



**Management's Discussion & Analysis**

**December 31, 2015**



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

For the year ended December 31, 2015

The following discussion and analysis is prepared by Management as of March 23, 2016 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 ("financial statements for the year ended December 31, 2015") available on SEDAR at [www.sedar.com](http://www.sedar.com). Shore Gold Inc. ("Shore", "SGF", or "the Company") prepared its financial statements for the year ended December 31, 2015 in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All currency amounts are quoted in Canadian Dollars, unless otherwise stated.

### Overview

The Star – Orion South Diamond Project ("Project") is situated in the Fort à la Corne kimberlite field in central Saskatchewan. The 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 69 percent interest (2014 – 68 percent) in the FALC-JV and Newmont Canada FN Holdings ULC ("Newmont") has a 31 percent interest (2014 – 32 percent).

### Events relating to the Star - Orion South Diamond Project

During the fourth quarter of 2015, the Company announced Revised Mineral Resource estimates for the Star and Orion South Kimberlites (see SGF News Release dated November 9, 2015 and Technical Report filed December 21, 2015). Accordingly, the mineral resources and economic assessment previously disclosed by Shore for the Project should no longer be relied upon. These Revised Mineral Resource estimates resulted in substantial increases in tonnes, grade and carats in the Indicated Resource category:

- Indicated Mineral Resource for the Star Kimberlite has increased 38 percent to 28.2 million carats and the grade has increased 11 percent to 15 carats per hundred tonnes ("cpht").
- Indicated Mineral Resource for the Orion South Kimberlite has increased 134 percent to 27.1 million carats and the grade has increased 1 percent to 14 cpht.

In addition to the Indicated Mineral Resource Estimate, the Star and Orion South Kimberlites include Inferred Resources containing 11.5 million carats.

The Company also announced an updated valuation of the diamond parcels from the Project (see SGF News Release dated October 21, 2015). This updated diamond valuation was required for the Revised Mineral Resource estimates for the Star and Orion South Kimberlites. The Parcel Prices show increases between 31 and 125 percent above the March 2008 prices. Model Prices ranging between \$161 and \$333 per carat have been



determined for the diamond populations of the major kimberlite units that make up the Star and Orion South Kimberlites. The decline in the value of the Canadian dollar against the US dollar since January 2013 works in favour of Project economics and the increase in Model Prices is even greater in Canadian dollar terms.

During 2015 the Company announced a large diameter drilling ("LDD") program (see SGF News Release dated February 19, 2015) as well as a related core drilling program (see SGF News Release dated March 27, 2015) on the Orion South Kimberlite. The core drilling was required to accurately document the internal stratigraphy of the Orion South Kimberlite prior to the commencement of the LDD program. The LDD drilling program aimed to provide diamond grade information at new grid locations and this additional diamond grade information was used in the revised Mineral Resource estimates. The original evaluation of the Orion South Kimberlite, using underground bulk sampling and LDD mini-bulk sampling, was curtailed by the world financial crisis of late 2008.

In June 2015 the Company announced that both the core and LDD drilling programs had been successfully completed (see SGF News Release dated June 15, 2015). The LDD program included twelve 24 inch holes totaling 2,560.5 metres that sampled a total of 1,028.53 metres of kimberlite units within the Orion South Kimberlite (see SGF News Release dated September 2, 2015). The samples were processed at Rio Tinto Canada Diamond Exploration Inc's Thunder Bay Mineral Processing Laboratory. The core drilling program included 18 vertical NQ (48 millimetre) diamond drill holes totaling 3,617 metres that intersected 1,208 metres of Early Joli Fou ("EJF") and Pense kimberlite, confirming significant new intersections of kimberlite on the western flank and southern part of the Orion South Kimberlite. These significant new kimberlite intersections (up to 112 metres) extended the existing 100 metre grid drilling program already completed on Orion South. Since Newmont elected to not participate in the 2015 FALC-JV programs, their interest in the FALC-JV diluted by 1 percent to 31 percent (2014 – 32 percent).

The Company recently announced the commencement of the 2016 core drilling programs (See SGF News Release dated February 23, 2016). This core drilling is required to further expand the internal stratigraphy of the Orion South and Star Kimberlites extending and in-filling geological continuity from the 2015 drilling programs.

During December 2014, the Canadian Environmental Assessment Agency ("CEAA" or the "Agency") announced an Environmental Assessment Decision for the proposed Project (See SGF News Release dated December 3, 2014). The Honourable Leona Aglukkaq, Environment Minister, announced that the Project "is not likely to cause significant adverse environmental effects when the mitigation measures described in the Comprehensive Study Report are taken into account". The CEAA is the lead agency for the Federal government and Saskatchewan Ministry of Environment ("Ministry") is the lead agency on behalf of the Province, which are jointly conducting the environmental assessment of the proposed Project. The Company filed the final Environmental Impact Statement ("EIS") for the Project to the Ministry and the CEAA (See SGF News Release



dated August 6, 2014). The EIS was prepared at the request of the Ministry and includes all updates, revisions, information requests and the Company's responses. The final EIS was released for public comment by the Ministry in January 2015. The public was invited to comment on the EIS and the Ministry's technical review comments. The Ministry is continuing to work on fulfilling the province's duty to consult responsibilities with First Nation and Métis communities potentially impacted by the proposed Project.

## Selected Annual Information

Selected financial information of the Company for each of the last 3 fiscal years is summarized as follows:

	2015	2014	2013
	\$	\$	\$
<b>Interest and other income</b> (millions)	0.0	0.0	0.1
<b>Net loss</b> (millions)	9.1	3.0	5.6
<b>Net loss per share</b> <sup>(1)</sup>	0.04	0.01	0.02
<b>Total assets</b> (millions)	6.0	9.0	7.2
<b>Total non-current liabilities</b> (millions) <sup>(2)</sup>	0.6	0.6	0.9
<b>Working capital</b> (millions)	4.0	6.4	4.2

(1) Basic and diluted.

(2) Non-current liabilities are comprised of environmental rehabilitation provisions for which the Company has provided letters of credit, backed by short-term securities that are recorded on the Company's financial statements as restricted cash.

## Results of Operations

For the year ended December 31, 2015, the Company recorded a net loss of \$9.1 million or \$0.04 per share compared to a net loss of \$3.0 million or \$0.01 per share in 2014. These losses were primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest income earned on cash and cash equivalents and short-term investments.

### *Interest and other income*

The Company invested excess cash reserves in interest bearing short-term deposits while ensuring funds would be available for cash outflow requirements associated with the Company's exploration projects. For the years ended December 31, 2015 and 2014 the Company reported interest and other income of \$54 thousand and \$41 thousand respectively. This \$13 thousand increase in income is primarily attributed to higher cash reserves during most of the year compared to 2014.

### *Expenses*

Expenses incurred during the year ended December 31, 2015 were \$9.1 million compared to \$2.9 million in 2014. This increase was primarily due to higher exploration and evaluation expenditures incurred during 2015 due to the nature of work performed. These



amounts also include \$1,010 thousand of share-based payments that was expensed during the year ended December 31, 2015 (2014 – \$253 thousand).

Exploration and evaluation expenditures were \$6.1 million for the year ended December 31, 2015 compared to \$1.0 million for the same period in 2014. This increase of \$5.1 million was due to the nature of work performed on the Star – Orion South Diamond Project. Exploration and evaluation expenditures incurred during the year ended December 31, 2015 primarily related to expenditures relating to the drilling programs as well as continuation of the environmental assessment process for the Project. Exploration and evaluation expenditures incurred during the year ended December 31, 2014 primarily related to the continuation of the environmental assessment process for the Project as well as on-going administration and maintenance of the Company's exploration and evaluation properties. Approximately 15 percent, or \$0.9 million (2014 – \$0.8 million), of the exploration and evaluation expenditures were made up of compensation costs, including share-based payments, incurred by the Company. During 2015 and 2014 the Company also revised its environmental rehabilitation provisions as a result of updated estimates.

Administration, consulting and professional fees and corporate development expenditures increased by \$1.1 million to \$3.0 million. This increase was primarily due to higher stock based compensation expenses recognized during 2015, offset by lower compensation costs incurred, as well as higher consulting and professional fees. Approximately 54 percent, or \$1.6 million (2014 – \$1.2 million), of administration, consulting and professional fees and corporate development expenditures were made up of compensation costs, including share-based payments, incurred by the Company.

#### ***Premium on flow-through shares***

The Company issued flow-through shares during 2015 for a premium over the market value of the shares. The premium over the market value of the shares is recognized as a liability until such time as the Company incurs qualifying exploration expenditures. As at December 31, 2015 this premium was \$0.5 million (2014 - \$0). As the Company incurs qualifying expenditures in 2016, this liability to the investor is satisfied and accordingly the premium received on the initial issue of share capital will be recognized in income.

#### ***Use of proceeds***

During 2014, the Company raised \$5.5 million from flow-through financing activities to be used on exploration and evaluation activities before the end of 2015. The Company has fulfilled this obligation as of December 31, 2015.

