



Management's Discussion & Analysis

December 31, 2010



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

The following discussion and analysis is prepared by management as of March 23, 2011 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010. Shore Gold Inc. ("Shore", "SGF", or "the Company") prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are reported in Canadian dollars unless otherwise indicated.

Overview

During 2010, the Company accomplished a series of significant milestones with respect to ultimately bringing Saskatchewan's first diamond mine into production. The Star – Orion South Diamond Project is situated in the Fort à la Corne kimberlite field in central Saskatchewan. The Star – Orion South Diamond Project includes the 100 percent Shore owned Star Diamond Project, as well as Star West and the Orion South Kimberlite, which fall within the adjacent Fort à la Corne Joint Venture ("FALC-JV"). Shore has a 66 percent (2009 – 63 percent) interest in the FALC-JV and Newmont Mining Corporation of Canada Limited ("Newmont") has a 34 percent interest (2009 – 37 percent).

The Company's achievements included the completion of the Star – Orion South Diamond Project pre-feasibility study and Mineral Reserve estimate ("Combined PFS"), the successful negotiation of a diamond royalty system with the Province of Saskatchewan, and the submission of the Environmental Impact Statement ("EIS") for the Star – Orion South Diamond Project. The Company remains focused on completing a feasibility study on the Star – Orion South Diamond Project ("Final Feasibility Study") in the first half of 2011, which will incorporate the updated diamond valuations as announced in March 2011. The Company fully expects rough diamond prices to continue to rise in the future, which will continue to improve project economics.

Events relating to the Star - Orion South Diamond Project

During the first quarter of 2010, the Company announced the completion of the Combined PFS. The Combined PFS, led by independent Qualified Persons from P&E Mining Consultants Inc. ("P&E"), includes Probable Mineral Reserves of 279 million tonnes at a weighted average grade of 12.5 carats per hundred tonnes ("cpht") containing 35 million carats (See SGF News Release February 10, 2010). The net present value ("NPV") of the Combined PFS was \$1.3 billion (using a 7 percent discount rate) with an internal rate of return ("IRR") of 16 percent before taxes and royalties and an after-taxes and royalties NPV of \$786 million with an IRR of 13.5 percent. The Technical Report that documents the Combined PFS can be viewed on the Company's website (www.shoregold.com) or on SEDAR (www.sedar.com).



An additional 70 million tonnes of inferred resources and 180 to 220 million tonnes of kimberlite designated by Shore as a 'potential mineral deposit' lie outside the current PFS pit design, which defines the mineral reserves and resources in the Star and Orion South Kimberlites. These additional tonnes are conceptual in nature, and are not a resource estimate and it is uncertain if additional exploration work would lead to the tonnes presently included in the 'potential mineral deposit' being upgraded to a resource category. This 'potential mineral deposit' cannot be relied upon when considering any project economics.

In early June, Shore welcomed the announcement by the Province of Saskatchewan of a competitive diamond royalty system (See SGF News Release dated June 2, 2010). The royalty system was developed in consultation with the mining industry and is consistent with the parameters used in the financial model developed for the Combined PFS. The announcement of the diamond royalty system removes one more uncertainty as the Company nears the completion of the Final Feasibility Study for the Star – Orion South Diamond Project.

In addition, the Company also announced the results of a diamond analysis performed on the Star underground bulk sample diamond parcel (See SGF News Release dated June 9, 2010). This analysis indicated that 26 percent of all diamonds exceeding 2.7 carats in size from the Star underground bulk sample are Type IIa diamonds. Type IIa diamonds are rare and account for less than 2 percent of all natural rough diamonds in the world. Type IIa diamonds contain no nitrogen or boron impurities and are frequently either top white colours (D, E, F or G) or any shade of brown. Many pink and brownish-pink diamonds are also Type IIa. The coarse diamond size frequency distribution for the Star diamond populations (particularly the Early Joli Fou and Cantuar kimberlite units), combined with this significant proportion of Type IIa diamonds, strongly suggests the potential for the recovery of large (plus 100 carat), high quality diamonds at Star. Based on the coarse diamond size frequency distribution for the Star diamond populations, the processing plant contemplated for the Star – Orion South Diamond Project is being designed in the Final Feasibility Study to recover diamonds up to 800 carats, depending on their shape.

Based on the current economics from the Combined PFS, Shore also exercised its right to purchase the three percent Net Profits Interest ("NPI") held by a third party in August 2010 (See SGF News Release August 9, 2010). Fifteen claims, three of which are directly associated with the Star Kimberlite, were originally staked by a third party in 1995. These were subsequently transferred to Shore in 1997 for a consideration of the grant of a three percent NPI, payable should a positive production decision be made and the property achieve commercial mineral production. Shore had the option to purchase the NPI any time prior to 90 days after a positive production decision on any of the claims for \$1.0 million.

In December of 2010, the Company announced that the EIS had been submitted to the Saskatchewan Ministry of Environment ("Ministry") (See SGF News Release December



22, 2010). The Ministry is the lead agency on behalf of the province and the Canadian Environmental Assessment Agency ("CEAA"), which are jointly conducting an environmental assessment of the project. Shore seeks regulatory approval of the Star – Orion South Diamond Project and associated infrastructure. Environmental assessment and approval of the open pit mining envisaged by the project is required prior to development. The review by both federal and provincial governments will run concurrently and will include notification to, and dialogue with, the public as well as consultation with Aboriginal groups. The EIS review process is anticipated to continue throughout 2011 and into 2012.

During 2010, agreements were also reached with several Aboriginal parties, to gather information on traditional Aboriginal land use and traditional knowledge in the Fort à la Corne forest (See SGF News Releases April 1, May 12 and August 18, 2010). The information gathered as a result of these agreements was used in preparation of the EIS. The Company also announced Memoranda of Understanding ("MOU") with four Aboriginal groups (See SGF News Releases dated May 17 and June 17, 2010 as well as January 19, 2011). These MOUs commit the parties to hold discussions pertaining to potential education, training, employment and business opportunities for the Aboriginal groups that may result from the potential development of the Star – Orion South Diamond Project.

In March 2011, the Company announced the results of an updated valuation of the diamond parcels from the Star and Orion South Kimberlites (See SGF News Release dated March 2, 2011). The Parcel Prices from this valuation showed increases between 28 and 130 percent above the March 2008 prices that were used in the Combined PFS. Model Prices determined for the diamond populations of the major kimberlite units that make up the Star and Orion South Kimberlites ranged between US\$192 and US\$355 per carat. This valuation also identified the highest value stone recovered to date. A high quality 11.96 carat diamond was priced at \$15,000 per carat (stone value: \$179,325) on the basis that it is E colour. This diamond, which was recovered from a large diameter drill hole of the Star Kimberlite, has been confirmed as being a Type IIa diamond.

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



Buffalo Hills Exploration Program

Exploration work on the Buffalo Hills property ("Buffalo Hills") during 2010 focused on a delineation drilling program which completed 13 drill holes for an aggregate of 1,510 metres on the K5, K6 and K91 kimberlites. All recovered drill core was transferred to Shore's core logging facility for quantitative and qualitative geological analysis. The geological examination of the core has been completed and was used in the development of three-dimensional geological models for the various kimberlites.

The Company's interest in Buffalo Hills increased during 2010 due to Shore and Canterra Minerals Corporation ("Canterra") funding certain exploration expenditures up to April 30, 2010. Based on the Buffalo Hills Joint Venture Agreement and the level of spending incurred, each of Shore's and Canterra's interest increased to approximately 33 percent (2009 – 28.5 percent) with EnCana Corporation holding the remaining interest. Canterra is the Operator of Buffalo Hills.

Selected Annual Information

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

	2010	2009	2008
Revenues (\$millions)	0.2	0.1	1.6
Net loss (\$millions)	(3.4)	(9.1)	(458.0)
Net loss per share ⁽¹⁾	(0.02)	(0.04)	(2.48)
Total assets (\$millions)	267.7	271.3	267.0
Working capital (\$millions)	15.6	38.4	23.6

(1) Basic and diluted.

