



**3rd Quarter Report
2011**



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

For the three and nine months ended September 30, 2011

The following discussion and analysis is prepared by management as of November 10, 2011 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2011 ("financial statements for the period ended September 30, 2011") available on SEDAR at www.sedar.com. All currency amounts are quoted in Canadian Dollars, unless otherwise stated. Shore Gold Inc. ("Shore", "SGF", or "the Company") prepared its financial statements for the period ended September 30, 2011 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") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Prior to 2011, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In this MD&A, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. In accordance with the standard related to the first time adoption of IFRS, the Company's transition date to IFRS was January 1, 2010 and therefore the comparative information for 2010 has been prepared in accordance with the Company's IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared following Canadian GAAP and has not been re-presented on an IFRS basis. The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 13 of the financial statements for the period ended September 30, 2011.

Overview

During the third quarter of 2011, the Company completed the National Instrument ("NI") 43-101 compliant Technical Report documenting the Feasibility Study and updated Mineral Reserve for the Star – Orion South Diamond Project, the results of which were announced on July 14, 2011. The Star – Orion South Diamond Project is situated in the Fort à la Corne kimberlite field in central Saskatchewan. The Star – Orion South Diamond Project includes the 100 percent Shore owned Star Diamond Project, as well as Star West and the Orion South Kimberlite, which fall within the adjacent Fort à la Corne Joint Venture ("FALC-JV"). Shore has a 66 percent interest in the FALC-JV and Newmont Mining Corporation of Canada Limited ("Newmont") has a 34 percent interest.

The results of the Feasibility Study show that the economic model is particularly sensitive to diamond prices and the Project Net Present Value increases rapidly with rising diamond prices, as shown in Table 4 of the Shore July 14, 2011 News Release (See SGF News Release dated July 14, 2011). Since the completion of the Feasibility Study, the Company undertook an updated valuation of the diamond parcels from Star and Orion South which



showed that diamond prices increased significantly above the prices used in the Feasibility Study (See SGF News Release dated July 28, 2011). These increases, along with the potential of future diamond prices to increase at a significant pace over the next several years, will benefit the long-term nature of the Company's proposed project and future prospects from the Fort à la Corne area.

Events relating to the Star - Orion South Diamond Project

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 (See SGF News Release dated July 14, 2011). The Technical Report can be viewed on the Company's website (www.shoregold.com) or on SEDAR (www.sedar.com).

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 ("cph") containing 34.4 million carats at a weighted average price of US\$242 (February 2011 Model Price plus 15 percent) per carat. The Feasibility Study cash flow model is based on developing two open pits, initially on Star and subsequently on Orion South. The cash flow model assumes one processing plant and infrastructure that will serve both open pits and assumes the project has a five-year pre-production development period followed by a 20 year production period. The model assumes on-site construction would start in the third quarter of 2012 with full-scale ore production commencing in early 2017 and ceasing in 2036. The financial evaluation in the Feasibility Study is done on a 100 percent basis and does not separate the cash flows of the joint venture partners. The Feasibility Study was led by Shore with significant contributions from independent mining, processing and design consultants, which include: P&E Mining Consultants Inc. ("P&E"); Metso Minerals Industries Inc. ("Metso") and AECOM Canada Ltd. ("AECOM"). A number of other independent consulting firms and potential vendors also provided their study results to Shore and P&E for use in developing the Feasibility Study. The Feasibility Study aims to present an economic model which is within +/-15 percent accuracy.

Conservative geotechnical estimates result in considerable volumes of potentially economic kimberlite remaining in the ground at the completion of the final phases of the Feasibility Study pits on both Star and Orion South. These potential mineral deposits are estimated to include between 70 million and 100 million tonnes of kimberlite containing between 5.9 and 10.4 million carats. These potential mineral deposits are conceptual in nature, are not part of the resource estimate and it is uncertain if additional exploration work would lead to the kimberlite presently included as potential mineralization being upgraded to any resource category. These potential kimberlite mineral deposits cannot be relied upon when considering any project economics. However, the potential future value of the diamonds contained in these potential mineral deposits makes them targets for future re-evaluation. In addition, NI 43-101 regulations do not permit the reporting of



potential revenue from the mining of Inferred Resources: an estimated total of 80 million tonnes of Inferred Resources containing an estimated 9.1 million carats are excavated by the Feasibility Study pit designs for the Star and Orion South Kimberlites. However, the Feasibility Study economic model only includes the cost of excavation but does not include the processing costs of, or the potential revenue derived from, these Inferred Resources.

The price of rough diamonds continued to increase during the first three quarters of 2011. The Company's diamond consultants, WWW International Diamond Consultants Ltd. ("WWW"), informed the Company that rough diamond prices were significantly higher than the February 2011 pricebook used in the Feasibility Study. This increase was confirmed in July when the Company undertook an updated valuation by WWW of the diamond parcels from Star and Orion South which showed that diamond prices increased between 31 and 46 percent above the February, 2011 prices (See SGF News Release dated July 28, 2011). Model Prices ranging between US\$172 and US\$456 per carat were determined for the diamond populations of the major kimberlite units that make up the Star and Orion South Kimberlites from the July valuation update.

The Environmental Impact Assessment ("EIA") process for the Star – Orion South Diamond Project has been on-going since the Project Proposal was filed in November 2008. The Environmental Impact Statement ("EIS"), which describes the potential environmental and socio-economic effects of the Project, was submitted to provincial and federal regulators in December 2010. Provincial, federal, and other reviewers have provided technical comments on the EIS, and Shore is currently working to address the questions and comments received. Once the regulators are satisfied with the responses, the EIS will be released for public comment. Anticipated provincial and federal EIA process timelines are accounted for in the Feasibility Study.

Financial Highlights

Selected financial information of the Company for the three and nine month periods ended September 30, 2011 and 2010 is summarized as follows:

	Three Months Ended September 30, 2011 \$	Three Months Ended September 30, 2010 \$	Nine Months Ended September 30, 2011 \$	Nine Months Ended September 30, 2010 \$
Revenues (millions)	0.1	-	0.2	0.1
Comprehensive loss (millions)	3.1	6.7	8.7	19.7
Comprehensive loss per share ⁽¹⁾	0.01	0.03	0.04	0.09
Total assets (millions)	233.6	248.8	233.6	248.8
Working capital (millions)	18.4	21.7	18.4	21.7

(1) Basic and diluted.



