assessment process continues forward.

The Star – Orion South Diamond Project is situated in the Fort à la Corne kimberlite field in central Saskatchewan. The Star – Orion South Diamond Project includes the 100 percent Shore owned Star Diamond Project, as well as Star West and the Orion South Kimberlite, which fall within the adjacent Fort à la Corne Joint Venture ("FALC-JV"). Shore has a 66 percent interest in the FALC-JV and Newmont Mining Corporation of Canada Limited ("Newmont") has a 34 percent interest.



Events relating to the Star - Orion South Diamond Project

In March 2011, the Company announced the results of an updated valuation of the diamond parcels from the Star and Orion South Kimberlites (See SGF News Release dated March 2, 2011). The average parcel prices from this valuation showed increases between 28 and 130 percent above the March 2008 average prices that were used in the Combined PFS. Model prices determined for the diamond populations of the major kimberlite units that make up the Star and Orion South Kimberlites ranged between US\$129 and US\$355 per carat. This valuation also identified the highest value stone recovered to date. A high quality 11.96 carat E colour diamond was assigned an average price of \$15,000 per carat (stone total value: \$179,325). This diamond, which was recovered from a large diameter drill hole of the Star Kimberlite, has been confirmed as being a Type IIa diamond.

The updated diamond prices will have a significant positive effect on the future economics of the Star – Orion South Diamond Project. The updated valuation will be used in the Final Feasibility Study which will enable Shore to optimize the Star and Orion South pits, resulting in a revised estimate of the mineral reserve for the Star – Orion South Diamond Project. The current valuation exercise has moved the anticipated delivery date of the Final Feasibility Study from the end of the first quarter of 2011 to the second quarter of 2011. The positive outlook for the future of diamond prices and related improved economics of the Star – Orion South Diamond Project support the Company's view that the Star and Orion South Kimberlites have the potential to be developed into a world class diamond mine.

The Company also announced that a construction agreement with Saskatchewan Power Corporation ("SaskPower") had been entered into to design and construct a 230 kilovolt power line of some 21 kilometres, to the Company's Star – Orion South Diamond Project by mid to late 2013 (See SGF News Release dated March 31, 2011). The agreement ensures SaskPower will have the generation capacity required for the Project's anticipated power requirements. This agreement with SaskPower maintains the Project development schedule proposed by the Combined PFS released last year, which anticipates diamond production in 2016.

An agreement was also reached with Muskoday First Nation ("Muskoday"), to gather information on traditional Aboriginal land use and traditional knowledge in the Fort à la Corne forest (See SGF News Release April 21, 2011). The information gathered as a result of this agreement will be incorporated into the Environmental Impact Assessment ("EIA"). The agreement with Muskoday follows similar agreements concluded last year with other Aboriginal parties. In December of 2010, the Company announced that the draft Environmental Impact Statement ("EIS") had been submitted to the Saskatchewan Ministry of Environment ("Ministry") (See SGF News Release December 22, 2010). The Ministry is the lead agency on behalf of the province and the Canadian Environmental Assessment Agency, which is jointly conducting an environmental assessment of the



project. Shore seeks regulatory approval of the Star – Orion South Diamond Project and associated infrastructure. Environmental assessment and approval of the open pit mining envisaged for the project is required prior to development. The review by both federal and provincial governments will run concurrently and will include notification to, and dialogue with, the public as well as consultation with Aboriginal groups. The EIS review process is anticipated to continue throughout 2011 and into 2012.

The Company also announced a Memorandum of Understanding ("MOU") with Wahpeton Dakota Nation (See SGF News Release dated January 19, 2011). This MOU commits the parties to hold discussions pertaining to potential education, training, employment and business opportunities for Wahpeton Dakota Nation that may result from the potential development of the Star – Orion South Diamond Project.

Financial Highlights

Selected financial information of the Company for the quarters ended March 31, 2011 and 2010 is summarized as follows:

	Three Months Ended March 31, 2011 \$	Three Months Ended March 31, 2010 \$
Revenues (millions)	-	-
Comprehensive loss (millions)	(0.8)	(6.5)
Comprehensive loss per share ⁽¹⁾	(0.00)	(0.03)
Total assets (millions)	240.9	261.7
Working capital (millions)	13.1	33.8

(1) Basic and diluted.

Results of Operations

For the quarter ended March 31, 2011, the Company recorded a comprehensive loss of \$0.8 million or \$0.00 per share compared to a comprehensive loss of \$6.5 million or \$0.03 per share for the same period in 2010. The losses during these quarters were due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest revenue earned on cash and cash equivalents and short-term investments. The comprehensive loss during the quarter ended March 31, 2011 was lower than the same period in 2010 primarily due to lower exploration and evaluation expenditures incurred during the period (\$1.3 million compared to \$3.9 million during the same period in 2010). A \$1.3 million increase to the fair value of investments as well as a \$0.4 million increase to available-for-sale financial instruments compared to a \$0.8 million decrease in the carrying value of Wescan Goldfields Inc. also contributed to the reduced comprehensive loss for March 31, 2011 as compared to the prior period.



Revenues

The Company invested excess cash reserves in interest-bearing short-term deposits while ensuring funds were available to meet cash outflow requirements associated with the Company's exploration and evaluation projects and for general corporate matters. For the quarter ended March 31, 2011 the Company reported interest and other revenue of \$40 thousand as compared to \$34 thousand for the quarter ended March 31, 2010.

Expenses

Expenses incurred during the quarter ended March 31, 2011 were \$2.6 million compared to \$5.9 million for the same period in 2010. Of this \$3.3 million decrease, \$0.8 million is largely attributed to the difference in the fair value of share-based payments expensed during the first quarter of 2011 (\$0.1 million) as compared to the first quarter of 2010 (\$0.9 million). Once the effect of accounting for share-based payments is removed, the specific categories of expenses become more comparable year over year. After removing the effect of accounting for share-based payments, expenses for the quarter ended March 31, 2011 decreased by \$2.5 million to \$2.5 million from \$5.0 million during the quarter ended March 31, 2010. This decrease was primarily due to lower exploration and evaluation expenditures incurred by the Company during the quarter ended March 31, 2011 (\$1.3 million) compared to the quarter ended March 31, 2010 (\$3.9 million) due to the nature of work performed on the Star – Orion South Diamond Project. Expenditures incurred during the quarter ended March 31, 2011 related to the desk-top engineering studies and data gathering and analysis required for the Star – Orion South Diamond Project Final Feasibility Study as well as the continuation of the EIA process. Expenditures incurred during the quarter ended March 31, 2010 primarily related to the desk-top engineering studies, data gathering and analysis and geotechnical and hydrogeological drilling relating to the Star – Orion South Diamond Project.