Results of Operations

For the year ended December 31, 2010, the Company recorded a net loss of \$3.4 million or \$0.02 per share compared to a net loss of \$9.1 million or \$0.04 per share for 2009. These losses were primarily due to the \$1.1 million (2009 – \$0.5 million) fair value of stock-based compensation expensed by the Company, the \$0.7 million (2009 – \$0.1 million) adjustment for the Company's investment in Wescan Goldfields Inc. and the \$0.5 million (2009 – \$6.3 million) write-down of expenditures incurred by the Company on certain of its mineral properties. Also contributing to the losses for 2010 and 2009 were ongoing operating costs incurred by the Company exceeding interest revenue earned on cash and cash equivalents and short-term investments.

Revenues

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 projects. For the year ended December 31, 2010, the Company reported interest and other revenue of \$155 thousand, an increase of \$20 thousand from the \$135 thousand reported in 2009 due to higher interest earned by the Company primarily due to a higher average cash and short-term investment balance during 2010.

Expenses

Total operating costs for the year ended December 31, 2010 were \$6.5 million compared to \$5.9 million for the year ended December 31, 2009. This represents an increase of \$0.6 million, all of which is attributed to the fair value of stock-based compensation that was expensed from the issuance of stock options during 2010 (\$1.1 million) as compared to 2009 (\$0.5 million). After removing the effect of accounting for stock-based compensation, expenses for the year ended December 31, 2010 were consistent with the prior year.

Change in fair value of long-term investments

At December 31, 2010 the Company held Notes with a total par value of \$14.3 million (2009 – \$14.3 million). These Notes were received during January 2009 in exchange for the Company's Canadian third party asset-backed commercial paper ("ABCP") upon the successful implementation of the ABCP restructuring plan. As there is currently no active market for these Notes, the fair value was determined by the Company using a discounted cash flow approach which considered available information regarding the credit risk attributable to the underlying assets, relevant market interest rates, and the expected amount and timing of principal and interest payments. Ultimately the amount recovered could be significantly different from the current carrying value of \$8.9 million (2009 – \$8.3 million).

Investment in Wescan Goldfields Inc.

At December 31, 2010, Shore held 12,955,567 (2009 – 12,955,567) shares of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. Due to a dilution of its interest in 2010, the Company now accounts for its investment in Wescan as held for trading. The fair value based on the closing trading price of the common shares of Wescan at December 31, 2010 was \$1.4 million. As a result, for the year ended December 31, 2010 the Company recognized a \$0.7 million reduction in the carrying value of its investment in Wescan. Prior to 2010, the Company accounted for its investment in Wescan on an equity basis and as such recognized its proportionate equity interest in losses and dilution gains from the various equity transactions of Wescan. The fair value of the Company's investment at December 31, 2009 was \$1.8 million.

Write-down of mineral properties

The Company applies undiscounted future cash flow methodologies as an initial step in assessing impairment. For the period ended December 31, 2010, independent reserve estimates for the Star and the Orion South Kimberlites were available to perform this initial step. Based on this analysis, the Company did not adjust the carrying value of these properties at December 31, 2010.



As a Mineral Resource estimate for the Orion South Kimberlite was completed during the quarter ending September 30, 2009, the Company was unable to perform the initial step in assessing impairment prior to this period. Given the existence of market related impairment indicators, prior to the completion of the Mineral Resource estimate the Company wrote down \$6.1 million of expenditures that were incurred on this property during the six-months ended June 30, 2009.

As there are currently no independent estimates of reserves or resources for any of the Company's other mineral properties, the Company was unable to apply undiscounted future cash flow methodologies as an initial step in assessing impairment. Using other indicators, the carrying value of the Company's other mineral properties at December 31, 2010 were written down to nil. Write-downs relating to these properties during the year were \$0.5 million (2009 – \$0.2 million).

Income taxes

Income tax recoveries were \$3.5 million for 2010 and 2009. These recoveries were primarily due to the impact the renunciation of flow-through expenditures had on the Company's future income taxes (relating to the 2009 and 2008 flow-through financings respectively).

Investing

Mineral property additions for 2010 totaled \$17.9 million (before \$0.5 million in write-downs) compared to \$10.8 million in 2009 (before \$6.3 million in write-downs). The 2010 additions represent approximately \$6.3 million on the Star Diamond Project (2009 – \$2.3 million), \$11.1 million on the FALC-JV Project (2009 – \$8.2 million) and \$0.5 million on other properties (2009 – \$0.3 million), which includes Buffalo Hills. The main activities for the Star Diamond Project and the FALC-JV Project were the completion of the Combined PFS, work relating to the EIS as well as the desk-top engineering studies, data analysis and geotechnical and hydrogeological drilling required for the Final Feasibility Study.

Financing

No financing activities occurred during the year ended December 31, 2010. During 2009, the Company completed a private placement of 14.3 million Common Shares and 10.0 million flow-through shares of the Company for gross proceeds of \$27.5 million, of which \$12.5 million was used by Shore to incur Canadian exploration expenses as defined by the *Canadian Income Tax Act* prior to December 31, 2010 (See SGF News Release October 13, 2009). There were 0.3 million options exercised in 2009 resulting in additional cash flow from financing activities of \$0.1 million.



Summary of Quarterly Results

	2010				2009			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Revenues ⁽¹⁾ (\$millions)	-	0.1	-	0.1	-	-	-	0.1
Net income (loss) ⁽²⁾ (\$millions)	(1.4)	(1.0)	(1.4)	0.4	(1.7)	(1.3)	(2.2)	(3.9)
Net income (loss) per share ⁽³⁾ (\$)	(0.01)	(0.00)	(0.01)	0.00	(0.01)	(0.00)	(0.01)	(0.02)
Shares outstanding ⁽⁴⁾ (millions)	224.5	224.5	224.5	224.5	224.5	200.2	199.9	199.9

- (1) Revenues are primarily related to interest earned on the Company's cash and short-term investments. Interest payments received on the Notes since the 2009 restructuring have been included in the fair value calculation of the Notes and not included in revenue.
- (2) The net losses during the second, third and fourth quarters of 2010 and the third and fourth quarters of 2009 were primarily related to ongoing operating costs incurred by the Company exceeding interest revenue earned. Net income during the first quarter of 2010 was due to the tax effect on the renouncement of flow-through expenditures relating to the October 2009 financing of 10.0 million flow-through shares. The net losses during the first and second quarters of 2009 were primarily related to write-downs of certain mineral properties held by the Company.
- (3) Basic and diluted.
- (4) The Company completed a private placement financing on October 13, 2009 resulting in the issuance of 14.3 million common shares and 10.0 million flow-through shares. The 0.3 million change in the number of shares outstanding during the third quarter of 2009 was the result of option exercises.

Fourth quarter results

For the quarter ended December 31, 2010, the Company recorded a net loss of \$1.4 million or \$0.01 per share compared to a net loss of \$1.7 million or \$0.01 per share for the same period in 2009. The losses during these quarters were due to ongoing operating costs incurred by the Company exceeding interest revenue earned on cash and cash equivalents and short-term investments. The \$0.3 million reduction to losses between the quarters ended December 31, 2010 and 2009 was primarily due to the increase in the fair value of the Company's Notes and \$0.2 million increase in the carrying value of its investment in Wescan that were recognized during the fourth quarter of 2010.

The Company generated \$42 thousand in interest and other revenue during the fourth quarter of 2010 compared to \$30 thousand for the corresponding period in 2009 due to higher interest earned by the Company as a result of rising interest rates.

Total operating costs for the quarter ended December 31, 2010 were \$1.9 million, compared to \$1.7 million during the quarter ended December 31, 2009. This increase was primarily due to higher general and administrative costs such as rent and salaries.