Results of Operations

For the quarter ended September 30, 2011, the Company recorded a comprehensive loss of \$3.1 million or \$0.01 per share compared to a comprehensive loss of \$6.7 million or \$0.03 per share for the same period in 2010. The losses during these quarters were 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. A decrease of \$0.4 million to the carrying value of its investment in Wescan Goldfields Inc., accounted for as an available-for-sale financial instrument, also contributed to the comprehensive loss for the quarter ended September 30, 2011 as compared to the prior period.

Revenues

The Company invested excess cash reserves in interest-bearing short-term deposits while ensuring funds were available to meet cash outflow requirements associated with the Company's exploration and evaluation projects and for general corporate matters. For the quarter ended September 30, 2011 the Company reported interest and other revenue of \$64 thousand as compared to \$41 thousand for the quarter ended September 30, 2010. This increase is attributed to higher interest rates.

Expenses

Expenses incurred during the quarter ended September 30, 2011 were \$2.8 million compared to \$6.8 million for the same period in 2010. These expenditures include the \$0.2 million of share-based payment expenses recognized during the third quarters of 2011 and 2010. This \$4.0 million decrease in expenditures was primarily due to lower exploration and evaluation expenditures incurred by the Company during the quarter ended September 30, 2011 (\$1.7 million) compared to the quarter ended September 30, 2010 (\$5.7 million) due to the nature of work performed on the Star – Orion South Diamond Project. Expenditures incurred during the quarter ended September 30, 2011 related to the desk-top engineering studies and data gathering and analysis required for the completion of the Technical Report documenting the Feasibility Study as well as the continuation of the EIA process. Expenditures incurred during the quarter ended September 30, 2010 included similar pre-feasibility related work as well as geotechnical and hydrogeological drilling relating to the Star – Orion South Diamond Project to support the Feasibility Study.

Investment in Wescan Goldfields Inc.

At September 30, 2011, Shore held 12,955,567 (2010 – 12,955,567) shares of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company accounts for its investment in Wescan as an available-for-sale financial instrument. The fair value based on the closing trading price of the common shares of Wescan at September 30, 2011 was \$0.6 million. As a result, for the three months ended September 30, 2011 the Company recognized a \$0.4 million decrease in the carrying value of its investment in Wescan through other comprehensive income.



Financing

During the three months ended September 30, 2011 there were 75,000 options exercised resulting in additional cash flow from financing activities of \$35 thousand. No financing activities occurred during the three months ended September 30, 2010.

Year to Date

Results of Operations

For the nine months ended September 30, 2011, the Company recorded a comprehensive loss of \$8.7 million or \$0.04 per share compared to a comprehensive loss of \$19.7 million or \$0.09 per share for the same period in 2010. The losses were primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest revenue earned on cash and cash equivalents and short-term investments. Also contributing to the loss was a \$0.8 million decrease to the carrying value of the Company's investment in Wescan. A \$1.3 million increase to the fair value of investments (2010 – \$0.4 million) reduced the Company's comprehensive loss for September 30, 2011 as compared to the prior period.

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 nine months ended September 30, 2011 the Company reported interest and other revenue of \$0.2 million compared to \$0.1 million for the same period in 2010. This increase is attributed to higher interest rates.

Expenses

Total operating costs for the nine months ended September 30, 2011 were \$9.4 million compared to \$19.3 million for the nine months ended September 30, 2010. These amounts include the \$1.4 million fair value of stock-based compensation that was expensed during the nine months ended September 30, 2011 (2010 – \$1.6 million). The \$9.9 million decrease was primarily due to lower exploration and evaluation expenditures incurred by the Company during the nine months ended September 30, 2011 (\$4.7 million) compared to the nine months ended September 30, 2010 (\$14.7 million). Exploration expenditures incurred on Star – Orion South Diamond Project during the nine months ended September 30, 2011 related to the desk-top engineering studies and data gathering and analysis required for the completion of the Technical Report documenting the Feasibility Study as well as the continuation of the EIA process. Exploration expenditures incurred during the nine months ended September 30, 2010 primarily related to similar pre-feasibility related work as well as geotechnical and hydrogeological drilling relating to the Star – Orion South Diamond Project to support the Feasibility Study.

Change in fair value of long-term investments

During the nine months ended September 30, 2011 the Company sold its investments ("Notes") for \$10.2 million. These Notes were received during January 2009 in exchange



for the Company's Canadian third party asset-backed commercial paper ("ABCP") upon the successful implementation of the ABCP restructuring plan. For the nine months ended September 30, 2011, the Company recorded a \$1.3 million increase in fair value (September 30, 2010 – \$0.4 million increase in fair value) of the Notes from the December 31 carrying value.

Investment in Wescan Goldfields Inc.

For the nine months ended September 30, 2011, the fair value of the Company's available-for-sale investment in Wescan decreased by \$0.8 million and was recognized through other comprehensive income. For the comparative period the Company accounted for its investment in Wescan on an equity basis and as such recognized its proportionate equity interest in losses and dilution gains from the various equity transactions of Wescan. The Company recognized its estimated share of Wescan losses of \$0.9 million for the nine months ended September 30, 2010. The fair value of the Company's investment at September 30, 2011 and 2010 was \$0.6 million.

Financing

During the nine months ended September 30, 2011 there were 105,000 options exercised resulting in additional cash flow from financing activities of \$43 thousand. No financing activities occurred during the nine months ended September 30, 2010.

