Shore Gold Inc.

Management's Discussion & Analysis

December 31, 2011

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")
For the year ended December 31, 2011

The following discussion and analysis is prepared by management as of March 26, 2012 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 ("financial statements for the year ended December 31, 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 year ended December 31, 2011 in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

This is the first time that the Company has prepared its annual financial statements in accordance with IFRS. 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 pre-changeover 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 23 of the financial statements for the year ended December 31, 2011.

Overview

During 2011, the Company completed a National Instrument ("NI") 43-101 compliant Technical Report ("Feasibility Technical Report") documenting the Feasibility Study and updated Mineral Reserve for the Star – Orion South Diamond Project ("Feasibility Study"), 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 67 percent interest in the FALC-JV and Newmont Canada FN Holdings ULC ("Newmont") has a 33 percent interest.

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 Feasibility

Technical Report can be viewed on the Company's website (www.shoregold.com) or on SEDAR (www.sedar.com).

The cash flow model of the Feasibility Study is based on Probable Mineral Reserves of 279 million diluted tonnes of kimberlite at a weighted average grade of 12.3 carats per hundred tonnes ("cpht") containing 34.4 million carats at a weighted average price of US$242 (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 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. and AECOM Canada Ltd. 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.

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. In addition, 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.

Diamond prices used in this Feasibility Study were based on valuations by the Company's diamond consultants, WWW International Diamond Consultants Ltd. using their February 2011 price book. The details of the February 2011 valuation of the Star and Orion South diamond parcels were published in Shore's News Release dated March 2, 2011. The results of the Feasibility Study show that the economic model is particularly sensitive to diamond prices and the Project's NPV increases rapidly with rising diamond prices, as shown in Table 4 of the Shore July 14, 2011 News Release (See SGF News Release dated July 14, 2011). 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), with increases ranging from 31 and 46 percent above February, 2011 prices. 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. Though rough diamond prices decreased from mid August 2011until year end, prices are presently above the Base Case used in the Feasibility Study and are expected to continue to increase.

Since the completion of the Feasibility Study, Shore has been actively pursuing various options for the financing of Project development. Recently, one of these options reached an advanced stage of negotiation but was not concluded due to current world economic uncertainties. In light of this development, the management and directors of Shore deemed it necessary to make changes to staff and leadership to meet current corporate priorities. These measures will enable the completion of Project environmental approval while continuing the pursuit of development finance. These measures include reductions in Company Directors, Officers and personnel as well as postponement of all arrangements with SaskPower for the design and construction of electrical power supply to the Project (See SGF News Release dated February 29, 2012). All of these measures will enable the Company to conserve its present cash position and provide an extended operating window in which Shore can complete the environmental approval and Project permitting and continue to seek opportunities for development capital through participation in the Project by a third party or a syndicate of investors.

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.

Selected Annual Information

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

	2011 (1) $	2010 (1) $	2009 (1) $
Revenues (millions)	**0.2**	0.2	0.1
Net loss (millions) (2)	**219.9**	26.0	9.1
Net loss per share (3)	**0.98**	0.12	0.04
Total assets (millions)	**22.5**	244.0	271.3
Total non-current liabilities (millions) (4)	**1.4**	1.4	1.4
Working capital (millions)	**15.9**	15.6	38.4

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

Results of Operations

For the year ended December 31, 2011, the Company recorded a net loss of $219.9 million or $0.98 per share compared to a net loss of $26.0 million or $0.12 per share for the same period in 2010. The loss during 2011 was primarily due to the impairment of certain previously capitalized exploration and evaluation assets ($208.4 million) as well as 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 $842 thousand decrease to the carrying value of the Company's investment in Wescan Goldfields Inc. (2010 – $703 thousand). The sale of certain investments for $1.3 million over the carrying value (compared to a $0.6 million increase in fair value recognized in 2010) reduced the Company's net loss for 2011. The losses in 2010 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.

