



**3rd Quarter Report  
2016**



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

For the three and nine months ended September 30, 2016

The following discussion and analysis is prepared by Management as of November 10, 2016 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the period ended September 30, 2016 ("financial statements for the period ended September 30, 2016"), as well as the audited consolidated financial statements and annual MD&A for the year ended December 31, 2015 available on SEDAR at www.sedar.com. Shore Gold Inc. ("Shore", "SGF", or "the Company") prepared its financial statements for the period ended September 30, 2016 in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All currency amounts are quoted in Canadian Dollars, unless otherwise stated.

### Overview

The Star – Orion South Diamond Project ("Project") is situated in the Fort à la Corne kimberlite field in central Saskatchewan. The Project includes the 100 percent Shore owned Star Diamond Project, as well as Star West and the Orion South Kimberlite, which fall within the adjacent Fort à la Corne Joint Venture ("FALC-JV"). Shore has a 69 percent interest in the FALC-JV and Newmont Canada FN Holdings ULC ("Newmont") has a 31 percent interest.

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

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

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

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

During 2016, the Company commenced core drilling programs to further expand the internal stratigraphy of the Orion South and Star Kimberlites extending and in-filling geological continuity from the 2015 drilling programs (See SGF News Release dated





February 23, 2016). During the first quarter of 2016, Shore announced the completion of five holes, totaling 1,257.97 metres of drilling, on the Star West portion of the Star Kimberlite located within the claims of the FALC-JV (See SGF News Release dated March 29, 2016). This drilling on Star West aimed to delineate the extent of all kimberlite units, particularly the lower unit, which is high value Cantuar kimberlite. Concurrent with the drilling on Star West, four core holes totaling 797.96 metres of drilling were completed in untested areas of the kimberlites K606 (2 holes) and K614 (2 holes), located within the Snowden claims of the FALC-JV. This core drilling will provide a better understanding of the internal structure of these kimberlites. The Company also announced the completion of the core drilling program on the western margin of Orion South, which consisted of eight holes totaling 1,592.75 metres of drilling (See SGF News Release dated July 19, 2016).

During the third quarter of 2016, Shore announced that it has successfully completed significant aspects of test work towards the Updated Feasibility Study on the Project (See SGF News Release dated September 26, 2016). The work completed in recent months includes: autogenous ("AG") mill test work on Star pyroclastic kimberlite; x-ray transmissivity ("XRT") recovery of diamonds from Star pyroclastic kimberlite; geotechnical investigations of the mechanical properties of the Lower Colorado Shale using an in-situ pressure meter; mine planning scenarios to investigate the economics of higher grade starter pits; investigation and optimization of in-pit continuous mining systems for both the removal of overburden and ore recovery. These programs investigate the use of new technology for the efficient excavation of the open pit and improvements to the flow-sheet of the diamond processing plant, while simultaneously reducing pre-production capital costs and the time to initial diamond production.

During December 2014, the Canadian Environmental Assessment Agency ("CEAA" or the "Agency") announced an Environmental Assessment Decision for the proposed Project (See SGF News Release dated December 3, 2014). The Environment Minister announced that the Project "is not likely to cause significant adverse environmental effects when the mitigation measures described in the Comprehensive Study Report are taken into account". The CEAA is the lead agency for the Federal government and the Saskatchewan Ministry of Environment ("Ministry") is the lead agency on behalf of the Province, which are jointly conducting the environmental assessment of the proposed Project. The Company filed the final Environmental Impact Statement ("EIS") for the Project to the Ministry and the CEAA (See SGF News Release dated August 6, 2014). The EIS was prepared at the request of the Ministry and includes all updates, revisions, information requests and the Company's responses. The final EIS was released for public comment by the Ministry in January 2015. The public was invited to comment on the EIS and the Ministry's technical review comments. The Ministry is continuing to work on fulfilling the Province's Duty to Consult responsibilities with First Nation and Métis communities potentially impacted by the proposed Project. The Company is also continuing with discussions concerning potential education and training, job, business and participation opportunities for members of James Smith First Nation, Peter Chapman Cree Nation and Chakastaypasin Cree Nation, collectively referred to as the James Smith Cree Nation ("JSCN"). These





discussions aim to establish mutually agreeable terms for a participation agreement in anticipation of the proposed Project.

## Financial Highlights

Select financial information of the Company for the three and nine month periods ended September 30, 2016 and 2015 is summarized as follows:

	Three Months Ended September 30, 2016 \$	Three Months Ended September 30, 2015 \$	Nine Months Ended September 30, 2016 \$	Nine Months Ended September 30, 2015 \$
<b>Interest and other income</b> (millions)	0.0	0.0	0.0	0.0
<b>Net loss</b> (millions)	1.1	2.0	4.4	7.7
<b>Net loss per share</b> <sup>(1)</sup>	0.00	0.01	0.02	0.03
<b>Total assets</b> (millions)	3.3	4.1	3.3	4.1
<b>Total non-current liabilities</b> (millions) <sup>(2)</sup>	0.6	0.6	0.6	0.6
<b>Working capital</b> (millions)	1.5	1.9	1.5	1.9

(1) Basic and diluted.

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

## Results of Operations

For the quarter ended September 30, 2016, the Company recorded a net loss of \$1.1 million or \$0.00 per share compared to a net loss of \$2.0 million or \$0.01 per share for the same period in 2015. The losses during these quarters were due to operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest income earned on cash and cash equivalents and short-term investments. Losses incurred during the quarter ended September 30, 2016 were lower than the same period in the previous year primarily due to lower exploration and evaluation expenditures incurred.