Summary of Quarterly Results

	2011 ⁽¹⁾				2010 ⁽¹⁾			2009 ⁽¹⁾
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Revenues ⁽²⁾ (\$millions)	0.1	0.1	-	-	-	0.1	-	-
Comprehensive loss ⁽³⁾ (\$millions)	(3.1)	(4.8)	(0.8)	(6.1)	(6.7)	(6.4)	(6.6)	(1.7)
Comprehensive loss per share ⁽⁴⁾ (\$)	(0.01)	(0.02)	(0.01)	(0.02)	(0.03)	(0.03)	(0.03)	(0.01)
Shares outstanding ⁽⁵⁾ (millions)	224.6	224.5	224.5	224.5	224.5	224.5	224.5	224.5

(1) The Company adopted IFRS on January 1, 2011, effective January 1, 2010 and therefore comparative figures for 2010 are presented under IFRS, and figures for 2009 are presented under Canadian GAAP.

(2) Revenues are primarily related to interest earned on the Company's cash and short-term investments. Interest payments received on the Notes since the 2009 restructuring have been included in the fair value calculation of the Notes and not included in revenue.

(3) The comprehensive losses during the first, second and third quarters of 2011 and each of the quarters of 2010 were primarily related to exploration and evaluation expenditures incurred by the Company exceeding interest revenue earned. The loss during the first quarter of 2011 was lower due to changes in fair value of long-term investments and the Company's investment in Wescan as well as lower exploration and evaluation expenditures incurred. The comprehensive loss during the fourth quarter of 2009 was primarily related to write-downs recorded under Canadian GAAP of certain mineral properties held by the Company. Upon adoption of IFRS, the Company changed its accounting policies to expense exploration and evaluation expenditures and accordingly losses since 2009 are greater than losses recorded under Canadian GAAP.

(4) Basic and diluted.

(5) Changes in the number of shares outstanding are the result of option exercises.



Related Party Transactions

Messrs. Kenneth E. MacNeill (President and Chief Executive Officer), Harvey J. Bay (Chief Financial Officer and Chief Operating Officer) and George H. Read (Senior Vice President of Exploration and Development), through their respective consulting companies, hold management and consulting contracts with the Company. During the three months ended September 30, 2011, Messrs. MacNeill, Bay and Read's monthly contracted fees were \$36 thousand (2010 – \$34 thousand), \$25 thousand (2010 – \$24 thousand) and \$20 thousand (2010 – \$19 thousand), respectively.

During the nine months ended September 30, 2011 total compensation paid to these officers (through companies controlled by Messrs. MacNeill, Bay and Read) and to directors of the Company was \$1.8 million (2010 – \$1.7 million). Of these amounts, \$1.1 million (2010 – \$1.0 million) were included in administration expense and \$0.7 million (2010 – \$0.7 million) were included in consulting and professional fees expense. Included in these amounts are share-based payment transactions as well as adjustments to estimations made by the Company at December 31, 2010 and 2009.

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 was determined using the Black-Scholes model.

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 September 30, 2011 the Company had \$17.7 million in cash and cash equivalents and short-term investments. The Company has also supplied \$2.6 million (2010 – \$2.3 million) of irrevocable standby letters of credit issued by a Canadian chartered bank, of which the majority are related to environmental rehabilitation provisions. The security related to the letters of credit is included in restricted cash and excluded from the Company's working capital.

The future development or 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. The Company is currently pursuing options to finance its portion of the project. 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.

Capital Resources and Outstanding Share Data

As at September 30, 2011 the Company had working capital of \$18.4 million as compared to \$21.7 million at September 30, 2010. The Company expects its current capital resources will be sufficient to carry out its present plans.

At September 30, 2011 the Company had 224,559,242 shares issued and outstanding compared to 224,454,242 at September 30, 2010. As at November 10, 2011, the Company's issued and outstanding shares were 224,709,242 with an additional 11,755,000 options outstanding at a weighted average exercise price of \$1.71. Approximately 2.8 million of these options are currently "in the money" and would add an additional \$0.8 million to the Company's capital if exercised.

Financial Instruments

As at September 30, 2011, 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

The Company's credit risk is primarily attributable to its liquid financial assets. Any such credit risk would arise from the nonperformance by counterparties of contractual financial obligations. The Company limits its exposure to credit risk on liquid assets by maintaining its cash, cash equivalents and letters of credit with high credit quality financial institutions. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash, cash equivalents and short-term investments. Cash has been invested in short-term investments to maintain liquidity and achieve an acceptable return. There is minimal risk that the Company would recognize any loss as a result of the decrease in the fair value of the Company's cash, cash equivalents and short-term investments as the majority of these investments are government of Canada term deposits.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. At September 30, 2011 the



Company had working capital of \$18.4 million. Management believes this working capital will be sufficient to meet its known financial obligations as they fall due.

Critical Accounting Estimates

The financial statements for the period ended September 30, 2011 have been prepared in accordance with IAS 34 using accounting policies consistent with IFRS issued by the IASB and interpretations of IFRIC. The Company's accounting policies are described in Note 3 to the financial statements for the period ended September 30, 2011. 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, 2011, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements. In particular, the significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are: reserve and resource estimation, asset and investment valuations, plant and equipment useful lives, environmental rehabilitation provisions, and other accrued liabilities.

A critical accounting estimate in determining the Company's financial results relates to the recoverability of the carried amounts of exploration and evaluation assets. Management assesses carrying values of these assets each time it issues financial statements. Where impairment indicators exist, estimated future cash flows are calculated using estimated future prices, reserves and resources, weighted probable outcomes and operating, capital and reclamation costs on a discounted basis. A material change in any of these assumptions could have a significant impact to management's carrying value assessment of these assets. Sensitivity analyses show that the estimated future cash flows are most sensitive to CAD\$/US\$ exchange rate fluctuations, followed by the price of diamonds or recovered grade, capital costs and operating costs, respectively. These sensitivities are discussed further in the NI 43-101 compliant Technical Report documenting the Feasibility Study and updated Mineral Reserve for the Star – Orion South Diamond Project.



Accounting Changes

Adoption of International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will converge with IFRS effective in calendar year 2011. As a result, the Company prepared its financial statements for the period ended September 30, 2011 in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and with IAS 34 *Interim Financial Reporting*, as issued by the IASB. Prior to 2011, the Company prepared its financial statements in accordance with Canadian GAAP. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010.