Revenues

The Company invests 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 year ended December 31, 2011 the Company reported interest and other revenue of $221 thousand as compared to $155 thousand for the year ended December 31, 2010. This increase is attributed to higher interest rates.

Expenses

Expenses incurred during the year ended December 31, 2011 were $12.3 million compared to $25.9 million for the same period in 2010. These expenditures include the $1.5 million (2010 – $1.7 million) of share-based payment expenses recognized during the year. The $13.6 million decrease in expenditures was primarily due to lower exploration and evaluation expenditures incurred by the Company during 2011 ($6.6 million) compared to 2010 ($19.4 million) due to the nature of work performed on the Star – Orion South Diamond Project. Exploration expenditures incurred on Star – Orion South Diamond Project during the year ended December 31, 2011 related to the desk-top engineering studies and data gathering and analysis required for the completion of the Feasibility Technical Report as well as the continuation of the EIA process. Exploration expenditures incurred during the year ended December 31, 2010 primarily related to similar pre-feasibility related work, work relating to the EIS as well as geotechnical and hydrogeological drilling relating to the Star – Orion South Diamond Project to support the Feasibility Study.

In addition, administration, consulting and professional fees and corporate development expenditures incurred during 2011 decreased by a total of $0.8 million from the same period in 2010, primarily as a result of lower compensation expenses incurred during 2011.

Write-down of exploration and evaluation assets

The decline in the Company's share price during the year resulted in the Company's market capitalization being substantially less than the carrying value of the Company's net assets. Due to the existence of this indicator of impairment, the Company was required to assess the exploration and evaluation assets for impairment by comparing the carrying value of these assets to estimated discounted future cash flows. Due to the uncertainty surrounding project financing, the Company was unable to determine a reliable weighted average cost of capital to perform this assessment. As a result, the Company wrote down the carrying value of the Fort à la Corne properties to nil at December 31, 2011.

Investments

During 2011, the Company sold its investments ("Notes") for $10.2 million. These Notes were received during January 2009 in exchange for the Company's Canadian third party asset-backed commercial paper ("ABCP") upon the successful implementation of the ABCP restructuring plan. For the year ended December 31, 2011, the Company recorded a $1.3 million gain from the December 31, 2010 carrying value (2010 – $0.6 million increase in fair value).

Investment in Wescan Goldfields Inc.

At December 31, 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 December 31, 2011 was $583 thousand. As a result, for the year ended December 31, 2011 the Company recognized an $842 thousand decrease in the carrying value of its investment in Wescan. At December 31, 2011, the Company assessed that there was objective evidence that this investment was impaired. As a result, cumulative income of $167 thousand was removed from accumulated other comprehensive income and the remainder was recognized in the consolidated statement of loss as an unrealized loss.

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 in losses and dilution gains from the various equity transactions of Wescan. For the year ended December 31, 2010 the Company recognized a $0.7 million decrease in the carrying value of its investment in Wescan.

Financing

During 2011 there were 255,000 options exercised resulting in additional cash flow from financing activities of $84 thousand. No financing activities occurred during 2010.

Summary of Quarterly Results

	2011 (1)				2010 (1)			
	Qtr 4	**Qtr 3**	**Qtr 2**	**Qtr 1**	**Qtr 4**	**Qtr 3**	**Qtr 2**	**Qtr 1**
Revenues (2) ($millions)	**0.1**	0.1	-	-	-	0.1	0.1	-
Net loss (3) ($millions)	**(212.0)**	(2.7)	(4.0)	(1.2)	(6.3)	(6.7)	(6.4)	(6.6)
Net loss per share (4) ($)	**(0.94)**	(0.01)	(0.02)	(0.01)	(0.03)	(0.03)	(0.03)	(0.03)
Shares outstanding (5) (millions)	**224.7**	224.6	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. Comparative figures for 2010 are presented under IFRS.*
(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 net loss during the fourth quarter of 2011 was primarily related to impairments of exploration and evaluation assets of the Company. The net losses during each of the first three 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 positive changes in fair value of long-term investments and the Company's investment in Wescan as well as lower exploration and evaluation expenditures incurred.*
(4) *Basic and diluted.*
(5) *Changes in the number of shares outstanding are the result of option exercises.*