During the fourth quarter of 2010 the Company incurred \$1.6 million (2009 - \$1.0 million) in mineral property additions related to the Star Diamond Project and \$2.7 million (2009 - \$1.1 million) for the FALC-JV Project. The main activities for the Star Diamond Project and the FALC-JV Project was work relating to the completion of the EIS as well as the desk-top engineering studies and data analysis required for the Final Feasibility Study.



Related Party Transactions

Messrs. Kenneth E. MacNeill (President and Chief Executive Officer), Harvey J. Bay (Chief Financial Officer and Chief Operating Officer) and George H. Read (Senior Vice-President of Exploration and Development), through their respective consulting companies, hold management and consulting contracts with the Company. During 2010, Messrs. MacNeill, Bay and Read's monthly contracted fees were \$34 thousand (2009 – \$30 thousand), \$24 thousand (2009 – \$23 thousand) and \$19 thousand (2009 – \$18 thousand), respectively.

During 2010, management and consulting fees of \$1.5 million (2009 – \$1.4 million) were paid or payable to companies controlled by officers of the Company. Of these fees, \$0.1 million (2009 – \$0.2 million) were capitalized as additions to mineral properties; \$0.6 million (2009 – \$0.5 million) were included in administration expense and \$0.8 million (2009 – \$0.7 million) were included in consulting and professional fees expense. Included in the \$1.5 million (2009 – \$1.4 million) of management and consulting fees were accrued liabilities of \$0.4 million (2009 – \$0.4 million).

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

Liquidity

The Company does not currently operate any producing properties and, as such, is dependent upon the issuance of new equity to finance its ongoing obligations and advance its exploration properties. Until the Company's surplus cash is required to fund exploration or development activities it is invested in a variety of highly rated instruments. The Company expects its current capital resources will be sufficient to carry out its feasibility and exploration plans through 2011.

At December 31, 2010 the Company had \$18.9 million in cash and cash equivalents and short-term investments. In addition, the Company held \$14.3 million in long-term Notes (\$8.9 million carrying value), the liquidity of which is limited. Since there is currently no active market for the remaining Notes, the timing and amount ultimately recovered by the Company may differ materially from this fair value estimate.

The Company's contractual obligations at December 31, 2010 were as follows:

	Payments due by period (\$millions)			Total
	Less than 1 year	1 to 3 years	Thereafter	
Lease of premises	0.5	1.2	0.2	1.9
Equipment and services	-	-	-	-
Total	0.5	1.2	0.2	1.9



The Company has supplied \$2.3 million (2009 – \$2.3 million) of irrevocable standby letters of credit issued by a Canadian chartered bank, of which the majority are related to asset retirement obligations. The facilities are secured by restricted cash.

Capital Resources and Outstanding Share Data

As at December 31, 2010, the Company had working capital of \$15.6 million as compared to \$38.4 million at December 31, 2009. This does not include the Company's \$14.3 million (\$8.9 million carrying value) in Notes. The Company expects its current capital resources will be sufficient to carry out its plans through 2011.

At December 31, 2010 and 2009 the Company had 224,454,242 shares issued and outstanding. As at March 23, 2011, the Company's issued and outstanding shares remained unchanged from December 31, 2010. There are currently 9,810,000 options outstanding at a weighted average exercise price of \$2.04 of which approximately 3.4 million are currently "in the money" and would add an additional \$1.0 million to the Company's capital if exercised.

Financial Instruments

As at December 31, 2010, the fair value of all of the Company's financial instruments approximates their carrying value. Certain financial instruments are exposed to the following financial risks:

Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company's credit risk primarily relates to its investments in Notes.

At December 31, 2010, the Company held Notes with a par value of \$14.3 million (carrying value of \$8.9 million), as outlined in the Company's consolidated financial statements. The consolidated financial statements of the Company reflect management's best estimate of the fair value of these investments. The amount and timing of future cash flows received by the Company may differ materially from this estimate. Due to the nature of certain Notes which are not backed by traditional securitized assets (a significant component is comprised of collateral debt obligations), credit risk could potentially be significant. The maximum exposure to credit risk related to the Company's investments in these Notes at December 31, 2010 is represented by the carrying amount of \$8.9 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. At December



31, 2010 the Company had working capital of \$15.6 million. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

Critical Accounting Estimates

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

Management considers the following policies to be the most critical in understanding the judgments and estimates that are involved in preparing the Company's consolidated financial statements.

Mineral properties

Subject to compliance with provincial mineral regulations, the Company holds the right to explore for and develop mineral resources on various Crown property dispositions within the Province of Saskatchewan. The Company also has joint operations with various companies that hold similar rights in Saskatchewan and Alberta. These rights are classified as mineral properties for financial statement purposes.

All costs related to the acquisition, exploration and development of mineral properties are capitalized until the date commercial production is achieved. Upon commencement of commercial production from a property, the related accumulated costs will be amortized using the unit of production method over estimated recoverable reserves. Interest on debt associated with the acquisition of mineral properties would be capitalized until commencement of commercial production. There have been no interest costs capitalized to date. Management assesses carrying values of non-producing properties each time it issues financial statements. Where information and conditions suggest impairment, estimated future cash flows are calculated using estimated future prices, reserves and resources, weighted probable outcomes and operating, capital and reclamation costs on an undiscounted basis. If it is determined that the future cash flows are less than the carrying value, a write-down to the estimated fair value is expensed for the period. Where no independent estimates of reserves or resources are available for which to estimate future net cash flows and where other conditions suggest impairment, carried costs are written down.



When options to acquire mineral properties are granted or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditures are required and proceeds exceed costs, the excess proceeds are reported as a gain.

Asset retirement obligations

The fair value of liabilities for asset retirement obligations are recognized in the period in which the liabilities are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the mineral property and then amortized over its estimated useful life. The fair value of the asset retirement obligations is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligations. Changes in the obligations due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligations due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related asset.

Stock-based compensation plans

Options granted under the share option plan are accounted for using the fair value method. Under this method, the fair value of stock options granted is measured at estimated fair value at the grant date and recognized over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options that were granted is transferred to share capital.

Future income taxes

Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax base. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is recognized in earnings in the period which includes the enactment date. Future income tax assets and liabilities are recorded in the financial statements if realization is considered more likely than not. The valuation of future income taxes is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated recoverable amount.

Fair value of financial instruments

Financial instruments are initially recorded at fair value. The fair values of cash and cash equivalents, short-term investments, receivables and payables approximate their recorded amounts due to their short-term nature. At December 31, 2010 there was no active market for the Company's long-term investments (comprised of Notes with a carrying value of \$8.9 million). As a result, the fair value of the Notes is assessed by management. Any



changes in fair value of these long-term investments are then recognized in the consolidated statement of loss and deficit.

Future Accounting Changes

International Financial Reporting Standards

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. The Company's first financial statements presented in accordance with IFRS will therefore be the three-month period ended March 31, 2011. The Company will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2010.

Though IFRS uses a conceptual framework similar to Canadian GAAP, there are some significant differences on recognition, measurement and disclosure requirements. The consolidated financial performance and financial position as presented in the Company's Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

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

The Company's plan consists of several phases including:

Timing	Plan Phase
2008	An initial scoping phase which included the identification of key differences, important dates, development of milestones, and potential training issues;
2009	Detailed evaluation phase which included a detailed comparison of Canadian GAAP and IFRS in a priority sequence including policy alternatives and business process implications, information systems, internal controls over financial reporting, disclosure controls and procedures and compensation arrangements; and,
2010	Implementation and review phase which includes final policy selection (including an assessment regarding choices under IFRS-1, <i>First Time Adoption of International Financial Reporting Standards</i> and potential changes to IFRS in 2012 that may impact our policy selection) with the culmination of the necessary information systems and data required to prepare IFRS compliant financial statements and disclosures and any necessary adjustments to other business processes that may be impacted.

The initial scoping phase was completed by the Company in 2008. The Company identified the accounting related to the carrying value of the Company's mineral properties to be the area of the most significant potential difference. The carrying value of the Company's mineral properties may be impacted by several standards in IFRS, including the treatment of exploration expenditures, past mineral property purchases and how potential impairments are analyzed. Other areas of less significance that will require



adjustments relate to share-based payments, asset retirement obligations and property and equipment.