The consolidated financial statements for the year ending December 31, 2011 must be prepared using IFRS standards that are in effect on December 31, 2011, and therefore the Company has prepared the financial statements for the period ended September 30, 2011 using the standards that are expected to be effective at the end of 2011. The Company's significant accounting policies under IFRS are provided in Note 3 to the financial statements for the period ended September 30, 2011. The Company's IFRS accounting policies will, however, only be finalized when the Company's first annual IFRS financial statements are prepared for the year ending December 31, 2011. Therefore, certain accounting policies that the Company expects to follow under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified. As a result, the Company's financial statements for the period ended September 30, 2011 may be subject to change.

The Company has provided a detailed explanation of the impacts of this transition in Note 13 of the Company's financial statements for the period ended September 30, 2011, including the Company's elections under IFRS 1. In addition, Note 13 presents reconciliations between the Company's 2010 Canadian GAAP results and the 2010 IFRS results. The reconciliations also include the changes to equity as at January 1, 2010, September 30, 2010 and December 31, 2010.

Transitional Financial Impact

As a result of the policy choices the Company selected and the changes that were required under IFRS, a reduction in the Company's equity of approximately \$4.6 million as at January 1, 2010 was recorded. Comprehensive losses for the three and nine months ended September 30, 2010 increased by \$5.8 million and \$17.8 million and the comprehensive loss for the year ended December 31, 2010 increased by \$22.4 million when compared to Canadian GAAP.

The major differences that resulted in these changes to equity and income were the result of the Company changing its policy to retroactively expense exploration and evaluation expenditures until the economic viability of an exploration and evaluation property can be



assessed as well as the accounting for flow-through shares. Canadian GAAP and IFRS both allow a company to establish an accounting policy that either capitalizes or expenses exploration and evaluation expenditures incurred. The change in policy to retroactively expense exploration and evaluation expenditures was made to align the Company's accounting with other companies at a similar stage of development and not as a requirement under IFRS. Other minor differences related to accounting for share-based payments and the environmental rehabilitation provision (asset retirement obligation under Canadian GAAP). The full effects of these changes are quantified in Note 13 of the financial statements for the period ended September 30, 2011.

IFRS 1 Exemptions and Exceptions

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at January 1, 2010 were consistent with those made under Canadian GAAP. A summary of the exemptions elected by the Company to simplify adopting IFRS is as follows:

1. Share-based payments

The Company has elected to not apply IFRS 2 *Share-based payments* retrospectively to share-based payments that have fully vested at the transition date and therefore no transitional adjustment is required. The Company had a minimal number of equity-settled share-based payments that had not vested and as such at transition an insignificant adjustment was recognized at the date of transition.

2. Provision for environmental rehabilitation

The application of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* would require the Company to recalculate, retrospectively, the effect of each change in its reclamation provision prior to the date of transition, along with the impact on the related assets and depreciation. IFRS 1 provides the option to instead measure the liability as at the date of transition to IFRS. The Company has elected to apply this exemption and calculated the impact on the statement of financial position as of January 1, 2010.

Future Accounting Changes

At the date of authorization of the condensed interim consolidated financial statements, the IASB and IFRIC have issued certain new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods. The changes to the Standards include IFRS 7 *Financial Instruments: Disclosures*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, IAS 1 *Presentation of Financial Statements*, IAS 12 *Income Taxes*, IAS 19 *Employee Benefits*, IAS 27 *Separate Financial Statements*



and IAS 28 *Investments in Associates and Joint Ventures*. These standards will not be effective for 2011 and the Company has not completely evaluated the effects of these pronouncements.

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 the interim 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, 2011.

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 the interim 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 IAS 34, *Interim Financial Reporting* using accounting policies consistent 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, 2011 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.



Outlook

The Feasibility Study is anticipated to establish the basis of a development plan for the Star – Orion South Diamond Project. On the expectation the development plan will be approved, the Company is continuing with the environmental permitting process, performing certain confirmatory work and pursuing options to finance its portion of the project.

The increase to rough diamond prices since the February 2011 pricebook that was used in the Feasibility Study is being driven by tightening supply-demand fundamentals, which may become more pronounced in the future as old mines decline in production and close and limited new projects are developed to take their place. The potential of future diamond prices to increase at a significant pace over the next several years will benefit the long-term nature of the Company's proposed project and future prospects from the Fort à la Corne area.

As of November 10, 2011, the Company had approximately \$16.9 million in cash and cash equivalents and short-term investments (excluding the \$2.6 million in restricted cash). A portion of the Company's cash and cash equivalents and short-term investments will be used to advance the project. This includes the continuation of the EIA process, the funding of certain site power design and engineering costs, carrying out on-going administration and environmental rehabilitation of exploration and evaluation properties as well as for general corporate and project financing 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, the permits that will be required for the construction and operation of the proposed Star – Orion South Diamond Project will be applied for following provincial and/or federal Ministerial approval upon conclusion of the EIA. While the majority of permits will be required from provincial authorities, permits required from the federal government include authorization from the Department of Fisheries and Oceans to allow anticipated changes to fish and fish habitat, permits from Natural Resources Canada for the explosives storage site and authorizations from Environment Canada and Transport Canada. The Company utilizes qualified individuals, service providers and external consultants and maintains constant communications with governmental authorities to ensure that the Company is or, in the case of the EIA, will be in compliance with all applicable rules and regulations.

All of Shore's property interests are currently in the feasibility or exploration stage. The exploration, development and production of precious metals and gems are capital-



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

As at November 10, 2011, the Company has determined that the Star – Orion South Diamond Project has established reserves. Current forecasts are based on engineering data, projected future rates of production and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserve estimates may be revised based on the results of future drilling, testing or production levels and changes in mine design. In addition, factors including but not limited to market fluctuations in the price of diamonds, changes in foreign exchange rates or estimated recoverable grade from the Star – Orion South Diamond Project may render the mining of ore reserves uneconomical.

Technical Information

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

Caution regarding Forward-looking Statements

This MD&A contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of Canadian Securities legislation and the United States Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements, and, in particular, statements regarding Shore's future operations, future exploration and development activities or other development plans contain forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements related to the Feasibility Study; statements and assumptions made regarding buoyancy in world diamond markets and changes in diamond supply and demand; statements related to the approval of the development of the Star - Orion South Diamond Project; statements relating to future production from and mining of the Star - Orion South Diamond Project and associated timelines; the use of funds to fund the continuation of the EIA process, future site power design and engineering costs, performing certain confirmatory work and project financing.