### *Interest and other income*

The Company invested excess cash reserves in interest-bearing short-term deposits while ensuring funds were available to meet cash outflow requirements associated with the Company's exploration and evaluation projects and for general corporate matters. For the quarter ended September 30, 2016 the Company reported interest and other income of \$5 thousand as compared to \$9 thousand for the quarter ended September 30, 2015.

### *Expenses*

Expenses incurred during the quarter ended September 30, 2016 decreased to \$1.2 million, compared to \$2.0 million for the same period in 2015. This decrease was primarily due to lower exploration and evaluation expenditures incurred during the quarter ended September 30, 2016.





Exploration and evaluation expenditures were \$0.6 million for the third quarter of 2016 compared to \$1.2 million for the quarter ended September 30, 2015. Exploration and evaluation expenditures incurred during the quarter ended September 30, 2016 were primarily related to the drilling programs, geotechnical investigations and test work as well as the continuation of the environmental assessment process for the Project. Exploration and evaluation expenditures incurred during the quarter ended September 30, 2015 were primarily related to the 2015 core and large diameter drilling ("LDD") programs as well as the continuation of the environmental assessment process for the Project. Approximately 39 percent (2015 - 24 percent) of the exploration and evaluation expenditures incurred during the quarter ended September 30, 2016 were made up of compensation costs and share-based payments incurred by the Company.

Administration, consulting and professional fees, and corporate development expenditures for the quarters ended September 30, 2016 decreased by \$0.3 million from same period in 2015 to \$0.5 million primarily due to lower third-party consulting and professional fees and lower non-cash expenditures relating to share-based compensation.

### ***Financing***

During the quarter ended September 30, 2016, the Company completed a private placement of 5,000,000 Units at a price of \$0.20 per Unit, for aggregate gross proceeds of \$1.0 million (see SGF News Release dated September 21, 2016). Each Unit consisted of one Common Share and one Common Share purchase warrant. Each warrant entitles the holder thereof to purchase one Common Share at a price of \$0.25 for a period of 18 months from the date of issuance. During the quarter ended September 30, 2016 the Company also issued 1,616,667 common shares from treasury as a result of vested restricted share units ("RSUs") that were redeemed by the Company and 125,000 shares due to option exercises. During the quarter ended September 30, 2015 the Company issued 600,000 common shares from treasury as a result of vested RSUs that were redeemed and also issued 1,014,310 common shares pursuant to an agreement with a third-party consulting and professional service provider.

### **Year to Date**

#### ***Results of Operations***

For the nine months ended September 30, 2016, the Company recorded a net loss of \$4.4 million or \$0.02 per share compared to a net loss of \$7.7 million or \$0.03 per share for the same period in 2015. The losses were primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest income earned on cash and cash equivalents and short-term investments. Losses incurred during the nine months ended September 30, 2016 were lower than the same period in the previous year primarily as a result of lower exploration and evaluation expenditures incurred.





### ***Interest and other income***

The Company invested excess cash reserves in interest bearing short-term deposits while ensuring funds would be available for cash outflow requirements associated with the Company's exploration projects and for general corporate matters. For the nine months ended September 30, 2016 and 2015 the Company reported interest and other income of \$24 thousand and \$49 thousand respectively.

### ***Expenses***

Total operating costs for the nine months ended September 30, 2016 were \$4.8 million compared to \$7.7 million for the nine months ended September 30, 2015. This decrease was primarily due to lower exploration and evaluation expenditures incurred during the nine months ended September 30, 2016.

Exploration and evaluation expenditures for the nine months ended September 30, 2016 were \$2.7 million compared to \$5.5 million for the same period in 2015. This decrease was due to the nature of work performed on the Project. Exploration and evaluation expenditures incurred during the nine months ended September 30, 2016 primarily related to the 2016 drilling programs, geotechnical investigations and test work as well as continuation of the environmental assessment process for the Project. Exploration and evaluation expenditures incurred during the nine months ended September 30, 2015 primarily related to the 2015 core and LDD drilling programs as well as continuation of the environmental assessment process for the Project. Approximately 35 percent (2015 - 12 percent) of the exploration and evaluation expenditures incurred during the nine months ended September 30, 2016 were made up of compensation costs and share-based payments incurred by the Company.

Administration, consulting and professional fees, and corporate development expenditures for the nine months ended September 30, 2016 were \$2.1 million which was \$0.1 million lower than the same period in the prior year.

### ***Use of proceeds from flow-through financing***

During 2015, the Company raised \$2.6 million from flow-through financing activities to be used on exploration and evaluation activities before the end of 2016. As of September 30, 2016, \$2.3 million of these proceeds have been used in the following manner:

<b>Flow-through proceeds raised during 2015</b>	<b>\$ 2.6</b>
Flow-through expenditures incurred to September 30, 2016 (2016 programs)	<u>2.3</u>
<b>Flow-through expenditures to be incurred by December 31, 2016</b>	<b><u><u>\$ 0.3</u></u></b>

The Company expects that the exploration and evaluation expenditures incurred in 2016 will approximate the \$2.6 million flow-through financing raised during 2015. The majority of the remaining commitment of \$0.3 million is expected to be incurred on work relating to the 2016 drilling, geotechnical and test work programs.





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

The Company issued flow-through shares during 2015 for a premium over the market value of the shares. The premium over the market value of the shares is recognized as a liability until such time as the Company incurs qualifying exploration expenditures. As the Company incurs qualifying expenditures in 2016, the liability to the investor is satisfied and accordingly the premium received on the initial issue of share capital is recognized in income. As at September 30, 2016 this premium was \$0.1 million (December 31, 2015 - \$0.5 million).