Change in fair value of investments

At March 31, 2011 the Company held long-term investments ("Notes") with a total par value of \$14.3 million (2010 – \$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. All of the Company's Notes were subsequently sold in early April of 2011 for \$10.2 million, therefore the fair value recorded by the Company at March 31, 2011 was \$10.2 million (2010 – \$8.4 million). As a result, for the quarter ended March 31, 2011 the change in the fair value of the Company's Notes recorded was an increase of \$1.3 million (2010 – \$0.1 million).

Investment in Wescan Goldfields Inc.

At March 31, 2011, Shore held 12,955,567 (2010 – 12,955,567) shares of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company accounts for its investment in Wescan as an available-for-sale financial instrument. The fair value based on the closing trading price of the common shares of Wescan at March 31, 2011 was \$1.8 million. As a result, for the three months ended



March 31, 2011 the Company recognized a \$0.4 million increase in the carrying value of its investment in Wescan. At March 31, 2010 the Company accounted for its investment in Wescan on an equity basis and as such recognized its proportionate equity interest in losses and dilution gains from the various equity transactions of Wescan. The Company recognized its estimated share of Wescan losses of \$0.8 million to the end of March 31, 2010. The fair value of the Company's investment at March 31, 2010 was \$1.6 million.

Financing

No financing activities occurred during the three-month period ended March 31, 2011.

Summary of Quarterly Results

	2011 ⁽¹⁾	2010 ⁽¹⁾				2009 ⁽¹⁾		
	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2
Revenues ⁽²⁾ (\$millions)	-	-	0.1	-	-	-	-	-
Comprehensive loss ⁽³⁾ (\$millions)	(0.8)	(6.2)	(6.7)	(6.4)	(6.5)	(1.7)	(1.3)	(2.2)
Comprehensive loss per share ⁽⁴⁾ (\$)	(0.00)	(0.02)	(0.03)	(0.03)	(0.03)	(0.01)	(0.00)	(0.01)
Shares outstanding ⁽⁵⁾ (millions)	224.5	224.5	224.5	224.5	224.5	224.5	200.2	199.9

(1) The Company adopted IFRS on January 1, 2011, effective January 1, 2010 and therefore comparative figures for 2010 are presented under IFRS, and figures for 2009 are presented under Canadian GAAP.

(2) Revenues are primarily related to interest earned on the Company's cash and short-term investments. Interest payments received on the Notes since the 2009 restructuring have been included in the fair value calculation of the Notes and not included in revenue.

(3) The comprehensive losses during the first quarter of 2011 and each of the quarters of 2010 were primarily related to exploration and evaluation expenditures incurred by the Company exceeding interest revenue earned. The comprehensive losses during the third and fourth quarters of 2010 were primarily related to ongoing operating costs incurred by the Company exceeding interest revenue earned. The comprehensive loss during the second quarter of 2009 was primarily related to write-downs recorded under Canadian GAAP of certain mineral properties held by the Company. Upon adoption of IFRS, the Company changed its accounting policies to expense exploration and evaluation expenditures and accordingly losses since 2009 are greater than losses recorded under Canadian GAAP.

(4) Basic and diluted.

(5) The Company completed a private placement financing on October 13, 2009 resulting in the issuance of 14.3 million common shares and 10.0 million flow-through shares. 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) and George H. Read (Senior Vice President of Exploration and Development), through their respective consulting companies, hold management and consulting contracts with the Company. During the three-month period ended March 31, 2011, Messrs. MacNeill, Bay and Read's monthly contracted fees were \$34 thousand (2010 – \$30 thousand), \$24 thousand (2010 – \$23 thousand) and \$19 thousand (2010 – \$18 thousand), respectively.

During the three-month period ended March 31, 2011 total compensation paid to these officers (through companies controlled by Messrs. MacNeill, Bay and Read) and to



directors of the Company was \$0.3 million (2010 – \$0.9 million). Of these amounts, \$0.2 million (2010 – \$0.5 million) were included in administration expense and \$0.1 million (2010 – \$0.4 million) were included in consulting and professional fees expense. Included in these amounts are share-based payment transactions as well as adjustments to estimations made by the Company at December 31, 2010 and 2009.

The above transactions were in the normal course of operations and are measured at an amount agreed to by the related parties. The fair value of share-based payments was determined using the Black-Scholes model.

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 plans through 2011.

At March 31, 2011 the Company had \$12.9 million in cash and cash equivalents and short-term investments. In addition, at March 31, 2011 the Company held \$14.3 million in long-term Notes (\$10.2 million carrying value) which were subsequently sold in April 2011 for \$10.2 million.

The Company has supplied \$2.6 million (2010 – \$2.3 million) of irrevocable standby letters of credit issued by a Canadian chartered bank, of which the majority are related to environmental rehabilitation provisions. The security related to the letters of credit is included in restricted cash and excluded from the Company's working capital.

Capital Resources and Outstanding Share Data

As at March 31, 2011, the Company had working capital of \$13.1 million as compared to \$33.8 million at March 31, 2010. This does not include the Company's \$14.3 million (\$10.2 million carrying value) in Notes. The Company expects its current capital resources will be sufficient to carry out its plans through 2011.

At March 31, 2011 and 2010 the Company had 224,454,242 shares issued and outstanding. As at June 2, 2011, the Company had a total of 224,484,242 common shares issued and outstanding and 12,005,000 options outstanding at a weighted average exercise price of \$1.81. Approximately 3.4 million of these options are currently "in the money" and would add an additional \$1.0 million to the Company's capital if exercised.



