Shore Gold Inc.

2nd Quarter Report
2012

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")
For the three and six months ended June 30, 2012

The following discussion and analysis is prepared by Management as of August 10, 2012 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the period ended June 30, 2012 ("financial statements for the period ended June 30, 2012"), as well as the audited consolidated financial statements and annual MD&A for the year ended December 31, 2011 available on SEDAR at www.sedar.com. Shore Gold Inc. ("Shore", "SGF", or "the Company") prepared its financial statements for the period ended June 30, 2012 in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All currency amounts are quoted in Canadian Dollars, unless otherwise stated.

Overview

During the second quarter of 2012, the Company's main focus was working on the preparation of the Revised Environmental Impact Statement ("EIS") for the Star – Orion South Diamond Project ("Project") and continuing to seek opportunities for development capital through participation in the Project by a third party or a syndicate of investors. 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 67 percent interest in the FALC-JV and Newmont Canada FN Holdings ULC ("Newmont") has a 33 percent interest. Shore is presently focused on the completion of all federal and provincial requirements for Project approval and subsequent permitting while pursuing development capital.

The Company has completed a National Instrument ("NI") 43-101 compliant Technical Report ("Feasibility Technical Report") documenting the Feasibility Study and Mineral Reserve for the Star – Orion South Diamond Project ("Feasibility Study"), the results of which were announced in July 2011 (See SGF News Release dated July 14, 2011). The Feasibility Study includes a cash flow model Base Case net present value ("NPV") of $2.1 billion (using a 7 percent discount rate) for an Internal Rate of Return ("IRR") of 16 percent before taxes and royalties and an after-taxes and royalties NPV of $1.3 billion with an IRR of 14 percent. The cash flow model of the Feasibility Study is based on Probable Mineral Reserves of 279 million diluted tonnes of kimberlite at a weighted average grade of 12.3 carats per hundred tonnes ("cpht") containing 34.4 million carats at a weighted average price of US$242 per carat. The full details of the Feasibility Technical Report can be viewed on the Company's website (www.shoregold.com) or on SEDAR (www.sedar.com).

Events relating to the Star - Orion South Diamond Project

The Environmental Impact Assessment ("EIA") process for the Star – Orion South Diamond Project has been on-going since the Project Proposal was filed in November 2008. The Revised EIS, which describes the potential environmental and socio-economic effects of the Project, was submitted to provincial and federal regulators on August 10, 2012 (See SGF News Release dated August 10, 2012). The original Draft EIS, submitted to the regulators in December 2010, was based on the Star – Orion South Diamond Project Pre-Feasibility Study, which was published in March 2010. This Draft EIS generated 319 review comments and information requests from Federal and Provincial agencies, and 483 review comments and information requests from Aboriginal groups. The Revised EIS is based on the Feasibility Study of the Star – Orion South Diamond Project, published August 2011, and incorporates responses to all the review comments and information requests. The Revised EIS includes comprehensive Traditional Land Use information generated as a consequence of Information Gathering Agreements signed with nine Aboriginal groups with an expressed interest in the Project. Shore and AMEC Environment and Infrastructure ("AMEC") have jointly prepared the Revised EIS.

Financial Highlights

Select financial information of the Company for the three and six month periods ended June 30, 2012 and 2011 is summarized as follows:

	Three Months Ended June 30, 2012 $	Three Months Ended June 30, 2011 $	Six Months Ended June 30, 2012 $	Six Months Ended June 30, 2011 $
Revenues (millions)	**0.1**	**0.1**	**0.1**	**0.1**
Net loss (millions)	**2.2**	**4.0**	**6.0**	**5.3**
Net loss per share (1)	**0.01**	**0.02**	**0.03**	**0.02**
Total assets (millions)	**16.6**	**236.7**	**16.6**	**236.7**
Total non-current liabilities (millions) (2)	**1.4**	**1.4**	**1.4**	**1.4**
Working capital (millions)	**11.6**	**20.6**	**11.6**	**20.6**

(1) Basic and diluted.

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

Results of Operations

For the quarter ended June 30, 2012, the Company recorded a net loss of $2.2 million or $0.01 per share compared to a net loss of $4.0 million or $0.02 per share for the same period in 2011. The losses during these quarters were due to operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest revenue earned on cash and cash equivalents and short-term investments. The loss during the quarter ended June 30, 2012 was lower than the same period in 2011 primarily due to lower share-based payment costs as well as lower costs as a result of the reductions to the

Company's directors, officers and personnel that took place earlier in the year (See SGF News Release dated February 29, 2012).