Fourth quarter results

For the quarter ended December 31, 2011, the Company recorded a net loss of $212.0 million or $0.94 per share compared to a net loss of $6.3 million or $0.03 per share for the same period in 2010. The loss during the fourth quarter of 2011 was primarily due to the $208.4 million impairment of previously capitalized exploration and evaluation assets. The losses during the same period in the prior year were primarily due to ongoing operating costs and exploration and evaluation expenditures incurred by the Company exceeding interest revenue earned on cash and cash equivalents and short-term investments.

The Company generated $55 thousand in interest and other revenue during the fourth quarter of 2011 compared to $42 thousand for the corresponding period in 2010 due to higher interest earned by the Company as a result of rising interest rates.

Expenses incurred during the quarter ended December 31, 2011 were $2.9 million compared to $6.5 million for the same period in 2010. This $3.6 million decrease in expenditures was primarily due to lower exploration and evaluation expenditures incurred by the Company during the quarter ended December 31, 2011 ($1.8 million) compared to the quarter ended December 31, 2010 ($4.7 million) due to the nature of work performed on the Star – Orion South Diamond Project. Expenditures incurred during the quarter ended December 31, 2011 primarily related to geotechnical data gathering and analysis related to the Feasibility Technical Report, the continuation of the EIA process, as well as on-going care and maintenance of the Company's exploration and evaluation properties. Expenditures incurred during the quarter ended December 31, 2010 were primarily associated with work relating to the completion of the draft EIS as well as the desk-top engineering studies and data analysis required for the Feasibility Study.

In addition, administration, consulting and professional fees and corporate development expenditures incurred during the quarter ended December 31, 2011 decreased by a total of $0.8 million from the same period in 2010, primarily as a result of lower compensation expenses in 2011.

Related Party Transactions

At December 31, 2011, 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, held management and consulting contracts with the Company. During 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 year ended December 31, 2011 total compensation paid or payable to these officers (through companies controlled by Messrs. MacNeill, Bay and Read) and to directors of the Company was $2.1 million (2010 – $2.5 million). Of these amounts, $1.3 million (2010 – $1.4 million) were included in administration expense and $0.8 million (2010 – $1.1 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 December 31, 2011 the Company had $15.5 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. 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 as well as a contract with SaskPower for preliminary engineering work for the supply of electrical service to certain of the Company's exploration and evaluation assets. On February 29, 2012, the Company informed SaskPower that all arrangements for the design and construction of electrical power supply to the Company's Fort à la Corne properties would be terminated. As a result, the $0.8 million letter of credit that was previously provided by the Company was returned.

The Company is pursuing options to finance the further exploration and development of the Star – Orion South project as it currently does not have sufficient funds to put any of its property interests into production from its own financial resources. Financing options include joint ventures arrangements, debt financing, equity financing or other means. The Company believes it has sufficient liquidity to continue operations until financing is arranged. However, there is no assurance that Shore will be successful in obtaining required financing as and when needed. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or joint operations or reduce or terminate its operations.

Capital Resources and Outstanding Share Data

As at December 31, 2011 the Company had working capital of $15.9 million as compared to $15.6 million at December 31, 2010. The Company expects its current capital resources will be sufficient to carry out its present plans while it completes the EIS and attempts to secure Project financing.