Financial Instruments

As at March 31, 2011, 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:

Credit risk

The Company's credit risk is primarily attributable to its liquid financial assets. Any such credit risk would arise from the nonperformance by counterparties of contractual financial obligations. The Company limits its exposure to credit risk on liquid assets by maintaining its cash, cash equivalents and letters of credit with high credit quality financial institutions. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash, cash equivalents and short-term investments. Cash has been invested in short-term investments to maintain liquidity and achieve an acceptable return. There is minimal risk that the Company would recognize any loss as a result of the decrease in the fair value of any guaranteed investment certificates, money market funds or term deposits included in cash equivalents as they are held with high quality Canadian financial institutions.

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. At March 31, 2011 the Company had working capital of \$13.1 million. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

Critical Accounting Estimates

The financial statements for the period ended March 31, 2011 have been prepared in accordance with IAS 34 using accounting policies consistent with IFRS issued by the IASB and interpretations of IFRIC. The Company's accounting policies are described in note 3 to the financial statements for the period ended March 31, 2011. 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.

In preparing the financial statements for the period ended March 31, 2011, the significant judgments made by management applying the Company's accounting policies and the



key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements. In particular, the significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are: reserve and resource estimation, asset and investment valuations, plant and equipment useful lives, environmental rehabilitation provisions, and other accrued liabilities. A critical accounting estimate in determining the Company's financial results relates to the recoverability of the carried amounts of exploration and evaluation assets. Management assesses carrying values of these assets each time it issues financial statements. Where impairment indicators existed, estimated future cash flows are calculated using estimated future prices, reserves and resources, weighted probable outcomes and operating, capital and reclamation costs on a discounted basis.

Accounting Changes

Adoption of International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will converge with IFRS effective in calendar year 2011. As a result, the Company prepared its financial statements for the period ended March 31, 2011 in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and with IAS 34 *Interim Financial Reporting*, as issued by the IASB. The three months ended March 31, 2011 is the Company's first reporting period under IFRS. Previously, the Company prepared its financial statements in accordance with Canadian GAAP. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010.

The consolidated financial statements for the year ending December 31, 2011 must be prepared using IFRS standards that are in effect on December 31, 2011, and therefore the Company has prepared the financial statements for the period ended March 31, 2011 using the standards that are expected to be effective at the end of 2011. The Company's significant accounting policies under IFRS are provided in Note 3 to the financial statements for the period ended March 31, 2011. The Company's IFRS accounting policies will, however, only be finalized when our first annual IFRS financial statements are prepared for the year ending December 31, 2011. Therefore, certain accounting policies that we currently expect to follow under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified. As a result, the Company's financial statements for the period ended March 31, 2011 may be subject to change.

The Company has provided a detailed explanation of the impacts of this transition in Note 13 of the Company's financial statements for the period ended March 31, 2011, including the Company's elections under IFRS 1. In addition, Note 13 presents reconciliations between the Company's 2010 Canadian GAAP results and the 2010 IFRS



results. The reconciliations also include the changes to equity as at January 1, 2010, March 31, 2010 and December 31, 2010.

Transitional Financial Impact

As a result of the policy choices the Company selected and the changes that were required under IFRS, a reduction in the Company's equity of approximately \$4.6 million as at January 1, 2010 was recorded. Income for the first quarter of 2010 was reduced by \$6.9 million and comprehensive loss for the year ended December 31, 2010 was reduced by \$22.4 million when compared to Canadian GAAP.

The major differences that resulted in these changes to equity and income were the result of the Company changing its policy to retroactively expense exploration and evaluation expenditures until the economic viability of an exploration and evaluation property can be assessed as well as the accounting for flow-through shares. Canadian GAAP and IFRS both allow a company to establish an accounting policy that either capitalizes or expenses exploration and evaluation expenditures incurred. The change in policy to retroactively expense exploration and evaluation expenditures was made to align the Company's accounting with other companies at a similar stage of development and not as a requirement under IFRS. Other minor differences related to accounting for share-based payments and the environmental rehabilitation provision (asset retirement obligation under Canadian GAAP). The full effects of these changes are quantified in Note 13 of the financial statements for the period ended March 31, 2011.

IFRS 1 Exemptions and Exceptions

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at January 1, 2010 were consistent with those made under Canadian GAAP. A summary of the exemptions elected by Company to simplify adopting IFRS is as follows:

1. Share-based payments

The Company has elected to not apply IFRS 2 *Share-based payments* retrospectively to share-based payments that have fully vested at the transition date and therefore no transitional adjustment is required. The Company had a minimal number of equity-settled share-based payments that had not vested and as such at transition an insignificant amount was recognized at the date of transition.

2. Provision for environmental rehabilitation

The application of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* would require the Company to recalculate, retrospectively, the effect of each change in its reclamation provision prior to the date of transition, along with the impact on the related assets and depreciation. IFRS 1 provides the



option to instead measure the liability as at the date of transition to IFRS. The Company has elected to apply this exemption and calculated the impact on the statement of financial position as of January 1, 2010.

Future Accounting Changes

At the date of authorization of the condensed interim consolidated financial statements, the IASB and IFRIC have issued certain new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods. The changes to the Standards include amendments to IAS 12, *Deferred Tax* (recovery of underlying assets) and IFRS 9, *Financial Instruments*. These standards will not be effective for 2011 and the Company has not completely evaluated the effects of these pronouncements.

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 March 31, 2011.

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 IAS 34, Interim Financial Reporting using accounting policies consistent with IFRS issued by the IASB and interpretations of the IFRIC.

There have been no significant changes to internal controls over financial reporting during the quarter ended March 31, 2011 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Outlook

The Company is focused on the completion of a Final Feasibility Study for the Star – Orion South Diamond Project, which is anticipated to be completed in the second quarter of 2011. The rising price for rough diamonds is being driven by increasing demand and shrinking supply, which may become more pronounced in the future as old mines decline in production and close and limited new projects are developed to take their place. The potential of future diamond prices to increase at a significant pace over the next several years will benefit the long-term nature of this proposed project and future prospects from the Fort à la Corne area.