Revenues

The Company invested excess cash reserves in interest-bearing short-term deposits while ensuring funds were available to meet cash outflow requirements associated with the Company's exploration and evaluation projects and for general corporate matters. For the quarter ended June 30, 2012 the Company reported interest and other revenue of $75 thousand as compared to $62 thousand for the quarter ended June 30, 2011.

Expenses

Expenses incurred during the quarter ended June 30, 2012 were $2.0 million compared to $4.1 million for the same period in 2011. This $2.1 million decrease was largely attributed to the effect of accounting for share-based payments. Once the effect of accounting for share-based payments is removed, expenditures become easier to compare year over year. The following analysis removes the $31 thousand of share-based payments that were expensed during the second quarter of 2012 as well as the $1.2 million of share-based payments that were expensed during the second quarter of 2011. Expenses for the quarter ended June 30, 2012 decreased by $0.9 million to $2.0 million from $2.9 million during the quarter ended June 30, 2011. This decrease was primarily due to lower exploration and evaluation expenditures incurred by the Company during the quarter ended June 30, 2012 ($1.1 million) compared to the quarter ended June 30, 2011 ($1.6 million) due to the nature of work performed on the Star – Orion South Diamond Project as well as the reduction in the Company's personnel that took place earlier in the year. Exploration and evaluation expenditures incurred during the quarter ended June 30, 2012 related to the continuation of the EIA process for the Star – Orion South Diamond Project as well as on-going administration and maintenance of the Company's exploration and evaluation properties. Expenditures incurred during the quarter ended June 30, 2011 related to the desk-top engineering studies and data gathering and analysis required to complete the Star – Orion South Diamond Project Feasibility Study as well as the continuation of the EIA process. Administration, consulting and professional fees, and corporate development expenditures for the quarter ended June 30, 2012 decreased by $0.4 million to $0.9 million, from $1.3 million during the same period in 2011, primarily due to the reductions to the Company's directors, officers and personnel that took place earlier in the year.

Investment in Wescan Goldfields Inc.

At June 30, 2012, Shore held 12,955,567 (2011 – 12,955,567) shares of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company accounts for its investment in Wescan as an available-for-sale financial instrument. The fair value based on the closing trading price of the common shares of Wescan at June 30, 2012 was $194 thousand (December 31, 2011 – $583 thousand). As a result, for the quarter ended June 30, 2012 the Company recognized a $259 thousand decrease (quarter ended June 30, 2011 – $777 thousand decrease) in the carrying value of its investment in Wescan. At December 31, 2011, the Company assessed that there was

objective evidence that this investment was impaired. As the Company's assessment at June 30, 2012 has not changed, the change in fair value during the quarter ended June 30, 2012 was recognized in the consolidated statement of loss instead of comprehensive loss. At June 30, 2012, a 10 percent decrease in the market price of Wescan would result in a $19 thousand decrease in fair value.

Financing

No financing activities occurred during the quarter ended June 30, 2012. During the quarter ended June 30, 2011 there were 30,000 options exercised resulting in additional cash flow from financing activities of $8 thousand.

Year to Date

Results of Operations

For the six months ended June 30, 2012, the Company recorded a net loss of $6.0 million or $0.03 per share compared to a net loss of $5.3 million or $0.02 per share for the same period in 2011. The losses were primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest revenue earned on cash and cash equivalents and short-term investments. The sale of certain investments for $1.3 million over the carrying value reduced the Company's net loss for the six months ended June 30, 2011.

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 exploration projects. For the six months ended June 30, 2012 and 2011 the Company reported interest and other revenue of $118 thousand and $102 thousand respectively.