At December 31, 2011 the Company had 224,709,242 shares issued and outstanding and 11,560,000 options outstanding compared to 224,454,242 shares and 9,820,000 options at

December 31, 2010. As at March 26, 2012, the Company's issued and outstanding shares remained unchanged from year end with an additional 10,465,000 options outstanding at a weighted average exercise price of $1.21. 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 December 31, 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

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company's credit risk largely related to its investments in Notes which were disposed of during 2011. The Company's other financial instruments that may have credit risk consist primarily of cash and cash equivalents, short-term investments and restricted cash. The majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are invested in Government of Canada treasury bills which are backed by the Government of Canada. The Board monitors the appropriateness of the Company's investments on a regular basis through the receipt of a monthly report. The Company has gross credit exposure at December 31, 2011, December 31, 2010, and January 1, 2010 relating to cash and cash equivalents, short-term investments, and restricted cash of $18.1 million, $21.2 million and $42.6 million, respectively.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at December 31, 2011, the Company had working capital of $15.9 million, excluding restricted cash. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

As at December 31, 2011, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

(millions)	Up to 3 months	Between 3 months and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and accrued liabilities	$ 0.6	$ -	$ -	$ -	$ -	**$ 0.6**
Operating leases	0.2	0.6	0.7	0.6	-	**2.1**
Total	**$0.8**	**$ 0.6**	**$ 0.7**	**$ 0.6**	**$ -**	**$ 2.7**

As at December 31, 2011, the Company had guaranteed certain liabilities by issuing $2,607 thousand (December 31, 2010 and January 1, 2010 – $2,307 thousand) 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 asset retirement obligations as well as a contract related to preliminary engineering work for the supply of electrical service to certain of the Company's exploration and evaluation assets.

<u>Market risk</u>
Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

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

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

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

Equity price risk:
Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Wescan Goldfields Inc. is monitored by management with decisions on sale taken to the Board level. A 10 percent decrease in the fair value of Wescan Goldfields Inc. would result in a $58 thousand decrease in equity.

Critical Accounting Estimates

The financial statements for the year ended December 31, 2011 have been prepared in accordance with IFRS issued by the IASB. The Company's accounting policies are

described in Note 3 to the financial statements for the year ended December 31, 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 year ended December 31, 2011, significant judgments have been made by management in applying the Company's accounting policies. In particular, the significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are: reserve and resource estimation, asset valuations and assessments for impairment, environmental rehabilitation provisions, recovery of deferred tax assets and share-based payment transactions. These assumptions are discussed in more detail in Note 4 of the Company's financial statements for the year ended December 31, 2011.

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

Accounting Changes

Adoption of International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises would converge with IFRS effective in calendar year 2011. As a result, the Company prepared its financial statements for the year ended December 31, 2011 in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, 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 Company has provided a detailed explanation of the impacts of this transition in Note 23 of the Company's financial statements for the year ended December 31, 2011, including the Company's elections under IFRS 1. In addition, Note 23 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 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. Net losses for the year ended December 31, 2010 increased by $22.6 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. The transition to IFRS for accounting for flow-through shares caused a future income tax reduction of approximately $3.4 million (previously estimated in the Company's 2010 MD&A to be $2 million). Other minor transitional 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 23 of the financial statements for the year ended December 31, 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 these consolidated financial statements, the IASB and IFRIC have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

IFRS 9 – Financial Instruments
IFRS 9 is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

IFRS 10 – Consolidated Financial Statements
IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 11 – Joint Arrangements
IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 *Interest in Joint Ventures* and SIC 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 12 – Disclosures of Interests in Other Entities
IFRS 12 includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 13 – Fair Value Measurement
IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other

standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine
In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

There are no other IFRSs or IFRIC interpretations that 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 year ended December 31, 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 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 year ended December 31, 2011 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Outlook

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

As of March 26, 2012, the Company had approximately $13.9 million in cash and cash equivalents and short-term investments (excluding $1.8 million in restricted cash). A portion of the Company's cash and cash equivalents and short-term investments will be used to advance the project. This includes the continuation of the EIA process, 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 March 26, 2012, the Company has determined that the Star – Orion South Diamond Project has established reserves. Current forecasts are based on engineering data, projected future rates of production and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserve estimates may be revised based on the results of future drilling, testing or production levels and changes in mine design. In addition, factors including but not limited to market fluctuations in the price of diamonds, changes in foreign exchange rates or estimated recoverable grade from the Star – Orion South Diamond Project may render the mining of ore reserves uneconomical.