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

At September 30, 2016, Shore held 5,806,634 shares or 13.1 percent (December 31, 2015 – 5,806,634 shares) of Wescan Goldfields Inc. (“Wescan”), a publicly traded company on the TSX Venture exchange. The Company has assessed its investment in Wescan as an available-for-sale financial asset. At September 30, 2016, the carrying value of this investment was \$58 thousand (December 31, 2015 – \$58 thousand). At December 31, 2011, the Company assessed that there was objective evidence that this investment was impaired. As the Company’s impairment assessment at September 30, 2016 has not changed, any change in value during 2016 would be recognized in the consolidated statement of loss as an unrealized loss instead of other comprehensive loss. If an impairment loss in respect of an available-for-sale financial asset has been recorded in the consolidated statement of loss, it cannot be reversed in future periods. The fair value of this investment, based on the closing trading price at September 30, 2016, was \$377 thousand (December 31, 2015 – \$116 thousand).

### ***Financing***

During the nine months ended September 30, 2016 the Company completed a private placement of 5,000,000 Units at a price of \$0.20 per Unit, for aggregate gross proceeds of \$1.0 million. During the nine months ended September 30, 2016 the Company also issued 2,958,334 common shares from treasury as a result of vested RSUs that were redeemed by the Company and 125,000 shares due to option exercises. During the nine months ended September 30, 2015 the Company completed a private placement of 10,000,000 Units at a price of \$0.20 per Unit, for aggregate gross proceeds of \$2.0 million (see SGF News Release dated June 12, 2015). Each Unit consisted of one common share and one common share purchase warrant. Each warrant will entitle the holder thereof to purchase one common share at a price of \$0.25 for a period of 18 months from the date of issuance. The Company also issued 600,000 common shares from treasury as a result of vested RSUs that were redeemed by the Company and issued 1,014,310 common shares pursuant to an agreement with a third-party consulting and professional service provider.





## Summary of Quarterly Results

	2016			2015			2014	
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
<b>Income</b> <sup>(1)</sup> (\$millions)	<b>0.0</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net loss</b> <sup>(2)</sup> (\$millions)	<b>1.1</b>	1.9	1.4	1.4	2.0	4.5	1.2	0.4
<b>Net loss per share</b> <sup>(3)</sup> (\$)	<b>0.00</b>	0.01	0.01	0.01	0.01	0.02	0.00	0.00
<b>Shares outstanding</b> (millions) <sup>(4)</sup>	<b>282.4</b>	275.6	274.3	274.3	258.1	256.5	246.5	246.7

- (1) Income is primarily related to interest earned on the Company's cash and short-term investments.
- (2) Net losses relate to expenditures incurred by the Company exceeding interest income earned. Net loss during the fourth quarter of 2014 was lower as a result of adjustments to environmental reclamation provisions.
- (3) Basic and diluted.
- (4) During the third quarter of 2016, the Company completed a private placement of 5.0 million shares of the Company and 1.7 million shares were also issued from treasury as a result of vested RSU redemptions and option exercises. During the second quarter of 2016, 1.3 million shares were issued from treasury as a result of vested RSU redemptions. On December 30, 2015, the Company completed a bought deal private placement of 11.5 million flow-through common shares and 3.7 million common shares of the Company. During the fourth quarter of 2015, 1.0 million shares were also issued from treasury as a result of vested RSU redemptions. During the third quarter of 2015, 0.6 million shares were issued from treasury as a result of vested RSU redemptions and 1.0 million shares were issued from treasury pursuant to an agreement with a third-party consulting and professional service provider. During the second quarter of 2015, the Company completed a private placement of 10.0 million shares of the Company. Changes during the first quarter of 2015 related to the return to treasury of certain share certificates pursuant to the Plan of Arrangement between Kensington Resources Ltd. ("Kensington") and Shore Gold Inc. effective October 28, 2005. Those Kensington shareholders that did not submit a Letter of Transmittal to change their shares from Kensington to Shore have lost the right to do so. As a result, these shares were cancelled and removed from Shore's share register.

## Related Party Transactions

Messrs. Kenneth E. MacNeill (President and Chief Executive Officer) and George H. Read (Senior Vice President of Exploration and Development), through their respective consulting companies, hold management and consulting contracts with the Company. At September 30, 2016, Messrs. MacNeill and Read's monthly contracted fees were \$29 thousand (2015 – \$29 thousand) and \$22 thousand (2015 – \$22 thousand), respectively.

During the nine-month period ended September 30, 2016 total compensation paid or payable to officers (including amounts paid through companies controlled by Messrs. MacNeill and Read) and to directors of the Company was \$1.7 million (2015 – \$1.2 million). Of these amounts, \$1.3 million (2015 – \$0.9 million) were included in administration expense and \$0.4 million were included in exploration and evaluation expense (2015 – \$0.3 million). Included in these amounts are share-based payment transactions of \$1.0 million (2015 – \$0.7 million). The increase for the nine months ended September 30, 2016 compared to the same period in 2015 is primarily due to non-cash share-based payments relating to the RSU and deferred share unit ("DSU") plans that were approved by the shareholders at the June 2015 Annual General and Special Meeting.

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





payments in the form of RSUs and DSUs was determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant.

## Liquidity

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

At September 30, 2016 the Company had \$1.6 million in cash and cash equivalents and short-term investments. The Company has also supplied \$1.0 million of irrevocable standby letters of credit issued by a Canadian chartered bank. The security related to the letters of credit is included in restricted cash and excluded from the Company's working capital. The majority of these securities are for environmental rehabilitation provisions. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. As well, at September 30, 2016, the Company is required to spend \$0.3 million on qualifying exploration expenditures by the end of 2016 to fulfill its obligations under its flow-through commitments.