Expenses

Total operating costs for the six months ended June 30, 2012 were $5.7 million compared to $6.7 million for the six months ended June 30, 2011. These amounts include the $0.1 million of share-based payments that was expensed during the six months ended June 30, 2012 (2011 – $1.3 million). Once the effect of accounting for share-based payments is removed, expenditures become easier to compare year over year. After removing the effect of accounting for share-based payments, expenses for the six months ended June 30, 2012 increased by $0.2 million to $5.6 million from $5.4 million during the six months ended June 30, 2011. Exploration and evaluation expenditures were $2.8 million for the six months ended June 30, 2012 compared to $2.9 million for the same period in 2011. This decrease was primarily due to the nature of work performed on the Star – Orion South Diamond Project. Exploration and evaluation expenditures incurred during the six months ended June 30, 2012 related to the continuation of the EIA process for the Star – Orion South Diamond Project as well as on-going administration and maintenance of the Company's exploration and evaluation properties. Expenditures incurred during the

quarter ended June 30, 2011 related to the desk-top engineering studies and data gathering and analysis required for the Feasibility Study as well as the continuation of the EIA process. Administration, consulting and professional fees, and corporate development expenditures increased by $0.3 million for the six months ended June 30, 2012 to $2.8 million compared to $2.5 million for the same period in the prior year. This increase is largely attributed to termination benefits and severance costs incurred during the first quarter of 2012 relating to the reduction in the Company's directors, officers and personnel.

Investment in Wescan Goldfields Inc.

For the six months ended June 30, 2012, the fair value of the Company's investment in Wescan decreased by $389 thousand (six months ended June 30, 2011 – $389 thousand decrease).

Change in fair value of long-term investments

During the six months ended June 30, 2011, the Company sold its investments ("Notes") for $10.2 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. For the year ended December 31, 2011, the Company recorded a $1.3 million gain from the December 31, 2010 carrying value.

Financing

No financing activities occurred during the six months ended June 30, 2012. During the six months ended June 30, 2011 there were 30,000 options exercised resulting in additional cash flow from financing activities of $8 thousand.

Summary of Quarterly Results

	2012		2011				2010	
	Qtr 2	**Qtr 1**	**Qtr 4**	**Qtr 3**	**Qtr 2**	**Qtr 1**	**Qtr 4**	**Qtr 3**
Revenues (1) ($millions)	**0.1**	-	0.1	-	0.1	-	-	-
Net loss (2) ($millions)	**2.2**	3.8	212.0	2.6	4.0	1.3	6.3	6.7
Net loss per share (3) ($)	**0.01**	0.02	0.94	0.01	0.02	0.01	0.03	0.03
Shares outstanding (4) (millions)	**224.7**	224.7	224.7	224.6	224.5	224.5	224.5	224.5

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

(2) The net losses during the first two quarters of 2012, the first three quarters of 2011 and the last two quarters of 2010 were primarily related to expenditures incurred by the Company exceeding interest revenue earned. Also contributing to the net loss during the first quarter of 2012 were costs associated with reductions to the Company's personnel. The net loss during the fourth quarter of 2011 was primarily related to impairments of exploration and evaluation assets of the Company. The loss during the first quarter of 2011 was lower due to positive changes in fair value of long-term investments as well as lower exploration and evaluation expenditures incurred.

(3) Basic and diluted.

(4) Changes in the number of shares outstanding are the result of option exercises during 2011.

Related Party Transactions

Messrs. Kenneth E. MacNeill (President and Chief Executive Officer) and George H. Read (Senior Vice President of Exploration and Development), through their respective consulting companies, hold management and consulting contracts with the Company. During the three-month period ended June 30, 2012, Messrs. MacNeill and Read's monthly contracted fees were $36 thousand (2011 – $36 thousand) and $21 thousand (2011 – $20 thousand), respectively. During the three-month period ended March 31, 2012, the management services agreement with Harvey J. Bay (Chief Financial Officer) was terminated by the Company. This contract termination by the Company resulted in termination benefits of $601 thousand, of which is $300 thousand is included in accounts payable and accrued liabilities at June 30, 2012.

During the six-month period ended June 30, 2012 total compensation paid or payable to these officers (through companies controlled by Messrs. MacNeill, Bay and Read) and to directors of the Company was $1.2 million (2011 – $1.4 million). Of these amounts, $0.4 million (2011 – $0.9 million) was included in administration expense and $0.8 million (2011 – $0.5 million) was included in consulting and professional fees expense.

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 present plans.

At June 30, 2012 the Company had $11.4 million in cash and cash equivalents and short-term investments. The Company has also supplied $1.8 million (2011 – $2.6 million) of irrevocable standby letters of credit issued by a Canadian chartered bank. The security related to the letters of credit is included in restricted cash and excluded from the Company's working capital. The majority of these securities are for environmental rehabilitation provisions.

Capital Resources and Outstanding Share Data

As at June 30, 2012 the Company had working capital of $11.6 million compared to $15.9 million at December 31, 2011. The Company expects its current capital resources will be sufficient to carry out its present plans while it completes the environmental permitting process and attempts to secure Project financing.