Technical Information

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

Caution regarding Forward-looking Statements

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

Consolidated Financial Statements
December 31, 2011

Management's Responsibility for Consolidated Financial Statements

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

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

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

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

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

Harvey J. Bay, CMA
Chief Financial Officer

Saskatoon, Saskatchewan
March 26, 2012

KPMG LLP
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Shore Gold Inc.

We have audited the accompanying consolidated financial statements of Shore Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2011, at December 31, 2010 and January 1, 2010, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Shore Gold Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Chartered Accountants

March 26, 2012
Saskatoon, Canada

Shore Gold Inc.

Consolidated Statement of Financial Position

(Cdn$ in thousands)	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	$ 7,209	$ 2,780	$ 2,643
Short-term investments	8,256	16,159	37,637
Receivables	156	247	176
Prepaids (note 6)	967	85	85
	16,588	19,271	40,541
Restricted cash (note 7)	2,607	2,307	2,307
Investments (note 8)	-	8,922	8,330
Investment in Wescan Goldfields Inc. (note 9)	583	1,425	2,128
Property and equipment (note 10)	2,703	3,613	4,783
Exploration and evaluation assets (note 11)	-	208,437	208,437
	$ 22,481	$ 243,975	$ 266,526
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 617	$ 3,618	$ 2,063
Current portion of environmental rehabilitation provision	66	65	62
	683	3,683	2,125
Environmental rehabilitation provision (note 13)	1,371	1,356	1,335
Shareholders' equity:			
Share capital	797,811	797,672	797,672
Contributed surplus	29,650	28,229	26,571
Accumulated deficit	(807,034)	(587,132)	(561,177)
Accumulated other comprehensive income	-	167	-
	20,427	238,936	263,066
	$ 22,481	$ 243,975	$ 266,526

On behalf of the Board:

Kenneth E. MacNeill
Acting Chairman of the Board

Arnie E. Hillier
Chairman of the Audit Committee

See accompanying notes to consolidated financial statements

Shore Gold Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31

(Cdn$ in thousands, except for share data)	2011	2010
Revenue		
Interest and other income	$ 221	$ 155
Expenses		
Administration	4,388	4,734
Consulting and professional fees	891	1,318
Corporate development	410	422
Exploration and evaluation (note 12)	6,615	19,380
	12,304	25,854
Loss before the under noted items	(12,083)	(25,699)
Impairment of exploration and evaluation assets (note 11)	(208,437)	-
Change in fair value of investments (note 8)	1,293	614
Investment in Wescan Goldfields Inc. (note 9)	(675)	(870)
Net loss	(219,902)	(25,955)
Other comprehensive loss in the year		
Unrealized gains (losses) on available-for-sale financial instruments (note 9)	(842)	167
Impairment recognized	675	-
Other comprehensive income (loss) for the year	(167)	167
Total comprehensive loss for the year	$ (220,069)	$ (25,788)
Net loss per share		
Basic and diluted	$ (0.98)	$ (0.12)
Weighted average number of shares outstanding (000's)	224,537	224,454

See accompanying notes to consolidated financial statements

Shore Gold Inc.
Consolidated Statements of Cash Flows
For the years ended December 31