During 2015, the Company raised \$2.6 million from flow-through financing activities to be used on exploration and evaluation activities before the end of 2016. The Company expects that exploration and evaluation expenditures to be incurred in 2016 will fulfill its obligations under its flow-through commitments.



### ***Investment in Wescan Goldfields Inc.***

At December 31, 2015, Shore held 5,806,634 shares or 15.6 percent (December 31, 2014 – 5,806,634 shares) of Wescan Goldfields Inc. (“Wescan”), a publicly traded company on the TSX Venture exchange. The Company has assessed its investment in Wescan as an available-for-sale financial asset. At December 31, 2015, the carrying value of this investment was \$58 thousand (December 31, 2014 – \$87 thousand). As a result, during 2015 the Company recognized a \$29 thousand decrease in the carrying value of its investment in Wescan. At December 31, 2011, the Company assessed that there was objective evidence that this investment was impaired. As the Company’s impairment assessment at December 31, 2015 has not changed, the \$29 thousand change in value during 2015 was recognized in the consolidated statement of loss as an unrealized loss instead of other comprehensive loss. If an impairment loss in respect of an available-for-sale financial asset has been recorded in the consolidated statement of loss, it cannot be reversed in future periods. The fair value of this investment, based on the closing trading price at December 31, 2015, was \$116 thousand (December 31, 2014 – \$87 thousand).

### ***Financing***

During 2015 the Company completed a private placement of 10.0 million Units at a price of \$0.20 per Unit, for aggregate gross proceeds of \$2.0 million (see SGF News Release dated June 12, 2015). Each Unit consisted of one common share and one common share purchase warrant. Each warrant will entitle the holder thereof to purchase one common share at a price of \$0.25 for a period of 18 months from the date of issuance. On December 30, 2015, the Company completed a bought deal private placement of 11.5 million flow-through common shares and 3.7 million common shares, for total gross proceeds of \$3.3 million (See SGF News Release December 30, 2015). Gross proceeds of \$2.6 million from the flow-through common shares will be used to incur Canadian exploration expenses prior to December 31, 2016. The Company also issued 1.0 million common shares from treasury pursuant to an agreement with a third-party consulting and professional service provider. This agreement allowed for a fee of \$0.2 million to be paid by the Company in cash or the issuance of common shares.

During 2014, the Company announced the successful completion of a bought deal private placement of 21.9 million flow-through shares of the Company for gross proceeds of \$5.5 million which was used to incur Canadian exploration expenses prior to December 31, 2015 (See SGF News Release December 30, 2014). During the year ended December 31, 2014, 20,000 options were also exercised resulting in additional cash flow from financing activities of \$3 thousand.



## Summary of Quarterly Results

	2015				2014			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
<b>Income</b> <sup>(1)</sup> (\$millions)	<b>0.0</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net loss</b> <sup>(2)</sup> (\$millions)	<b>1.4</b>	2.0	4.5	1.2	0.4	0.8	0.9	0.9
<b>Net loss per share</b> <sup>(3)</sup> (\$)	<b>0.01</b>	0.01	0.02	0.00	0.00	0.00	0.00	0.01
<b>Shares outstanding</b> (millions) <sup>(4)</sup>	<b>274.3</b>	258.1	256.5	246.5	246.7	224.8	224.8	224.7

(1) Income is primarily related to interest earned on the Company's cash and short-term investments.

(2) Net losses relate to expenditures incurred by the Company exceeding interest income earned. Net loss during the fourth quarter of 2014 was lower as a result of adjustments to environmental reclamation provisions.

(3) Basic and diluted.

(4) On December 30, 2015, the Company completed a bought deal private placement of 11.5 million flow-through common shares and 3.7 million common shares of the Company. During the fourth quarter of 2015, 1.0 million shares were also issued from treasury as a result of vested Restricted Share Unit ("RSU") redemptions. During the third quarter of 2015, 0.6 million shares were issued from treasury as a result of vested RSU redemptions and 1.0 million shares were issued from treasury pursuant to an agreement with a third-party consulting and professional service provider. During the second quarter of 2015, the Company completed a private placement of 10.0 million shares of the Company. Changes during the first quarter of 2015 related to the return to treasury of certain share certificates pursuant to the Plan of Arrangement between Kensington Resources Ltd. ("Kensington") and Shore Gold Inc. effective October 28, 2005. Those Kensington shareholders that did not submit a Letter of Transmittal to change their shares from Kensington to Shore have lost the right to do so. As a result, these shares were cancelled and removed from Shore's share register. On December 30, 2014, the Company completed a bought deal private placement of 21.9 million flow-through shares of the Company. Other changes are due to option exercises.

### Fourth quarter results

For the quarter ended December 31, 2015, the Company recorded a net loss of \$1.4 million or \$0.01 per share compared to a net loss of \$0.4 million or \$0.00 per share for the same period in 2014. These losses were primarily due to operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest income earned on cash and cash equivalents and short-term investments.

Expenses incurred during the quarter ended December 31, 2015 were \$1.4 million compared to \$0.2 million for the same period in 2014. Expenses for the quarter ended December 31, 2015 increased from the quarter ended December 31, 2014 due to higher operating expenditures and exploration and evaluation expenditures incurred by the Company.

Exploration and evaluation expenditures incurred during the quarter ended December 31, 2015 increased by \$0.6 million from the same period in 2014. Exploration and evaluation expenditures incurred during the fourth quarter of 2015 were primarily related to the drilling programs. Exploration and evaluation expenditures incurred during the fourth quarter of 2014 primarily related to the continuation of the environmental assessment process for the Project as well as on-going administration and maintenance of the Company's exploration and evaluation properties. During the quarter ended December 31,



2014 the Company also revised its environmental rehabilitation provisions as a result of updated estimates.

In addition, administration, consulting and professional fees, and corporate development expenditures for the quarter ended December 31, 2015 increased by \$0.6 million from the same period in 2014, primarily due to higher stock based compensation expenses recognized during the quarter and the loss on disposal of property and equipment during the fourth quarter of 2015. In addition, during the fourth quarter of 2014 an allowance for doubtful accounts that was originally recorded in 2013 was reversed.

During the fourth quarter of 2015, the Company announced the successful completion of a bought deal private placement for gross proceeds of \$3.3 million. During the fourth quarter of 2014, the Company announced the successful completion of a bought deal private placement for gross proceeds of \$5.5 million.

### **Related Party Transactions**

At December 31, 2015, Messrs. Kenneth E. MacNeill (President and Chief Executive 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. Messrs. MacNeill and Read's monthly fees were \$29 thousand (2014 – \$25 thousand) and \$22 thousand (2014 – \$19 thousand), respectively.

Total compensation paid or payable to officers (including amounts paid through companies controlled by Messrs. MacNeill and Read) and to directors of the Company was \$1.6 million (2014 – \$1.0 million). Of these amounts, \$1.2 million (2014 – \$0.7 million) was included in administration expense and \$0.4 million was included in exploration and evaluation expense (2014 – \$0.3 million). Included in these amounts are share-based payment transactions of \$0.8 million (2014 – \$0.2 million)

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 in the form of options was determined using the Black-Scholes model. The fair value of share-based payments in the form of RSUs was determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant. The fair value of share-based payments in the form of deferred share units ("DSUs") was determined based on the closing price of the Company's common shares at the date of grant.

### **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.



At December 31, 2015 the Company had \$4.2 million (2014 – \$6.6 million) in cash and cash equivalents and short-term investments. The Company has also supplied \$1.0 million (2014 – \$1.1 million) of irrevocable standby letters of credit issued by a Canadian chartered bank. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. As well, at December 31, 2015, the Company is required to spend \$2.6 million on qualifying exploration expenditures by the end of 2016 to fulfill its obligations under its flow-through commitments.

### **Capital Resources and Outstanding Share Data**

As at December 31, 2015 the Company had working capital of \$4.0 million compared to \$6.4 million at December 31, 2014. The Company believes it has sufficient liquidity to continue operations until further financing is arranged in 2016.

At December 31, 2015 the Company had 274,286,765 common shares issued, 329,000 DSUs, 3,333,333 RSUs, 8,573,000 options (weighted average exercise price of \$0.30), 10,000,000 warrants (weighted average exercise price of \$0.25) and 2,223,627 broker warrants (weighted average exercise price of \$0.24). The number of common shares increased from December 31, 2014 primarily due to: the \$2.0 million private placement financing which was completed on June 12, 2015 (10,000,000 common shares); the \$3.3 million private placement financing which was completed on December 30, 2015 (15,153,750 common shares); RSU redemptions (1,666,667 common shares) as well as common shares issued from treasury pursuant to an agreement with a third-party consulting and professional service provider (1,014,310 common shares). This increase in common shares outstanding was offset by the return to treasury of certain share certificates pursuant to the Plan of Arrangement between Kensington Resources Ltd. (“Kensington”) and Shore Gold Inc. effective October 28, 2005. Those Kensington shareholders that did not submit a Letter of Transmittal to change their shares from Kensington to Shore, have lost the right to do so. As a result, these shares were cancelled and removed from Shore’s share register.