As of June 2, 2011, the Company had approximately \$20.8 million in cash and cash equivalents and short-term investments (excluding the \$2.6 million in restricted cash). A portion of the Company's cash and cash equivalents and short-term investments will be used for the completion of the Final Feasibility Study, the continuation of the EIA process, the funding of certain site power design and engineering costs, carrying out on-going administration and environmental rehabilitation of exploration and evaluation properties as well as for general corporate matters. Cash and cash equivalents and short-term investments may also be used to fund various other exploration and evaluation activities, to purchase certain assets or to acquire and explore additional properties as opportunities warrant.

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's stage of development progresses.



Risks Associated With a Non-Producing Company

The principal risks faced by the Company involve: Shore's ability to obtain financing to further the exploration and development of exploration and evaluation 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 exploration and evaluation 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, 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 Canada and Shore is committed to managing these issues effectively. The Company has diligently investigated title to its claims. 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 feasibility or exploration stage. 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.

As at June 2, 2011, the Company has determined that the Star – Orion South Diamond Project has established reserves. Current forecasts are based on engineering data, projected future rates of production and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserve estimates may be revised based on the results of future drilling, testing or production levels and changes in mine design. In addition, factors including but not limited to market fluctuations in the price of diamonds, changes in foreign exchange rates or estimated recoverable grade from the Star – Orion South Diamond Project may render the mining of ore reserves uneconomical.

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 MD&A contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of Canadian Securities legislation 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. Forward-looking statements in this MD&A include, but are not limited to, statements related to the impact of rising modeled and parcel diamond prices on Star - Orion South Diamond Project economics, pit optimization and mineral reserves; statements and assumptions made regarding buoyancy in world diamond markets and changes in diamond supply and demand; statements relating to future production from and mining of the Star - Orion South Diamond Project and associated timelines; the use of funds to fund the Final Feasibility Study, the continuation of the EIA process, future site power design and engineering costs, exploration activities or the purchase of assets and the acquisition and exploration of additional properties.

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, news releases and technical reports. 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 Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended
March 31, 2011

Notice to Reader

Management has compiled the unaudited condensed interim consolidated financial statements of Shore Gold Inc. for the three-month period ended March 31, 2011. The Corporation's external auditors have not reviewed these condensed interim consolidated financial statements.

Shore Gold Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(Cdn\$ in thousands)	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,781	\$ 2,780	\$ 2,643
Short-term investments	11,148	16,159	37,637
Receivables	212	247	176
Prepays (note 5)	1,335	85	85
	<u>14,476</u>	<u>19,271</u>	<u>40,541</u>
Restricted cash (note 6)	2,607	2,307	2,307
Investments (note 7)	10,189	8,922	8,330
Investment in Wescan Goldfields Inc. (note 8)	1,814	1,425	2,128
Property and equipment	3,389	3,613	4,783
Exploration and evaluation assets	208,437	208,437	208,437
	<u>\$ 240,912</u>	<u>\$ 243,975</u>	<u>\$ 266,526</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 1,302	\$ 3,618	\$ 2,063
Current portion of environmental rehabilitation provision	61	54	66
	<u>1,363</u>	<u>3,672</u>	<u>2,129</u>
Environmental rehabilitation provision	1,369	1,367	1,331
Shareholders' equity	<u>238,180</u>	<u>238,936</u>	<u>263,066</u>
	<u>\$ 240,912</u>	<u>\$ 243,975</u>	<u>\$ 266,526</u>

See accompanying notes to consolidated financial statements

Shore Gold Inc.
Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(unaudited)

Three Months Ended
March 31,
2011 2010

(Cdn\$ in thousands, except for share data)

Revenue

Interest and other income	\$ 40	\$ 34
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Expenses

Administration	949	1,365
Consulting and professional fees	167	497
Corporate development	100	85
Exploration and evaluation (note 9)	1,343	3,949
	2,559	5,896

Loss before the under noted items

	(2,519)	(5,862)
--	---------	---------

Change in fair value of investments (note 7)	1,293	127
--	-------	-----

Investment in Wescan Goldfields Inc.	-	(812)
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Net loss before income taxes

	(1,226)	(6,547)
--	---------	---------

Future income tax	-	-
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Net loss

	(1,226)	(6,547)
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Other comprehensive income in the period

Available-for-sale financial instruments (note 8)	389	-
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Total other comprehensive income for the period

	389	-
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Total comprehensive loss for the period

	\$ (837)	\$ (6,547)
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Net loss per share

Basic and diluted	\$ (0.01)	\$ (0.03)
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Comprehensive loss per share

Basic and diluted	\$ (0.00)	\$ (0.03)
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Weighted average number of shares outstanding (000's)

	224,454	224,454
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See accompanying notes to consolidated financial statements

Shore Gold Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

(Cdn\$ in thousands)	Three Months Ended March 31,	
	2011	2010
Cash provided by (used in):		
Operations:		
Comprehensive loss	\$ (837)	\$ (6,547)
Non-cash items:		
Amortization	241	312
Investment in Wescan Goldfields Inc.	-	812
Change in fair value of available-for-sale investments	(389)	-
Change in fair value of investments	(1,293)	(127)
Fair value of share-based payments expensed	81	930
Unwinding of interest for rehabilitation provision	9	10
Change in provision for environmental rehabilitation	-	14
Net change in non-cash operating working capital items:		
Receivables	35	(106)
Prepays	(1,250)	1,248
Accounts payable and accrued liabilities	(2,316)	(635)
	(5,719)	(4,089)
Investing:		
Property and equipment	(17)	(8)
Short-term investments	5,011	5,972
Restricted cash	(300)	-
Investments	26	8
	4,720	5,972
Increase (decrease) in cash and cash equivalents	(999)	1,883
Cash and cash equivalents, beginning of period	2,780	2,643
Cash and cash equivalents, end of period	\$ 1,781	\$ 4,526
Cash and cash equivalents consists of:		
Cash	\$ 449	\$ 506
Treasury bills	1,332	4,020
	\$ 1,781	\$ 4,526

See accompanying notes to consolidated financial statements

Shore Gold Inc.
Condensed Consolidated Statements of Changes in Equity
(unaudited)

