Shore Gold Inc.

# Management's Discussion & Analysis

# December 31, 2013

**MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")**
For the year ended December 31, 2013

The following discussion and analysis is prepared by Management as of March 27, 2014 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013 ("financial statements for the year ended December 31, 2013") available on SEDAR at www.sedar.com. Shore Gold Inc. ("Shore", "SGF", or "the Company") prepared its financial statements for the year ended December 31, 2013 in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All currency amounts are quoted in Canadian Dollars, unless otherwise stated.

## Overview

During 2013, the Company's main focus was work relating to the environmental assessment process for the Star – Orion South Diamond Project ("Project") and continuing to seek opportunities for development capital for the Project. 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 68 percent interest in the FALC-JV and Newmont Canada FN Holdings ULC ("Newmont") has a 32 percent interest.

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 (including 100% of the FALC-JV). 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 (including 100% of the FALC-JV). 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).

The Company recently announced an estimate of the Target For Further Exploration ("TFFE", formerly known as "Potential Mineral Deposit") for five partially evaluated kimberlites and the portions of the Star and Orion South Kimberlites which fall outside the Indicated and Inferred Resources previously estimated (See SGF News Release dated March 6, 2014).

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

The Environmental Impact Assessment ("EIA") process for the Project has been on-going since the Project Proposal was filed in November 2008. The Revised Environmental Impact Statement ("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 Saskatchewan Ministry of Environment ("Ministry") is the lead agency on behalf of the Province and the Canadian Environmental Assessment Agency ("CEAA") is the lead agency for the Federal government, which are jointly conducting the environmental assessment of the Project.

The original Draft EIS, submitted to the regulators in December 2010, was based on the Project Pre-Feasibility Study, which was published in March 2010. The Draft EIS generated a total of 802 comments and information requests from Federal and Provincial agencies and Aboriginal groups. The Revised EIS was based on the 2011 Feasibility Study of the Project and incorporated responses to all the review comments and information requests. The Revised EIS generated an additional 56 Federal comments and information requests and 82 Provincial comments and information requests (76 original comments and 6 comments received after the News Release of October 30, 2012). The Company has prepared and submitted responses for the comments and information requests on the Revised EIS that were received (See SGF News Releases dated January 31, 2013 and April 10, 2013). Many of these comments were addressed by Shore personnel using existing information. A limited number of comments required further discussion with and additional work by consultants.

The Environmental Effects Summary document, prepared by the CEAA, was made available in August 2013 for public review and comment for a period of thirty days (See SGF News Release dated August 14, 2013). The preparation of the Environmental Effects Summary and public comment period are part of the Federal comprehensive study type environmental assessment of the Project. The CEAA invited the public to comment on the potential environmental effects of the Project and the proposed measures to prevent or mitigate those effects as described in the Environmental Effects Summary.

Subsequent to this period of public comment, the CEAA will prepare the Comprehensive Study Report ("CSR"), with input from the public, Federal departments and Aboriginal groups. The CSR will outline the Agency's conclusions regarding the potential environmental effects of the project, the proposed mitigation measures and the significance of the remaining adverse environmental effects. The CSR will also be made available for public comment, after which the Ministry will take into consideration the CSR and all comments received and will issue its environmental assessment decision statement.

## Selected Annual Information

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

| | 2013 $ | 2012 $ | 2011 $ |
|---|---|---|---|
| **Revenues** (millions) | **0.1** | 0.2 | 0.2 |
| **Net loss** (millions) (1) | **5.6** | 9.3 | 219.9 |
| **Net loss per share** (2) | **0.02** | 0.04 | 0.98 |
| **Total assets** (millions) | **7.2** | 13.1 | 22.5 |
| **Total non-current liabilities** (millions) (3) | **0.9** | 1.4 | 1.4 |
| **Working capital** (millions) | **4.2** | 8.6 | 15.9 |

(1) *The net loss during 2011 was primarily related to impairments of exploration and evaluation assets of the Company.*
(2) *Basic and diluted.*
(3) *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 year ended December 31, 2013, the Company recorded a net loss of $5.6 million or $0.02 per share compared to a net loss of $9.3 million or $0.04 per share in 2012. These 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. Also contributing to the loss in 2012 was a $518 thousand decrease to the carrying value of the Company's investment in Wescan Goldfields Inc.

### *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 years ended December 31, 2013 and 2012 the Company reported interest and other revenue of $72 thousand and $173 thousand respectively. This $101 thousand decrease in revenue is primarily attributed to lower cash reserves during the year compared to 2012.

### *Expenses*

Expenses incurred during the year ended December 31, 2013 were $5.6 million compared to $9.0 million for the same period in 2012. These amounts include the $154 thousand of share-based payments that was expensed during the year ended December 31, 2013 (2012 – $149 thousand).

Exploration and evaluation expenditures were $2.5 million for the year ended December 31, 2013 compared to $4.4 million for the same period in 2012. This decrease of $1.9 million was primarily due to the nature of work performed in 2013 compared to 2012.

Exploration and evaluation expenditures incurred during the years ended December 31, 2013 and 2012 related to the continuation of the EIA process for the Project as well as on-going administration and maintenance of the Company's exploration and evaluation properties. Contributing to the decrease in expenses compared to the same period in 2012 were the reductions to the Company's personnel that took place in early 2012. Approximately 52 percent, or $1.3 million (2012 - $1.9 million), of the exploration and evaluation expenditures were made up of compensation costs, share-based payments as well as severance and termination costs incurred by the Company. During 2013 the Company also revised its environmental rehabilitation provision for the Fort à la Corne properties as a result of certain progressive reclamation work performed in the year.

Administration, consulting and professional fees and corporate development expenditures decreased by $1.5 million to $3.1 million, compared to $4.6 million in 2012 primarily due to the reductions to the Company's personnel that took place early 2012. Approximately 58 percent, or $1.8 million (2012 - $2.8 million), of administration, consulting and professional fees and corporate development expenditures were made up of compensation costs and fees comprised of contract fees for management and consulting services, wages and benefits of personnel, share-based payments as well as severance and termination costs incurred by the Company. Also contributing to this decrease were lower corporate expenditures such as office leasing costs and travel related expenditures.