At June 30, 2012 the Company had 224,709,242 shares issued and outstanding and 9,510,000 options outstanding (weighted average exercise price of $1.13). The number of shares outstanding remained unchanged from December 31, 2011 while the number of options outstanding declined by 2,050,000 from December 31, 2011. The decrease in options outstanding was due to 2,515,000 option expiries and forfeitures, offset by 465,000 options granted at an exercise price of $0.28. As at August 10, 2012, the Company's issued and outstanding shares and options remained unchanged from June 30, 2012.

Financial Instruments

As at June 30, 2012, 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 considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are invested in Government of Canada treasury bills which are backed by the Government of Canada. At June 30, 2012, the Company's credit risk relates to its cash and cash equivalents, short-term investments, and restricted cash of $13.2 million (December 31, 2011 – $18.1 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at June 30, 2012, the Company had working capital of $11.6 million, excluding restricted cash. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

As at June 30, 2012, the Company had guaranteed certain liabilities by issuing $1.8 million (December 31, 2011 – $2.6 million) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash (note 6). The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the guarantees at June 30, 2012 relate to environmental rehabilitation provisions.

The Company is pursuing options to finance the further exploration and development of the Star – Orion South project as it currently does not have sufficient funds to put any of its property interests into production from its own financial resources. Financing options include joint venture arrangements, debt financing, equity financing or other means. The

Company believes it has sufficient liquidity to continue operations until financing is arranged. However, 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.

Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market risks are comprised of four types: foreign currency risk, interest rate risk, commodity price risk and equity price risk. As at June 30, 2012, the Company does not have significant exposure to any of these market risks.

Critical Accounting Estimates

The financial statements for the period ended June 30, 2012 have been prepared in accordance with IAS 34 using accounting policies consistent with IFRS issued by the IASB and interpretations of IFRIC. The Company's accounting policies are described in note 3 to the financial statements for the period ended June 30, 2012. Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The uncertainties related to these areas could significantly impact the Company's results of operations, financial condition and cash flows.

In preparing the financial statements for the period ended June 30, 2012, significant judgments have been made by management in applying the Company's accounting policies. In particular, the significant areas of estimation uncertainty considered by management in preparing the financial statements for the period ended June 30, 2012 are: reserve and resource estimation, asset valuations and assessments for impairment, environmental rehabilitation provisions, recovery of deferred tax assets and share-based payment transactions. These assumptions are discussed in more detail in note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2011.

A critical accounting estimate in determining the Company's financial results relates to the recoverability of the carried amounts of exploration and evaluation assets. Management assesses carrying values of these assets each time it issues financial statements.

Accounting Changes

Future Accounting Changes

At the date of authorization of financial statements for the period ended June 30, 2012, the International Accounting Standards Board ("IASB") and the International Financial

Reporting Interpretations Committee ("IFRIC") have issued certain new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods. The Company is yet to assess the full impact of the following and intends to adopt the standard no later than the accounting period beginning on January 1, 2013: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. The Company is yet to assess the full impact of the following and intends to adopt the standard no later than the accounting period beginning on January 1, 2015: IFRS 9 *Financial Instruments*.

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

Disclosure Controls and Procedures

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

There have been no significant changes in the Company's disclosure controls during the quarter ended June 30, 2012.

Internal Controls over Financial Reporting Procedures

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

filings so that the internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS issued by the IASB and interpretations of the IFRIC.

There have been no significant changes to internal controls over financial reporting during the quarter ended June 30, 2012 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Outlook

The Company is proceeding with the completion of the environmental permitting process and continuing to seek opportunities for development capital through participation in the Project by a third party or a syndicate of investors. Measures taken earlier in the year will enable the Company to conserve its cash position and provide an extended operating window in which Shore can complete the environmental permitting process and continue to seek opportunities for development capital.

Diamond prices used in the Feasibility Study were based on valuations by the Company's diamond consultants, WWW International Diamond Consultants Ltd. using their February 2011 price book. The details of the February 2011 valuation of the Star and Orion South diamond parcels were published in Shore's News Release dated March 2, 2011. The results of the Feasibility Study show that the economic model is particularly sensitive to diamond prices and the Project's NPV increases rapidly with rising diamond prices, as shown in Table 4 of the Shore July 14, 2011 News Release (See SGF News Release dated July 14, 2011). Diamond prices increased rapidly in 2011, reaching a peak in early August, when the price of rough softened as a result of world financial uncertainties, particularly in Europe. Rough prices rose during the first quarter of 2012 but the world financial situation has once again caused the price of rough to decrease and current rough prices are now slightly below the price used in the Feasibility Study.