At the June 2015 Annual General and Special Meeting, shareholders approved a Deferred Share Unit Plan, which provides for the grant of DSUs to eligible directors of the Company. The Board of Directors determined that the implementation of the DSU Plan was necessary in order for the Company to effectively retain, motivate and reward its directors, for their performance and contribution to the Company's long-term success. The DSUs provide for the payment of certain amounts, or the issuance of Common Shares, to the participants. The ability to settle DSUs with Common Shares from treasury allows the Company to manage the cash expense of providing these incentives to eligible directors. The Company does not intend to make cash payments and there is no history of the Company making cash payments under the DSU plan and, as such, the DSUs are



accounted for within shareholders' equity. During 2015, 329,000 DSUs were granted to eligible directors.

At the June 2015 Annual General and Special Meeting, shareholders also approved a Performance Share Unit and Restricted Share Unit Plan (the "Unit Plan"), which provides for the grant of performance share units ("PSUs") and RSUs to eligible officers and employees of the Company. The Board of Directors determined that the implementation of the Unit Plan was necessary in order for the Company to effectively retain, motivate and reward its employees and executives for their performance and contribution to the Company's long-term success. Upon vesting, the PSUs and/or the RSUs provide for the payment of certain amounts, or the issuance of common shares, to the participants. The ability to settle PSUs and RSUs with Common Shares from treasury allows the Company to manage the cash expense of providing these incentives to employees. The Company does not intend to make cash payments and there is no history of the Company making cash payments under the Unit plan and, as such, the PSUs and RSUs are accounted for within shareholders' equity. During 2015, 5,000,000 RSUs were granted and 1,666,667 vested RSUs were redeemed for common shares.

Options outstanding at December 31, 2015 increased by 1,534,500 from December 31, 2014 to 8,573,000, due to option grants of 3,709,500 (weighted average exercise price of \$0.20), offset by option expiries of 2,175,000.

Broker warrants increased by 909,225 from December 31, 2014 due to broker warrants issued relating to the December 30, 2015 private placement financing.

As at March 23, 2016, the Company's issued and outstanding common shares, warrants, broker warrants, options, RSUs and DSUs remained unchanged from December 31, 2015.

## **Financial Instruments**

As at December 31, 2015, the fair values of all of the Company's financial instruments approximates their carrying values. Certain financial instruments are exposed to the following financial risks:

### ***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 considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At December 31, 2015, the Company's credit risk relates to its cash and cash equivalents, short-term investments, receivables and restricted cash of \$5.3 million (December 31, 2014 – \$7.8 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 is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at December 31, 2015, the Company had working capital of \$4.0 million (excluding restricted cash) and is required to incur qualifying expenditures of \$2.6 million before December 31, 2016 as a result of the flow-through share financing discussed in note 16. Given that cash flow from operations are negative, the Company is dependent on additional sources of financing required in 2016.

As at December 31, 2015, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

(millions)	Up to 3 months	Between 3 months and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and accrued liabilities	\$ 0.3	\$ -	\$ -	\$ -	\$ -	<b>\$ 0.3</b>
Operating leases	0.1	-	-	-	-	<b>0.1</b>
<b>Total</b>	<b>\$ 0.4</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.4</b>

As at December 31, 2015, the Company had guaranteed certain liabilities by issuing \$1.0 million (December 31, 2014 – \$1.1 million) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the guarantees relate to environmental rehabilitation provisions.

The Company is pursuing options to finance the further exploration and development of the Star – Orion South project as it currently does not have sufficient funds to bring any of its property interests into production from its own financial resources. Financing options include joint venture arrangements, debt financing, equity financing or other means. Although the Company has been successful in the past in obtaining financing, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

The Company currently does not have sufficient resources to finance operating activities through its 2016 fiscal year, conditions which raise significant doubt about the Company's ability to continue as a going concern. The Company is assessing opportunities to address the issue of liquidity.



### ***Market risk***

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

#### Foreign currency risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation since it is currently not producing.

#### Commodity price risk:

Commodity price risk is the risk that a variation in commodity price will affect the Company's operations and financial results. The Company does not have significant exposure to commodity price fluctuations since it is currently not producing.

#### Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents, short-term investments and restricted cash held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

#### Equity price risk:

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Wescan is monitored by management with decisions on sale taken to the Board level. A 10 percent decrease in the market price of Wescan would result in a \$6 thousand decrease in fair value.

### **Critical Accounting Estimates and Judgments**

The financial statements for the year ended December 31, 2015 have been prepared in accordance with IFRS issued by the IASB. The Company's accounting policies are described in Note 4 to the financial statements for the year ended December 31, 2015. 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 year ended December 31, 2015, significant judgments and estimations have been made by management in applying the Company's



accounting policies. In particular, the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: joint control assessments, identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and assessments for impairment, estimations for environmental rehabilitation provisions, share-based payment transactions and recovery of deferred tax assets. These are discussed in more detail in Note 5 of the Company's financial statements for the year ended December 31, 2015.

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 at each reporting date.

## **Accounting Changes**

### ***Future Accounting Changes***

#### **IFRS 9 – Financial Instruments**

On July 24, 2014 the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not intend to early adopt IFRS 9 and has not yet fully evaluated the impact of this new standard.

#### **IFRS 15 – Revenue from contracts with customers**

On July 22, 2015, the IASB unanimously affirmed its proposal to defer the effective date of IFRS 15, "Revenue from Contracts with Customers" to January 1, 2018. IFRS 15 will replace IAS 11, "Construction Contracts" and IAS 18, "Revenue" and related interpretations effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The Company does not intend to early adopt IFRS 15 and has not yet fully evaluated the impact of this new standard.

#### **IFRS 16 – Leases**

IFRS 16 will replace IAS 17, "Leases" and related interpretations effective for annual periods commencing on or after January 1, 2019. Early application is permitted for companies that also apply IFRS 15. IFRS 16 follows a 'right-of-use' model which will require leases of more than twelve months to be reported on a company's financial statements as assets and liabilities, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The Company does not intend to early adopt IFRS 16 and has not yet fully evaluated the impact of this new standard.



There are no other IFRSs or International Financial Reporting Interpretations Committee ("IFRIC") interpretations that are not yet effective that would be expected to have a material impact on the Company.

## 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 ("CEO") and Chief Financial Officer ("CFO"), 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 these filings are being prepared; and information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in securities legislation.

As at the end of the period covered by this MD&A and accompanying consolidated financial statements, the CEO and the CFO have reviewed and evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures were effective as at December 31, 2015.

There have been no significant changes in the Company's disclosure controls during the year ended December 31, 2015.

## 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 these 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 IFRS issued by the IASB and interpretations of the IFRIC.

Management, including the CEO and the CFO, evaluated the design and effectiveness of the Company's internal controls over financial reporting as at December 31, 2015. In making its assessment, management, including the CEO and the CFO, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission over Internal Control – Integrated Framework (1992). The evaluation included review of the documentation of controls, evaluation of the design and testing the operating effectiveness of controls, and a conclusion on this evaluation. Based on their evaluation, the CEO and the CFO have concluded that the Company's internal controls over financial reporting was effective as at December 31, 2015.

There have been no significant changes to internal controls over financial reporting during the year ended December 31, 2015 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

## Outlook

The additional exploration and evaluation carried out during 2015 were steps required for the recently completed Revised Mineral Resource estimates on the Orion South and Star Kimberlites. The recently announced 2016 core drilling program is required to further expand the internal stratigraphy of the Orion South and Star Kimberlites extending and infilling geological continuity from the successful programs of 2015. The Company intends to update the previous Feasibility Study with a revised mine plan, where new technology is applied to more efficiently remove the sand and clay of the overburden, in addition to the application of new technology in the processing plant. Preliminary calculations suggest that such an optimised Feasibility Study, with a new mine plan, can positively change the economic model for the Project by increasing the Mineral Resource estimate and reducing the pre-production capital costs and schedule to diamond production.

In addition, the Company is proceeding with the environmental assessment process and is continuing to seek opportunities for development capital through participation in the Project by a third party or a syndicate of investors.

As of March 23, 2016, the Company had approximately \$3.1 million in cash and cash equivalents and short-term investments (excluding \$1.0 million in restricted cash). A portion of the Company's cash and cash equivalents and short-term investments will be used to complete the recently announced core drilling programs as well as advance certain aspects of the Project, including the environmental assessment process, as well as for general corporate matters.



## 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 currently 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 permits not being granted or 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. In addition, application for permits that will be required for the construction and operation of the proposed Project will be made following provincial and federal Ministerial approval upon conclusion of the Environmental Impact Assessment ("EIA"). While the majority of permits will be required from provincial authorities, permits required from the federal government include authorization from the Department of Fisheries and Oceans to allow anticipated changes to fish and fish habitat, permits from Natural Resources Canada for the explosives storage site and authorizations from Environment Canada and Transport Canada. The Company utilizes qualified individuals, service providers and external consultants and maintains constant communications with governmental authorities to ensure that the Company is or, in the case of the EIA, will be in compliance with all applicable rules and regulations.

All of Shore's property interests are currently in the 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.