These forward-looking statements are based on Shore's current beliefs as well as assumptions made by and information currently available to it and involve inherent risks and uncertainties, both general and specific. Risks exist that forward-looking statements will not be achieved due to a number of factors including, but not limited to, developments in world diamond markets, changes in diamond valuations, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration, development or mining plans due to exploration results and changing budget priorities of Shore or its joint venture partners, the effects of competition in the markets in which Shore operates, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments



and legal proceedings, operational and infrastructure risks and the additional risks described in Shore's most recently filed Annual Information Form, annual and interim MD&A, news releases and technical reports. Shore's anticipation of and success in managing the foregoing risks could cause actual results to differ materially from what is anticipated in such forward-looking statements.

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

Additional Information

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

SHORE GOLD INC.
Unaudited Condensed Interim Consolidated Financial Statements

**For the Three and Nine Months Ended
September 30, 2011**

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, 2011. The Corporation's external auditors have not reviewed these condensed interim consolidated financial statements.

Shore Gold Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(Cdn\$ in thousands)	September 30, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,465	\$ 2,780	\$ 2,643
Short-term investments	16,244	16,159	37,637
Receivables	140	247	176
Prepays (note 5)	1,151	85	85
	<u>19,000</u>	<u>19,271</u>	<u>40,541</u>
Restricted cash (note 6)	2,607	2,307	2,307
Investments (note 7)	-	8,922	8,330
Investment in Wescan Goldfields Inc. (note 8)	648	1,425	2,128
Property and equipment	2,945	3,613	4,783
Exploration and evaluation assets	208,437	208,437	208,437
	<u>\$ 233,637</u>	<u>\$ 243,975</u>	<u>\$ 266,526</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 581	\$ 3,618	\$ 2,063
Current portion of environmental rehabilitation provision	12	54	66
	<u>593</u>	<u>3,672</u>	<u>2,129</u>
Environmental rehabilitation provision	1,376	1,367	1,331
Shareholders' equity	<u>231,668</u>	<u>238,936</u>	<u>263,066</u>
	<u>\$ 233,637</u>	<u>\$ 243,975</u>	<u>\$ 266,526</u>

See accompanying notes to consolidated financial statements

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

(Cdn\$ in thousands, except for share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue				
Interest and other income	\$ 64	\$ 41	\$ 166	\$ 113
Expenses				
Administration	808	852	3,547	3,459
Consulting and professional fees	198	178	822	888
Corporate development	80	80	315	283
Exploration and evaluation (note 9)	1,666	5,711	4,731	14,710
	<u>2,752</u>	<u>6,821</u>	<u>9,415</u>	<u>19,340</u>
Loss before the under noted items	(2,688)	(6,780)	(9,249)	(19,227)
Change in fair value of investments (note 7)	-	75	1,293	401
Investment in Wescan Goldfields Inc.	-	(17)	-	(870)
Net loss before income taxes	(2,688)	(6,722)	(7,956)	(19,696)
Future income tax	-	-	-	-
Net loss	(2,688)	(6,722)	(7,956)	(19,696)
Other comprehensive loss in the period				
Available-for-sale financial instruments (note 8)	(388)	-	(777)	-
Total other comprehensive loss for the period	(388)	-	(777)	-
Total comprehensive loss for the period	<u>\$ (3,076)</u>	<u>\$ (6,722)</u>	<u>\$ (8,733)</u>	<u>\$ (19,696)</u>
Net loss per share				
Basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.04)	\$ (0.09)
Comprehensive loss per share				
Basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.04)	\$ (0.09)
Weighted average number of shares outstanding (000's)	224,532	224,454	224,484	224,454

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,	
	2011	2010
Cash provided by (used in):		
Operations:		
Comprehensive loss	\$ (8,733)	\$ (19,696)
Non-cash items:		
Amortization	717	1,013
Investment in Wescan Goldfields Inc.	-	870
Change in fair value of available-for-sale investments	777	-
Change in fair value of investments	(1,293)	(401)
Fair value of share-based payments expensed	1,422	1,578
Unwinding of interest for rehabilitation provision	22	25
Change in provision for environmental rehabilitation	(55)	(20)
Net change in non-cash operating working capital items:		
Receivables	107	(134)
Prepays	(1,066)	(64)
Accounts payable and accrued liabilities	(3,037)	347
	(11,139)	(16,482)
Investing:		
Property and equipment	(49)	(135)
Short-term investments	(85)	17,508
Restricted cash	(300)	-
Investments	10,215	10
	9,781	17,383
Financing:		
Issue of common shares (net of issue costs)	43	-
	43	-
Increase (decrease) in cash and cash equivalents	(1,315)	901
Cash and cash equivalents, beginning of period	2,780	2,643
Cash and cash equivalents, end of period	\$ 1,465	\$ 3,544
Cash and cash equivalents consists of:		
Cash	\$ 429	\$ 920
Treasury bills	1,036	2,624
	\$ 1,465	\$ 3,544