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

At December 31, 2013, Shore held 6.6% (2012 – 6.6%) of the 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 December 31, 2013 was $26 thousand (December 31, 2012 – $65 thousand). As a result, for the year ended December 31, 2013 the Company recognized a $39 thousand decrease (year ended December 31, 2012 – $518 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 a result, the changes in fair value during the years ended December 31, 2013 and 2012 were recognized in the consolidated statement of loss instead of comprehensive loss. At December 31, 2013, a 10 percent decrease in the market price of Wescan would result in a $3 thousand decrease in fair value.

***Financing***

There were no financing activities during the year ended December 31, 2013. During the year ended December 31, 2012 there were 30,000 options exercised resulting in additional cash flow from financing activities of $8 thousand.

## Summary of Quarterly Results

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Qtr 4** | **Qtr 3** | **Qtr 2** | **Qtr 1** | **Qtr 4** | **Qtr 3** | **Qtr 2** | **Qtr 1** |
| **Revenues** [(1)] ($millions) | **0.0** | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 |
| **Net loss** [(2)] ($millions) | **1.1** | 1.3 | 1.6 | 1.6 | 1.6 | 1.7 | 2.2 | 3.8 |
| **Net loss per share** [(3)] ($) | **0.00** | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| **Shares outstanding** (millions) | **224.7** | 224.7 | 224.7 | 224.7 | 224.7 | 224.7 | 224.7 | 224.7 |

*(1) Revenues are primarily related to interest earned on the Company's cash and short-term investments.*
*(2) Net losses relate to expenditures incurred by the Company exceeding interest revenue earned. Also contributing to the net loss during the first quarter of 2012 were costs associated with reductions to the Company's personnel.*
*(3) Basic and diluted.*

### *Fourth quarter results*

For the quarter ended December 31, 2013, the Company recorded a net loss of $1.1 million or $0.00 per share compared to a net loss of $1.6 million or $0.01 per share for the same period in 2012. These losses 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 Company generated $15 thousand in interest and other revenue during the fourth quarter of 2013 compared to $26 thousand for the corresponding period in 2012 due to lower cash reserves during the quarter compared to the same period in 2012.

Expenses incurred during the quarter ended December 31, 2013 were $1.1 million compared to $1.6 million for the same period in 2012. Expenses for the quarter ended December 31, 2013 decreased due to lower exploration and evaluation expenditures incurred by the Company during the quarter ended December 31, 2013 ($0.2 million) compared to the quarter ended December 31, 2012 ($0.7 million) as a result of the nature of work performed. Exploration and evaluation expenditures incurred during the quarter ended December 31, 2013 related to the continuation of the EIA process for the Project as well as on-going administration and maintenance of the Company's exploration and evaluation properties. During the quarter ended December 31, 2013 the Company also revised its environmental rehabilitation provision for the Fort à la Corne properties as a result of certain progressive reclamation work performed in the year. Also contributing to this decrease were cost reductions in 2013 such as eliminating warehouse leasing costs.

In addition, administration, consulting and professional fees, and corporate development expenditures for the quarters ended December 31, 2013 and December 31, 2012 remained consistent at $0.9 million.

## Related Party Transactions

At December 31, 2013, Messrs. Kenneth E. MacNeill (President and Chief Executive Officer) and George H. Read (Senior Vice President of Exploration and Development), through their respective consulting companies, hold management and consulting contracts with the Company. Messrs. MacNeill and Read's monthly contracted fees were $36 thousand (2012 – $36 thousand) and $22 thousand (2012 – $21 thousand), respectively. During the quarter ended March 31, 2012, the management services agreement with Harvey J. Bay (former Chief Financial Officer) was terminated by the Company. This contract termination by the Company resulted in the payment of $601 thousand of termination benefits during 2012.

Total compensation paid or payable to officers and former officers (including amounts paid through companies controlled by Messrs. MacNeill, Bay and Read) and to directors of the Company was $1.2 million (2012 – $1.7 million). Of these amounts, $0.9 million (2012 – $0.7 million) was included in administration expense and $0.3 million (2012 – $1.0 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 December 31, 2013 the Company had $4.1 million in cash and cash equivalents and short-term investments. The Company has also supplied $1.1 million (2012 – $1.8 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. These securities are primarily for environmental rehabilitation provisions.

## Capital Resources and Outstanding Share Data

As at December 31, 2013 the Company had working capital of $4.2 million compared to $8.6 million at December 31, 2012. 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 December 31, 2013 the Company had 224,739,242 (2012 – 224,739,242) shares issued and outstanding and 8,026,000 (2012 – 8,625,000) options outstanding (weighted average exercise price of $0.53). The number of options outstanding has declined by 599,000 from December 31, 2012 due to 2,000,000 option expiries and forfeitures, offset by 1,401,000 options granted at a weighted average exercise price of $0.16. As at March 27, 2014, the Company's issued and outstanding shares remained unchanged from December 31, 2013 while outstanding options increased by 1,582,500 to 9,608,500 due to options granted at a weighted average exercise price of $0.18.

## Financial Instruments

As at December 31, 2013, 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 December 31, 2013, the Company's credit risk for receivables was primarily related to Other receivables as detailed in Note 6 of the Company's financial statements for the year ended December 31, 2013. Based on the Company's assessment of Other receivables, the Company recorded an allowance of $225 thousand (December 31, 2012 – $0), which management believes reduces credit risk for receivables. At December 31, 2013, the Company's credit risk relates to its cash and cash equivalents, short-term investments, receivables and restricted cash of $5.7 million (December 31, 2012 – $10.8 million).

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at December 31, 2013, the Company had working capital of $4.2 million, excluding restricted cash. Management believes this working capital will be sufficient to meet financial obligations as they fall due over the next fiscal year.