As of August 10, 2012, the Company had approximately $11.0 million in cash and cash equivalents and short-term investments (excluding $1.8 million in restricted cash). A portion of the Company's cash and cash equivalents and short-term investments will be used to advance certain aspects of the project, including the EIA and related permitting. The Company continues to evaluate opportunities for development capital and is optimistic these will allow construction to commence in the future.

Risks and Uncertainties

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

Company's operations. Management's view on risks facing the Company will evolve as the Company's stage of development progresses.

Risks Associated With a Non-Producing Company

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

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

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

The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, provincial and local governmental authorities. Failure to comply with applicable laws, regulations, and permitting requirements may result in permits not being granted or enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. To the best of the Company's knowledge, it is operating in compliance with all applicable rules and regulations. In addition, the permits that will be required for the construction and operation of the proposed Star – Orion South Diamond Project will be applied for following provincial and/or federal Ministerial approval upon conclusion of the EIA. While the majority of permits will be required from provincial authorities, permits required from the federal government include authorization from the Department of Fisheries and Oceans to allow anticipated changes to fish and fish habitat, permits from Natural Resources Canada for the explosives storage site and authorizations from Environment Canada and Transport Canada. The Company utilizes qualified individuals, service providers and external consultants and maintains constant communications with governmental authorities to ensure that the Company is or, in the case of the EIA, will be in compliance with all applicable rules and regulations.

All of Shore's property interests are currently in the feasibility or exploration stage. The exploration, development and production of precious metals and gems are capital-intensive, subject to the normal risks and capital expenditure requirements associated with mining operations. While the rewards can be substantial if commercial quantities of minerals or gems are found, there can be no assurance that Shore's past or future exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable.

As at August 10, 2012, the Company has determined that the Star – Orion South Diamond Project has established reserves. Current forecasts are based on engineering data, projected future rates of production and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserve estimates may be revised based on the results of future drilling, testing or production levels and changes in mine design. In addition, factors including but not limited to market fluctuations in the price of diamonds, changes in foreign exchange rates or estimated recoverable grade from the Star – Orion South Diamond Project may render the mining of ore reserves uneconomical.

Technical Information

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

Caution regarding Forward-looking Statements

This MD&A contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of Canadian Securities legislation and the United States Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements, and, in particular, statements regarding Shore's future operations, future exploration and development activities or other development plans contain forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements

related to the Feasibility Study; statements and assumptions made regarding buoyancy in world diamond markets and changes in diamond supply and demand; statements related to the approval of the development of the Star - Orion South Diamond Project; statements relating to future development of the Star - Orion South Diamond Project and associated timelines; availability of project financing; and the use of funds to fund the continuation of the EIA process.

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

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

Additional Information

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

SHORE GOLD INC.
Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended
June 30, 2012

Notice to Reader

Management has compiled the unaudited condensed interim consolidated financial statements of Shore Gold Inc. for the three and six months ended June 30, 2012. The Corporation's external auditors have not reviewed these condensed interim consolidated financial statements.

Shore Gold Inc.

Condensed Consolidated Statements of Financial Position

(Unaudited)

(Cdn$ in thousands)	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 1,048	$ 7,209
Short-term investments	10,375	8,256
Receivables	173	156
Prepaids (note 5)	703	967
	12,299	16,588
Restricted cash (note 6)	1,807	2,607
Investment in Wescan Goldfields Inc. (note 7)	194	583
Property and equipment	2,339	2,703
	$ 16,639	$ 22,481
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 673	$ 617
Current portion of environmental rehabilitation provision	60	66
	733	683
Environmental rehabilitation provision	1,381	1,371
Shareholders' equity:		
Share capital	797,811	797,811
Contributed surplus	29,735	29,650
Accumulated deficit	(813,021)	(807,034)
	14,525	20,427
	$ 16,639	$ 22,481

See accompanying notes to consolidated financial statements

Shore Gold Inc.