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,
	2011	2010	2010
Share capital			
Balance, beginning of period	\$ 786,361	\$ 786,361	\$ 786,361
Shares issued	72	-	-
Balance, end of period	<u>\$ 786,433</u>	<u>\$ 786,361</u>	<u>\$ 786,361</u>
Contributed surplus			
Balance, beginning of period	\$ 28,229	\$ 26,571	\$ 26,571
Share-based payments (note 10)	1,422	1,578	1,658
Options exercised	(29)	-	-
Balance, end of period	<u>\$ 29,622</u>	<u>\$ 28,149</u>	<u>\$ 28,229</u>
Deficit			
Balance, beginning of period	(575,821)	(549,866)	(549,866)
Loss for the period	(7,956)	(19,696)	(25,955)
Balance, end of period	<u>\$ (583,777)</u>	<u>\$ (569,562)</u>	<u>\$ (575,821)</u>
Accumulated other comprehensive loss			
Balance, beginning of period	\$ 167	\$ -	\$ -
Other comprehensive loss for the period	(777)	-	167
Balance, end of period	<u>\$ (610)</u>	<u>\$ -</u>	<u>\$ 167</u>
Total equity	<u>\$ 231,668</u>	<u>\$ 244,948</u>	<u>\$ 238,936</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, 2011)
(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, 2011 were authorized for issue by the Company’s Audit Committee on November 10, 2011. 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* using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Prior to 2011, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS. The condensed interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010. The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 13. The accounting policies set out below have been applied consistently to all periods presented as if these policies had always been in effect; except for first-time exemptions applied which are described in Note 13. The consolidated financial statements for the year ending December 31, 2011 must be prepared using IFRS standards that are in effect on December 31, 2011, and therefore the Company has prepared the financial statements for the three and nine months ended September 30, 2011 using the standards that are expected to be effective at the end of 2011. Any subsequent changes to IFRS that are given effect in the annual consolidated financial statements ending December 31, 2011 could result in restatement of these condensed interim consolidated financial statements.

3. Summary of significant accounting policies

The Company’s principal accounting policies are outlined below:

Basis of consolidation

i. Subsidiaries

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

ii. Interests in jointly controlled assets

A jointly controlled asset involves joint control and offers joint ownership by Shore and other venturers of assets contributed to or acquired for the purpose of a joint venture, without the formation of a corporation, partnership or other entity.

Where Shore’s activities are conducted through jointly controlled assets those operations are accounted for using the proportionate consolidation method. 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.

When Shore, acting as an operator, receives reimbursement of direct and indirect costs recharged to the joint venturers such recharges represent reimbursement of costs that the operator incurred as an agent for the joint venturers and therefore have no effect on the statement of income and comprehensive income.

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 at 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.

Financial assets designated as fair value through profit or loss are comprised of the Company's long-term investments (the "Notes").

Available-for-sale

Investments in 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 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 plus 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 plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized costs using the effective interest method.

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

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 a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of income and comprehensive income.

If an impairment loss in respect of an available-for-sale financial asset has been recorded in income, it cannot be reversed in future periods.

Cash and cash equivalents

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

Short-term investments

Short-term investments include highly liquid interest-bearing investments with maturities greater than three months but within twelve months.

Property, plant and equipment

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 assets and expenses

Once the legal right to explore has been established, exploration and evaluation expenditures are charged to the statement of income and comprehensive income as incurred, unless the Company concludes that a future economic benefit is more likely than not to be realized.

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 statement 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 were 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 statement of income and comprehensive income. No amortization 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 and tested for impairment at each reporting date. These assets are subsequently stated at cost less accumulated impairment, if any. These costs are intangible.

iii. 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 recognized in the statement of income and comprehensive income 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 statement of income and comprehensive income in the year the item is derecognized.

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.

Provisions

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

i. 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 statement of income and comprehensive income on a prospective basis over the remaining life of the operation.

Income tax

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

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

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

Deferred tax liabilities and assets are not recognized for temporary difference 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.

Flow-through shares

The Company finances 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 statement of income and comprehensive income.

Use of estimates and judgment

The preparation of the Company’s condensed interim 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.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management applying the Company’s accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements. In particular, the

significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are: reserve and resource estimation, asset and investment valuations, plant and equipment useful lives, environmental rehabilitation provisions, and other accrued liabilities.

4. IFRS standards issued but not yet effective

At the date of authorization of these condensed interim consolidated financial statements, the IASB and IFRIC have issued certain new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods. The changes to the Standards include IFRS 7 *Financial Instruments: Disclosures*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, IAS 1 *Presentation of Financial Statements*, IAS 12 *Income Taxes*, IAS 19 *Employee Benefits*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. These standards are not effective for 2011 and the Company has not completely evaluated the effects of these pronouncements.

5. Prepaids

During the first quarter of 2011, the Company paid the Saskatchewan Power Corporation \$1.2 million for certain preliminary work to be performed over the next year regarding the potential construction of a power line to the Company's Star - Orion South Diamond Project. As at September 30, 2011, \$997 thousand remained as a prepaid related to this work.

6. Restricted Cash

The Company has pledged \$2,607 thousand (December 31, 2010 and January 1, 2010 – \$2,307 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. Investments

The Company previously held investments ("Notes") with a carrying value of \$10.2 million (December 31, 2010 – \$8.9 million and January 1, 2010 – \$8.3 million) and a total par value of \$14.3 million. These Notes were received during January 2009 in exchange for the Company's Canadian third party asset-backed commercial paper ("ABCP") upon the successful implementation of the ABCP restructuring plan. During the nine months ended September 30, 2011 the Company sold all Notes for proceeds of \$10.2 million.

For the nine months ended September 30, 2011, the Company recorded an increase in fair value of \$1,293 thousand (\$75 and \$401 thousand increase in fair value for the three and nine months ended September 30, 2010, respectively).

For the nine months ended September 30, 2011, the Company received \$26 thousand in quarterly interest payments from the restructured Notes. For the nine months ended September 30, 2010, the Company received \$6 thousand in quarterly interest payments and \$4 thousand in principal repayments from the restructured Notes.

8. Investment in Wescan Goldfields Inc.

At September 30, 2011, Shore held 12,955,567 (December 31, 2010 and January 1, 2010 – 12,955,567) shares of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company accounts for its 11.5% (December 31, 2010 – 12.7% and January 1, 2010 – 16.2%) investment in Wescan as an available-for-sale financial asset as described in note 3. For the three and nine months ended September 30, 2011, the Company recognized a decrease of \$0.4 million and \$0.8 million, respectively in the carrying value of its investment in Wescan in other comprehensive income. The carrying value of the Company's investment in Wescan at December 31, 2010 was \$1.4 million. Prior to the fourth quarter of 2010, the Company accounted for its investment in Wescan on an equity basis and as such recognized its proportionate equity interest of losses and dilution gains from various equity transactions of Wescan. The fair value of equity shares at January 1, 2010 was \$1.8 million compared to a carrying value of \$2.1 million. The difference between the carrying value and fair value was assessed by the Company as a temporary impairment.