Throughout the detailed evaluation process management confirmed that the conversion to IFRS will have limited impact to its business processes, disclosure controls and controls over financial reporting. Certain of the Company's information systems have been converted to allow for the recognition, measurement and disclosure requirements of property and equipment in accordance with IFRS. Members of the conversion team have been provided training regarding IFRS to allow for a successful implementation. As well, the Company's external auditors have validated the areas that management perceives as most significant to the Company regarding the differences between Canadian GAAP and IFRS. Management has not completely quantified the effects of adopting IFRS, however the quantification of most differences will not have a significant impact to the Company's financial statements.

First time adoption

The Company has determined it will adopt the choices allowed under IFRS-1 that will have the least impact to the Company's current Canadian GAAP financial statements on areas of lesser significance. For example, the Company is planning to use historical cost under Canadian GAAP on transition for property and equipment instead of fair value, as allowed under IFRS-1.

Exploration and evaluation assets

Currently, Canadian GAAP and IFRS both allow a Company to establish an accounting policy that either capitalizes or expenses exploration and evaluation expenditures incurred. The Company has decided that it will retroactively change its policy on the date of transition from capitalizing to expensing exploration and evaluation expenditures. This change in policy from capitalizing to expensing excludes expenditures incurred when identifiable exploration and evaluation assets are acquired or when expenditures are incurred once the existence of a commercially viable mineral deposit has been established. In these instances, expenditures will continue to be capitalized.

The Company has determined that a transaction which occurred in 2005 should be accounted for under IFRS as a purchase of an identifiable exploration and evaluation asset as it was under Canadian GAAP. However, the income tax effect on this transaction is treated differently as IFRS does not allow for the recognition of deferred taxes on a purchase of an asset. As a result, the carrying value of mineral properties will be reduced under IFRS for the previously recognized deferred taxes. Per the Company's proposed accounting policy for capitalizing and expensing exploration and evaluation assets, the purchase of this asset will continue to be capitalized.

Due to these two changes, the Company anticipates that, should circumstances change to allow for a reversal of impairments (as allowed under IFRS but not allowed under



Canadian GAAP), that the reversal would be significantly less than the total of previously recorded write-downs reported under Canadian GAAP.

Impairment

IFRS-6, *Exploration for and Evaluation of Mineral Resources*, requires entities to assess any exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.

IFRS-6 includes examples of "facts and circumstances" that may indicate when impairment testing is required. Based on this guidance, management believes that similar circumstances existed under both Canadian GAAP and IFRS to warrant a write-down in 2008. As such, on transition, the Company does not expect the carrying value of mineral properties to change significantly compared to Canadian GAAP. However, as stated earlier, IFRS does allow for the reversal of impairments which the Company expects to occur once a production decision is made as IFRS-6 requires a revaluation at the time the status of a property changes.

The International Accounting Standards Board is also reviewing how exploration and evaluation expenditures are to be treated. Though the full extent of the changes is not yet known, the Company will continue to monitor how these changes may impact future accounting policies.

Decommissioning liability (Asset retirement obligations)

The Company's asset retirement obligations ("ARO") consist of reclamation costs predominately relating to exploration drill pads and related access roads on the Company's mineral properties. Under Canadian GAAP, an ARO liability is based on the estimated future expenditures expected to be incurred and existing ARO liabilities are not re-measured using current discount rates. Under IFRS, the decommissioning liability is measured as the best estimate of the expenditure to be incurred and, where the effect of the time value of money is material, is present valued using current discount rates at each reporting date. Since the Company's total ARO is currently approximately \$1.5 million, the Company believes that any change in estimate of the cost or any differences due to changing discount rates at transition will not have a significant impact to the Company's financial statements.

Share-based payments

An analysis of the effects to share-based payments has also been performed, which indicates that adoption will not have a significant impact as IFRS and Canadian GAAP are largely converged with only a few differences. Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. Currently, the Company is using the straight line amortization method. IFRS, conversely, allows only the accelerated method. Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest and must be adjusted to actual by the vesting date, while under Canadian



GAAP forfeitures can be recognized as they occur. Upon adoption of IFRS, the Company will change both the method of amortization, which would give rise to an accelerated compensation expense, and the method of forfeiture recognition. The Company does not intend to utilize the election in IFRS-1 to apply IFRS retrospectively to all equity instruments granted and vested at the January 1, 2010 transition date. As a result, options that were granted and that vested prior to the transition date will not be retrospectively restated. At December 31, 2010 the Company had 437,500 options (2009 – 428,000), with an approximate fair value of \$0.3 million (2009 - \$0.1 million) that had not vested. Any accelerated vesting on these options under IFRS will have a minimal impact to the Company's financial statements.

Flow-through shares

An analysis of the effects of flow-through shares has also been performed. Under Canadian GAAP, flow-through shares are recorded at their face value when issued and the tax impact is recorded when the deduction is renounced to the investor. To the extent that the Company has unused tax benefits from loss carry forwards and tax pools in excess of book values available for deduction against which a valuation allowance has been provided, the future tax liability reduces the valuation allowance, if any, and the reduction is recognized in earnings. Under IFRS, the difference between the issue price of flow-through shares and the fair value of the shares at the date of issuance ("premium") is recorded as a liability with a corresponding reduction to share capital. To the extent that the Company has unrecorded tax benefits the premiums are recognized in earnings at the time of renunciation to investors of the flow-through shares. The Company estimates the difference for transition will cause the future income tax reduction, as reported under Canadian GAAP in 2010, to be reduced by approximately \$2 million.

Presentation and disclosure

Based on management's current estimates, the Company anticipates that the transition to IFRS will result in increased disclosures in the notes to the financial statements.

Transition to IFRS

Throughout the first quarter of 2011, the Company plans to complete the drafting of financial statements and note disclosures required for the conversion to IFRS, finalize accounting policy and transition elections and prepare the opening balance sheet as of January 1, 2010.

Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods, and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that



information. In accordance with the requirements of *National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings*, the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2010, and based on their evaluation, have concluded that these controls and procedures were effective.

There have been no significant changes in the Company's disclosure controls during the quarter ended December 31, 2010.

Internal Controls over Financial Reporting Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control 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 evaluated the design and tested the effectiveness of the Company's internal controls over financial reporting as of the end of the period covered by the annual filings and have concluded that the Company's internal controls over financial reporting have been designed and are operating effectively.

There have been no significant changes to internal controls over financial reporting during the quarter ended December 31, 2010 that could have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Outlook

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



As of March 23, 2011, the Company had approximately \$15.5 million in cash and cash equivalents and short-term investments (excluding the \$14.3 million in long-term Notes and \$2.3 million in restricted cash). A portion of the Company's cash and cash equivalents and short-term investments will be used for the completion of the Final Feasibility Study, the continuation of the environmental impact assessment ("EIA") process, the funding of certain site power design and engineering costs, carrying out ongoing mineral property administration and reclamation as well as for general corporate matters. Cash and cash equivalents and short-term investments may also be used to fund various other exploration and evaluation activities, to purchase certain assets or to acquire and explore additional properties as opportunities warrant.

Risks and Uncertainties

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

Risks Associated With an Exploration Stage Company

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

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



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

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

The Company does not currently have any producing property interests. The exploration, development and production of precious metals and gems are capital-intensive, subject to the normal risks and capital expenditure requirements associated with mining operations. While the rewards can be substantial if commercial quantities of minerals or gems are found, there can be no assurance that Shore's past or future exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable.

As at March 23, 2011, the Company has determined that the Star and Orion South Kimberlites have established reserves. Current forecasts are based on engineering data, projected future rates of production and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserve estimates may be revised based on the results of future drilling, testing or production levels and changes in mine design. In addition, factors including but not limited to market fluctuations in the price of diamonds, changes in foreign exchange rates or estimated recoverable grade from the Star and Orion South Kimberlites may render the mining of ore reserves uneconomical.