Condensed Consolidated Statements of Loss and Comprehensive Loss

(unaudited)

(Cdn$ in thousands, except for share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenue				
Interest and other income	$ 75	$ 62	$ 118	$ 102
Expenses				
Administration	678	1,790	1,691	2,739
Consulting and professional fees	147	457	948	624
Corporate development	124	135	227	235
Exploration and evaluation (note 8)	1,093	1,722	2,850	3,065
	2,042	4,104	5,716	6,663
Loss before the under noted items	(1,967)	(4,042)	(5,598)	(6,561)
Investment in Wescan Goldfields Inc. (note 7)	(259)	-	(389)	-
Change in fair value of investments (note 11)	-	-	-	1,293
Net loss	(2,226)	(4,042)	(5,987)	(5,268)
Other comprehensive loss in the period				
Available-for-sale financial instruments (note 7)	-	(778)	-	(389)
Total other comprehensive loss for the period	-	(778)	-	(389)
Total comprehensive loss for the period	$ (2,226)	$ (4,820)	$ (5,987)	$ (5,657)
Net loss per share				
Basic and diluted	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.02)
Comprehensive loss per share				
Basic and diluted	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.03)
Weighted average number of shares outstanding (000's)	224,709	224,464	224,709	224,459

See accompanying notes to consolidated financial statements

Shore Gold Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(Cdn$ in thousands)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash provided by (used in):		
Operations:		
Net loss	$ (5,987)	$ (5,657)
Non-cash items:		
Amortization	369	476
Investment in Wescan Goldfields Inc.	389	389
Change in fair value of investments	-	(1,293)
Fair value of share-based payments expensed	85	1,250
Unwinding of discount for environmental rehabilitation provision	10	17
Change in environmental rehabilitation provision	(6)	(55)
Net change in non-cash operating working capital items:		
Receivables	(17)	109
Prepaids	264	(1,136)
Accounts payable and accrued liabilities	56	(2,852)
	(4,837)	(8,752)
Investing:		
Property and equipment	(5)	(43)
Short-term investments	(2,119)	(2,534)
Restricted cash	800	(300)
Investments	-	10,215
	(1,324)	7,338
Financing:		
Issue of common shares (net of issue costs)	-	8
	-	8
Decrease in cash and cash equivalents	(6,161)	(1,406)
Cash and cash equivalents, beginning of period	7,209	2,780
Cash and cash equivalents, end of period	$ 1,048	$ 1,374
Cash and cash equivalents consists of:		
Cash	$ 255	$ 440
Treasury bills	793	934
	$ 1,048	$ 1,374

See accompanying notes to consolidated financial statements

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

(Cdn$ in thousands)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Year Ended December 31, 2011
Share capital			
Balance, beginning of period	$ 797,811	$ 797,672	$ 797,672
Shares issued	-	13	139
Balance, end of period	$ 797,811	$ 797,685	$ 797,811
Contributed surplus			
Balance, beginning of period	$ 29,650	$ 28,229	$ 28,229
Share-based payments (note 10)	85	1,250	1,476
Options exercised	-	(5)	(55)
Balance, end of period	$ 29,735	$ 29,474	$ 29,650
Accumulated deficit			
Balance, beginning of period	(807,034)	(587,132)	(587,132)
Loss for the period	(5,987)	(5,268)	(219,902)
Balance, end of period	$ (813,021)	$ (592,400)	$ (807,034)
Accumulated other comprehensive loss			
Balance, beginning of period	$ -	$ 167	$ 167
Other comprehensive loss for the period	-	(389)	(167)
Balance, end of period	$ -	$ (222)	$ -
Total equity	$ 14,525	$ 234,537	$ 20,427

See accompanying notes to consolidated financial statements

SHORE GOLD INC.

Notes to the Condensed Interim Consolidated Financial Statements (for the three and six months ended June 30, 2012)
(In thousands of Canadian dollars except as otherwise noted)

1. Corporate Information

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

2. Basis of preparation

The condensed interim consolidated financial statements of Shore for the three and six months ended June 30, 2012 were authorized for issue by the Company's Audit Committee on August 10, 2012. The condensed interim consolidated financial statements of Shore and all its subsidiaries have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The Company's financial statements have been prepared on a historical cost basis, except as disclosed, using the Company's functional currency of Canadian dollars.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are the same as those disclosed in Note 4 of the Company's consolidated financial statements for the year ended December 31, 2011. In particular, the significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are: reserve and resource estimation, exploration and evaluation expenditures, impairment of exploration and evaluation assets, environmental rehabilitation provisions, recovery of deferred tax assets and share-based payment transactions.