9. Exploration and evaluation expense

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

	September 30, 2011	September 30, 2010
Fort à la Corne properties		
Acquisition and staking	\$ -	\$ 1,000
Amortization of tangible assets	594	809
Exploration and feasibility	3,831	12,017
Provision for rehabilitation	-	14
Share-based payments	300	422
Buffalo Hills property		
Exploration	6	448
Total	\$ 4,731	\$ 14,710

10. Share-based payments

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

The expense related to the Company's share-based payment is recognized in the comprehensive statement of income for the nine months ended September 30, as presented as follows:

Expense Category included	September 30, 2011	September 30, 2010
Administration	\$ 805	\$ 806
Consulting and professional	281	309
Corporate development	36	41
Exploration and evaluation	300	422
Total	\$ 1,422	\$ 1,578

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

	2011		2010	
	Options	Average Price	Options	Average Price
Outstanding – January 1	9,820	\$ 2.05	9,641	\$ 3.16
Granted	2,700	0.80	2,650	0.94
Exercised	(105)	0.41	-	-
Expired	(135)	5.36	(1,326)	3.39
Forfeited	(50)	0.82	-	-
Outstanding – September 30	12,230	\$ 1.75	10,965	\$ 2.60
Exercisable – September 30	11,843	\$ 1.79	10,528	\$ 2.66

The options outstanding at September 30, 2011 have an exercise price in the range of \$0.27 to \$6.18 (2010 – \$0.27 to \$7.90) and a weighted average contractual life of 2.5 years (2010 – 2.8 years). The options expire between the dates of October 2011 to June 2016.

The weighted average share price at the date of exercise for options exercised in the three and nine months ended September 30, 2011 was \$0.47 and \$0.41 (2010 – nil).

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, 2011	September 30, 2010
Share price at grant date	\$ 0.69 – \$ 0.82	\$ 0.77 – \$ 1.09
Exercise price	\$ 0.69 – \$ 0.82	\$ 0.77 – \$ 1.09
Expected volatility	82.3 – 96.7%	84.5 – 91.4%
Option life	5 years	5 years
Expected dividends	0 %	0 %
Expected forfeiture rate	0 %	0 %
Risk-free interest rate	2.31 – 2.80%	2.52 – 3.04%
Fair value at grant date	\$ 0.47 – \$ 0.57	\$ 0.52 – \$ 0.75

11. Related party transactions

Related party transactions with key management personnel

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

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

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

	September 30, 2011	September 30, 2010
Short-term benefits to key management and directors	\$ 277	\$ 254
Consulting and management fees to related companies	719	708
Share-based payment transactions	773	775
Total compensation paid to key management personnel and directors	\$ 1,769	\$ 1,737

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

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

	September 30, 2011	September 30, 2010
Administration	\$ 1,088	\$ 1,017
Consulting and professional fees	681	720
Total compensation paid to key management personnel and directors	\$ 1,769	\$ 1,737

12. Financial instruments

As at September 30, 2011, the fair value of all of the Company's financial instruments approximates their carrying value due to the short-term nature of these instruments or due to the instrument being designated as fair value through profit or loss or available-for-sale.

13. First time adoption of IFRS

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. IFRS employs a conceptual framework that is similar to Canadian GAAP; however, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company. Under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied or prohibited. IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at January 1, 2010 were consistent with those made under Canadian GAAP. The exemptions that have been chosen by the Company on the transition to IFRS are as follows:

First time adoption exemptions

1. *Share-based payments*

The Company has elected to not apply IFRS 2 *Share-based payments* retrospectively to share-based payments that have fully vested at the transition date and therefore no transitional adjustment is required. The Company had a minimal number of equity-settled share-based payments that had not vested and as such at transition an insignificant adjustment was recognized at the date of transition.

2. *Provision for environmental rehabilitation*

The application of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* would require the Company to recalculate, retrospectively, the effect of each change in its reclamation provision prior to the date of transition, along with the impact on the related assets and depreciation. IFRS 1 provides the option to instead measure the liability as at the date of transition to IFRS. The Company has elected to apply this exemption and calculated the impact on the statement of financial position as of January 1, 2010.

Presented below are reconciliations prepared by the Company to reconcile to IFRS equity, and net and comprehensive income (loss) of the Company from those reported under Canadian GAAP. Separate cash flow reconciliations were not prepared as those statements did not require material adjustments to reconcile to IFRS.

Reconciliation of equity and net and comprehensive income (loss)

A reconciliation between Canadian GAAP and IFRS equity as at January 1, 2010 (date of transition to IFRS), September 30, 2010, and December 31, 2010 is provided below:

	Note	January 1, 2010	September 30, 2010	December 31, 2010
Equity under Canadian GAAP		\$ 267,699	\$ 263,832	\$ 262,545
Exploration and evaluation	(i)	(4,753)	(19,036)	(23,734)
Provision for environmental rehabilitation	(ii)	120	152	125
Total IFRS adjustments to equity		(4,633)	(18,884)	(23,609)
Equity under IFRS		\$ 263,066	\$ 244,948	\$ 238,936

The following is a reconciliation of the Company's Canadian GAAP statement of income and comprehensive income to IFRS for the three and nine months ended September 30, 2010 and the twelve month period ended December 31, 2010:

	Note	Three months ended September 30, 2010	Nine months ended September 30, 2010	Year ended December 31, 2010
Net and comprehensive loss for the period under Canadian GAAP		\$ (965)	\$ (1,927)	\$ (3,376)
Basic and diluted income (loss) per share under Canadian GAAP		(0.00)	(0.01)	(0.02)
Adjustments for differing accounting treatments under IFRS:				
Exploration and evaluation	(i)	(5,686)	(14,283)	(18,981)
Provision for environmental rehabilitation	(ii)	12	32	5
Share-based payments	(iii)	(83)	(143)	(61)
Flow-through shares	(iv)	-	(3,375)	(3,375)
Available-for-sale financial instruments	(v)	-	-	(167)
Net loss for the period under IFRS		(6,722)	(19,696)	(25,955)
Available-for-sale financial instruments	(v)	-	-	167
Comprehensive loss for the period under IFRS		\$ (6,722)	\$ (19,696)	\$ (25,788)
Per Share Amounts:				
Basic and diluted loss per share under IFRS		(0.03)	(0.09)	(0.12)
Basic and diluted comprehensive loss per share under IFRS		(0.03)	(0.09)	(0.11)