## Capital Resources and Outstanding Share Data

As at September 30, 2016 the Company had working capital of \$1.5 million as compared to \$4.0 million at December 31, 2015. In addition, the Company recently completed a private placement for aggregate gross proceeds of \$2.5 million (see SGF News Release dated November 9, 2016). The Company believes it has sufficient liquidity to continue operations until further financing is arranged.

At September 30, 2016 the Company had 282,370,099 shares issued and outstanding. In addition, at September 30, 2016 the Company had 641,500 DSUs, 4,099,999 RSUs, 9,203,000 options (weighted average exercise price of \$0.20), 15,000,000 warrants (weighted average exercise price of \$0.25) and 909,225 broker warrants (weighted average exercise price of \$0.23). Options outstanding at September 30, 2016 increased by 630,000 from December 31, 2015 due to 2,320,000 options granted at an exercise price of \$0.20, offset by option exercises of 125,000 and expiries of 1,565,000. DSUs outstanding at September 30, 2016 increased by 312,500 from December 31, 2015 due to DSUs granted. RSUs outstanding at September 30, 2016 increased from December 31, 2015 by 766,666 due to RSU grants of 3,725,000, offset by the redemption of 2,958,334 vested RSUs for common shares. For the nine months ended September 30, 2016 the Company's warrants increased by 5,000,000 to 15,000,000 and broker warrants decreased by 1,314,402, due to expiries, to 909,225.





As at November 10, 2016, the Company's options, RSUs and DSUs, remain unchanged from September 30, 2016. At November 10, 2016 the Company had 293,961,008 shares issued and outstanding, 17,500,000 warrants (weighted average exercise price of \$0.25) and 1,488,770 broker warrants (weighted average exercise price of \$0.23). These increases were due to the recently completed private placement financing.

## **Financial Instruments**

As at September 30, 2016, the fair value of all of the Company's financial instruments approximates their carrying values. Certain financial instruments are exposed to the following financial risks:

### Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At September 30, 2016, the Company's credit risk relates to its cash and cash equivalents, short-term investments, receivables and restricted cash of \$2.7 million (December 31, 2015 – \$5.3 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 September 30, 2016, the Company had working capital of \$1.5 million (excluding restricted cash) and is required to incur qualifying expenditures of \$0.3 million before December 31, 2016 as a result of the flow-through share financing discussed in note 16 of the Company's financial statements for the year ended December 31, 2015. Given that cash flow from operations are negative, the Company is dependent on additional sources of financing.

As at September 30, 2016, the Company had guaranteed certain liabilities by issuing \$1.0 million (December 31, 2015 – \$1.0 million) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the guarantees relate to environmental rehabilitation provisions.

The Company is pursuing options to finance the further exploration and development of the Project as it currently does not have sufficient funds to bring any of its property interests into production from its own financial resources. Financing options include joint





venture arrangements, debt financing, equity financing or other means. Although the Company has been successful in the past in obtaining financing, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

The Company currently does not have sufficient resources to finance operating activities through its 2017 fiscal year, conditions which raise significant doubt about the Company's ability to continue as a going concern. The Company is assessing opportunities to address the issue of liquidity.

#### Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market risks are comprised of four types: foreign currency risk, interest rate risk, commodity price risk and equity price risk. As at September 30, 2016, the Company does not have significant exposure to any of these market risks.

#### **Critical Accounting Estimates**

The financial statements for the period ended September 30, 2016 have been prepared in accordance with IFRS issued by the IASB. The Company's accounting policies are described in note 4 to the financial statements for the year ended December 31, 2015. Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The uncertainties related to these areas could significantly impact the Company's results of operations, financial condition and cash flows.

In preparing the financial statements for the period ended September 30, 2016, significant judgments and estimations have been made by management in applying the Company's accounting policies. In particular, the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: joint control assessments, identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and assessments for impairment, estimations for environmental rehabilitation provisions, share-based payment transactions and recovery of deferred tax assets. These are discussed in more detail in note 5 of the Company's financial statements for the year ended December 31, 2015.

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





## Accounting Changes

### *Future Accounting Changes*

#### IFRS 9 – Financial Instruments

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

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

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

#### IFRS 16 – Leases

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

#### IFRS 2 – Share-Based Payments

In June 2016, the IASB issued amendments to IFRS 2. These amendments clarify how to account for certain share-based payment transactions, including accounting for cash-settled share-based payment transactions; accounting for share-based payment transactions with net settlement features; and accounting for modifications of share-based payment transactions from cash-settled to equity. IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The Company does not intend to early adopt the amendments to IFRS 2 and has not yet fully evaluated the impact of the amendments.





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

### **Disclosure Controls and Procedures**

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

There have been no significant changes in the Company's disclosure controls during the quarter ended September 30, 2016.

### **Internal Controls over Financial Reporting Procedures**

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

There have been no significant changes to internal controls over financial reporting during the quarter ended September 30, 2016 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.





## Outlook

The 2016 core drilling programs are required to further expand the internal stratigraphy of the Orion South and Star Kimberlites extending and in-filling geological continuity from the successful programs of 2015. The Company intends to update the previous Feasibility Study with a revised mine plan, where new technology is applied to more efficiently remove the sand and clay of the overburden, in addition to the application of new technology in the processing plant. Preliminary calculations suggest that such an updated Feasibility Study can positively change the economic model for the Project by increasing the Mineral Reserve estimate and reducing the pre-production capital costs and schedule to diamond production.