(Cdn$ in thousands)	2011	2010
Cash provided by (used in):		
Operations:		
Net loss	$ (219,902)	$ (25,955)
Non-cash items:		
Amortization	958	1,330
Impairment of exploration and evaluation assets	208,437	-
Change in fair value of investments	(1,293)	(614)
Investment in Wescan Goldfields Inc.	675	870
Fair value of share-based payments expensed	1,476	1,658
Unwinding of discount for environmental rehabilitation provision	26	35
Change in environmental rehabilitation provision	(10)	(11)
Net change in non-cash operating working capital items:		
Receivables	91	(71)
Prepaids	(882)	-
Accounts payable and accrued liabilities	(3,001)	1,555
	(13,425)	(21,203)
Investing:		
Property and equipment	(48)	(160)
Short-term investments	7,903	21,478
Restricted cash	(300)	-
Investments	10,215	22
	17,770	21,340
Financing:		
Issue of common shares (net of issue costs)	84	-
	84	-
Increase in cash and cash equivalents	4,429	137
Cash and cash equivalents, beginning of year	2,780	2,643
Cash and cash equivalents, end of year	$ 7,209	$ 2,780
Cash and cash equivalents consists of:		
Cash	$ 194	$ 552
Treasury bills	7,015	2,228
	$ 7,209	$ 2,780

See accompanying notes to consolidated financial statements

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

(Cdn$ in thousands)	2011	2010
Share capital (note 16)		
Balance, beginning of year	$ 797,672	$ 797,672
Shares issued	139	-
Balance, end of year	$ 797,811	$ 797,672
Contributed surplus		
Balance, beginning of year	$ 28,229	$ 26,571
Share-based payments (note 18)	1,476	1,658
Options exercised	(55)	-
Balance, end of year	$ 29,650	$ 28,229
Accumulated deficit		
Balance, beginning of year	$ (587,132)	$ (561,177)
Net loss	(219,902)	(25,955)
Balance, end of year	$ (807,034)	$ (587,132)
Accumulated other comprehensive income		
Balance, beginning of year	$ 167	$ -
Other comprehensive income (loss) for the year	(167)	167
Balance, end of year	$ -	$ 167
Total equity	$ 20,427	$ 238,936

See accompanying notes to consolidated financial statements

1. Corporate Information

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

2. Basis of preparation

The consolidated financial statements of Shore for the year ended December 31, 2011 were authorized for issue by the Company's Board on March 26, 2012. The consolidated financial statements of Shore and all its subsidiaries have been prepared in accordance with International Accounting Standard ("IAS") 1 *Presentation of Financial Statements* 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"). 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.

Prior to 2011, the Company prepared its consolidated annual 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 disclosures concerning the transition from Canadian GAAP to IFRS are included in note 23. 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 23.

3. Summary of significant accounting policies

The Company's principal accounting policies are outlined below:

a. Basis of consolidation

i. *Subsidiaries*

The consolidated financial statements include the financial statements of the Company and its subsidiaries (note 19). 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 statements of loss and comprehensive loss.

b. Financial instruments

i. Non-derivative financial assets

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

Financial assets at fair value through profit or loss

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

Financial assets designated as fair value through profit or loss are comprised of long-term investments held by the Company until April 1, 2011 as disclosed in note 8.

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 (loss) until investments are disposed of or when there is objective evidence of an impairment in value.

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

Held-to-maturity financial assets

If the Company has the intent and ability to hold securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value 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 net of 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 statements of loss and comprehensive loss.

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

c. Cash and cash equivalents

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

d. Short-term investments

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

e. Property and equipment

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

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

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

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

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

f. Exploration and evaluation

i. Pre-permit costs

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

ii. Exploration and evaluation costs

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

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

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

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

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

g. Employee Benefits

i. Wages and salaries, and annual leave

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

ii. Short-term employee benefits

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

iii. Termination benefits

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

iv. Share-based payment transactions

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

h. Provisions

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

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

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

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

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

j. Flow-through shares

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

4. Use of estimates and judgment

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

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

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

a. Reserve and resource estimates

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

b. Exploration and evaluation expenditures

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

c. Impairment of exploration and evaluation assets

The impairment assessments for exploration and evaluation assets require the use of estimates and assumptions such as discount rates, future commodity prices, future foreign exchange rates, future royalty rates, recoverable grades, and future capital and operating expenditures. Fair value for exploration and evaluation assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Management assesses its CGU's as being an individual mine site that may include multiple ore bodies. This is the lowest level for which cash inflows are largely independent of those of other assets.

d. Environmental rehabilitation provision

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

e. Recovery of deferred tax assets

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

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

f. Share-based payment transactions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 18.