(Cdn\$ in thousands)	Three Months Ended March 31,		Year ended December 31,
	2011	2010	2010
Share Capital	\$ 786,361	\$ 786,361	\$ 786,361
Contributed Surplus			
Balance, beginning of period	\$ 28,229	\$ 26,571	\$ 26,571
Share-based payments (note 10)	81	930	1,658
Balance, end of period	<u>\$ 28,310</u>	<u>\$ 27,501</u>	<u>\$ 28,229</u>
Deficit			
Balance, beginning of period	(575,821)	(549,866)	(549,866)
Loss for the period	(1,226)	(6,547)	(25,955)
Balance, end of period	<u>\$ (577,047)</u>	<u>\$ (556,413)</u>	<u>\$ (575,821)</u>
Accumulated other comprehensive income			
Balance, beginning of period	\$ 167	\$ -	\$ -
Other comprehensive income for the period	389	-	167
Balance, end of period	<u>\$ 556</u>	<u>\$ -</u>	<u>\$ 167</u>
Total equity	<u>\$ 238,180</u>	<u>\$ 257,449</u>	<u>\$ 238,936</u>

SHORE GOLD INC.

Notes to the Condensed Interim Consolidated Financial Statements (for the three-month period ended March 31, 2011)
(In thousands of Canadian dollars except as otherwise noted)

1. Corporate Information

Shore Gold Inc. (“Shore” or the “Company”) was incorporated under the Canada Business Corporations Act on April 29, 1985 whose shares are publicly traded on the Toronto Stock Exchange. The principal activities of Shore are the exploration, development and production of diamonds.

2. Basis of preparation

The condensed interim consolidated financial statements of Shore for the period ended March 31, 2011 were authorized for issue by the Company’s Audit Committee on June 2, 2011. The condensed interim consolidated financial statements of Shore and all its subsidiaries have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These are the Company’s first IFRS condensed interim consolidated financial statements. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS. The condensed interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010. The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 13. The accounting policies set out below have been applied consistently to all periods presented as if these policies had always been in effect; except for first-time exemptions applied which are described in Note 13. The consolidated financial statements for the year ending December 31, 2011 must be prepared using IFRS standards that are in effect on December 31, 2011, and therefore the Company has prepared the financial statements for the period ended March 31, 2011 using the standards that are expected to be effective at the end of 2011. Any subsequent changes to IFRS that are given effect in the annual consolidated financial statements ending December 31, 2011 could result in restatement of these condensed interim consolidated financial statements.

3. Summary of significant accounting policies

The Company’s principal accounting policies are outlined below:

Basis of consolidation

- i. Subsidiaries
The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.
- ii. Interests in jointly controlled assets
A jointly controlled asset involves joint control and offers joint ownership by Shore and other venturers of assets contributed to or acquired for the purpose of a joint venture, without the formation of a corporation, partnership or other entity.

Where Shore’s activities are conducted through jointly controlled assets those operations are accounted for using the proportionate consolidation method, Shore recognizes its share of the jointly controlled assets, and liabilities it has incurred, related revenue and operating costs in the financial statements and a share of their production, if any.

When Shore, acting as an operator, receives reimbursement of direct and indirect costs recharged to the joint venturers such recharges represent reimbursement of costs that the operator incurred as an agent for the joint venturers and therefore have no effect on the statement of income and comprehensive income.

Financial instruments

i. Non-derivative financial assets

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale, held-to-maturity financial assets, and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets designated as fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss. Attributable transaction costs are recognized in profit or loss as incurred.

Financial assets designated as fair value through profit or loss are comprised of the Company's long-term investments (the "Notes").

Available-for-sale

Investments in marketable securities are designated as available-for-sale and recorded at fair value. Fair values are determined by reference to quoted market prices at the balance sheet date. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive income until investments are disposed of or when there is objective evidence of an impairment in value.

Financial assets designated as available-for-sale are comprised of the Company's investment in Wescan Goldfields Inc.

Held-to-maturity financial assets

If the Company has the intent and ability to hold securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Held-to-maturity financial assets are comprised of the Company's cash and cash equivalents, short-term investments and restricted cash.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less impairment losses.

Loans and receivables are comprised of the Company's accounts receivable.

ii. Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized costs using the effective interest method.

Other financial liabilities are comprised of the Company's accounts payable.

iii. Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it has been impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of income and comprehensive income.

If an impairment loss in respect of an available-for-sale financial asset has been recorded in income, it cannot be reversed in future periods.

Cash and cash equivalents

Cash and cash equivalents include cash, and short-term investments that, upon acquisition, have a term to maturity of three months or less.

Short-term investments

Short-term investments include highly liquid interest-bearing investments with maturities greater than three months but within twelve months.

Property, plant and equipment

i. Pre-permit costs

Pre-permit costs are expensed in the period in which they are incurred.

ii. Exploration and evaluation assets and expenses

Once the legal right to explore has been established, exploration and evaluation expenditures are charged to the statement of income and comprehensive income as incurred, unless the Company concludes that a future economic benefit is more likely than not to be realized.

Exploration and evaluation expenditures incurred on permits where a National Instrument ("NI") 43-101 compliant reserve and a final feasibility study have not yet been completed are expensed during this phase and included in "exploration and evaluation" expense in the statement of income and comprehensive income.

Upon the establishment of a NI 43-101 compliant reserve and the completion of a final feasibility study (at which point, the Company considers it probable that economic benefits will be realized), the Company capitalizes any further costs incurred for the particular permit to exploration and evaluation assets up to the point when a development decision is made.

Once NI 43-101 compliant reserves are established and development is approved by the Company, previously capitalized exploration and evaluation assets that were transferred to "mine development costs" are tested for impairment on a cash generating unit basis ("CGU"). If facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the capitalized expenditure which is not expected to be recovered is charged to the statement of income and comprehensive income. No amortization is charged during the exploration and evaluation phase nor while it is under construction.

Exploration and evaluation assets acquired in a business combination or through purchase of an asset are initially recognized at fair value and tested for impairment at each reporting date. These assets are subsequently stated at cost less accumulated impairment, if any.

iii. Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Such cost includes cost of replacing parts that are eligible for capitalization when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement only if it is eligible for capitalization. All other repairs and maintenance are recognized in the statement of income and comprehensive income as incurred.