As at December 31, 2013, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

| (millions) | Up to 3 months | Between 3 months and 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Trade payables and accrued liabilities | $ 0.4 | $ - | $ - | $ - | $ - | **$ 0.4** |
| Operating leases | 0.1 | 0.2 | 0.1 | - | - | **0.4** |
| **Total** | **$ 0.5** | **$ 0.2** | **$ 0.1** | **$ -** | **$ -** | **$ 0.8** |

As at December 31, 2013, the Company had guaranteed certain liabilities by issuing $1.1 million (December 31, 2012 – $1.8 million) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the guarantees at December 31, 2013 relate to environmental rehabilitation provisions. The reduction of $0.7 million from the prior year was due to reclamation work performed on the Fort à la Corne properties during 2013, which resulted in reductions to the Company's guarantees related to environmental rehabilitation provisions at December 31, 2013.

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 prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

<u>Foreign currency risk:</u>

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

<u>Commodity price risk:</u>

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

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

Equity price risk:
Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Wescan is monitored by management with decisions on sale taken to the Board level. A 10 percent decrease in the market price of Wescan would result in a $3 thousand decrease in fair value.

## Critical Accounting Estimates and Judgments

The financial statements for the year ended December 31, 2013 have been prepared in accordance with IFRS issued by the IASB. The Company's accounting policies are described in Note 3 to the financial statements for the year ended December 31, 2013. Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The uncertainties related to these areas could significantly impact the Company's results of operations, financial condition and cash flows.

In preparing the financial statements for the year ended December 31, 2013, significant judgments and estimations have been made by management in applying the Company's accounting policies. In particular, the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: joint control assessments, identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and assessments for impairment, estimations for environmental rehabilitation provisions, share-based payment transactions and recovery of deferred tax assets. These are discussed in more detail in Note 4 of the Company's financial statements for the year ended December 31, 2013.

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

## Accounting Changes

***IFRS standards, amendments and interpretations issued and effective for January 1, 2013***

At the date of authorization of these consolidated financial statements, the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following new or amended standards and interpretations that are mandatory for 2013 annual periods which have not had a material impact on the Company.

<u>IFRS 10 – Consolidated Financial Statements</u>

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Adoption of this standard did not have a material impact on the Company's financial statements.

<u>IFRS 11 – Joint Arrangements</u>

IFRS 11 describes the accounting for arrangements in which there is joint control. IFRS 11 replaces IAS 31 *Interest in Joint Ventures* and SIC 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The application of IFRS 11 required judgment in determining the existence and classification of joint arrangements. All contractual arrangements were reviewed by the Company, taking into account factors such as their structure, the legal forms of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Adoption of this standard did not have a material impact on the Company's financial statements.

<u>IFRS 12 – Disclosures of Interests in Other Entities</u>

IFRS 12 includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Adoption of this standard did not have a material impact on the Company's financial statements.

<u>IFRS 13 – Fair Value Measurement</u>

IFRS 13 provides additional guidance where IFRS requires fair value to be used. This IFRS defines fair value, sets out in a single standard a framework for measuring fair value and establishes the required disclosures about fair value measurement. Adoption of this standard did not have a material impact on the Company's financial statements.

<u>IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine</u>

In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the statement of financial position. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the

Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

There are no other IFRSs or IFRIC interpretations that have been issued and are effective for the year ended December 31, 2013 which had a material impact on the Company.

### *Future Accounting Changes*

At the date of authorization of the financial statements for the year ended December 31, 2013, the IASB and IFRIC have issued certain new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

IFRS 9 – Financial Instruments
IFRS 9 is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains, but simplifies, the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The required adoption date for IFRS 9 has now been deferred. The Company does not intend to early adopt IFRS 9 and has not yet fully evaluated the impact of this new standard.

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 ("CEO") and Chief Financial Officer ("CFO"), are responsible for establishing and maintaining disclosure controls and procedures and have caused these to be designed to provide reasonable assurance that material information is made known to management, particularly during the period in which these filings are being prepared; and information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in securities legislation.

As at the end of the period covered by this MD&A and accompanying consolidated financial statements, the CEO and the CFO have reviewed and evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures were effective as at December 31, 2013.

There have been no significant changes in the Company's disclosure controls during the year ended December 31, 2013.

## Internal Controls over Financial Reporting Procedures

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

Management, including the CEO and the CFO, evaluated the design and effectiveness of the Company's internal controls over financial reporting as at December 31, 2013. In making its assessment, management, including the CEO and the CFO, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission over Internal Control – Integrated Framework (1992). The evaluation included review of the documentation of controls, evaluation of the design and testing the operating effectiveness of controls, and a conclusion on this evaluation. Based on their evaluation, the CEO and the CFO have concluded that the Company's internal controls over financial reporting was effective as at December 31, 2013.

There have been no significant changes to internal controls over financial reporting during the year ended December 31, 2013 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 since early 2012 will help 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. In addition, Shore aims to undertake

additional microdiamond studies on the Orion South Kimberlite with the objective of potentially upgrading Inferred to Indicated Resources on Orion South. This microdiamond work on Orion South may provide statistically sound models for future calibration of certain other kimberlites not included in the current TFFE estimate, from which TFFE level macrodiamond grade and contained carats may be estimated.

As of March 27, 2014, the Company had approximately $3.6 million in cash and cash equivalents and short-term investments (excluding $1.1 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.

Diamond prices increased rapidly in 2011, reaching a peak in early August of that year, 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 once again caused the price of rough to decrease during the second and third quarters of 2012. Rough prices have, however, increased since the end of the third quarter of 2012 with overall rough diamond prices at the end of 2012 increasing slightly from rough diamond prices at the end of 2011. Rough prices have been increasing since the beginning of 2014 and presently show a 6 percent year-on-year increase. Current rough prices are estimated to be close to the price used in the 2011 Feasibility Study.

## Risks and Uncertainties

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

### *Risks Associated With a Non-Producing Company*

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

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

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

The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, provincial and local governmental authorities. Failure to comply with applicable laws, regulations, and permitting requirements may result in permits not being granted or enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. To the best of the Company's knowledge, it is operating in compliance with all applicable rules and regulations. In addition, application for permits that will be required for the construction and operation of the proposed Project will be made following provincial and federal Ministerial approval upon conclusion of the 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 March 27, 2014, the Company has determined that the 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 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 Mark Shimell, Project Manager, Professional Geoscientist in the Province of Saskatchewan, who are the Company's "Qualified Persons" under the definition of NI 43-101.