### **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 Mark Shimell, Project 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 mineral resources and/or reserves; statements related to the approval of the development of the Star - Orion South Diamond Project; statements relating to future development of the Star - Orion South Diamond Project and associated timelines; the environmental assessment and permitting process; the Company's intention to seek developmental capital through participation by a third party or syndicate of investors; Shore's objectives for the ensuing year, including the proposed drill programs and the re-optimisation of the open pit, the optimisation of the Feasibility Study and the anticipated positive change in the economic model for the Project; TFFE; the range of quantity, range of grade and range of carats for the TFFE; mineral resource estimate for the Star and Orion South kimberlite deposits;



inferred resources for the Star and Orion South kimberlite deposits; and range of tons of kimberlites not included in the TFFE.

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](http://www.sedar.com).



**Consolidated Financial Statements  
December 31, 2015**

## **Management's Responsibility for Consolidated Financial Statements**

The accompanying consolidated financial statements of Shore Gold Inc. are the responsibility of management and have been approved by the Board of Directors.

Management in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board has prepared the consolidated financial statements. The consolidated financial statements include some amounts that are based on best estimates and judgments.

The management of the Company, in furtherance of the integrity and objectivity of data in the consolidated financial statements, has developed and maintains a system of internal accounting controls. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its audit committee, consisting entirely of outside directors. The audit committee reviewed the Company's annual consolidated financial statements and recommended their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

The shareholders' auditors, KPMG LLP, Chartered Accountants, in accordance with International Financial Reporting Standards, have examined these consolidated financial statements and their independent professional opinion on the fairness of the consolidated financial statements is attached.

"Ken MacNeill"  
Ken MacNeill  
President and Chief Executive Officer

"Greg Shyluk"  
Greg Shyluk  
Chief Financial Officer

Saskatoon, Saskatchewan  
March 23, 2016



KPMG LLP  
500 – 475 Second Avenue South  
Saskatoon Saskatchewan S7K 1P4  
Canada

Telephone (306) 934-6200  
Fax (306) 934-6233  
www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Shore Gold Inc.

We have audited the accompanying consolidated financial statements of Shore Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Shore Gold Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements, which indicates that Shore Gold Inc. requires additional funding to finance its operating activities through its 2016 fiscal year. These conditions, along with other matters as set forth in Note 3 and Note 20(b) in the consolidated financial statements, indicate the existence of a material uncertainty that casts significant doubt about Shore Gold Inc.'s ability to continue as a going concern.

*KPMG LLP*

---

Chartered Professional Accountants

March 23, 2016  
Saskatoon, Canada

**Shore Gold Inc.**  
**Consolidated Statements of Financial Position**

(Cdn\$ in thousands)	December 31, 2015	December 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,956	\$ 5,616
Short-term investments	251	1,022
Receivables	51	64
Prepays	53	66
	4,311	6,768
Restricted cash (note 7)	1,026	1,090
Investment in Wescan Goldfields Inc. (note 8)	58	87
Property and equipment (note 9)	595	1,058
	\$ 5,990	\$ 9,003
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 349	\$ 377
	349	377
Premium on flow-through shares (note 12)	459	-
Environmental rehabilitation provision (note 13)	611	596
Shareholders' equity:		
Share capital (note 16)	806,889	802,662
Warrants (note 16)	668	-
Broker warrants (note 16)	195	143
Contributed surplus	30,910	30,200
Accumulated deficit	(834,091)	(824,975)
	4,571	8,030
	\$ 5,990	\$ 9,003

Going Concern (note 3)  
Commitments (note 20(b))

On behalf of the Board:

"Brian M. Menell"  


---

Brian M. Menell  
Chairman of the Board

"Arnie E. Hillier"  


---

Arnie E. Hillier  
Chairman of the Audit Committee

See accompanying notes to consolidated financial statements

**Shore Gold Inc.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the years ended December 31**

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

	2015	2014
<b>Income</b>		
Interest and other income	\$ 54	\$ 41
<b>Expenses</b>		
Administration	2,481	1,566
Consulting and professional fees	402	96
Corporate development	113	218
Exploration and evaluation (note 11)	6,145	1,023
	9,141	2,903
<b>Loss before the under noted items</b>	(9,087)	(2,862)
Loss on investment in Wescan Goldfields Inc. (note 8)	(29)	(164)
<b>Net and comprehensive loss</b>	\$ (9,116)	\$ (3,026)
<b>Net loss per share</b>		
Basic and diluted (note 17)	\$ (0.04)	\$ (0.01)
<b>Weighted average number of shares outstanding (000's)</b>	252,780	224,814

See accompanying notes to consolidated financial statements

**Shore Gold Inc.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31**

(Cdn\$ in thousands)	2015	2014
<b>Cash provided by (used in):</b>		
<b>Operations:</b>		
Net loss	\$ (9,116)	\$ (3,026)
Adjustments:		
Amortization	198	273
(Gain)/loss on disposal of property and equipment	203	(66)
Investment in Wescan Goldfields Inc.	29	(61)
Fair value of share-based payments expensed	1,010	253
Unwinding of discount for environmental rehabilitation provision	5	14
Change in environmental rehabilitation provision	10	(344)
Net change in non-cash operating working capital items:		
Receivables	13	379
Prepays	13	(20)
Accounts payable and accrued liabilities	(28)	(29)
	(7,663)	(2,627)
<b>Investing:</b>		
Proceeds from disposal of property and equipment	73	157
Purchases of property and equipment	(11)	(7)
Short-term investments	771	2,270
Restricted cash	64	-
	897	2,420
<b>Financing:</b>		
Issue of equity (net of issue costs)	5,106	4,981
	5,106	4,981
<b>Increase (decrease) in cash and cash equivalents</b>	(1,660)	4,774
<b>Cash and cash equivalents, beginning of year</b>	5,616	842
<b>Cash and cash equivalents, end of year</b>	\$ 3,956	\$ 5,616
<b>Cash and cash equivalents consists of:</b>		
Cash	\$ 3,955	\$ 5,614
Treasury bills	1	2
	\$ 3,956	\$ 5,616

See accompanying notes to consolidated financial statements

**Shore Gold Inc.**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31**

(Cdn\$ in thousands)	2015	2014
<b>Share capital (note 16)</b>		
Balance, beginning of year	\$ 802,662	\$ 797,824
Shares issued	4,227	4,838
Balance, end of year	<u>\$ 806,889</u>	<u>\$ 802,662</u>
<b>Warrants (note 16)</b>		
Balance, beginning of year	\$ -	\$ -
Issued	668	-
Balance, end of year	<u>\$ 668</u>	<u>\$ -</u>
<b>Broker warrants (note 16)</b>		
Balance, beginning of year	\$ 143	\$ -
Issued	52	143
Balance, end of year	<u>\$ 195</u>	<u>\$ 143</u>
<b>Contributed surplus</b>		
Balance, beginning of year	\$ 30,200	\$ 29,948
Share-based payments - options (note 18)	460	253
Share-based payments - deferred share units (note 18)	63	-
Share-based payments - restricted share units (note 18)	487	-
Restricted share unit redemptions (note 18)	(300)	-
Options exercised	-	(1)
Balance, end of year	<u>\$ 30,910</u>	<u>\$ 30,200</u>
<b>Accumulated deficit</b>		
Balance, beginning of year	\$ (824,975)	\$ (821,949)
Net and comprehensive loss	(9,116)	(3,026)
Balance, end of year	<u>\$ (834,091)</u>	<u>\$ (824,975)</u>
<b>Total shareholders' equity</b>	<u>\$ 4,571</u>	<u>\$ 8,030</u>

See accompanying notes to consolidated financial statements

# SHORE GOLD INC.

Notes to the Consolidated Financial Statements  
For the year ended December 31, 2015  
(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 and its shares are publicly traded on the Toronto Stock Exchange. The principal activities of Shore are the exploration, development and production of diamonds. Shore is located at 300 – 224 4<sup>th</sup> Avenue South, Saskatoon, Saskatchewan, Canada.

## 2. Basis of preparation

The consolidated financial statements of Shore for the year ended December 31, 2015 were authorized for issue by the Company’s Board on March 23, 2016. The consolidated financial statements of Shore and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). The Company’s financial statements have been prepared on a historical cost basis, except as disclosed, using the Company’s functional currency of Canadian dollars.

## 3. Going concern

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company’s ability to continue as a going concern. At December 31, 2015, the Company had working capital of \$4.0 million, of which \$2.6 million is committed to be spent on qualifying exploration expenditures before December 31, 2016, leaving \$1.4 million to finance operating activities through its 2016 fiscal year. The ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity issues or other forms of financings in 2016 (note 20). There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration plans, forfeit rights in its properties or reduce or terminate its operations.

These financial statements do not include any adjustments to carrying values of assets and liabilities, reported expense and the statement of financial position classifications used, that would be necessary if the going concern assumption were not appropriate.

## 4. Summary of significant accounting policies

The Company’s principal accounting policies are outlined below:

### a. Basis of consolidation

#### i. Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All intra-company transactions, balances, income and expenses are eliminated in full on consolidation. The Company’s significant subsidiaries include Kensington Resources Ltd. and Shore Mining and Development Corporation, both wholly-owned Canadian corporations.