Technical Information

All technical information in this report has been prepared under the supervision of George Read, Senior Vice President of Exploration and Development, Professional Geoscientist in the Provinces of Saskatchewan and British Columbia, and Shawn Harvey,



Geology Manager, Professional Geoscientist in the Province of Saskatchewan, who are the Company's "Qualified Persons" under the definition of NI 43-101.

Caution regarding Forward-looking Information

This MD&A contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of Canadian Securities legislation and the United States Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements, and, in particular, statements regarding Shore's future operations, future exploration and development activities or other development plans contain forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements related to the impact of rising modeled and parcel diamond prices on Star - Orion South Diamond Project economics, pit optimization and mineral reserves; potential increases in mineral reserves; statements made regarding the presence of Type IIa diamonds, large stones and the associated coarse size frequency distribution of diamonds in the Star - Orion South Diamond Project; statements and assumptions made regarding buoyancy in world diamond markets and changes in diamond supply and demand; statements relating to future production from and mining of the Star - Orion South Diamond Project and associated timelines; the use of funds to fund the Final Feasibility Study, the continuation of the EIA process, future site power design and engineering costs, exploration activities or the purchase of; the acquisition and exploration of additional properties and the plans and expectations concerning the transition to IFRS.

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



**Consolidated Financial Statements
December 31, 2010**

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 Canadian generally accepted accounting principles 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 Canadian generally accepted auditing standards, have examined these consolidated financial statements and their independent professional opinion on the fairness of the consolidated financial statements is attached.



Harvey J. Bay, CMA
Chief Financial Officer & Chief Operating Officer

Saskatoon, Saskatchewan
March 23, 2011



KPMG LLP
Chartered Accountants
600 - 128 Fourth Avenue South
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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 balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 an 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 opinions.



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, 2010 and December 31, 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

March 23, 2011
Saskatoon, Canada

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

	December 31, 2010 <small>(in thousands)</small>	December 31, 2009 <small>(in thousands)</small>
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,780	\$ 2,643
Short-term investments	16,159	37,637
Receivables (note 3)	247	176
Prepays	85	85
	<u>19,271</u>	<u>40,541</u>
Restricted cash (note 4)	2,307	2,307
Investments (note 5)	8,922	8,330
Investment in Wescan Goldfields Inc. (note 6)	1,425	2,128
Property and equipment (note 7)	637	859
Mineral properties (note 8)	235,147	217,114
	<u>\$ 267,709</u>	<u>\$ 271,279</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 3,618	\$ 2,063
Current portion of asset retirement obligations (note 10)	54	81
	<u>3,672</u>	<u>2,144</u>
Asset retirement obligations (note 10)	1,492	1,436
Shareholders' equity:		
Share capital (note 12)	791,957	795,332
Contributed surplus (note 12(d))	28,165	26,568
Deficit	(557,577)	(554,201)
	<u>262,545</u>	<u>267,699</u>
	<u>\$ 267,709</u>	<u>\$ 271,279</u>
Commitments (note 17)		

On behalf of the Board:



James R. Rothwell
Chairman of the Board



Arnie E. Hillier
Chairman of the Audit Committee

See accompanying notes to consolidated financial statements

Shore Gold Inc.
(A Development Stage Entity)
Consolidated Statements of Loss, Comprehensive Loss and Deficit
For the years ended December 31

	<u>2010</u>	<u>2009</u>
	<u>(in thousands)</u>	<u>(in thousands)</u>
Revenue		
Interest and other income	\$ 155	\$ 135
Expenses		
Administration	4,440	3,907
Consulting and professional fees	1,318	1,348
Corporate development	417	324
Amortization and accretion	324	314
	<u>6,499</u>	<u>5,893</u>
Loss before the under noted items	(6,344)	(5,758)
Change in fair value of investments (note 5)	614	(363)
Investment in Wescan Goldfields Inc. (note 6)	(703)	(106)
Write-down of mineral properties (note 8)	(480)	(6,342)
Net loss before income taxes	(6,913)	(12,569)
Future income tax reduction (note 11)	3,537	3,451
Net and comprehensive loss	(3,376)	(9,118)
Deficit, beginning of year	<u>(554,201)</u>	<u>(545,083)</u>
Deficit, end of year	<u>\$ (557,577)</u>	<u>\$ (554,201)</u>
Net loss per share		
Basic and diluted (note 13)	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding (000's)	224,454	205,232

See accompanying notes to consolidated financial statements

Shore Gold Inc.
(A Development Stage Entity)
Consolidated Statements of Cash Flows
For the years ended December 31

	2010 (in thousands)	2009 (in thousands)
Cash provided by (used in):		
Operations:		
Net and comprehensive loss	\$ (3,376)	\$ (9,118)
Non-cash items:		
Amortization and accretion	324	314
Change in fair value of investments	(614)	363
Investment in Wescan Goldfields Inc.	703	106
Write-down of mineral properties	480	6,342
Fair value of stock options expensed	1,163	531
Future income tax reduction	(3,537)	(3,451)
Net change in non-cash operating working capital items:		
Prepays	-	54
Receivables	(54)	51
Accounts payable and accrued liabilities	82	482
	(4,829)	(4,326)
Investing:		
Mineral properties	(17,903)	(10,819)
Asset retirement obligations	(62)	(187)
Property and equipment	(25)	(10)
Short-term investments	21,478	(32,558)
Restricted cash	-	(500)
Investments	22	5,371
Net change in non-cash investing working capital items:		
Receivables	(17)	7,357
Accounts payable and accrued liabilities	1,473	(10,141)
	4,966	(41,487)
Financing:		
Issue of common shares (net of issue costs)	-	25,837
	-	25,837
Increase (decrease) in cash and cash equivalents	137	(19,976)
Cash and cash equivalents, beginning of year	2,643	22,619
Cash and cash equivalents, end of year	\$ 2,780	\$ 2,643
Cash and cash equivalents consists of:		
Cash	\$ 552	\$ 824
Treasury bills	2,228	1,819
	\$ 2,780	\$ 2,643

See accompanying notes to consolidated financial statements

Shore Gold Inc.

(A Development Stage Enterprise)

Notes to the Consolidated Financial Statements (years ended December 31, 2010 and 2009)
(In thousands of Canadian dollars except per share amounts or as otherwise noted)

1. Nature of operations

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

2. Accounting policies

a) Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Generally accepted accounting principles (“GAAP”) require that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Areas of significance requiring the use of management estimates include the impairment of mineral properties and the determination of asset retirement obligations, stock-based compensation costs, future income tax valuation allowances and the fair value of investments. Actual amounts could differ from those estimates.

A summary of significant accounting policies is as follows:

Consolidation principles

The consolidated financial statements include the accounts of the Company and its subsidiaries. Interests in joint operations are accounted for by the proportionate consolidation method.

Cash and cash equivalents

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

Short-term investments

Short-term investments include highly liquid interest-bearing investments with maturities within twelve months. Short-term investments are designated as financial assets held-for-trading.

Investments

Investments include assets with terms to maturity greater than one year. Investments are designated as financial assets held-for-trading.

Equity investments

Investments in companies over which the Company has the ability to exercise significant influence are accounted for by the equity method. Under this method, the Company includes its proportionate equity interest of earnings (losses) of such companies. If the Company’s interest in the investment is diluted from various equity transactions of the investee company, a dilution gain (loss) is recognized to reflect the fair market value increase (decrease) of the portion of the investment that had been diluted. Other than temporary impairments of equity investments are recognized in the consolidated statement of earnings (loss).

Financial instruments presentation and disclosure

i) Financial assets

The Company has designated its cash and cash equivalents, short-term investments, restricted cash, investments and investments in equity securities, excluding those accounted for on an equity basis, as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Due to the short-term maturity of accounts receivable, respective carrying amounts approximate fair value.