## Caution regarding Forward-looking Statements

This MD&A contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of Canadian Securities legislation and the United States Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements, and, in particular, statements regarding Shore's future operations, future exploration and development activities or other development plans contain forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements related to the Feasibility Study; statements relating to mineral resources and/or reserves; statements related to the approval of the development of the Star - Orion South Diamond Project; statements relating to future development of the Star - Orion South Diamond Project and associated timelines; the environmental assessment and permitting process; the Company's intention to seek developmental capital though participation by a third party or syndicate of investors; and the Company's intention to undertake additional microdiamond studies and other exploration and development activities.

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.

# Consolidated Financial Statements
# December 31, 2013

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

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

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

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

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

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

"Greg Shyluk"
Greg Shyluk, CA
Chief Financial Officer

Saskatoon, Saskatchewan
March 27, 2014

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

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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 statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Shore Gold Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 27, 2014
Saskatoon, Canada

**Shore Gold Inc.**

**Consolidated Statements of Financial Position**

| (Cdn$ in thousands) | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 842 | $ 1,675 |
| Short-term investments | 3,292 | 7,065 |
| Receivables (note 6) | 443 | 213 |
| Prepaids | 46 | 63 |
| | 4,623 | 9,016 |
| Restricted cash (note 7) | 1,090 | 1,807 |
| Investment in Wescan Goldfields Inc. (note 8) | 26 | 65 |
| Property and equipment (note 9) | 1,416 | 2,173 |
| | $ 7,155 | $ 13,061 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 406 | $ 364 |
| Current portion of environmental rehabilitation provision (note 12) | 35 | 67 |
| | 441 | 431 |
| Environmental rehabilitation provision (note 12) | 891 | 1,364 |
| Shareholders' equity: | | |
| Share capital (note 15) | 797,824 | 797,824 |
| Contributed surplus | 29,948 | 29,794 |
| Accumulated deficit | (821,949) | (816,352) |
| | 5,823 | 11,266 |
| | $ 7,155 | $ 13,061 |

On behalf of the Board:

"Brian M. Menell"
Brian M. Menell
Chairman of the Board

"Arnie E. Hillier"
Arnie E. Hillier
Chairman of the Audit Committee

See accompanying notes to consolidated financial statements

**Shore Gold Inc.**

**Consolidated Statements of Loss and Comprehensive Loss**

**For the years ended December 31**

| (Cdn$ in thousands, except for share data) | 2013 | 2012 |
|---|---|---|
| **Revenue** | | |
| Interest and other income | $ 72 | $ 173 |
| **Expenses** | | |
| Administration | 2,313 | 2,900 |
| Consulting and professional fees | 438 | 1,265 |
| Corporate development | 337 | 398 |
| Exploration and evaluation (note 11) | 2,542 | 4,410 |
| | 5,630 | 8,973 |
| **Loss before the under noted items** | (5,558) | (8,800) |
| Loss on investment in Wescan Goldfields Inc. (note 8) | (39) | (518) |
| **Net and comprehensive loss** | $ (5,597) | $ (9,318) |
| **Net loss per share** | | |
| Basic and diluted (note 16) | $ (0.02) | $ (0.04) |
| **Weighted average number of shares outstanding (000's)** | 224,739 | 224,718 |

See accompanying notes to consolidated financial statements

**Shore Gold Inc.**

**Consolidated Statements of Cash Flows**

**For the years ended December 31**

| (Cdn$ in thousands) | 2013 | 2012 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operations:** | | |
| Net loss | $ (5,597) | $ (9,318) |
| Adjustments: | | |
| Amortization | 509 | 711 |
| Gain on disposal of property and equipment | (174) | (23) |
| Loss on investment in Wescan Goldfields Inc. | 39 | 518 |
| Fair value of share-based payments expensed | 154 | 149 |
| Unwinding of discount for environmental rehabilitation provision | 23 | 20 |
| Change in environmental rehabilitation provision | (528) | (26) |
| Net change in non-cash operating working capital items: | | |
| Receivables | (230) | (57) |
| Prepaids | 17 | 904 |
| Accounts payable and accrued liabilities | 42 | (253) |
| | (5,745) | (7,375) |
| **Investing:** | | |
| Proceeds from disposal of property and equipment | 664 | 138 |
| Purchases of property and equipment | (242) | (296) |
| Short-term investments | 3,773 | 1,191 |
| Restricted cash | 717 | 800 |
| | 4,912 | 1,833 |
| **Financing:** | | |
| Issue of common shares (net of issue costs) | - | 8 |
| | - | 8 |
| **Decrease in cash and cash equivalents** | (833) | (5,534) |
| **Cash and cash equivalents, beginning of year** | 1,675 | 7,209 |
| **Cash and cash equivalents, end of year** | $ 842 | $ 1,675 |
| **Cash and cash equivalents consists of:** | | |
| Cash | $ 492 | $ 1,379 |
| Treasury bills | 350 | 296 |
| | $ 842 | $ 1,675 |

See accompanying notes to consolidated financial statements

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

| (Cdn$ in thousands) | 2013 | 2012 |
|---|---|---|
| **Share capital (note 15)** | | |
| Balance, beginning of year | $ 797,824 | $ 797,811 |
| Shares issued | - | 13 |
| Balance, end of year | $ 797,824 | $ 797,824 |
| **Contributed surplus** | | |
| Balance, beginning of year | $ 29,794 | $ 29,650 |
| Share-based payments (note 17) | 154 | 149 |
| Options exercised | - | (5) |
| Balance, end of year | $ 29,948 | $ 29,794 |
| **Accumulated deficit** | | |
| Balance, beginning of year | $ (816,352) | $ (807,034) |
| Net and comprehensive loss | (5,597) | (9,318) |
| Balance, end of year | $ (821,949) | $ (816,352) |
| **Total shareholders' equity** | $ 5,823 | $ 11,266 |

See accompanying notes to consolidated financial statements

## 1. Corporate Information

Shore Gold Inc. ("Shore" or the "Company") was incorporated under the *Canada Business Corporations Act* on April 29, 1985 and its shares are publicly traded on the Toronto Stock Exchange. The principal activities of Shore are the exploration for, and the future development and production of diamonds. Shore is located at 300 – 224 4th Avenue South, Saskatoon, Saskatchewan, Canada.