#### ii. Interests in joint operations and other contractual arrangements

A joint operation involves joint control and offers joint ownership by Shore and other venturers of assets contributed to or acquired for the purpose of a joint arrangement, without the formation of a corporation, partnership or other entity. Where Shore’s activities are conducted through a joint operation, 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.

A contractual arrangement may involve circumstances in which Shore and other parties contribute or acquire assets, without the formation of a corporation, partnership or other entity, where joint control of the arrangement no longer exists or where there is not joint control of the arrangement. Where Shore's activities are conducted through such a contractual arrangement, Shore recognizes its share of the assets, 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 other venturers such recharges represent reimbursement of costs that the operator incurred as an agent for the arrangement.

**b. 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 as 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.

*Available-for-sale*

Investments in certain 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 reporting date. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive income (loss) 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 net of 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 net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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

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 applicable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statements of loss and comprehensive loss.

An impairment loss in respect of an available-for-sale investment is assessed at each reporting date whether there is objective evidence that an investment is impaired. The fair value is evaluated against the original cost of the investment at each reporting date. If a prolonged period has lapsed in which the fair value is determined to be significantly below its original cost, evidence exists regarding the investment's impairment. Where there is evidence of impairment, the cumulative amount, less any impairment loss on that investment previously recognized in net loss, is removed from accumulated other comprehensive income (loss) and recognized in profit and loss. If an impairment loss in respect of an available-for-sale financial asset has been recorded in the statement of loss, it cannot be reversed in future periods.

c. **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.

d. **Short-term investments**

Short-term investments include highly liquid interest-bearing investments with maturities between three and twelve months.

e. **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 expensed as incurred. Property and equipment costs are tangible.

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 derecognition of the asset is included in the statements of income and comprehensive income in the year the item is derecognized.

**f. Exploration and evaluation**

*i. Pre-permit costs*

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

*ii. Exploration and evaluation costs*

Once the legal right to explore has been established, exploration and evaluation expenditures are expensed as incurred, unless the Company concludes that a future economic benefit is more likely than not to be realized through future development and production.

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 statements 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 will be 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 statements of income and comprehensive income. No amortization of exploration and evaluation assets 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. These costs are intangible. The Company assesses each CGU annually to determine whether an indication of impairment exists. Where an indicator of impairment exists a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assets are subsequently stated at cost less accumulated impairment.

**g. 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 participant 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.

**h. 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 in the statements of income and comprehensive income.

**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 recognized 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 statements of income and comprehensive income on a prospective basis over the remaining life of the operation.

**i. 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 differences 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.

**j. Flow-through shares**

The Company may finance a portion of its exploration activities through the issuance of flow-through shares. Upon the sale of flow-through shares, the Company may recognize 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 statements of income and comprehensive income.

**k. Revenue and interest income**

Sales of rough diamonds, if any, are recognized when significant risks and rewards of ownership are transferred to the customer, the amount of sales can be measured reliably and the receipts of future economic benefits are probable. Sales are measured at the fair value of the consideration received or receivable. All of Shore's property interests are currently in the feasibility or exploration stage and therefore do not generate sales revenue.

Interest income is recognized as the interest accrues.

**5. Critical accounting judgments and key sources of estimation uncertainty**

The preparation of the Company's 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.

The effect of a change in an accounting estimate is recognized prospectively by including it in total comprehensive loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

**Critical judgments in applying accounting policies**

**a. Joint control**

Judgment is required to determine when the Company has joint control over an arrangement. This requires an assessment of the capital and operating activities of the projects it undertakes with partners and when the decisions in relation to those activities require unanimous consent.

**b. Identification of CGUs**

CGUs are defined as the lowest level of integrated assets for which there are separately identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations. Management assesses its CGUs as being an individual mine site that may include multiple ore bodies. This is the lowest level for which cash inflows are largely independent of those of other assets.

Shore holds a 100% interest in the Star property located in the central part of Saskatchewan, Canada and a 69% interest in the Fort à la Corne Joint Venture ("FALC-JV") which is adjacent to the Star property and contains the Orion South property. The Company is currently pursuing options to finance the further exploration and development of the Star – Orion South project. As a result, the Star and FALC-JV properties are accounted for as one CGU.

**c. Exploration and evaluation expenditures**

The application of the Company's accounting policy for exploration and evaluation expenditure to determine when the Company continues to expense exploration and evaluation expenditures or begin to capitalize these expenditures requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale. The determination of an NI 43-101 reserve is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates which directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statements of loss and comprehensive loss in the period when the new information becomes available.

### **Key sources of estimation uncertainty**

The areas of estimation uncertainty considered by management that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements are discussed below:

**a. Reserve and resource estimates**

Reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mineral properties. The Company estimates its reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and require complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimations of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, property and equipment, environmental rehabilitation provision, recognition of deferred tax assets, and depreciation and amortization charges.

**b. Impairment of exploration and evaluation assets**

The impairment assessments for exploration and evaluation assets require the use of estimates and assumptions such as discount rates, future commodity prices, future foreign exchange rates, future royalty rates, recoverable grades, and future capital and operating expenditures. Fair value for exploration and evaluation assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

**c. Environmental rehabilitation provision**

Environmental rehabilitation provisions have been provided for based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provision may be higher or lower than currently provided for.

**d. Share-based payment transactions**

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The value of stock-based compensation recognized in respect of deferred share units ("DSUs") is determined based on the closing price of the Company's common shares at the date of grant and is based on the DSUs that are expected to vest. The fair value of share-based payments in the form of performance share units ("PSUs") and restricted share units ("RSUs") is determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant and the RSUs that are expected to vest. The Company does not intend to make cash payments and there is no history of the Company making cash payments under these plans and, as such, the DSUs, PSUs and RSUs are accounted for within shareholders' equity. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 18.

**e. Recovery of deferred tax assets**

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ

significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded (if any) could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

## 6. Changes in IFRS

### a. IFRS standards issued but not yet effective

At the date of authorization of these consolidated financial statements, the IASB has issued the following new Standard which is not yet effective for the relevant reporting periods.

#### i. IFRS 9 – Financial Instruments

On July 24, 2015 the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”, and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not intend to early adopt IFRS 9 and has not yet fully evaluated the impact of this new standard.

#### ii. IFRS 15 – Revenue from contracts with customers

IFRS 15 will replace IAS 11, “Construction Contracts” and IAS 18, “Revenue” and related interpretations effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The Company does not intend to early adopt IFRS 15 and has not yet fully evaluated the impact of this new standard.

#### iii. IFRS 16 – Leases

IFRS 16 will replace IAS 17, “Leases” and related interpretations effective for annual periods commencing on or after January 1, 2019. Early application is permitted for companies that also apply IFRS 15. IFRS 16 follows a ‘right-of-use’ model which will require leases of more than twelve months to be reported on a company’s financial statements as assets and liabilities, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The Company does not intend to early adopt IFRS 16 and has not yet fully evaluated the impact of this new standard.

There are no other IFRSs or IFRIC interpretations that have been issued and are not yet effective that are expected to have a material impact on the Company.

## 7. Restricted cash

The Company has pledged \$1,026 thousand (December 31, 2014 – \$1,090 thousand) in short-term investments as security for letters of credit for the following matters:

	December 31, 2015	December 31, 2014
Environmental rehabilitation	\$ 896	\$ 960
Other	130	130
Total	\$ 1,026	\$ 1,090

These short-term investments are held in guaranteed investment certificates with maturity dates occurring in January and November 2016 and with interest rates of 0.70% - 1.67%. The Company’s share of restricted cash that relates to the FALC-JV and Buffalo Hills Joint Venture (“Buffalo Hills JV”) is \$65 thousand (December 31, 2014 – \$129 thousand) and \$0 (December 31, 2014 – \$0), respectively.

## 8. Investment in Wescan Goldfields Inc.

At December 31, 2015, Shore held 5,806,634 shares or 15.6 percent (December 31, 2014 – 5,806,634 shares) of Wescan Goldfields Inc. (“Wescan”), a publicly traded company on the TSX Venture exchange. The

Company considers certain judgments and assumptions when assessing whether significant influence exists over its investments. This includes an assessment of the Company's ability to participate in financial and operating policy decisions of the investee. The existence and effect of potential voting rights held by the investor or other entities were also considered. Based on these judgments and assumptions, the Company has assessed the Company's investment in Wescan as an available-for-sale financial asset.

At December 31, 2015, the carrying value of this investment was \$58 thousand (December 31, 2014 – \$87 thousand). As a result, during 2015 the Company recognized a \$29 thousand decrease in the carrying value of its investment in Wescan. At December 31, 2011, the Company assessed that there was objective evidence that this investment was impaired. As the Company's impairment assessment at December 31, 2015 has not changed, the \$29 thousand change in value during 2015 was recognized in the consolidated statement of loss as an unrealized loss instead of other comprehensive loss. If an impairment loss in respect of an available-for-sale financial asset has been recorded in the consolidated statement of loss, it cannot be reversed in future periods. The fair value of this investment, based on the closing trading price at December 31, 2015, was \$116 thousand (December 31, 2014 – \$87 thousand).