The Company has not entered into any hedging relationships and does not hold any other available-for-sale securities that would result in the recognition of other comprehensive income or loss.

ii) Financial liabilities

Accounts payable are classified as other financial liabilities, which are measured at amortized cost. Due to the short-term nature of accounts payable, the carrying amount approximates fair value.

iii) Fair value

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. 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.

The level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measure in its entirety. Based on these categories, the Company's investments discussed in Note 5 are considered to be Level 3. All other financial instruments measured at fair value are categorized as Level 1.

Mineral properties

Subject to compliance with provincial mineral regulations, the Company holds the right to explore for and develop mineral resources on various Crown property dispositions within the Province of Saskatchewan. The Company also has joint operations with various companies that hold similar rights in Saskatchewan and Alberta. These rights are classified as mineral properties for financial statement purposes.

All costs related to the acquisition, exploration, stripping and development of mineral properties are capitalized until the date commercial production is achieved. Upon commencement of commercial production from a property, the related accumulated costs will be amortized using the unit of production method over estimated recoverable reserves. Interest on debt associated with the acquisition of mineral properties would be capitalized until commencement of commercial production. There have been no interest costs capitalized to date. Management assesses the carrying values of non-producing properties each time it issues financial statements. Where information and conditions suggest impairment, estimated future cash flows are calculated using estimated future prices, reserves and resources, weighted probable outcomes and operating, capital and reclamation costs on an undiscounted basis. If it is determined that the future cash flows are less than the carrying value, a write-down to the estimated fair value is expensed for the period. Where independent estimates of reserves or resources were unavailable for which to estimate future net cash flows and where other conditions suggest impairment, carried costs are written-down.

When options to acquire mineral properties are granted or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditures are required and proceeds exceed costs, the excess proceeds are reported as a gain.

Property and equipment

Property and equipment purchases are recorded at cost and are amortized 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 plus one renewal term or the estimated useful lives. Annual amortization rates are as follows:

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

Asset retirement obligations

The fair value of liabilities for asset retirement obligations is recognized in the period in which these obligations are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the mineral property and then amortized over its estimated useful life once commercial production is achieved. The fair value of the asset retirement obligations is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligations. Changes in the obligations due to the passage of time are recognized as an operating expense using the interest method. Changes in the obligations due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related asset.

Future income taxes

Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax base. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are to be recovered or settled. The effect on future income tax assets and liabilities resulting from a change in rates is recognized in earnings in the period which includes the enactment date. Future income tax assets and liabilities are recorded in the financial statements if realization is considered more likely than not. The valuation of future income taxes is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated recoverable amount.

Flow-through shares

The Company finances a portion of its exploration activities through the issuance of flow-through shares. The Company renounces the deductions to investors and accordingly records share issue costs related to the future tax liability of the temporary difference arising from the renunciation. As a result, share capital is reduced and future income tax liabilities are increased by the estimated tax benefits when renounced by the Company to the investors, except to the extent that the Company has unused tax benefits from loss carry forwards and tax pools in excess of book values available for deduction against which a valuation allowance has been provided. In these circumstances, the future tax liability reduces the valuation allowance, if any, and the reduction is recognized in earnings.

Per share amounts

Basic per share amounts are calculated by dividing the net income (loss) applicable to common shares by the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds received on the exercise of options and warrants would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net

change. 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.

Stock-based compensation

The Company has a share option plan that is described in note 12 (b).

Options granted under the share option plan are accounted for using the fair value method. Under this method, the fair value of stock options granted is measured at estimated fair value at the grant date and recognized over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus from when the options were granted is transferred to share capital.

b) New accounting pronouncements

International financial reporting standards

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) effective January 1, 2011. The Company’s first financial statements presented in accordance with IFRS will therefore be the three-month period ended March 31, 2011. The Company will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2010.

Though IFRS uses a conceptual framework similar to Canadian GAAP, there are some significant differences on recognition, measurement and disclosure requirements. The consolidated financial performance and financial position as presented in the Company’s Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS. Management has not completely quantified the effects of adopting IFRS.

3. **Receivables**

At December 31, accounts receivable consisted of the following:

	2010	2009
Goods and services tax refunds	\$ 203	\$ 87
Other	44	10
Fuel tax rebate	-	79
	\$ 247	\$ 176

4. **Restricted cash**

The Company has pledged \$2,307 thousand (2009 – \$2,307 thousand) in short-term investments as security for letters of credit provided, as described in note 17. These short-term investments are recorded as restricted cash.

5. **Investments**

At December 31, 2010 the Company held \$8.9 million in investments (“Notes”) with a total par value of \$14.3 million. These Notes were received during January 2009 in exchange for the Company’s Canadian third party asset-backed commercial paper (“ABCP”) upon the successful implementation of the ABCP restructuring plan. The Company’s Notes are made up of the following:

Master Asset Vehicle (“MAV”)	Class	Par Value ^(a)	Percent of Investment	Fair Value ^(b)
MAV2	Class A-1 Notes	\$ 6,193	43.2%	\$ 4,404
MAV2	Class A-2 Notes	6,467	45.2%	4,470
MAV2	Class B Notes	1,174	8.2%	-
MAV2	Class C Notes	428	3.0%	-
MAV3	Class 9 Notes	58	0.4%	48
Total		\$ 14,320	100.0%	\$ 8,922

a) Par value

The par value of the Notes represents the amortized cost of the Company’s investments at the time the ABCP market ceased to trade, less principal repayments received to date.

b) Fair value

Since there is currently no active market for these Notes, the fair value of the Company's Notes at December 31, 2010 was determined using a discounted cash flow approach with the following assumptions:

	<u>Assumption</u>
Timing of cash flows	6 years
Weighted average interest rate	0.79 ⁽¹⁾
Weighted average discount rate	6.95 percent ⁽²⁾

- (1) Interest on MAV2 A1 and A2 Notes is the 90-day Bankers' Acceptance rate less 50 basis points. Excludes interest on MAV2 Class B and C Notes as fair values have been assessed as nil. Interest on MAV3 Class 9 Note is based upon amounts available from the traditional securitized assets backing these notes.
- (2) Excludes Class B and C Notes as fair values have been assessed as nil.

As a result of the fair value assessment of the Notes, the Company recorded an increase in fair value of \$0.6 million (2009 – decrease of \$0.4 million) for the year. The amount and timing of future cash flows received by the Company may differ materially from this estimate. A one percent change in the discount rate of this fair value assessment would result in a \$0.5 million pre-tax change in the fair value of the Notes held by the Company.

The Company received \$18 thousand (2009 – \$1.0 million) in interest payments and \$4 thousand (2009 – \$4.4 million) in principal repayments. Interest payments received or receivable are included in the fair value calculation of the Notes.

A summary of the change in carrying value of the Notes is as follows:

	2010	2009
Balance – beginning of year	\$ 8,330	\$ 14,064
Change in fair value	614	(363)
Interest received	(18)	(968)
Principal repayments	(4)	(4,403)
Balance – end of year	<u>\$ 8,922</u>	<u>\$ 8,330</u>

6. Investment in Wescan Goldfields Inc.

At December 31, 2010, Shore held 12,955,567 (2009 – 12,955,567) shares of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. Due to a dilution of its interest in 2010, the Company now accounts for its investment in Wescan as held for trading at fair value based on the closing trading price of the common shares at December 31, 2010. Prior to 2010, the Company accounted for its investment in Wescan on an equity basis and as such recognized its proportionate equity interest of losses and dilution gain from the various equity transactions of Wescan. The fair value of the Company's investment at December 31, 2009 was \$1.8 million. The difference between the carrying value and fair value was assessed by the Company as a temporary impairment, and accordingly the investment was not written down at December 31, 2009.