## 2. Basis of preparation

The consolidated financial statements of Shore for the year ended December 31, 2013 were authorized for issue by the Company's Board on March 27, 2014. The consolidated financial statements of Shore and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The Company's financial statements have been prepared on a historical cost basis, except as disclosed, using the Company's functional currency of Canadian dollars.

## 3. Summary of significant accounting policies

The Company's principal accounting policies are outlined below:

### a. Basis of consolidation

*i.* *Subsidiaries*

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

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

A joint operation involves joint control and offers joint ownership by Shore and other venturers of assets contributed to or acquired for the purpose of a joint arrangement, without the formation of a corporation, partnership or other entity. Where Shore's activities are conducted through a joint operation, Shore recognizes its share of the jointly controlled assets, and liabilities it has incurred, related revenue and operating costs in the financial statements and a share of their production, if any.

A contractual arrangement may involve circumstances in which Shore and other parties contribute or acquire assets, without the formation of a corporation, partnership or other entity, where joint control of the arrangement no longer exists or where there is not joint control of the arrangement. Where Shore's activities are conducted through such a contractual arrangement, Shore recognizes its share of the assets, liabilities it has incurred, related revenue and operating costs in the financial statements and a share of their production, if any.

When Shore, acting as an operator, receives reimbursement of direct and indirect costs recharged to the other venturers such recharges represent reimbursement of costs that the operator incurred as an agent for the arrangement.

### b. Financial instruments

*i.* *Non-derivative financial assets*

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

*Financial assets at fair value through profit or loss*

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

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

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

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

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

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

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

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

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

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

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

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

**c. Cash and cash equivalents**

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

**d. Short-term investments**

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

**e. Property and equipment**

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

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

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

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

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

**f. Exploration and evaluation**

*i. Pre-permit costs*

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

*ii. Exploration and evaluation costs*

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

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

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

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

Exploration and evaluation assets acquired in a business combination or through purchase of an asset are initially recognized at fair value. These costs are intangible. The Company assesses each CGU annually to determine whether an indication of impairment exists. Where an indicator of impairment exists a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assets are subsequently stated at cost less accumulated impairment.

**g. Employee Benefits**

i. *Wages and salaries, and annual leave*
The liability for employee entitlements to wages and salaries represents the amount which the Company has a present obligation to pay resulting from services provided up to the reporting date. A provision exists for annual leave as it is earned and is measured at the amount expected to be paid when it is settled and includes all related costs.

ii. *Short-term employee benefits*
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

iii. *Termination benefits*
Termination benefits are recognized as an expense when the Company is committed to provide termination benefits in accordance with certain contracts provided to officers of the Company. If benefits are payable for more than 12 months after the reporting date, then those benefits are discounted to their present value.

iv. *Share-based payment transactions*
The grant-date fair value of share-based payment awards granted to employees, officers or directors is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

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

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

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

**i. <u>Income tax</u>**

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

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

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

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

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

**j. <u>Flow-through shares</u>**

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

## 4. Critical accounting judgments and key sources of estimation uncertainty

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

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

***<u>Critical judgments in applying accounting policies</u>***

**a. <u>Joint control</u>**

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

**b. Identification of CGUs**

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

Shore holds a 100% interest in the Star property located in the central part of Saskatchewan, Canada and a 68% interest in the Fort à la Corne Joint Venture ("FALC-JV") which is adjacent to the Star property and contains the Orion South property. The Company is currently pursuing options to finance the further exploration and development of the Star – Orion South project. As a result, the Star and FALC-JV properties are accounted for as one CGU.

**c. Exploration and evaluation expenditures**

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

***Key sources of estimation uncertainty***

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

**a. Reserve and resource estimates**

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

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

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

**c. Environmental rehabilitation provision**

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

**d. <u>Share-based payment transactions</u>**

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 17.

**e. <u>Recovery of deferred tax assets</u>**

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

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

## 5. Changes in IFRS

### a. <u>IFRS standards issued and effective for January 1, 2013</u>

At the date of authorization of these consolidated financial statements, the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued new or amended standards and interpretations that are mandatory for 2013 annual periods which were adopted by the Company.

*i.* *<u>IFRS 10 – Consolidated Financial Statements</u>*

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Adoption of this standard did not have a material impact on the Company's financial statements.

*ii.* *<u>IFRS 11 – Joint Arrangements</u>*

IFRS 11 describes the accounting for arrangements in which there is joint control. IFRS 11 replaces IAS 31 *Interest in Joint Ventures* and SIC 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. Adoption of this standard did not have a material impact on the Company's financial statements.

*iii.* *<u>IFRS 12 – Disclosures of Interests in Other Entities</u>*

IFRS 12 includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Adoption of this standard did not have a material impact on the Company's financial statements.

*iv.* *<u>IFRS 13 – Fair Value Measurement</u>*

IFRS 13 provides additional guidance where IFRS requires fair value to be used. This IFRS defines fair value, sets out in a single standard a framework for measuring fair value and establishes the required disclosures about fair value measurement. Adoption of this standard did not have a material impact on the Company's financial statements.

v. *<u>IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine</u>*

In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the statement of financial position. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

There are no other IFRSs or IFRIC interpretations that have been issued and are effective for the year ended December 31, 2013 which had a material impact on the Company.

**b. <u>IFRS standards issued but not yet effective</u>**

At the date of authorization of these consolidated financial statements, the IASB and IFRIC have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

*i. <u>IFRS 9 – Financial Instruments</u>*
IFRS 9 is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains, but simplifies, the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The required adoption date for IFRS 9 has now been deferred. The Company does not intend to early adopt IFRS 9 and has not yet fully evaluated the impact of this new standard.