## 9. Property and equipment

	Automotive Equipment	Buildings and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
<b>Cost</b>					
Balance – December 31, 2013	\$ 490	\$ 3,385	\$ 891	\$ 5,876	\$ 10,642
Acquisitions	-	-	-	7	7
Disposals	(353)	-	(4)	(329)	(686)
Balance – December 31, 2014	137	3,385	887	5,554	9,963
Acquisitions	-	-	11	-	11
Disposals	(39)	(1,374)	-	(188)	(1,601)
Balance – December 31, 2015	\$ 98	\$ 2,011	\$ 898	\$ 5,366	\$ 8,373
<b>Accumulated depreciation</b>					
Balance – December 31, 2013	\$ (421)	\$ (2,530)	\$ (822)	\$ (5,453)	\$ (9,226)
Charge for the year	(13)	(127)	(22)	(111)	(273)
Eliminated on disposals	318	-	2	274	594
Balance – December 31, 2014	(116)	(2,657)	(842)	(5,290)	(8,905)
Charge for the year	(6)	(104)	(17)	(71)	(198)
Eliminated on disposals	38	1,109	-	178	1,325
Balance – December 31, 2015	\$ (84)	\$ (1,652)	\$ (859)	\$ (5,183)	\$ (7,778)
<b>Net book value</b>					
Balance – December 31, 2014	\$ 21	\$ 728	\$ 45	\$ 264	\$ 1,058
Balance – December 31, 2015	\$ 14	\$ 359	\$ 39	\$ 183	\$ 595

The Company's share of net book value of property and equipment that relates to the FALC-JV is \$188 thousand (December 31, 2014 – \$233 thousand and December 31, 2013 – \$317 thousand).

## 10. Exploration and evaluation assets

Exploration and evaluation assets are made up of the following:

	Fort à la Corne properties (a)
Balance – December 31, 2011	\$ 208,437
Impairment – December 31, 2011	(208,437)
Balance – December 31, 2015 and 2014	\$ -

(a) Fort à la Corne properties

Shore holds a 100% interest in the Star property located in the central part of Saskatchewan, Canada. Kensington Resources Ltd. holds a 69% interest in the FALC-JV which is adjacent to the Star property. The Company acts as operator of the FALC-JV. These properties are accounted for as one CGU. The carrying value of the Fort à la Corne properties represents the acquisition of minority interests of the FALC-JV since 2005, net of impairments.

The decline in the Company's share price during 2011 resulted in the Company's market capitalization at December 31, 2011 being substantially less than the carrying value of the Company's net assets. Due to the existence of this indicator of impairment, the Company was required to assess the exploration and evaluation assets for impairment by comparing the carrying value of these assets to estimated discounted future cash flows. Due to the uncertainty surrounding project financing, the Company was unable to determine a reliable weighted average cost of capital to perform this assessment. As a result, the Company wrote down the carrying value of the Fort à la Corne properties to nil at December 31, 2011. As this indicator of impairment still exists at December 31, 2015, the Company's assessment of exploration and evaluation assets for impairment has not changed and the Company's exploration and evaluation expenditures continue to be charged to the consolidated statement of loss and comprehensive loss.

## 11. Exploration and evaluation expenses

The Company's exploration and evaluation expense for the year ended December 31, is comprised of the following:

	December 31, 2015	December 31, 2014
Fort à la Corne properties		
Acquisition and staking	\$ -	\$ -
Amortization of tangible assets	163	230
Exploration and evaluation	5,688	1,025
Revisions to environmental rehabilitation provision	10	(255)
Share-based payments	290	67
Total (a)	6,151	1,067
Buffalo Hills property		
Exploration and evaluation	(6)	22
Revisions to environmental rehabilitation provision	-	(66)
Total (b)	(6)	(44)
Total	\$ 6,145	\$ 1,023

(a) Fort à la Corne properties

The Company's share of exploration and evaluation expense that relates to the FALC-JV is \$5.6 million (December 31, 2014 – \$0.7 million).

(b) Buffalo Hills property

The above amount reflects exploration and evaluation expense of the Buffalo Hills Joint Venture ("Buffalo Hills-JV"), located in central Alberta, Canada. Canterra Minerals Corporation is the operator of the Buffalo Hills-JV.

## 12. Premium on flow-through shares

The Company, when issuing flow-through shares, will receive a premium over the market value of the shares as the Company is allowing the investor the deduction on its expenses incurred on qualifying exploration expenditures. As the Company incurs the qualifying expenditures, the liability to the investor is satisfied and accordingly the premium received on the initial issue of share capital is recognized in income. A summary of the activity related to the premium on flow-through shares is as follows:

	Issued December 30, 2015
Liability incurred on issuance of flow-through shares (a)	\$ 459
Balance – December 31, 2015	\$ 459

(a) In December 2015, the Company issued flow-through shares for gross proceeds of \$2,638 thousand. The premium was determined to be \$459 thousand.

## 13. Environmental rehabilitation provision

	Fort à la Corne properties
Balance – December 31, 2014	\$ 596
Revisions in estimate and change in discount rate	10
Unwinding of discount	5
Long term portion – December 31, 2015	\$ 611

The environmental rehabilitation provision represents the Company's share of the present value of decommissioning and rehabilitation costs related to exploration and evaluation work conducted on the above properties to date. The Company expects to rehabilitate certain drill pads and exploration areas over the next five years. These provisions have been created based on the Company's internal estimates. Assumptions are based on the current economic environment and are believed to be a reasonable basis to estimate the future liability. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary work required. Furthermore, the timing of the decommissioning and rehabilitation is dependent upon if and when development of these exploration properties takes place in the future. The provision was determined using a discount rate of 0.7% (December 31, 2014 – 1.3%). The Company estimates its total undiscounted future decommissioning and reclamation costs to be \$629 thousand (December 31, 2014 – \$629 thousand).

The Company's share of the decommissioning and rehabilitation provision that relates specifically to the FALC-JV is \$41 thousand (December 31, 2014 – \$41 thousand). The Company's share of the environmental rehabilitation provision for the Buffalo Hills-JV is \$0 (December 31, 2014 – \$0).

The Company provides letters of credit as security for these provisions as disclosed in note 7.

## 14. Other contractual arrangements

Through its wholly-owned subsidiary Kensington Resources Ltd., the Company holds a 69% interest in the exploration properties and assets of the Fort à la Corne Joint Venture ("FALC-JV") and Newmont Canada FN Holdings ULC ("Newmont") has a 31% interest. The Company acts as operator of the FALC-JV. The FALC-JV is governed by the Fort a la Corne Joint Venture Agreement dated January 1, 1995 ("FALC-JV Agreement"). Based on the structure of the FALC-JV Agreement and current ownership of the FALC-JV, joint control does not exist. As a result, the Company's interest in the FALC-JV is accounted for by recognizing its portion of assets, liabilities, revenue and expenses in accordance with other relevant standards.

The Company holds approximately 33% interest in the exploration properties and assets of the Buffalo Hills-JV. Canterra Minerals Corporation ("Canterra") also holds approximately 33 percent with EnCana Corporation holding the remaining interest. Canterra is the Operator of Buffalo Hills. The Buffalo Hills-JV is governed by the Buffalo Hills and Joint Venture Lands Joint Venture Agreement dated January 29, 2002 and amended August 2, 2006 ("Buffalo Hills-JV Agreement"). Based on the structure of the Buffalo Hills-JV Agreement and current ownership of the Buffalo Hills-JV, joint control does not exist. As a result, the

Company's interest in the Buffalo Hills-JV is accounted for by recognizing its portion of assets, liabilities, revenue and expenses in accordance with other relevant standards.

Information regarding the Company's share of these assets, liabilities, revenues and expenses can be found in the following notes: restricted cash – note 7, plant and equipment – note 9, exploration and evaluation assets – note 10, exploration and evaluation expenses – note 11, and current and long-term portion of the environmental rehabilitation provision – note 13. Other than the liabilities disclosed in the above referenced notes, the Company does not have any other commitments through jointly controlled operations or other contractual arrangements.

## 15. Deferred tax assets and liabilities

### Reconciliation between expected tax recovery for accounting purposes and actual recovery

The provision for income taxes differs from the amount computed by applying the combined expected federal and provincial income tax rate to earnings before income taxes for the following reasons:

	December 31, 2015	December 31, 2014
Net loss before income taxes	\$ 9,116	\$ 3,026
Combined federal and provincial tax rate	27.0%	27.0%
Expected tax recovery	(2,461)	(817)
Increase in taxes resulting from:		
Non-deductible amounts	281	93
Renounced resource pools	1,479	-
Unrecognized additions to resource and other tax pools	187	223
Unrecognized non-capital loss carry-forwards	514	501
Deferred income tax recovery	\$ -	\$ -

### Unrecognized deferred tax assets

The following deferred tax assets have not been recognized:

	December 31, 2013	Change related to income	Change related to equity	Expiry of tax pools	December 31, 2014
Deferred tax assets					
Exploration and evaluation	\$ 89,505	\$ 260	\$ -	\$ -	\$ 89,765
Property and equipment	3,044	56	-	-	3,100
Non-capital loss carried forward	13,373	501	-	(1,091)	12,783
Capital loss carried forward	595	-	-	-	595
Share issue costs	-	(27)	135	-	108
Decommissioning and rehabilitation provision	250	(89)	-	-	161
Revaluation of investments	233	23	-	-	256
Unrecognized deferred tax assets	\$ 107,000	\$ 724	\$ 135	\$ (1,091)	\$ 106,768

	December 31, 2014	Change related to income	Change related to equity	Expiry of tax pools	December 31, 2015
Deferred tax assets					
Exploration and evaluation	\$ 89,765	\$ 121	\$ -	\$ -	\$ 89,886
Property and equipment	3,100	107	-	-	3,207
Non-capital loss carried forward	12,783	514	-	(618)	12,679
Capital loss carried forward	595	-	-	-	595
Share issue costs	108	(49)	115	-	174
Decommissioning and rehabilitation provision	161	4	-	-	165
Revaluation of investments	256	4	-	-	260
Unrecognized deferred tax assets	\$ 106,768	\$ 701	\$ 115	\$ (618)	\$ 106,966

The potential benefits of these carry-forward non-capital losses, capital losses and deductible temporary differences has not been recognized in these financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax assets to be recovered.