Balance – December 31, 2008	\$ 2,234
Share of losses	(69)
Gain on dilution in equity investment	27
Expiry of warrants	(64)
Balance – December 31, 2009	<u>2,128</u>
Change in fair value	<u>(703)</u>
Balance – December 31, 2010	<u>\$ 1,425</u>

7. Property and equipment

Property and equipment consisted of the following:

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Automotive equipment	\$ 39	\$ 33	\$ 6	\$ 8
Buildings	268	106	162	180
Computer equipment	171	108	63	62
Computer software	35	34	1	5
Furniture and equipment	565	369	196	323
Leasehold improvements	591	382	209	281
	\$ 1,669	\$ 1,032	\$ 637	\$ 859

8. Mineral properties

Mineral properties consisted of the following:

	Star Property (a)	Fort à la Corne Property (b)	Other Diamond Properties (c)	Total
Balance – December 31, 2008	\$ 171,136	\$ 41,225	\$ -	\$ 212,361
Expenditures during 2009				
Acquisition and staking	11	-	75	86
Exploration	2,590	8,240	179	11,009
Write-down of carrying value (d)	-	(6,088)	(254)	(6,342)
Balance – December 31, 2009	173,737	43,377	-	217,114
Expenditures during 2010				
Acquisition and staking (e)	1,013	9	-	1,022
Exploration	5,911	11,086	480	17,477
Asset retirement obligation	-	14	-	14
Write-down of carrying value (d)	-	-	(480)	(480)
Balance – December 31, 2010	\$180,661	\$ 54,486	\$ -	\$235,147

The recoverability of the amounts for mineral properties is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to establish the existence of reserves and to complete the development of such reserves and the success of future operations. Amounts capitalized as mineral properties represent costs incurred to date and calculated fair values of properties acquired, less write-downs, losses and recoveries, and do not necessarily reflect present or future values.

a) Star Property

At December 31, 2010, the Company held a 100% interest in the Star Property, consisting of certain mineral dispositions located in the Fort à la Corne kimberlite field approximately 60 kilometres east of Prince Albert, Saskatchewan. The Company has a National Instrument (“NI”) 43-101 Mineral Reserve estimate for the Star Kimberlite.

b) Fort à la Corne Property

The Company holds a 66% interest (2009 – 63%) in certain mineral claims in the Fort à la Corne area of Saskatchewan known as the Fort à la Corne Joint Venture (“Fort à la Corne Property”). Newmont Mining Corporation of Canada Limited (“Newmont”) holds the remaining 34% interest (2009 – 37%).

The Company has a National Instrument (“NI”) 43-101 Mineral Reserve estimate for the Star West property (the portion of the Star Kimberlite within the Fort à la Corne Property) and the Orion South component of the Fort à la Corne Property.

c) Other diamond properties

At December 31, 2010 the Company held a 100% interest in two additional diamond properties located

northwest of the Fort à la Corne kimberlite field area as well as an interest of approximately 33% (2009 – 28.5%) in the Buffalo Hills property (“Buffalo Hills”) in north central Alberta. The Company’s interest in Buffalo Hills increased during 2010 due to Shore and Canterra Minerals Corporation (“Canterra”) funding certain exploration expenditures up to April 30, 2010. As of December 31, 2010 Shore and Canterra each held an interest of approximately 33 percent with EnCana Corporation holding the remaining interest. Canterra is the Operator of Buffalo Hills.

d) Write-down of carrying value

The Company applies undiscounted future cash flow methodologies as an initial step in assessing impairment. For the period ended December 31, 2010, an independent estimate of reserves for the Star Property, the Star West property and Orion South were available to perform this initial step. Based on this analysis, the Company did not adjust the carrying value of these properties for the period ended December 31, 2010. Prior to the completion of an independent reserve or resource estimate for Orion South and given the existence of market related impairment indicators, the Company wrote down \$6.1 million of expenditures that were incurred on the Fort à la Corne Property during the six-month period ended June 30, 2009.

As there are currently no independent estimates of reserves or resources for any of the Company’s other diamond properties, the Company was unable to apply undiscounted future cash flow methodologies as an initial step in assessing impairment. Using other indicators, the carrying value of the Company’s other diamond properties were written down to nil.

e) Acquisition and staking

Fifteen claims that were originally staked by a third party were subsequently transferred to Shore in 1997 for consideration of a three percent Net Profits Interest (“NPI”), payable should a positive production decision be made and the property achieve commercial mineral production. Shore had the option to purchase the NPI any time prior to 90 days after a positive production decision on any of the claims, for \$1.0 million. During the year, Shore exercised its right to purchase the NPI for a consideration of \$1.0 million.

9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following:

	2010	2009
Trade payables	\$ 1,918	\$ 762
Accrued liabilities	1,700	1,301
	<u>\$ 3,618</u>	<u>\$ 2,063</u>

10. Asset retirement obligations

The Company’s asset retirement obligations consist of reclamation costs predominately relating to exploration drill pads and related access roads on both the Star and the Fort à la Corne properties. A summary of the asset retirement obligations is as follows:

	Star Property	Fort à la Corne Property	Total 2010	Total 2009
Asset retirement obligations, beginning of year	\$ 863	\$ 654	\$ 1,517	\$ 1,632
Liabilities incurred	-	14	14	-
Liabilities settled	-	(62)	(62)	(187)
Accretion expense	44	33	77	72
Asset retirement obligations, end of year	907	639	1,546	1,517
Less: current portion	-	(54)	(54)	(81)
Asset retirement obligations	<u>\$ 907</u>	<u>\$ 585</u>	<u>\$ 1,492</u>	<u>\$ 1,436</u>

The Company provides letters of credit as security for these obligations.

The Company estimates its total undiscounted future reclamation costs to be \$1.7 million. The key assumptions on which the carrying amount of the asset retirement obligations is based are: an expected

timing of payment of the cash flows is over the next five years and discount rates of 5.0% for both the Star and Fort à la Corne properties.

11. Income taxes

The significant components of future income tax assets and liabilities at December 31, are as follows:

	2010	2009
Future income tax assets		
Mineral properties	\$ 25,892	\$ 29,040
Non-capital loss carry forwards	10,825	9,778
Share issue costs	475	715
Investments	810	796
Valuation allowance	(38,002)	(40,329)
Future income tax assets	\$ -	\$ -

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:

	2010	2009
Loss before income taxes	\$ 6,913	\$ 12,569
Combined federal and provincial tax rate	30.0%	31.0%
Expected tax recovery	(2,074)	(3,896)
Increase in taxes resulting from:		
Non-deductible stock option expenses	349	165
Other non-deductible amounts	308	187
Effect of change in effective tax rates	170	452
Change in valuation allowance	(2,290)	(359)
Future income tax recovery	\$ (3,537)	\$ (3,451)

At December 31, 2010, the Company had operating losses for income tax purposes approximating \$40 million available to reduce taxes in future years and expire over the period to the year 2030. A summary of these tax loss expirations is as follows:

Year	
2013	\$ 1,214
2014	4,041
2015	2,295
2026	10,951
2027	4,750
2028	5,268
2029	6,695
2030	5,018
Total	\$ 40,232

The Company also had unrecorded investment tax credits totaling \$14.5 million at December 31, 2010 relating to pre-production mining expenditures. These investment tax credits begin to expire starting in 2026.

12. Share capital

Authorized

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

The common shares of the Company are entitled to dividends pro-rated and 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.

Issued and outstanding

	2010		2009	
	Common Shares (in thousands)	Amount	Common Shares (in thousands)	Amount
Balance - beginning of year	224,454	\$ 795,332	199,904	\$ 772,822
Shares issued (a)	-	-	14,300	15,015
Flow-through shares issued (a)	-	-	10,000	12,500
Future income taxes on flow-through expenditures renounced to shareholders (a)	-	(3,375)	-	(3,376)
Options exercised (b)	-	-	250	123
Issue costs (net of tax)	-	-	-	(1,752)
Balance - end of year	224,454	\$ 791,957	224,454	\$ 795,332

a) Flow-through shares

During 2009 the Company issued, through a private placement, 14.3 million common shares and 10.0 million flow-through shares of the Company for gross proceeds of \$27.5 million. During 2010, the Company renounced \$12.5 million of tax deductions associated with qualified expenditures required to be incurred by the end of 2010 relating to the flow-through shares issued. As a result, share capital was reduced and future income tax liabilities increased by the estimated tax cost of the deductions renounced by the Company to the investors in the amount of \$3.4 million. Since the Company has unrecorded tax assets, the future income tax liabilities were reduced and a corresponding future income tax recovery was recorded.