Depreciation is calculated using the declining balance method except for leasehold improvements, which are amortized on a straight-line basis over a term equal to the remaining life of the current lease agreement or the estimated useful lives. Annual amortization rates are as follows:

Automotive equipment	30% to 40%
Building	10% to 17%
Computer equipment	30%
Computer software	100%
Furniture and equipment	20% to 30%

The carrying value of items of property and equipment is reviewed for impairment either annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values of an asset exceed its estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the statement of income and comprehensive income in the year the item is derecognized.

Employee Benefits

- i. Wages and salaries, and annual leave
The liability for employee entitlements to wages and salaries represents the amount which the Company has a present obligation to pay resulting from services provided up to the reporting date. A provision exists for annual leave as it is earned and is measured at the amount expected to be paid when it is settled and includes all related costs.
- ii. Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.
- iii. Termination benefits
Termination benefits are recognized as an expense when the Company is committed to provide termination benefits in accordance with certain contracts provided to officers of the Company. If benefits are payable for more than 12 months after the reporting date, then those benefits are discounted to their present value.
- iv. Share-based payment transactions
The grant-date fair value of share-based payment awards granted to employees, officers or directors is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

i. Environmental rehabilitation

The Company is required to decommission and rehabilitate exploration sites to a condition acceptable to the relevant authorities.

The expected cost of any decommissioning or rehabilitation program is provided as a liability when the related environmental disturbance occurs. The offsetting cost is treated as an “exploration and evaluation” expense until a NI 43-101 reserve has been established and a final feasibility report completed. Once a NI 43-101 reserve has been established and a final feasibility study completed, the estimated cost (on a discounted basis) of any new environmental disturbances are capitalized. Where there is a change in the expected decommissioning and rehabilitation costs, the value of the provision and any related asset are adjusted and the effect is recognized in the statement of income and comprehensive income on a prospective basis over the remaining life of the operation.

Income tax

Income tax expense for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate adjusted by temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax effect is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary difference between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax balances attributable to amounts recognized directly in equity are also recognized directly in equity.

Flow-through shares

The Company finances a portion of its exploration activities through the issuance of flow-through shares. Upon the sale of flow-through shares, the Company recognizes a liability for the excess purchase price paid by the investors over the fair value of common shares without the flow-through feature (the “premium”) and records the fair value of the shares in equity. When the tax deduction of the expenditures is renounced to the investor, the liability is reversed and a deferred tax liability is recorded for the amount of the benefits renounced to the investors. To the extent the Company has unrecognized tax benefits from loss carry forwards or other tax pools in excess of book value the Company will offset the future income tax liability resulting in the premium being recognized in the statement of income and comprehensive income.

Use of estimates and judgment

The preparation of the Company’s condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management applying the Company’s accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements. In particular, the

significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are: reserve and resource estimation, asset and investment valuations, plant and equipment useful lives, environmental rehabilitation provisions, and other accrued liabilities.

4. IFRS standards issued but not yet effective

At the date of authorization of these condensed interim consolidated financial statements, the IASB and IFRIC have issued certain new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods. The changes to the Standards include amendments to IAS 12, Deferred Tax (recovery of underlying assets) and IFRS 9, Financial Instruments. These standards are not effective for 2011 and the Company has not completely evaluated the effects of these pronouncements.

5. Prepaids

During the first quarter of 2011, the Company paid the Saskatchewan Power Corporation \$1.2 million for certain preliminary work to be performed over the next year regarding the potential construction of a power line to the Company's Star - Orion South Diamond Project. As at March 31, 2011, \$1.1 million remained as a prepaid related to this work.

6. Restricted Cash

The Company has pledged \$2,607 thousand (December 31, 2010 and January 1, 2010 – \$2,307 thousand) in short-term investments as security for letters of credit provided, of which the majority are related to the provision for decommissioning and rehabilitation. These short-term investments are recorded as restricted cash.

7. Investments

At March 31, 2011 the Company held \$10.2 million (December 31, 2010 – \$8.9 million and January 1, 2010 – \$8.3 million) in investments ("Notes") with a total par value of \$14.3 million (December 31, 2010 and January 1, 2010 – \$14.3 million). The Notes are designated as fair value through profit or loss. 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.

Master Asset Vehicle ("MAV")	Class	Par Value ^(a)	Percent of Investment	March 31, 2011 Fair Value ^(b)	December 31, 2010 Fair Value ^(b)	January 1, 2010 Fair Value ^(b)
MAV2	Class A-1 Notes	\$ 6,193	43.2%	\$ 4,820	\$ 4,404	\$ 4,200
MAV2	Class A-2 Notes	6,467	45.2%	4,556	4,470	4,090
MAV2	Class B Notes	1,174	8.2%	657	-	-
MAV2	Class C Notes	428	3.0%	111	-	-
MAV3	Class 9 Notes	58	0.4%	45	48	40
Total		\$ 14,320	100.0%	\$ 10,189	\$ 8,922	\$ 8,330

(a) Par Value

The par value 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.

(b) Fair value

For the quarter ended March 31, 2011, the Company determined the fair value of the Notes based on the net proceeds received from the sale of these Notes in early April 2011. Before January 1, 2011, the Company determined the fair value of the Notes using a discounted cash flow approach.

As a result of the fair value assessment of the Notes, the Company recorded an increase in fair value of \$1,293 thousand during the quarter ended March 31, 2011 (March 31, 2010 – \$127 thousand increase in fair value).

For the three-month period ended March 31, 2011, the Company received \$26 thousand in quarterly interest payments from the restructured Notes. For the three-month period ended March 31, 2010, the Company received \$4 thousand in quarterly interest payments and \$4 thousand in principal repayments from the restructured Notes. Interest payments received or receivable are included in the fair value calculation of the Notes.