#### Tax losses

As at December 31, 2015, the Company had estimated capital losses for Canadian income tax purposes of \$4,404 thousand (December 31, 2014 – \$4,404 thousand). These losses do not expire and may be utilized to reduce future capital gains, if any.

As at December 31, 2015, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below. These tax losses will expire as follows:

Year of Expiry	Taxable losses (in thousands)
2026	10,203
2027	4,601
2028	5,268
2029	6,695
2030	5,018
2031	4,251
2032	3,955
2033	3,200
2034	1,859
2035	1,910
<b>Total</b>	<b>\$ 46,960</b>

The Company also had unrecorded investment tax credits totaling \$15.8 million (December 31, 2014 – \$15.8 million) relating to pre-production mining expenditures. These investment tax credits begin to expire starting in 2026.

## **16. Share capital and reserves**

### Authorized

The authorized share capital of the Company consists of unlimited common shares with no par value.

The common shares of the Company are entitled to dividends pro-rated when declared by the Board of Directors and to one vote per share at meetings of the shareholders of the Company. Upon dissolution or any other distribution of assets, the shareholders are entitled to receive a pro-rata share of such distribution.

Common shares issued and fully paid:

	Common Shares (in thousands)	Amount (in thousands)
Balance – December 31, 2014	224,739	797,824
Issue of flow-through shares (net of issue costs) (a)	21,907	4,837
Issue of shares on exercise of options (b)	20	1
Balance – December 31, 2014	246,666	\$ 802,662
Restricted Share Units redeemed	1,667	300
Issuance of flow-through shares (net of issue costs) (c)	11,469	1,859
Issuance of shares (net of issue costs) (d)	3,685	599
Issuance of shares (net of issue costs) (e)	10,000	1,275
Issuance of shares (net of issue costs) (f)	1,014	194
Shares returned to treasury (g)	(214)	-
Balance – December 31, 2015	274,287	\$ 806,889

(a) Flow-through share financing

On December 30, 2014, the Company issued 21,906,700 flow-through shares for gross proceeds of \$5,477 thousand. The shares issued require that the Company make certain qualifying expenditures for tax purposes on or before December 31, 2015; the deduction of which flows through to the shareholder. The flow-through shares were not sold for a premium over the market value of the Company's common shares. Accordingly, no premium on flow-through shares was recognized.

(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, would be issued from the same 10% rolling pool as the common shares issued under the Company's Deferred Share Unit Plan and the Performance Share Unit and Restricted Share Unit Plan. Refer to note 18 for further details of these plans.

(c) Flow-through share financing

On December 30, 2015, the Company issued 11,469 thousand flow-through shares at a price of \$0.23 per common share, for gross proceeds of \$2,638 thousand. The shares issued require that the Company make certain qualifying expenditures for tax purposes on or before December 31, 2016; the deduction of which flows through to the shareholder. The Company sold the flow-through shares for a premium over the market value of the Company's common shares. Accordingly, \$459 thousand of the gross proceeds was allocated as a premium on flow-through shares and the remainder was recorded in share capital.

(d) Share financing

On December 30, 2015 the Company completed a private placement of 3,685 thousand common shares at a price of \$0.19 per common share, for aggregate gross proceeds of \$700 thousand. The net proceeds of the Common Share offering will be used by Shore for general working capital purposes.

(e) Share financing

On June 12, 2015 the Company completed a private placement of 10,000 thousand Units at a price of \$0.20 per Unit, for aggregate gross proceeds of \$2,000 thousand. Each Unit consisted of one common share and one Common Share purchase warrant.

(f) Issuance of shares

On September 9, 2015 the Company issued 1,014 thousand common shares of Shore pursuant to an agreement with a third-party consulting and professional service provider. This agreement allowed for a fee of \$200 thousand to be paid by the Company in cash or the issuance of common shares at a price of approximately \$0.20 per share

(g) Shares returned to Treasury

Shares returned to treasury during 2015 were due to the return to treasury of certain share certificates pursuant to the Plan of Arrangement between Kensington Resources Ltd. (“Kensington”) and Shore Gold Inc. effective October 28, 2005. Those Kensington shareholders that did not submit a Letter of Transmittal to change their shares from Kensington to Shore, have lost the right to do so. As a result, these shares were cancelled and removed from Shore’s share register.

(h) Nature and purpose of reserves

*Share-based payments reserve*

The share-based payments reserve is recognized within contributed surplus and is used to recognize the fair value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. The fair value of stock options has been valued using the Black-Scholes option-pricing model. The fair value of share-based payments in the form of RSUs was determined based on the five-day volume weighted average trading price of the Company’s shares preceding the date of grant. The fair value of share-based payments in the form of DSUs was determined based on the closing price of the Company’s common shares at the date of grant. The fair value of these securities is added to the share-based payments reserve over the vesting period of the securities. Upon exercise, the corresponding fair value related to the security is removed from the share-based payments reserve and added to share capital. Refer to note 18 for further details on these share-based payment plans.

*Broker warrants reserve*

On certain issues of common shares, the Company issued broker warrants as partial consideration to the agent for services associated with the share issuance. Each broker warrant entitles the agent to acquire one common share of the Company for a period of 12 to 24 months after closing. The broker warrant reserve is used to recognize the fair value of outstanding warrants. If the broker warrant is exercised or expires the fair value is transferred to share capital or contributed surplus, respectively. A summary of the outstanding broker warrants is as follows:

	Broker Warrants (in thousands)	Average Price	Expiry Date	Amount (in thousands)
Balance - December 31, 2014	1,315	\$ 0.25	July 1, 2016	\$ 143
Issued December 30, 2015 (a)	909	\$ 0.23	June 30, 2017	52
Balance - December 31, 2015	2,224	\$ 0.24		\$ 195

- (a) Each broker warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.23 for a period of 18 months from the date of issuance. The broker warrants issued in 2015 were fair valued at \$52 thousand. The fair value was determined using the Black-Scholes pricing model with the following assumptions: a volatility factor of 83.0%, risk-free rate of return of 0.48%, expected dividend of 0%, and expected term of 18 months.

*Warrant reserve*

On certain issues of common shares, the Company has issued warrants with the common shares entitling the holder to acquire additional common shares of the Company. The warrant reserve is used to recognize the fair value of outstanding warrants. If the warrant is exercised or expires the fair value is transferred to share capital or contributed surplus, respectively. A summary of the outstanding warrants is as follows:

	Warrants (in thousands)	Average Price	Expiry Date	Amount (in thousands)
Balance – December 31, 2014	-	\$ -	-	\$ -
Issued June 12, 2015 (a)	10,000	0.25	December 12, 2016	668
Balance – December 31, 2015	10,000	\$ 0.25		\$ 668

- (a) Each warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.25 for a period of 18 months from the date of issuance. The warrants issued in 2015 were fair valued at \$668

thousand. The fair value of the warrants issued was determined using the Black-Scholes pricing model with the following assumptions: a volatility factor of 91.8%, risk-free rate of return of 0.64%, expected dividend of 0%, and expected term of 18 months.