During 2008 the Company issued, through a private placement, 16.67 million flow-through shares for gross proceeds of \$12.5 million. During 2009, the Company renounced \$12.5 million of tax deductions associated with qualified expenditures required to be incurred by the end of 2009. As a result, share capital was reduced and future income tax liabilities increased by the estimated tax cost of the deductions renounced by the Company to the investors in the amount of \$3.4 million. Since the Company has unrecorded tax assets, the future income tax liabilities were reduced and a corresponding future income tax recovery was recorded.

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 share option plan stipulates that the aggregate number of shares reserved for issuance under this plan, and any other security based compensation arrangement of the Corporation, shall not, at the time of the stock option grant, exceed 15,768,360 shares. Options granted have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of Shore on the trading day prior to the date on which the option is granted. Certain options vest immediately while others vest six to twelve months after grant date and have expiration dates of 5 years from the date of the grant of the options.

During 2010, the Company granted 2,650,000 (2009 – 3,695,000) options to officers, directors, employees and service providers. The fair value of these options was determined using the Black-Scholes option-pricing model with the following assumptions:

	2010	2009
Number of options granted (in thousands)	2,650	3,695
Average strike price	\$ 0.94	\$ 0.29
Expected dividend	-	-
Expected volatility	87.39%	88.23%
Risk-free interest rate	2.72%	1.94%
Expected life of options (in years)	5.00	5.00
Weighted average grant date fair values	\$ 1,720	\$ 751

The fair value of the options granted during 2010, using the Black-Scholes option-pricing model, was \$1.7 million (2009 – \$0.8 million). The fair value attributable to options that were granted and vested during the year was \$1.6 million (2009 – \$0.7 million). Of this amount, \$0.4 million (2009 – \$0.2 million) was capitalized as an addition to mineral properties and \$1.2 million (2009 – \$0.5 million) was expensed with a corresponding increase of \$1.6 million (2009 – \$0.7 million) to contributed surplus. The fair value attributable to options granted that will vest over the next twelve months is \$0.2 million.

For options outstanding (in thousands) at December 31, 2010 and 2009, weighted average exercise prices are as follows:

	Options	Average Price
Balance – December 31, 2008	7,745	\$4.78
Granted	3,695	0.29
Exercised	(250)	0.29
Expired	(1,549)	4.85
Balance – December 31, 2009	9,641	3.16
Granted	2,650	0.94
Expired	(2,471)	5.21
Balance – December 31, 2010	9,820	\$2.05

For options outstanding and exercisable at December 31, 2010, 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, 2010	Weighted Average Exercise Price	Weighted Average Remaining Life	Options December 31, 2010	Weighted Average Exercise Price
\$0.00 – 0.99	5,220	\$0.49	3.61 years	5,220	\$0.49
\$1.00 – 2.99	925	1.09	4.18 years	488	1.09
\$3.00 – 3.99	1,850	3.29	1.92 years	1,850	3.29
\$4.00 – 4.99	400	4.59	1.45 years	400	4.59
\$5.00 – 5.99	270	5.44	0.94 years	270	5.44
\$6.00 – 7.99	1,155	6.20	1.00 years	1,155	6.20
	9,820	\$2.05	2.88 years	9,383	\$2.09

c) Shareholder protection rights plan

The Corporation implemented a Shareholder Rights Plan (the “Rights Plan”) on January 19, 2005. The Rights Plan was approved by shareholders on June 28, 2005 and reconfirmed by the shareholders on May 28, 2008. In the event a bid to acquire control of the Company is made, the Rights Plan is designed to give the directors of the Company, should they feel it is in the best interests of the shareholders to do so, time to consider alternatives to allow shareholders to receive full and fair value for their shares. In the event that a takeover bid, other than a permitted bid, is made, the Rights Plan allows the shareholders, other than the acquiring shareholder, to exercise certain shareholders' rights, which will allow those shareholders to acquire additional shares at a reduced price, set in accordance with the terms of the Rights Plan, and which will ultimately dilute the value of the bidder's holdings.

The Rights Plan is designed to protect value for shareholders, while still allowing takeover bids in a permitted, fair manner, as prescribed in the Rights Plan.

d) Contributed surplus

The fair value of certain stock options, warrants and broker warrants have been valued using the Black-Scholes option-pricing model. The fair value on the grant or vesting of these securities is added to contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital. A summary of the contributed surplus activity is as follows:

	2010	2009
Balance – beginning of year	\$ 26,568	\$ 25,885
Fair value of options vested	1,597	732
Less: amounts related to options exercised	-	(49)
Balance – end of year	\$ 28,165	\$ 26,568

13. Per share amounts

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

	2010	2009
Numerator:		
Loss applicable to common shares	\$ (3,376)	\$ (9,118)
Denominator:		
Weighted average common shares outstanding	224,454	205,232
Dilutive effect of stock options (a)	-	-
Weighted average common shares outstanding - diluted	224,454	205,232
Basic and diluted loss per common share	\$ (0.02)	\$ (0.04)

- 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.

14. Capital disclosure

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital and has financed its exploration efforts through the issuance of shares.

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.

As a development stage entity, 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 expects it has sufficient liquidity to carry out its exploration and feasibility plans through 2011. The Company is not subject to externally imposed capital requirements, except as disclosed.

15. Related party transactions

During the year ended December 31, 2010, management and consulting fees of \$1.5 million (2009 – \$1.4 million) were paid or payable to companies controlled by certain officers of the Company. Of these fees, \$0.1 million (2009 – \$0.2 million) were capitalized as additions to mineral properties; \$0.6 million (2009 – \$0.5 million) were included in administration expense and \$0.8 million (2009 – \$0.7 million) were included in consulting and professional fees expense. Management and consulting fees includes accrued liabilities of \$0.4 million (2009 – \$0.4 million).

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.

16. Financial instruments

As at December 31, 2010, the fair value of all of the Company's financial instruments approximates their carrying value. Certain financial instruments are exposed to the following financial risks:

a) Credit risk

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

At December 31, 2010, the Company held Notes with a par value of \$14.3 million (carrying value of \$8.9 million), as outlined in note 5. The consolidated financial statements of the Company reflect management's best estimate of the fair value of these investments. The amount and timing of future cash flows received by the Company may differ materially from this estimate. Due to the nature of the MAV2 Notes which are not backed by traditional securitized assets (a significant component is comprised of collateral debt obligations), credit risk could potentially be significant. The maximum exposure to credit risk related to the Company's investments in these Notes at December 31, 2010 is represented by the carrying amount of \$8.9 million.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. As at December 31, 2010, the Company had working capital of \$15.6 million. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

The Company does not currently operate any producing properties and as such, is dependent upon the issuance of new equity to advance its exploration properties. 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 on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or joint operations or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on Shore's future cash flows, earnings, results of operations and financial position. The Company expects its current capital resources will be sufficient to carry out its plans through 2011.

c) Foreign currency and interest rate risk

The Company does not have any significant exposure to foreign currency or interest rate risk, except for limited exposure to interest rate changes on interest bearing assets.

17. Commitments

As at December 31, 2010, the Company is committed to operating leases for office space and various equipment as follows:

<u>Year</u>	
2011	\$ 549
2012	459
2013	384
2014	385
Thereafter	160
<u>Total</u>	<u>\$ 1,937</u>

The Company has supplied \$2,307 thousand (2009 – \$2,307 thousand) of irrevocable standby letters of credit issued by a Canadian chartered bank, of which the majority are related to asset retirement obligations. This includes a \$500 thousand letter of credit which relates to preliminary engineering work required to provide electrical service to certain of the Company's mineral properties.