3. Summary of significant accounting policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those disclosed in note 3 of the Company's consolidated financial statements for the year ended December 31, 2011.

4. IFRS standards issued but not yet effective

At the date of authorization of these condensed interim consolidated financial statements, the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued certain new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods. The Company is yet to assess the full impact of the following and intends to adopt the standard no later than the accounting period beginning on January 1, 2013: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. The Company is yet to assess the full impact of the following and intends to adopt the standard no later than the accounting period beginning on January 1, 2015: IFRS 9 *Financial Instruments*.

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

5. Prepaids

During the first quarter of 2011, the Company paid the Saskatchewan Power Corporation ("SaskPower") $1.2 million for certain preliminary work to be performed over the next year regarding the potential construction of a power line to the Company's Star - Orion South Diamond Project. As at June 30, 2012, $523 thousand of this amount remains as a prepaid. During the first quarter of 2012, the Company informed SaskPower that all arrangements for the design and construction of electrical power supply to the Company's Fort à la Corne properties would be terminated. As a result the balance of the prepaid, net of any amounts owing to complete SaskPower's portion of the Company's Environmental Impact Statement for the Star - Orion South Diamond Project, will be refunded to the Company.

6. Restricted Cash

The Company has pledged $1,807 thousand (December 31, 2011 – $2,607 thousand) in short-term investments as security for letters of credit provided, of which the majority are related to the provision for decommissioning and rehabilitation. These short-term investments are recorded as restricted cash. Restricted cash at December 31, 2011 included a $0.8 million letter of credit previously provided to SaskPower which was returned to the Company during the first quarter of 2012.

	June 30, 2012	December 31, 2011
Environmental rehabilitation	$ 1,677	$ 1,677
SaskPower	-	800
Other	130	130
Total	$ 1,807	$ 2,607

7. Investment in Wescan Goldfields Inc.

At June 30, 2012, Shore held 12,955,567 (December 31, 2011 – 12,955,567) shares of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company accounts for its 10.2% (December 31, 2011 – 10.2%) investment in Wescan as an available-for-sale financial asset as described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2011. The fair value based on the closing trading price of the common shares of Wescan at June 30, 2012 was $194 thousand (December 31, 2011 – $583 thousand). As a result, for the three and six months ended June 30, 2012 the Company recognized a $259 thousand and $389 thousand decrease (June 30, 2011 – $778 thousand and $389 thousand decrease), respectively, in the carrying value of its investment in Wescan. At December 31, 2011, the Company assessed that there was objective evidence that this investment was impaired. As the Company's impairment assessment at June 30, 2012 has not changed, the change in fair value during the quarter ended June 30, 2012 was recognized in the consolidated statement of loss as an unrealized loss instead of other comprehensive loss.

8. Exploration and evaluation expense

The Company's exploration and evaluation expense for the six months ended June 30, 2012 is comprised of the following:

	June 30, 2012	June 30, 2011
Fort à la Corne properties		
Acquisition and staking	$ -	$ -
Amortization of tangible assets	286	396
Exploration	2,504	2,483
Share-based payments	58	181
Buffalo Hills property		
Exploration	2	5
Total	$ 2,850	$ 3,065

9. Share-based payments

The Company has established a share option plan whereby options may be granted to directors, officers, employees and service providers to purchase common shares of the Company. Options granted have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of Shore on the trading day prior to the date on which the option is granted. Certain options vest immediately while others vest six to twelve months after grant date and all options granted under the plan expire 5 years from the date of the grant of the options. All options are to be settled by physical delivery of shares.

The expense related to the Company's share-based payments as a result of certain options vesting over the period is recognized in the consolidated statement of loss for the six months ended June 30, as presented as follows:

Expense Category included	June 30, 2012	June 30, 2011
Administration	$ 17	$ 767
Consulting and professional	-	281
Corporate development	10	21
Exploration and evaluation	58	181
Total	$ 85	$ 1,250

Option movements (in thousands) during the six months ended June 30, including weighted average exercise prices, are as follows:

	2012		2011	
	Options	Average Price	Options	Average Price
Outstanding – January 1	11,560	$ 1.68	9,820	$ 2.05
Granted	465	0.28	2,700	0.80
Exercised	-	-	(30)	0.27
Expired	(2,495)	3.55	(35)	6.84
Forfeited	(20)	0.28	-	-
Outstanding – June 30	9,510	$ 1.13	12,455	$ 1.77
Exercisable – June 30	9,065	$ 1.17	11,580	$ 1.84

The options outstanding at June 30, 2012 have an exercise price in the range of $0.27 to $4.55 (2011 – $0.27 to $6.18) and a weighted average contractual life of 2.2 years (2011 – 2.9 years). The options expire between the dates of August 2012 to April 2017.