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

As of November 10, 2016, the Company had approximately \$3.6 million in cash and cash equivalents and short-term investments (excluding \$1.0 million in restricted cash). A portion of the Company's cash and cash equivalents and short-term investments will be used to complete the 2016 programs as well as advance certain aspects of the Project, including work required for an updated Feasibility Study, the environmental assessment process, as well as for general corporate matters.

## Risks and Uncertainties

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

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

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

The further development and exploration of exploration and evaluation properties in which Shore holds interests or which Shore acquires may depend upon Shore's ability to obtain financing through joint ventures, debt financing, equity financing or other means. The Company currently does not have sufficient funds to put any of its property interests into





production from its own financial resources. There is no assurance that Shore will be successful in obtaining required financing as and when needed. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or joint operations or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on Shore's future cash flows, results of operations and financial condition. The relative prices of diamonds and future expectations for such prices have a significant impact on the market sentiment for investment in diamond mining and exploration companies. To ensure that exploration procedures are being performed effectively and those results are interpreted and reported in a proper manner, management ensures that qualified individuals, service providers and external consultants are utilized in the verification and quality assurance of analytical results.

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

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

All of Shore's property interests are currently in the exploration stage. The exploration, development and production of precious metals and gems are capital-intensive, subject to the normal risks and capital expenditure requirements associated with mining operations.





While the rewards can be substantial if commercial quantities of minerals or gems are found, there can be no assurance that Shore's past or future exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable.

### **Technical Information**

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

### **Caution regarding Forward-looking Statements**

This MD&A contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of Canadian securities legislation and the United States Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements, and, in particular, statements regarding Shore's future operations, future exploration and development activities or other development plans contain forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements 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 through participation by a third party or syndicate of investors; Shore's objectives for the ensuing year including, the optimization of the feasibility study, anticipated capital and operating cost savings and the anticipated positive change in the economic model for the Project; the aim of Shore to undertake additional studies and the potential updating of the Feasibility Study.

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 contractual partners, the effects of competition in the markets in which Shore operates, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks and the additional risks described in Shore's most recently filed Annual Information Form, annual and interim MD&A, news releases and technical reports. Shore's anticipation of and success in managing the foregoing risks could cause actual results to differ materially from what is anticipated in such forward-looking statements.

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

### **Additional Information**

Additional information related to the Company, including the latest available Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com)



**SHORE GOLD INC.**  
**Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended  
September 30, 2016**

Notice to Reader

Management has compiled the unaudited condensed interim consolidated financial statements of Shore Gold Inc. for the three and nine months ended September 30, 2016. The Corporation's external auditors have not reviewed these condensed interim consolidated financial statements.

**Shore Gold Inc.**  
**Condensed Consolidated Statements of Financial Position**  
(unaudited)

(Cdn\$ in thousands)	September 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,372	\$ 3,956
Short-term investments	251	251
Receivables	37	51
Prepays	102	53
	1,762	4,311
Restricted cash (note 6)	1,026	1,026
Investment in Wescan Goldfields Inc. (note 7)	58	58
Property and equipment	459	595
	\$ 3,305	\$ 5,990
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 295	\$ 349
	295	349
Premium on flow-through shares (note 9)	60	459
Environmental rehabilitation provision	614	611
Shareholders' equity:		
Share capital	808,187	806,889
Warrants	926	668
Broker warrants	52	195
Contributed surplus	31,627	30,910
Accumulated deficit	(838,456)	(834,091)
	2,336	4,571
	\$ 3,305	\$ 5,990

See accompanying notes to consolidated financial statements

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

(Cdn\$ in thousands, except for share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Income</b>				
Interest and other income	\$ 5	\$ 9	\$ 24	\$ 49
<b>Expenses</b>				
Administration	403	593	1,934	1,722
Consulting and professional fees	101	212	150	323
Corporate development	7	7	28	102
Exploration and evaluation (note 8)	648	1,244	2,676	5,535
	<u>1,159</u>	<u>2,056</u>	<u>4,788</u>	<u>7,682</u>
<b>Loss before the under noted items</b>	(1,154)	(2,047)	(4,764)	(7,633)
Flow-through share premium	90	-	399	-
Investment in Wescan Goldfields Inc. (note 7)	-	-	-	(29)
<b>Net and comprehensive loss for the period</b>	<u>\$ (1,064)</u>	<u>\$ (2,047)</u>	<u>\$ (4,365)</u>	<u>\$ (7,662)</u>
<b>Net loss per share</b>				
Basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.02)	\$ (0.03)
<b>Weighted average number of shares outstanding (000's)</b>	277,385	256,772	275,419	250,646

See accompanying notes to consolidated financial statements

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

(Cdn\$ in thousands)	Nine Months Ended September 30,	
	2016	2015
<b>Cash provided by (used in):</b>		
<b>Operations:</b>		
Net loss	\$ (4,365)	\$ (7,662)
Adjustments:		
Amortization	122	151
Loss (gain) on disposal of property and equipment	(54)	5
Investment in Wescan Goldfields Inc.	-	29
Fair value of share-based payments expensed	1,131	824
Unwinding of discount for environmental rehabilitation provision	3	2
Flow-through share premium	(399)	-
Net change in non-cash operating working capital items:		
Receivables	14	(50)
Prepays	(49)	(9)
Accounts payable and accrued liabilities	(54)	(248)
	(3,651)	(6,958)
<b>Investing:</b>		
Proceeds relating to property and equipment	115	(1)
Purchases of property and equipment	(47)	(8)
Short-term investments	-	(68)
Restricted cash	-	64
	68	(13)
<b>Financing:</b>		
Issue of equity (net of issue costs)	999	2,137
	999	2,137
<b>Decrease in cash and cash equivalents</b>	(2,584)	(4,834)
<b>Cash and cash equivalents, beginning of period</b>	3,956	5,616
<b>Cash and cash equivalents, end of period</b>	\$ 1,372	\$ 782
<b>Cash and cash equivalents consists of:</b>		
Cash	\$ 1,371	\$ 781
Treasury bills	1	1
	\$ 1,372	\$ 782