## 17. Earnings per share

The calculation of loss per share amounts is based on the following:

	December 31, 2015	December 31, 2014
Numerator:		
Net loss applicable to common shares	\$ (9,116)	\$ (3,026)
Denominator:		
Common shares outstanding at January 1 (in thousands)	246,666	224,739
Weighted average effect of issuances (in thousands)	6,285	74
Weighted average effect of returns to treasury (in thousands)	(171)	-
Weighted average common shares outstanding at December 31 – basic and diluted (in thousands)	252,780	224,814
Basic and diluted comprehensive loss per common share (a)	\$ (0.04)	\$ (0.01)

- (a) Excluded from the calculation of diluted loss per common share are the effects of outstanding options, as the effect on basic loss per share would be anti-dilutive.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 18. Share-based payments

### (a) Share option plan

The Company has established a share option plan, as approved by the shareholders, 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 five 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 statements of loss and comprehensive loss for the year ended December 31, as presented as follows:

Expense category included	December 31, 2015	December 31, 2014
Administration	\$ 316	\$ 176
Corporate development	15	10
Exploration and evaluation	129	67
Total	\$ 460	\$ 253

Option movements (in thousands) during the years ended December 31 including weighted average exercise prices are as follows:

	2015		2014	
	Options	Average Price	Options	Average Price
Outstanding – January 1	7,039	\$ 0.50	8,026	\$ 0.53
Granted	3,709	0.20	1,983	0.20
Exercised	-	-	(20)	0.17
Expired	(2,175)	0.81	(2,950)	0.38
Forfeited	-	-	-	-
Outstanding – December 31	8,573	\$ 0.30	7,039	\$ 0.50
Exercisable – December 31	8,290	\$ 0.30	6,847	\$ 0.51

The grant date fair value of stock options issued under the plan is estimated using the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. The option life is estimated based on the weighted average historical life of options that have been granted by the Company. The inputs used in the measurement of the fair values at grant date of the share-based payments during the year are as follows:

	December 31, 2015	December 31, 2014
Exercise price	\$ 0.17 – \$ 0.21	\$ 0.18 – \$ 0.27
Expected volatility	76.1 – 82.0%	69.9% – 80.0%
Option life	5 years	5 years
Expected dividends	0 %	0 %
Risk-free interest rate	0.58 – 0.94%	1.16% – 1.66%
Fair value at grant date	\$ 0.10 – \$ 0.13	\$ 0.10 – \$ 0.17

For options outstanding and exercisable at December 31, 2015 (in thousands), the range of exercise prices; weighted average exercise price and the weighted average remaining contractual life is as follows:

Option Price Per Share	Outstanding			Exercisable	
	Options December 31, 2015	Weighted Average Exercise Price	Weighted Average Remaining Life	Options December 31, 2015	Weighted Average Exercise Price
\$ 0.00 – 0.24	6,598	\$ 0.19	3.4 years	6,315	\$ 0.19
\$ 0.25 – 0.49	610	0.27	2.6 years	610	0.27
\$ 0.50 – 0.99	1,365	0.80	0.3 years	1,365	0.80
	8,573	\$ 0.30	2.9 years	8,290	\$ 0.30

(b) Deferred share unit plan

At the June 2015 Annual General and Special Meeting, shareholders approved a Deferred Share Unit Plan (the "DSU Plan"), which provides for the grant of DSUs to eligible directors of the Company. The DSUs provide for the payment of certain amounts, or the issuance of common shares, to eligible directors. The Company does not intend to make cash payments and there is no history of the Company making cash payments under the DSU plan and, as such, the DSUs are accounted for within shareholders' equity. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Performance Share Unit and Restricted Share Unit Plan and the Company's Share Option Plan. As these DSUs are expected to be settled with equity, an amount equal to the stock-based compensation expense is initially credited to contributed surplus and transferred to share capital if and when the deferred share unit is exercised.

During 2015, 329,000 DSUs were granted to eligible directors. The fair value of DSUs issued is determined on the grant date. The fair value of the DSUs granted was \$0.19 per DSU. The expense related to the Company's share-based payments as a result of DSUs vesting over the period is recognized in the comprehensive statement of loss, as presented as follows:

Expense category included	December 31, 2015	December 31, 2014
Administration	\$ 63	\$ -
Total	\$ 63	\$ -

(c) Performance share unit and restricted share unit plan

At the June 2015 Annual General and Special Meeting, shareholders approved a Performance Share Unit and Restricted Share Unit Plan (the "Unit Plan"), which provides for the grant of PSUs and RSUs to eligible officers and employees of the Company. Upon redemption, the vested PSUs and/or the RSUs provide for the payment of certain amounts, or the issuance of common shares, to the participants. The Company does not intend to make cash payments and there is no history of the Company making cash payments under the Unit

plan and, as such, the PSUs and RSUs are accounted for within shareholders' equity. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Deferred Share Unit Plan and the Company's Share Option Plan. As PSUs and RSUs are expected to be settled with equity, an amount equal to compensation expense is initially credited to contributed surplus, recognized over the term of the vesting period, and transferred to share capital if and when the units are exercised.

As of December 31, 2015, no PSUs have been granted. RSU movements (in thousands) during the year ended December 31 are as follows:

	December 31, 2015	December 31, 2014
Outstanding – January 1	-	-
Granted	5,000	-
Redeemed for common shares from treasury	(1,667)	-
Outstanding – December 31	3,333	-

The fair value of the RSUs issued is determined on the grant date. The fair value of the RSUs granted was \$0.18 per RSU.

	December 31, 2015	December 31, 2014
Weighted average RSU vesting period	1.1 years	-
Expected dividends	0 %	-
Expected forfeiture rate	0 %	-
Fair value at grant date	\$ 0.18	-

The expense related to the Company's share-based payments as a result of RSUs vesting over the period is recognized in the comprehensive statement of loss for the year ended December 31, as presented as follows:

Expense category included	December 31, 2015	December 31, 2014
Administration	\$ 327	\$ -
Exploration and evaluation	160	-
Total	\$ 487	\$ -

## 19. Related party transactions

### Related party transactions with key management personnel

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include executive and non-executive directors. The Company pays certain of its current key management personnel through companies owned by certain executive officers and directors. Those companies are as follows:

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

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

	December 31, 2015	December 31, 2014
Short-term benefits to officers and directors	\$ 290	\$ 288
Consulting and management fees to related companies	507	533
Share-based payments	832	204
Total compensation paid to key management personnel	\$ 1,629	\$ 1,025

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period related to key management personnel. 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 in the form of options was determined using the Black-Scholes model. The fair value of share-based payments in the form of RSUs was determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant. The value of share-based payments in the form of DSUs was determined based on the closing price of the Company's common shares at the date of grant.

The compensation paid to key management personnel is included in the Company's statements of loss and comprehensive loss as follows:

	December 31, 2015	December 31, 2014
Administration	\$ 1,216	\$ 758
Exploration and evaluation	413	267
<b>Total compensation paid to key management personnel</b>	<b>\$ 1,629</b>	<b>\$ 1,025</b>

## 20. Financial instruments

Fair values have been determined for measurement and/or disclosure purposes based on the fair value hierarchy for financial instruments that require fair value measurement after initial recognition. The classification of each financial instrument is described in note 4.

The carrying amounts for cash and cash equivalents, short-term investments, receivables, restricted cash and trade payables approximate their fair value due to the short-term nature of these instruments. These financial instruments are carried at amortized cost.

### Fair value hierarchy

All financial instruments measured at fair value are categorized into one of three hierarchy levels as described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

### Fair value of investment in Wescan

The investment in Wescan is based on quoted prices and is therefore considered to be level 1, consistent with the prior year.

### Risk management

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 considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At December 31, 2015, the Company's credit risk relates to its cash and cash equivalents, short-term investments, receivables and restricted cash of \$5.3 million (December 31, 2014 – \$7.8 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. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at

December 31, 2015, the Company had working capital of \$4.0 million and is required to incur qualifying expenditures of \$2.6 million before December 31, 2016 as a result of the flow-through share financing discussed in note 16. Given that cash flow from operations are negative, the Company is dependent on additional sources of financing required in 2016.

As at December 31, 2015, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

	Up to 3 months	Between 3 months and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and accrued liabilities	\$ 349	\$ -	\$ -	\$ -	\$ -	\$ 349
Operating leases	40	26	-	-	-	66
Total	\$ 389	\$ 26	\$ -	\$ -	\$ -	\$ 415

As at December 31, 2015, the Company had guaranteed certain liabilities by issuing \$1,026 thousand (December 31, 2014 - \$1,090 thousand) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash (note 7). The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the guarantees relate to environmental rehabilitation provisions.

The Company is pursuing options to finance the further exploration and development of the Star – Orion South project as it currently does not have sufficient funds to bring any of its property interests into production from its own financial resources. Financing options include joint venture arrangements, debt financing, equity financing or other means. Although the Company has been successful in the past in obtaining financing, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

The Company currently does not have sufficient resources to finance operating activities through its 2016 fiscal year, conditions which raise significant doubt about the Company's ability to continue as a going concern. The Company is assessing opportunities to address the issue of liquidity.

(c) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

*Foreign currency risk:*

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation since it is currently not producing.

*Commodity price risk:*

Commodity price risk is the risk that a variation in commodity price will affect the Company's operations and financial results. The Company does not have significant exposure to commodity price fluctuations since it is currently not producing.

*Interest rate risk:*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents, short-term investments and restricted cash held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

*Equity price risk:*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Wescan is monitored by management with decisions on sale taken to the Board level. A 10 percent decrease in the market price of Wescan would result in a \$6 thousand decrease in fair value.

**21. Capital management**

The Company manages its cash, common shares and stock options as capital.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to explore and develop its exploration and evaluation properties, so that it can provide returns to shareholders.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary. The annual budgets are approved by the Board of Directors.

In order to maximize ongoing exploration efforts, the Company does not pay dividends. The Company's investment policy is to invest its cash in highly rated liquid short-term interest-bearing investments with an initial term to maturity of twelve months or less.

The Company is not subject to externally imposed capital requirements, except as disclosed.