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

## 6. Receivables

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Receivables from disposals of property and equipment | $ 269 | $ - |
| FALC-JV | 151 | - |
| Other | 248 | 213 |
| Subtotal | 668 | 213 |
| Less: Allowance for doubtful accounts (Other receivables) | (225) | - |
| Total | $ 443 | $ 213 |

## 7. Restricted cash

The Company has pledged $1,090 thousand (December 31, 2012 – $1,807 thousand) in short-term investments as security for letters of credit for the following matters:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Environmental rehabilitation | $ 960 | $ 1,677 |
| Other | 130 | 130 |
| Total | $ 1,090 | $ 1,807 |

These short-term investments are held in guaranteed investment certificates with maturity dates occurring in March and October 2014 and with interest rates of 1.25% - 1.85%. The Company's share of restricted cash that relates to the FALC-JV and Buffalo Hills Joint Venture ("Buffalo Hills JV") is $129 thousand (December 31, 2012 – $845 thousand) and $0 (December 31, 2012 – $0), respectively.

## 8. Investment in Wescan Goldfields Inc.

At December 31, 2013, Shore held 1,295,550 shares of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company accounts for its 6.6% (December 31, 2012 – 6.6%) investment in Wescan as an available-for-sale financial asset as described in note 3. The fair value of the common shares of Wescan at December 31, 2013 was $26 thousand (December 31, 2012 – $65 thousand). As a result, for the year ended December 31, 2013 the Company recognized a $39 thousand decrease (December 31, 2012 – $518 thousand) in the carrying value of its investment in Wescan. At December 31, 2011, the Company assessed that there was objective evidence that this investment was impaired. As the Company's impairment assessment at December 31, 2013 has not changed, the change in fair value during 2013 was recognized in the consolidated statement of loss as an unrealized loss instead of other comprehensive loss.

## 9. Property and equipment

| | Automotive Equipment | Buildings and Leasehold Improvements | Computer Software and Equipment | Furniture and Equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance – December 31, 2011 | $ 1,406 | $ 3,447 | $ 981 | $ 8,902 | $ 14,736 |
| Acquisitions | 44 | 214 | 35 | 3 | 296 |
| Disposals | (137) | (181) | (68) | (403) | (789) |
| Balance – December 31, 2012 | 1,313 | 3,480 | 948 | 8,502 | 14,243 |
| Acquisitions | 31 | 157 | 8 | 46 | 242 |
| Disposals | (854) | (252) | (65) | (2,672) | (3,843) |
| Balance – December 31, 2013 | $ 490 | $ 3,385 | $ 891 | $ 5,876 | $ 10,642 |

| | Automotive Equipment | Buildings and Leasehold Improvements | Computer Software and Equipment | Furniture and Equipment | Total |
|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | |
| Balance – December 31, 2011 | $ (1,140) | $ (2,391) | $ (865) | $ (7,637) | $ (12,033) |
| Charge for the year | (99) | (211) | (41) | (360) | (711) |
| Eliminated on disposals | 125 | 135 | 55 | 359 | 674 |
| Balance – December 31, 2012 | (1,114) | (2,467) | (851) | (7,638) | (12,070) |
| Charge for the year | (60) | (190) | (31) | (228) | (509) |
| Eliminated on disposals | 753 | 127 | 60 | 2,413 | 3,353 |
| Balance – December 31, 2013 | $ (421) | $ (2,530) | $ (822) | $ (5,453) | $ (9,226) |

| | Automotive Equipment | Buildings and Leasehold Improvements | Computer Software and Equipment | Furniture and Equipment | Total |
|---|---|---|---|---|---|
| **Net book value** | | | | | |
| Balance – December 31, 2012 | $ 199 | $ 1,013 | $ 97 | $ 864 | $ 2,173 |
| Balance – December 31, 2013 | $ 69 | $ 855 | $ 69 | $ 423 | $ 1,416 |

The Company's share of net book value of property and equipment that relates to the FALC-JV is $317 thousand (December 31, 2012 – $645 thousand and December 31, 2011 – $618 thousand).

## 10. Exploration and evaluation assets

Exploration and evaluation assets are made up of the following:

| | Fort à la Corne properties (a) |
|---|---|
| Balance – December 31, 2010 | $ 208,437 |
| Impairment – December 31, 2011 | (208,437) |
| Balance – December 31, 2012 and December 31, 2013 | $ - |

(a) Fort à la Corne properties
Shore holds a 100% interest in the Star property located in the central part of Saskatchewan, Canada. Kensington Resources Ltd. holds a 68% interest in the FALC-JV which is adjacent to the Star property. The Company acts as operator of the FALC-JV. These properties are accounted for as one CGU. The carrying value of the Fort à la Corne properties represents the acquisition of minority interests of the FALC-JV since 2005, net of impairments.

The decline in the Company's share price during 2011 resulted in the Company's market capitalization at December 31, 2011 being substantially less than the carrying value of the Company's net assets. Due to the existence of this indicator of impairment, the Company was required to assess the exploration and evaluation assets for impairment by comparing the carrying value of these assets to estimated discounted future cash flows. Due to the uncertainty surrounding project financing, the Company was unable to determine a reliable weighted average cost of capital to perform this assessment. As a result, the Company wrote down the carrying value of the Fort à la Corne properties to nil at December 31, 2011. As this indicator of impairment still exists at December 31, 2013, the Company's assessment of exploration and evaluation assets for impairment has not changed and the Company continues to expense exploration and evaluation expenses incurred.

## 11. Exploration and evaluation expenses

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Fort à la Corne properties | | |
| Acquisition and staking | $ - | $ - |
| Amortization of tangible assets | 427 | 504 |
| Exploration and evaluation | 2,400 | 3,827 |
| Revisions to environmental rehabilitation provision | (311) | - |
| Share-based payments | 16 | 76 |
| Total (a) | 2,532 | 4,407 |
| Buffalo Hills property (b) | 10 | 3 |
| Total | $ 2,542 | $ 4,410 |

(a) Fort à la Corne properties
The Company's share of exploration and evaluation expense that relates to the FALC-JV is $1.4 million (December 31, 2012 – $2.5 million).