See accompanying notes to consolidated financial statements

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

(Cdn\$ in thousands)	Nine Months Ended September 30,		Year Ended December 31,
	2016	2015	2015
<b>Share capital</b>			
Balance, beginning of period	\$ 806,889	\$ 802,662	\$ 802,662
Shares issued (note 10)	1,298	1,577	4,227
Balance, end of period	<u>\$ 808,187</u>	<u>\$ 804,239</u>	<u>\$ 806,889</u>
<b>Warrants</b>			
Balance, beginning of period	\$ 668	\$ -	\$ -
Issued (note 10)	258	668	668
Balance, end of period	<u>\$ 926</u>	<u>\$ 668</u>	<u>\$ 668</u>
<b>Broker warrants</b>			
Balance, beginning of period	\$ 195	\$ 143	\$ 143
Issued	-	-	52
Expired	(143)	-	-
Balance, end of period	<u>\$ 52</u>	<u>\$ 143</u>	<u>\$ 195</u>
<b>Contributed surplus</b>			
Balance, beginning of period	\$ 30,910	\$ 30,200	\$ 30,200
Share-based payments - options (note 11)	292	450	460
Share-based payments - deferred share units (note 11)	63	63	63
Share-based payments - restricted share units (note 11)	776	311	487
Restricted share unit redemptions	(557)	(108)	(300)
Expired equity	143	-	-
Balance, end of period	<u>\$ 31,627</u>	<u>\$ 30,916</u>	<u>\$ 30,910</u>
<b>Accumulated deficit</b>			
Balance, beginning of period	(834,091)	(824,975)	(824,975)
Loss for the period	(4,365)	(7,662)	(9,116)
Balance, end of period	<u>\$ (838,456)</u>	<u>\$ (832,637)</u>	<u>\$ (834,091)</u>
<b>Total equity</b>	<u>\$ 2,336</u>	<u>\$ 3,329</u>	<u>\$ 4,571</u>

See accompanying notes to consolidated financial statements

# SHORE GOLD INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2016

(In thousands of Canadian dollars except as otherwise noted)

### 1. Corporate Information

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

### 2. Basis of preparation

The condensed interim consolidated financial statements of Shore for the three and nine months ended September 30, 2016 were authorized for issue by the Company’s Audit Committee on November 10, 2016. The condensed interim consolidated financial statements of Shore and all its subsidiaries have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The Company’s financial statements have been prepared on a historical cost basis, except as disclosed, using the Company’s functional currency of Canadian dollars.

In preparing the financial statements for the period ended September 30, 2016, significant judgments and estimations have been made by management in applying the Company’s accounting policies. In particular, the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: joint control assessments, identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and assessments for impairment, estimations for environmental rehabilitation provisions, share-based payment transactions and recovery of deferred tax assets. These are discussed in more detail in note 5 of the Company’s consolidated financial statements for the year ended December 31, 2015.

### 3. Going Concern

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company’s ability to continue as a going concern. At September 30, 2016, the Company had working capital of \$1.5 million, of which \$0.3 million is committed to be spent on qualifying exploration expenditures before December 31, 2016, leaving \$1.2 million which is insufficient to finance operating activities through its 2017 fiscal year. The ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity issues or other forms of financings in 2017. There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration plans, forfeit rights in its properties or reduce or terminate its operations.

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

### 4. Summary of significant accounting policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those disclosed in note 4 of the Company’s consolidated financial statements for the year ended December 31, 2015. Accordingly, the condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2015.

## 5. International financial reporting standards (“IFRS”), amendments and interpretations

### (a) IFRS standards, amendments and interpretations issued but not yet effective

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

#### i. IFRS 9 – Financial Instruments

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

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

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

#### iii. IFRS 16 – Leases

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

#### iv. IFRS 2 – Share-Based Payments

In June 2016, the IASB issued amendments to IFRS 2. These amendments clarify how to account for certain share-based payment transactions, including accounting for cash-settled share-based payment transactions; accounting for share-based payment transactions with net settlement features; and accounting for modifications of share-based payment transactions from cash-settled to equity. IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The Company does not intend to early adopt the amendments to IFRS 2 and has not yet fully evaluated the impact of the amendments.

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

## 6. Restricted Cash

The Company has pledged \$1,026 thousand (December 31, 2015 – \$1,026 thousand) in short-term investments as security for letters of credit provided, of which the majority are related to the provision for decommissioning and rehabilitation. These short-term investments are recorded as restricted cash.

## 7. Investment in Wescan Goldfields Inc.

At September 30, 2016, Shore held 5,806,634 (December 31, 2015 – 5,806,634) shares of Wescan Goldfields Inc. (“Wescan”), a publicly traded company on the TSX Venture exchange. The Company accounts for its 13.1% (December 31, 2015 – 15.6%) investment in Wescan as an available-for-sale financial asset as described in note 4 of the Company’s consolidated financial statements for the year ended December 31, 2015. At September 30, 2016, the carrying value of this investment was \$58 thousand (December 31, 2015 – \$58 thousand). At December 31, 2011, the Company assessed that there was objective evidence that this investment was impaired. As the Company’s impairment assessment has not changed, change in value is recognized in the consolidated statement of loss as an unrealized loss instead of other comprehensive loss. If an impairment loss in respect of an available-for-sale financial asset has been recorded in the consolidated

statement of loss, it cannot be reversed in future periods. The fair value based on the closing trading price of the common shares of Wescan at September 30, 2016 was \$377 thousand (December 31, 2015 – \$116 thousand).