Notes:

(i) Exploration costs (exploration and evaluation assets)

Costs associated with geological and geophysical expenditures for exploration and evaluation of mineral properties were capitalized as mineral properties in accordance with previous GAAP. Under the Company's IFRS policies, certain exploration and evaluation expenditures are expensed until the economic recoverability of mineral properties is determined. Accordingly, exploration expenditures that were capitalized under Canadian GAAP have been expensed for IFRS presentation purposes. Share-based compensation that had been capitalized as part of mineral properties under Canadian GAAP resulted in a future income tax liability which ultimately reduced the valuation allowance on the Company's future income tax assets. Expensing the share-based compensation that was part of mineral properties under IFRS causes the reversal of the future income tax impact on that share-based compensation that was previously capitalized.

(ii) Provision for environmental rehabilitation (Asset retirement obligations)

Under Canadian GAAP, asset retirement obligations were not adjusted for changes in the discount rate alone. Under IFRS, the provision for environmental rehabilitation must be adjusted at each reporting date for changes in the discount rate. As a result, the provision for environmental rehabilitation has been re-measured using the discount rate in effect at January 1, 2010 and the offsetting adjustment was through equity as all exploration and evaluation expenditures, including

those relating to environmental rehabilitation, were expensed in accordance with the Company's policy.

(iii) Share-based payments

Under Canadian GAAP the fair value of stock-based awards with graded vesting were calculated as a single grant and the resulting fair value was recognized on a straight-line basis over the vesting periods. Forfeitures of awards were recognized as they occurred.

Under IFRS each tranche of an award with different vesting dates was considered a separate grant for the calculation of fair value, and the resulting fair value was amortized over the vesting period of the respective tranches. Forfeiture estimates were recognized in the period they were estimated, and revised for actual forfeitures in subsequent periods.

(iv) Flow-through shares

Under Canadian GAAP, share capital was reduced for share issue costs by the amount recognized for future tax liabilities related to the renunciation of flow-through share expenditures at the time of renunciation. Similarly to IFRS, to the extent the Company has unrecognized tax benefits from loss carryforwards and tax pools in excess of book values the resulting deferred tax liability is offset by the recognition of previously unrecorded tax assets. Under IFRS, the sale of flow-through shares results in a liability being recognized for the excess of the purchase price paid by the investors over the fair value of common shares without the flow-through feature (the "premium") and the fair value of the shares is recorded as equity. When the tax deductibility of the expenditures is intended to be renounced to investors, the liability is reversed and a future income tax liability is recorded for the amount of the benefits renounced to third parties and an income tax expense is recognized. To the extent that the Company has unrecognized tax assets that are not expected to expire, the premiums are recognized in earnings at the time of the renunciation of the tax pools. The net result of the difference under IFRS is to reduce share capital by the premium as opposed to the full amount of the future tax liability and recognize the premium in earnings in the period the Company intended to renounce the expenditures to the investors as opposed to the full amount of the future tax liability when the expenditure was renounced.

(v) Available-for-sale financial instruments

At December 31, 2010, the Company's investment in Wescan Goldfields Inc. was classified as held-for-trading (fair-value through profit or loss under IFRS) under Canadian GAAP. The Company is not allowed to designate an investment of this nature as fair-value through profit or loss under IFRS unless it meets certain criteria. As a result, the Company has designated the investment in Wescan Goldfields Inc. as available-for-sale under IFRS. Prior to September 30, 2010, the Company accounted for this investment as an equity investment and accordingly there is no difference between IFRS and Canadian GAAP prior to the fourth quarter of 2010.

Financial statement presentation changes

The transition to IFRS has resulted in financial statement presentation changes in the Company's financial statements which are summarized below:

- **Property and equipment**

Under Canadian GAAP, property and equipment was separately identified as assets not directly related to exploration and evaluation while those tangible assets specifically related to exploration and evaluation were grouped in mineral properties. Upon transition to IFRS, the Company reclassified all tangible assets in the mineral property balance to property and equipment. Due to the change in the Company's accounting policy to expense all exploration and evaluation expenditures as described above, amortization of property and equipment that specifically relates to exploration and evaluation equipment will be expensed under IFRS under the exploration expense category instead of capitalized under Canadian GAAP.

- **Expense category by function**

Under IFRS, the Company is required to present its statement of income by function or nature. The Company has presented its expenses by function and accordingly amortization and accretion is no longer presented as a separate line item, but is included in administration category. Amortization related to exploration and evaluation equipment that was previously capitalized is now expensed as part of the exploration and evaluation category.

- **Statement of cash flows**

Due to the change in the Company's accounting policy to expense all exploration and evaluation expenditures as described above, those activities under IFRS are included in operating activity on the statement of cash flows instead of investing activity. All non-cash items included in the exploration and evaluation category, such as amortization and stock-based compensation, must be removed from net and comprehensive income on the statement of cash flows to reconcile the operating activity.

There is no impact on cash and cash equivalents as a result of these presentation changes.

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
Robert A. McCallum
A. Neil McMillan
Brian M. Menell
James R. Rothwell
William E. Stanley

Officers

Kenneth E. MacNeill – President, C.E.O.
Harvey J. Bay – C.O.O., C.F.O.
George H. Read – Senior Vice President Exploration and Development
Eric H. Cline – Vice President Corporate Affairs
Duane D. DeRosier – Vice President Administration, Corporate Secretary

Solicitors

Bennett Jones LLP
Calgary, Alberta

Auditors

KPMG LLP
Saskatoon, Saskatchewan

Bank

Canadian Western Bank
Saskatoon, Saskatchewan

Exchange Listing

TSX

224,709,242 common shares issued and outstanding as at November 10, 2011

Trading Symbol:

SGF

Website

www.shoregold.com

Email

shoregold@shoregold.com