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

## 12. Environmental rehabilitation provision

| | Fort à la Corne properties | Buffalo Hills property | Total |
|---|---|---|---|
| Balance – December 31, 2012 | $ 1,367 | $ 64 | $ 1,431 |
| Work completed | (217) | - | (217) |
| Revisions in estimate and change in discount rate | (311) | - | (311) |
| Unwinding of discount | 22 | 1 | 23 |
| Balance – December 31, 2013 | 861 | 65 | 926 |
| Less current portion – December 31, 2013 | 35 | - | 35 |
| Long term portion – December 31, 2013 | $ 826 | $ 65 | $ 891 |

The environmental rehabilitation provision represents the Company's share of the present value of decommissioning and rehabilitation costs related to exploration and evaluation work conducted on the above properties to date. The Company expects to rehabilitate certain drill pads and exploration areas over the next five years. These provisions have been created based on the Company's internal estimates. Assumptions are based on the current economic environment and are believed to be a reasonable basis to estimate the future liability. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary work required. Furthermore, the timing of the decommissioning and rehabilitation is dependent upon if and when development of these exploration properties takes place in the future. The provision was determined using a discount rate of 2.0% (December 31, 2012 – 1.4%). The Company estimates its total undiscounted future decommissioning and reclamation costs to be $1.0 million (December 31, 2012 – $1.5 million).

The Company's share of the current portion and long-term portion of the decommissioning and rehabilitation provision that relates specifically to the FALC-JV is $35 thousand (December 31, 2012 – $0.1 million) and $0.1 million (December 31, 2012 – $0.6 million), respectively. The above amount of $65 thousand (December 31, 2012 – $64 thousand) reflects the Company's share of the environmental rehabilitation provision for the Buffalo Hills JV.

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

## 13. Other contractual arrangements

Through its wholly-owned subsidiary Kensington Resources Ltd., the Company holds a 68% interest in the exploration properties and assets of the Fort à la Corne Joint Venture ("FALC-JV") and Newmont Canada FN Holdings ULC ("Newmont") has a 32% interest. The Company acts as operator of the FALC-JV. The FALC-JV is governed by the Fort a la Corne Joint Venture Agreement dated January 1, 1995 ("FALC-JV Agreement"). Based on the structure of the FALC-JV Agreement and current ownership of the FALC-JV, joint control does not exist. As a result, the Company's interest in the FALC-JV is accounted for by recognizing its portion of assets, liabilities, revenue and expenses in accordance with other relevant standards.

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

Information regarding the Company's share of these assets, liabilities, revenues and expenses can be found in the following notes: restricted cash – note 7, plant and equipment – note 9, exploration and evaluation assets – note 10, exploration and evaluation expenses – note 11, and current and long-term portion of the environmental rehabilitation provision – note 12. Other than the liabilities disclosed in the above referenced notes, the Company does not have any other commitments through jointly controlled operations or other contractual arrangements.

## 14. Deferred tax assets and liabilities

Reconciliation between expected tax recovery for accounting purposes and actual recovery

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Net loss before income taxes | $ 5,597 | $ 9,318 |
| Combined federal and provincial tax rate | 27.0% | 27.0% |
| Expected tax recovery | (1,511) | (2,516) |
| Increase in taxes resulting from: | | |
| Non-deductible amounts | 53 | 121 |
| Unrecognized additions to resource and other tax pools | 711 | 1,440 |
| Unrecognized non-capital loss carry-forwards | 747 | 955 |
| Deferred income tax recovery | $ - | $ - |

Unrecognized deferred tax assets

The following deferred tax assets have not been recognized:

| | December 31, 2011 | Increase/ (decrease) in deferred tax asset | Expiry of tax pools | December 31, 2012 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Exploration and evaluation | $ 87,018 | $ 1,519 | $ - | $ 88,537 |
| Property and equipment | 3,072 | 3 | - | 3,075 |
| Non-capital loss carried forward | 12,008 | 946 | - | 12,954 |
| Capital loss carried forward | 595 | - | - | 595 |
| Share issue costs | 236 | (141) | - | 95 |
| Decommissioning and rehabilitation provision | 388 | (2) | - | 386 |
| Revaluation of investments | 158 | 70 | - | 228 |
| Unrecognized deferred tax assets | $ 103,475 | $ 2,395 | $ - | $ 105,870 |

| | December 31, 2012 | Increase/ (decrease) in deferred tax asset | Expiry of tax pools | December 31, 2013 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Exploration and evaluation | $ 88,537 | $ 968 | $ - | $ 89,505 |
| Property and equipment | 3,075 | (31) | - | 3,044 |
| Non-capital loss carried forward | 12,954 | 747 | (328) | 13,373 |
| Capital loss carried forward | 595 | - | - | 595 |
| Share issue costs | 95 | (95) | - | - |
| Decommissioning and rehabilitation provision | 386 | (136) | - | 250 |
| Revaluation of investments | 228 | 5 | - | 233 |
| Unrecognized deferred tax assets | $ 105,870 | $ 1,458 | $ (328) | $ 107,000 |

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

Tax losses

As at December 31, 2013, the Company had estimated capital losses for Canadian income tax purposes of $4,404 thousand (December 31, 2012 – $4,404 thousand). These losses do not expire and may be utilized to reduce future capital gains, if any.

As at December 31, 2013, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below. These tax losses will expire as follows:

| Year of Expiry | Taxable losses (in thousands) |
|---|---|
| 2014 | 4,041 |
| 2015 | 2,295 |
| 2026 | 10,203 |
| 2027 | 4,605 |
| 2028 | 5,268 |
| 2029 | 6,695 |
| 2030 | 5,018 |
| 2031 | 4,251 |
| 2032 | 3,955 |
| 2033 | 3,200 |
| Total | $ 49,531 |

The Company also had unrecorded investment tax credits totaling $15.8 million (December 31, 2012 – $15.7 million) relating to pre-production mining expenditures. These investment tax credits begin to expire starting in 2026.

## 15. Share capital and reserves

Authorized

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

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

Common shares issued and fully paid:

| | Common Shares (in thousands) | Amount (in thousands) |
|---|---|---|
| Balance – December 31, 2011 | 224,709 | $ 797,811 |
| Issue of shares on exercise of options | 30 | 13 |
| Balance – December 31, 2012 | 224,739 | 797,824 |
| Issue of shares on exercise of options | - | - |
| Balance – December 31, 2013 | 224,739 | $ 797,824 |

(a) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, employees and service providers to purchase common shares of the Company. The aggregate number of shares reserved for issuance under this plan, and any other security based compensation arrangement of the Company, shall not, at the time of the stock option grant, exceed 15,768,360 shares. Refer to note 17 for further details of this plan.