The grant date fair value of stock options issued under the plan is estimated using the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. The option life is estimated based on the weighted average historical life of options that have been granted by the Company. The inputs used in the measurement of the fair values at grant date of the share-based payments during the six months ended June 30 are as follows:

	June 30, 2012	June 30, 2011
Share price at grant date	$ 0.28	$ 0.69 – $ 0.82
Exercise price	$ 0.28	$ 0.69 – $ 0.82
Expected volatility	88.3– 91.1%	82.3 – 96.7%
Option life	5 years	5 years
Expected dividends	0 %	0 %
Expected forfeiture rate	0 %	0 %
Risk-free interest rate	1.55 – 1.59%	2.31 – 2.80%
Fair value at grant date	$ 0.18 – $ 0.19	$ 0.47 – $ 0.57

10. Related party transactions

Related party transactions with key management personnel

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

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

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

	June 30, 2012	June 30, 2011
Short-term benefits to key management and directors	$ 136	$ 197
Consulting and management fees to related companies	414	476
Termination benefits	601	-
Share-based payment transactions	-	773
Total compensation paid to key management personnel and directors	$ 1,151	$ 1,446

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel and directors. The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The fair value of share-based payments was determined using the Black-Scholes model.

During the six month period ended June 30, 2012, a management services agreement was terminated by the Company. This contract termination by the Company resulted in termination benefits of $601 thousand.

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

	June 30, 2012	June 30, 2011
Administration	$ 352	$ 900
Consulting and professional fees	799	546
Total compensation paid to key management personnel and directors	$ 1,151	$ 1,446

11. Financial instruments

Fair values have been determined for measurement and/or disclosure purposes based on the fair value hierarchy for financial instruments that require fair value measurement after initial recognition. The classification of each financial instrument is described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2011.

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

All financial instruments measured at fair value are categorized into one of three hierarchy levels as described in note 21 of the Company's consolidated financial statements for the year ended December 31, 2011. These financial instruments include the investment in Wescan and the Company's previously held investments ("Notes"). The fair value of the Company's investment in Wescan is based on quoted prices in active markets (level 1). A 10 percent decrease in the market price of Wescan would result in a $19 thousand decrease in fair value. The Company's 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. These Notes, which had a total par value of $14.3 million, were sold on April 1, 2011 for $10.2 million. The Company used this value at March 31, 2011 to measure the fair value (level 1) of these Notes, which resulted in a recovery of previously recognized losses of $1,293 thousand.

<u>Risk management</u>
Certain financial instruments are exposed to the following financial risks:

(a) <u>Credit risk</u>

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are invested in Government of Canada treasury bills which are backed by the Government of Canada. At June 30, 2012, the Company's credit risk relates to its cash and cash equivalents, short-term investments, and restricted cash of $13.2 million (December 31, 2011 – $18.1 million).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at June 30, 2012, the Company had working capital of $11.6 million, excluding restricted cash. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

As at June 30, 2012, the Company had guaranteed certain liabilities by issuing $1.8 million (December 31, 2011 – $2.6 million) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash (note 6). The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the guarantees at June 30, 2012 relate to environmental rehabilitation provisions.

The Company is pursuing options to finance the further exploration and development of the Star – Orion South project as it currently does not have sufficient funds to put any of its property interests into production from its own financial resources. Financing options include joint ventures arrangements, debt financing, equity financing or other means. The Company believes it has sufficient liquidity to continue operations until financing is arranged. However, 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.

(c) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market risks are comprised of four types: foreign currency risk, interest rate risk, commodity price risk and equity price risk. As at June 30, 2012, the Company does not have significant exposure to any of these market risks.

12. Comparative Figures

Certain prior years' balances have been reclassified to conform to the current financial statement presentation.

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CORPORATE INFORMATION

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Auditors
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Exchange Listing
TSX
224,709,242 common shares issued and outstanding as at August 10, 2012

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SGF

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