8. Investment in Wescan Goldfields Inc.

At March 31, 2011, Shore held 12,955,567 (December 31, 2010 and January 1, 2010 – 12,955,567) shares of Wescan Goldfields Inc. (“Wescan”), a publicly traded company on the TSX Venture exchange. The Company accounts for its 11.5% (December 31, 2010 – 12.7% and January 1, 2010 – 16.2%) investment in Wescan as an available-for-sale financial asset as described in note 3. For the period ended March 31, 2011, the Company recognized a \$0.4 million increase in the carrying value of its investment in Wescan in other comprehensive income. The carrying value of the Company’s investment in Wescan at December 31, 2010 was \$1.4 million. Prior to the fourth quarter of 2010, the Company accounted for its investment in Wescan on an equity basis and as such recognized its proportionate equity interest of losses and dilution gains from various equity transactions of Wescan. The fair value of equity shares at January 1, 2010 was \$1.8 million compared to a carrying value of \$2.1 million. The difference between the carrying value and fair value was assessed by the Company as a temporary impairment.

9. Exploration and evaluation expense

The Company’s exploration and evaluation expense for the three-month periods ended March 31, is comprised of the following:

	March 31, 2011	March 31, 2010
Fort à la Corne properties		
Acquisition and staking	\$ -	\$ 1
Amortization	199	265
Exploration and feasibility	1,087	3,174
Provision for rehabilitation	-	14
Share-based payments	55	88
Buffalo Hills property		
Exploration	2	407
Total	\$ 1,343	\$ 3,949

10. Share-based payments

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. 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 granted under the plan expire 5 years from the date of the grant of the options. All options are to be settled by physical delivery of shares.

The expense related to the Company’s share-based payment is recognized in the comprehensive statement of income for the three-month period ended March 31, as presented as follows:

Expense Category included	March 31, 2011	March 31, 2010
Administration	\$ 20	\$ 531
Consulting and professional	-	309
Corporate development	6	2
Exploration and evaluation	55	88
Total	\$ 81	\$ 930

Option movements (in thousands) during the three-month periods ended March 31, including weighted average exercise prices are as follows:

	2011		2010	
	Options	Average Price	Options	Average Price
Outstanding – January 1	9,820	\$ 2.05	9,641	\$ 3.16
Granted during the period	-	-	1,475	0.88
Exercised during the period	-	-	-	-
Expired during the period	(10)	7.90	(623)	2.44
Forfeited during the period	-	-	-	-
Outstanding – March 31	9,810	\$ 2.04	10,493	\$ 2.89
Exercisable – March 31	9,373	\$ 2.08	10,065	\$ 3.00

The options outstanding at March 31, 2011 have an exercise price in the range of \$0.27 to \$6.41 (2010 - \$0.27 to \$7.33) and a weighted average contractual life of 2.6 years (2010 - 2.9 years). The options expire between the dates of April 2011 to June 2015.

11. Related party transactions

Related party transactions with key management personnel

The Company pays certain of its key management personnel through companies owned by certain executive officers and directors. Those companies are as follows:

MacNeill Brothers Oil and Gas Ltd.
 Baywatch Industries Ltd.
 George Read Consulting Inc.

Compensation of key management personnel and directors, including payments to related parties owned by executive officers and directors, is as follows:

	March 31, 2011	March 31, 2010
Short-term benefits to key management and directors	\$ 95	\$ 65
Consulting and management fees to related companies	233	241
Share-based payment transactions	-	618
Total compensation paid to key management personnel and directors	\$ 328	\$ 924

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel and directors. 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. The fair value of share-based payments was determined using the Black-Scholes model.

The compensation paid to key management personnel and directors are included in the Company's statement of comprehensive income and loss as follows:

	March 31, 2011	March 31, 2010
Administration	\$ 198	\$ 464
Consulting and professional fees	130	460
Total compensation paid to key management personnel and directors	\$ 328	\$ 924

12. Financial instruments

As at March 31, 2011, the fair value of all of the Company's financial instruments approximates their carrying value due to the short-term nature of these instruments or due to the instrument being designated as fair value through profit or loss or available-for-sale.

13. First time adoption of IFRS

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. IFRS employs a conceptual framework that is similar to Canadian GAAP; however, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company. Under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied or prohibited. IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at January 1, 2010 were consistent with those made under Canadian GAAP. The exemptions that have been chosen by the Company on the transition to IFRS are as follows:

First time adoption exemptions

1. *Share-based payments*

The Company has elected to not apply IFRS 2 *Share-based payments* retrospectively to share-based payments that have fully vested at the transition date and therefore no transitional adjustment is required. The Company had a minimal number of equity-settled share-based payments that had not vested and as such at transition an insignificant amount was recognized at the date of transition.

2. *Provision for environmental rehabilitation*

The application of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* would require the Company to recalculate, retrospectively, the effect of each change in its reclamation provision prior to the date of transition, along with the impact on the related assets and depreciation. IFRS 1 provides the option to instead measure the liability as at the date of transition to IFRS. The Company has elected to apply this exemption and calculated the impact on the statement of financial position as of January 1, 2010.

Presented below are reconciliations prepared by the Company to reconcile to IFRS equity, and net and comprehensive income (loss) of the Company from those reported under Canadian GAAP. Separate cash flow reconciliations were not prepared as those statements did not require material adjustments to reconcile to IFRS.

Reconciliation of equity and net and comprehensive income (loss)

A reconciliation between Canadian GAAP and IFRS equity as at January 1, 2010 (date of transition to IFRS), March 31, 2010, and December 31, 2010 is provided below:

	Note	January 1, 2010	March 31, 2010	December 31, 2010
Equity under Canadian GAAP		267,699	265,666	262,545
Exploration and evaluation	(i)	(4,753)	(8,346)	(23,734)
Provision for environmental rehabilitation	(ii)	120	129	125
Total IFRS adjustments to equity		(4,633)	(8,217)	(23,609)
Equity under IFRS		263,066	257,449	238,936

The following is a reconciliation of the Company's Canadian GAAP statement of income and comprehensive income to IFRS for the three-month period ended March 31, 2010 and the twelve month period ended December 31, 2010:

	Note	Three months ended March 31, 2010	Year ended December 31, 2010
Net and comprehensive income (loss) for the period under Canadian GAAP		\$ 390	\$ (3,376)
Basic and diluted income (loss) per share under Canadian GAAP		\$ 0.00	\$ (0.02)
Adjustments for differing accounting treatments under IFRS:			
Exploration and evaluation	(i)	(3,593)	(18,981)
Provision for environmental rehabilitation	(ii)	9	5
Share-based payments	(iii)	22	(61)
Flow-through shares	(iv)	(3,375)	(3,375)
Available-for-sale financial instruments	(v)	-	(167)
Net loss for the period under IFRS		(6,547)	(25,955)
Available-for-sale financial instruments	(v)	-	167
Comprehensive loss for the period under IFRS		(6,547)	(25,788)
Per Share Amounts:			
Basic and diluted loss per share under IFRS		(0.03)	(0.12)
Basic and diluted comprehensive loss per share under IFRS		(0.03)	(0.11)

Notes:

(i) Exploration costs (exploration and evaluation assets)

Costs associated with geological and geophysical expenditures for exploration and evaluation of mineral properties were capitalized to mineral properties in accordance with previous GAAP. Under the Company's IFRS policies, certain exploration and evaluation expenditures are expensed until the economic recoverability of mineral properties is determined. Accordingly, exploration expenditures that were capitalized under Canadian GAAP have been expensed for IFRS presentation purposes. Share-based compensation that had been capitalized as part of mineral properties under Canadian GAAP resulted in a future income tax liability which ultimately reduced the valuation allowance on the Company's future income tax assets. Expensing the share-based compensation that was part of mineral properties under IFRS causes the reversal of the future income tax impact on that share-based compensation that was previously capitalized.

(ii) Provision for environmental rehabilitation (Asset retirement obligations)

Under Canadian GAAP, asset retirement obligations were not adjusted for changes in the discount rate alone. Under IFRS, the provision for environmental rehabilitation must be adjusted at each reporting date for changes in the discount rate. As a result, the provision for environmental rehabilitation has been re-measured using the discount rate in effect at January 1, 2010 and the offsetting adjustment was through equity as all exploration and evaluation expenditures, including those relating to environmental rehabilitation, are expensed in accordance with the Company's policy.

(iii) Share-based payments

Under Canadian GAAP the fair value of stock-based awards with graded vesting were calculated as a single grant and the resulting fair value was recognized on a straight-line basis over the vesting periods. Forfeitures of awards were recognized as they occurred.

Under IFRS each tranche of an award with different vesting dates was considered a separate grant for the calculation of fair value, and the resulting fair value was amortized over the vesting period of the respective tranches. Forfeiture estimates were recognized in the period they were estimated, and revised for actual forfeitures in subsequent periods.

(iv) Flow-through shares

Under Canadian GAAP, share capital was reduced for share issue costs by the amount recognized for future tax liabilities related to the renunciation of flow-through share expenditures at the time of renunciation. Similarly to IFRS, to the extent the Company has unrecognized tax benefits from loss carryforwards and tax pools in excess of book values the resulting deferred tax liability is offset by the recognition of previously unrecorded tax assets. Under IFRS, the sale of flow-through shares results in a liability being recognized for the excess of the purchase price paid by the investors over the fair value of common shares without the flow-through feature (the “premium”) and the fair value of the shares is recorded as equity. When the tax deductibility of the expenditures is intended to be renounced to investors, the liability is reversed and a future income tax liability is recorded for the amount of the benefits renounced to third parties and an income tax expense is recognized. To the extent that the Company has unrecognized tax assets that are not expected to expire, the premiums are recognized in earnings at the time of the renunciation of the tax pools. The net result of the difference under IFRS is to reduce share capital by the premium as opposed to the full amount of the future tax liability and recognize the premium in earnings in the period the Company intended to renounce the expenditures to the investors as opposed to the full amount of the future tax liability when the expenditure was renounced.

(v) Available-for-sale financial instruments

At December 31, 2010, the Company’s investment in Wescan Goldfields Inc. was classified as held-for-trading (fair-value through profit or loss under IFRS) under Canadian GAAP. The Company is not allowed to designate an investment of this nature as fair-value through profit or loss under IFRS unless it meets certain criteria. As a result, the Company has designated the investment in Wescan Goldfields Inc. as available-for-sale under IFRS. Prior to September 30, 2010, the Company accounted for this investment as an equity investment and accordingly there is no difference between IFRS and Canadian GAAP prior to the fourth quarter of 2010.

Financial statement presentation changes

The transition to IFRS has resulted in financial statement presentation changes in our financial statements which are summarized below:

- **Property and equipment**

Under Canadian GAAP, property and equipment was separately identified as assets not directly related to exploration and evaluation while those tangible assets specifically related to exploration and evaluation were grouped in mineral properties. Upon transition to IFRS, the Company reclassified all tangible assets in the mineral property balance to property and equipment. Due to the change in the Company’s accounting policy to expense all exploration and evaluation expenditures as described above, amortization of property and equipment that specifically relates to exploration and evaluation equipment will be expensed under IFRS under the exploration expense category instead of capitalized under Canadian GAAP.

- **Expense category by function**

Under IFRS, the Company is required to present its statement of income by function or nature. The Company has presented its expenses by function and accordingly amortization and accretion is no longer presented as a separate line item, but is included in administration category. Amortization related to exploration and evaluation equipment that was previously capitalized is now expensed as part of the exploration and evaluation category.

- **Statement of cash flows**

Due to the change in the Company's accounting policy to expense all exploration and evaluation expenditures as described above, those activities under IFRS are included in operating activity on the statement of cash flows instead of investing activity. All non-cash items included in the exploration and evaluation category, such as amortization and stock-based compensation, must be removed from net and comprehensive income on the statement of cash flows to reconcile the operating activity.

The unwinding of the interest related to the Company's environmental rehabilitation provision is specifically required to form part of financing activity for presentation purposes on the statement of cash flows. The Company had previously included this amount in investing activities.

There is no impact on cash and cash equivalents as a result of these presentation changes.

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CORPORATE INFORMATION

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Duane D. DeRosier – Vice President Administration
Terri L. Uhrich – Corporate Secretary

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Calgary, Alberta

Auditors

KPMG LLP
Saskatoon, Saskatchewan

Bank

Canadian Western Bank
Saskatoon, Saskatchewan

Exchange Listing

TSX
224,454,242 common shares issued and outstanding as at June 2, 2011

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SGF

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