(b) Nature and purpose of reserves

*Share option reserve*

The share option reserve is recognized within contributed surplus and is used to recognize the fair value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. The fair value of stock options has been valued using the Black-Scholes option-pricing model. The fair value of these securities is added to the share option reserve over the vesting period of the securities. Upon exercise, the corresponding fair value related to the security is removed from the share option reserve and added to share capital. Refer to note 17 for further details of this plan.

*Investments revaluation reserve*
The investments revaluation reserve is recognized within accumulated other comprehensive income and represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

## 16. Earnings per share

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Numerator: | | |
| Net loss applicable to common shares | $ (5,597) | $ (9,318) |
| Denominator: | | |
| Weighted average common shares outstanding at January 1 (in thousands) | 224,718 | 224,537 |
| Weighted average effect of stock options exercised (in thousands) | 21 | 181 |
| Weighted average common shares outstanding at December 31 – basic and diluted (in thousands) | 224,739 | 224,718 |
| Basic and diluted comprehensive loss per common share (a) | $ (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.

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

## 17. Share-based payments

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

The expense related to the Company's share-based payment is recognized in the statements of loss and comprehensive loss for the year ended December 31, as presented as follows:

| Expense Category included | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Administration | $ 106 | $ 26 |
| Consulting and professional | 24 | 31 |
| Corporate development | 8 | 16 |
| Exploration and evaluation | 16 | 76 |
| Total | $ 154 | $ 149 |

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Options | Average Price | Options | Average Price |
| Outstanding – January 1 | 8,625 | $ 0.96 | 11,560 | $ 1.68 |
| Granted during the period | 1,401 | 0.16 | 665 | 0.27 |
| Exercised during the period | - | - | (30) | 0.27 |
| Expired during the period | (2,000) | 2.14 | (3,513) | 3.22 |
| Forfeited during the period | - | - | (57) | 0.28 |
| Outstanding – December 31 | 8,026 | $ 0.53 | 8,625 | $ 0.96 |
| | | | | |
| Exercisable – December 31 | 7,876 | $ 0.54 | 8,440 | $ 0.98 |

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Exercise price | $ 0.16 – $ 0.17 | $ 0.24 – $ 0.28 |
| Expected volatility | 77.2% – 88.2% | 82.1% – 99.1% |
| Option life | 5 years | 5 years |
| Expected dividends | 0 % | 0 % |
| Risk-free interest rate | 1.10% – 1.54% | 1.35% – 1.59% |
| | | |
| Fair value at grant date | $ 0.10 – $ 0.12 | $ 0.16 – $ 0.18 |

For options outstanding and exercisable at December 31, 2013 (in thousands), the range of exercise prices; weighted average exercise price and the weighted average remaining contractual life is as follows:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Option Price Per Share | Options December 31, 2013 | Weighted Average Exercise Price | Weighted Average Remaining Life | Options December 31, 2013 | Weighted Average Exercise Price |
| $ 0.00 – 0.24 | 1,601 | $ 0.17 | 4.3 years | 1,451 | $ 0.17 |
| $ 0.25 – 0.49 | 2,685 | 0.29 | 0.7 years | 2,685 | 0.29 |
| $ 0.50 – 0.74 | 225 | 0.69 | 2.5 years | 225 | 0.69 |
| $ 0.75 – 0.99 | 3,195 | 0.84 | 1.6 years | 3,195 | 0.84 |
| $ 1.00 – 1.24 | 320 | 1.09 | 1.3 years | 320 | 1.09 |
| | 8,026 | $ 0.53 | 1.8 years | 7,876 | $ 0.54 |

## 18. Related party transactions

Related party transactions with key management personnel

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

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

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Short-term benefits to officers and directors | $ 387 | $ 246 |
| Consulting and management fees to related companies | 713 | 837 |
| Share-based payments | 123 | 31 |
| Termination benefits | - | 601 |
| Total compensation paid to key management personnel | $ 1,223 | $ 1,715 |

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

During 2012, a management services agreement with Baywatch Industries Ltd. was terminated by the Company. This contract termination by the Company resulted in termination benefits of $601 thousand.

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Administration | $ 918 | $ 676 |
| Consulting and professional fees | 305 | 1,039 |
| Total compensation paid to key management personnel | $ 1,223 | $ 1,715 |

## 19. 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.

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

Fair value hierarchy

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

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

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

Risk management
Certain financial instruments are exposed to the following financial risks:

(a) Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the

Company's cash and cash equivalents, short-term investments, and restricted cash are invested in Government of Canada treasury bills which are backed by the Government of Canada. At December 31, 2013, the Company's credit risk for receivables was primarily related to Other receivables. Based on the Company's assessment of Other receivables, the Company recorded an allowance of $225 thousand (December 31, 2012 – $0), which management believes reduces credit risk for receivables. At December 31, 2013, the Company's credit risk relates to its cash and cash equivalents, short-term investments, receivables and restricted cash of $5.7 million (December 31, 2012 – $10.8 million).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at December 31, 2013, the Company had working capital of $4.2 million. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

As at December 31, 2013, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

| | Up to 3 months | Between 3 months and 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Trade payables and accrued liabilities | $ 406 | $ - | $ - | $ - | $ - | $ 406 |
| Operating leases | 77 | 231 | 115 | - | - | 423 |
| Total | $ 483 | $ 231 | $ 115 | $ - | $ - | $ 829 |

As at December 31, 2013, the Company had guaranteed certain liabilities by issuing $1,090 thousand (December 31, 2012 - $1,807 thousand) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash (note 7). The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the guarantees relate to environmental rehabilitation provisions.

The Company is pursuing options to finance the further exploration and development of the Star – Orion South project as it currently does not have sufficient funds to bring any of its property interests into production from its own financial resources. Financing options include joint venture arrangements, debt financing, equity financing or other means. 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 prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

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

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

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

*Equity price risk:*
Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Wescan is monitored by management with decisions on sale taken to the Board level. A 10 percent decrease in the market price of Wescan would result in a $3 thousand decrease in fair value.

## 20. Capital management

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

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

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

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

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