## 8. Exploration and evaluation expense

The Company's exploration and evaluation expense for the nine months ended September 30, 2016 is comprised of the following:

	September 30, 2016	September 30, 2015
Fort à la Corne properties		
Amortization of tangible assets	\$ 102	\$ 125
Exploration and evaluation	2,249	5,186
Share-based payments	325	224
Buffalo Hills property		
Exploration and evaluation	-	-
<b>Total</b>	<b>\$ 2,676</b>	<b>\$ 5,535</b>

## 9. Premium on flow-through shares

The Company, when issuing flow-through shares, will receive a premium over the market value of the shares as the Company is allowing the investor the deduction on its expenses incurred on qualifying exploration expenditures. As the Company incurs the qualifying expenditures, the liability to the investor is satisfied and accordingly the premium received on the initial issue of share capital is recognized in income. As at September 30, 2016 this premium was \$60 (December 31, 2015 – \$459).

## 10. Share capital and reserves

Common shares issued and fully paid:

	Common Shares (in thousands)	Amount
Balance – December 31, 2015	274,287	\$ 806,889
Issue of shares (net of issue costs and fair value of warrants) (a)	5,000	719
Restricted Share Units redeemed	2,958	557
Issuance of shares on exercise of options	125	22
<b>Balance – September 30, 2016</b>	<b>282,370</b>	<b>\$ 808,187</b>

(a) On September 21, 2016 the Company completed a private placement of 5,000,000 Units at a price of \$0.20 per Unit, for aggregate gross proceeds of \$1,000,000. Each Unit consisted of one common share and one Common Share purchase warrant.

### Warrant reserve

On certain issues of common shares, the Company has issued warrants with the common shares entitling the holder to acquire additional common shares of the Company.

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

	Warrants (in thousands)	Amount	Average Price
Balance – December 31, 2015	10,000	\$ 668	\$ 0.25
Issued (September 21, 2016 – 18 month term) (a)	5,000	258	0.25
<b>Balance – September 30, 2016</b>	<b>15,000</b>	<b>\$ 926</b>	<b>\$ 0.25</b>

- (a) Each warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.25 for a period of 18 months from the date of issuance. The warrants issued were fair valued at \$258 thousand. The fair value of the warrants issued was determined using the Black-Scholes pricing model with the following assumptions: a volatility factor of 69.1%, risk-free rate of return of 0.57%, expected dividend of 0%, and expected term of 18 months.

## 11. Share-based payments

### (a) Share option plan

At the June 2015 Annual General and Special Meeting, shareholders approved a share option plan whereby options may be granted to directors, officers, employees and service providers to purchase common shares of the Company. Options granted have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of Shore on the trading day prior to the date on which the option is granted. Certain options vest immediately while others vest six to twelve months after grant date and all options granted under the plan expire 5 years from the date of the grant of the options. All options are to be settled by physical delivery of shares. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Deferred Share Unit Plan and the Company's Performance Share Unit and Restricted Share Unit Plan.

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

Expense category included	September 30, 2016	September 30, 2015
Administration	\$ 207	\$ 307
Corporate development	-	15
Exploration and evaluation	85	109
<b>Total</b>	<b>\$ 292</b>	<b>\$ 431</b>

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

	2016		2015	
	Options	Average Price	Options	Average Price
Outstanding – January 1	8,573	\$ 0.30	7,039	\$ 0.50
Granted	2,320	0.20	3,709	0.20
Exercised	(125)	0.18	-	-
Expired	(1,565)	0.73	(1,860)	0.89
<b>Outstanding – September 30,</b>	<b>9,203</b>	<b>\$ 0.20</b>	<b>8,888</b>	<b>\$ 0.30</b>
<b>Exercisable – September 30,</b>	<b>9,066</b>	<b>\$ 0.20</b>	<b>8,605</b>	<b>\$ 0.30</b>

The options outstanding at September 30, 2016 have an exercise price in the range of \$0.16 to \$0.28 (2015 – \$0.16 to \$0.82) and a weighted average contractual life of 3.2 years (2015 – 3.2 years). The options expire between the dates of April 2017 to April 2021.

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 nine months ended September 30, are as follows:

	September 30, 2016	September 30, 2015
Share price at grant date	\$ 0.20	\$ 0.17 – 0.21
Exercise price	\$ 0.20	\$ 0.17 – 0.21
Expected volatility	80.0 – 82.6%	76.1 – 82.0%
Option life	5 years	5 years
Expected dividends	0 %	0 %
Expected forfeiture rate	0 %	0 %
Risk-free interest rate	0.64 – 0.73%	0.58 – 0.94%
Fair value at grant date	\$ 0.12 – 0.13	\$ 0.10 – \$ 0.13

(b) Deferred share unit plan

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

DSUs outstanding at September 30, 2016 are 641,500 (2015 – 329,000). During the nine months ended September 30, 2016, 312,500 DSUs were granted to eligible directors. The fair value of the DSUs granted was \$0.20 per DSU. The expense related to the Company's share-based payments as a result of DSUs vesting over the period is recognized in the comprehensive statement of loss for the nine months ended September 30, as presented as follows:

Expense category included	September 30, 2016	September 30, 2015
Administration	\$ 63	\$ 63
Total	\$ 63	\$ 63

(c) Performance share unit and restricted share unit plan

At the June 2015 Annual General and Special Meeting, shareholders approved a Performance Share Unit and Restricted Share Unit Plan (the "Unit Plan"), which provides for the grant of performance share units ("PSUs") and restricted share units ("RSUs") to eligible officers and employees of the Company. Upon vesting, the PSUs and/or the RSUs provide for the payment of certain amounts, or the issuance of common shares, to the participants. The Company does not intend to make cash payments and there is no history of the Company making cash payments under the Unit plan and, as such, the PSUs and RSUs are accounted for within shareholders' equity. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Deferred Share Unit Plan and the Company's Share Option Plan. As PSUs and RSUs are expected to be settled with equity, an amount equal to compensation expense is initially credited to contributed surplus, recognized over the term of the vesting period, and transferred to share capital if and when the units are exercised.

During the nine months ended September 30, 2016, 3,725,000 RSUs were granted and 2,958,334 vested RSUs were redeemed for common shares. The fair value of the RSUs granted in 2016 was \$0.20 per RSU. RSUs outstanding at September 30, 2016 are 4,099,999 (2015 – 4,400,000). The expense related to the Company's share-based payments as a result of RSUs vesting over the period is recognized in the comprehensive statement of loss for the nine months ended September 30, as presented as follows:

Expense category included	September 30, 2016	September 30, 2015
Administration	\$ 537	\$ 211
Exploration and evaluation	239	100
Total	\$ 776	\$ 311

## 12. Related party transactions

### Related party transactions with key management personnel

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

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

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

	September 30, 2016	September 30, 2015
Short-term benefits to key management and directors	\$ 252	\$ 206
Consulting and management fees to related companies	461	354
Share based payments	965	676
Total compensation paid to key management personnel and directors	\$ 1,678	\$ 1,236

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

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

	September 30, 2016	September 30, 2015
Administration	\$ 1,249	\$ 939
Exploration and evaluation	429	297
Total compensation paid to key management personnel and directors	\$ 1,678	\$ 1,236

## 13. Financial instruments

Fair values have been determined for measurement and/or disclosure purposes based on the fair value hierarchy for financial instruments that require fair value measurement after initial recognition. The classification of each financial instrument is described in note 4 of the Company's consolidated financial statements for the year ended December 31, 2015.

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

All financial instruments measured at fair value are categorized into one of three hierarchy levels as described in note 20 of the Company's consolidated financial statements for the year ended December 31, 2015. These financial instruments include the Company's investment in Wescan. The fair value of the Company's investment in Wescan is based on quoted prices in active markets (level 1).

## Risk management

Certain financial instruments are exposed to the following financial risks:

### (a) Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At September 30, 2016, the Company's credit risk relates to its cash and cash equivalents, short-term investments, receivables and restricted cash of \$2.7 million (December 31, 2015 – \$5.3 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 September 30, 2016, the Company had working capital of \$1.5 million and is required to incur qualifying expenditures of \$0.3 million before December 31, 2016 as a result of the flow-through share financing discussed in note 16 of the Company's consolidated financial statements for the year ended December 31, 2015. Given that cash flow from operations are negative, the Company is dependent on additional sources of financing.

As at September 30, 2016, the Company had guaranteed certain liabilities by issuing \$1,026 thousand (December 31, 2015 – \$1,026 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. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the guarantees at September 30, 2016 relate to environmental rehabilitation provisions.

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

The Company currently does not have sufficient resources to finance operating activities through its 2017 fiscal year, conditions which raise significant doubt about the Company's ability to continue as a going concern. The Company is assessing opportunities to address the issue of liquidity.

### (c) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market risks are comprised of four types: foreign currency risk, interest rate risk, commodity price risk and equity price risk. As at September 30, 2016, the Company does not have significant exposure to any of these market risks.

## **14. Subsequent events**

Subsequent to September 30, 2016, the Company closed a \$2.5 million private placement of 9,090,909 Flow-Through Common Shares at a price of \$0.22 per Flow-Through Common Share and 2,500,000 common shares of the Company at a price of \$0.20 per Unit (collectively, the "Offering"). The proceeds from the sale of the Flow-Through Common Shares will be used by Shore to incur qualifying expenditures prior to December 31, 2017. Each Unit consists of one Common Share and one Common Share purchase warrant

("Warrant"). Each Warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.25 for a period of 18 months from the date of issuance.

**SHORE GOLD INC.**  
**CORPORATE INFORMATION**

**Head Office**

300, 224 – 4th Ave. S.  
Saskatoon, Saskatchewan  
Canada S7K 5M5  
Tel: (306) 664-2202  
Fax: (306) 664-7181

**Directors**

Harvey J. Bay  
Arnie E. Hillier  
Kenneth E. MacNeill  
A. Neil McMillan  
Brian M. Menell  
Stephen V. Scott

**Officers**

Kenneth E. MacNeill – President, C.E.O.  
Greg P. Shyluk – C.F.O.  
George H. Read – Senior Vice President Exploration and Development

**Solicitors**

Bennett Jones LLP  
Calgary, Alberta

**Auditors**

KPMG LLP  
Saskatoon, Saskatchewan

**Bank**

Canadian Western Bank  
Saskatoon, Saskatchewan

**Exchange Listing**

TSX

293,961,008 common shares issued and outstanding as at November 10, 2016

**Trading Symbol:**

SGF

**Website**

[www.shoregold.com](http://www.shoregold.com)

**Email**

[shoregold@shoregold.com](mailto:shoregold@shoregold.com)