5. IFRS standards issued but not yet effective

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

a. IFRS 9 – Financial Instruments

IFRS 9 is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains, but simplifies, the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

b. IFRS 10 – Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

c. IFRS 11 – Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 *Interest in Joint Ventures* and SIC 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

d. IFRS 12 – Disclosures of Interests in Other Entities

IFRS 12 includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

e. IFRS 13 – Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

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

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

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

6. Prepaids

During the first quarter of 2011, the Company paid a $1.2 million refundable deposit to the Saskatchewan Power Corporation ("SaskPower") for certain preliminary work that was to be performed over the next year regarding the potential construction of a power line to the Company's Fort à la Corne properties. As at December 31, 2011, $859 thousand was included as a prepaid related to this work. See note 24 for event after reporting period relating to this amount.

7. 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 for the following matters:

	December 31, 2011	December 31, 2010	January 1, 2010
Environmental rehabilitation	$ 1,677	$ 1,677	$ 1,677
SaskPower	800	500	500
Other	130	130	130
Total	$ 2,607	$ 2,307	$ 2,307

These short-term investments are held in guaranteed investment certificates with maturity dates occurring in January 2012 to August 2012 with interest rates ranging from 1.3 to 2.1%. The Company's share of restricted cash that relates to the Fort à la Corne Joint Venture ("FALC-JV") and Buffalo Hills Joint Venture ("Buffalo Hills JV") is $845 (December 31, 2010 and January 1, 2010 – $845) and $0 (December 31, 2010 and January 1, 2010 – $0), respectively. See note 24 for event after reporting period relating to the SaskPower letter of credit.

8. Investments

The Company previously held investments ("Notes") with a carrying value at December 31, 2010 of $8.9 million (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. On April 1, 2011 the Company sold all Notes for proceeds of $10.2 million and accordingly recorded a recovery of losses previously recognized of $1.3 million.

For the year ended December 31, 2011, the Company received $26 thousand in quarterly interest payments from the restructured Notes. For the year ended December 31, 2010, the Company received $18 thousand in quarterly interest payments and $4 thousand in principal repayments from the restructured Notes.

9. Investment in Wescan Goldfields Inc.

At December 31, 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 10.2% (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 year ended December 31, 2011, the Company recognized a decrease of $842 thousand in the carrying value of its investment in Wescan. At December 31, 2011, the Company assessed whether there was objective evidence that this investment was impaired. As the fair value of the Company's investment in Wescan remained less than the fair value at December 31, 2010 for the majority of 2011, there was objective evidence that this decline in fair value was an impairment. As a result, cumulative income of $167 thousand was removed from accumulated other comprehensive income and the remaining $675 thousand was recognized in the consolidated statements of loss.

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.

10. Property and equipment

	Automotive Equipment	Buildings and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
Cost					
Balance – January 1, 2010	$ 1,380	$ 3,447	$ 974	$ 8,935	$ 14,736
Acquisitions	-	-	25	135	160
Disposals	-	-	(9)	(168)	(177)
Balance – December 31, 2010	1,380	3,447	990	8,902	14,719
Acquisitions	26	-	24	-	50
Disposals	-	-	(33)	-	(33)
Balance – December 31, 2011	$ 1,406	$ 3,447	$ 981	$ 8,902	$ 14,736

	Automotive Equipment	Buildings and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
Accumulated depreciation					
Balance – January 1, 2010	$ (782)	$ (1,874)	$ (789)	$ (6,508)	$ (9,953)
Charge for the year	(208)	(278)	(63)	(781)	(1,330)
Eliminated on disposals	-	2	9	166	177
Balance – December 31, 2010	(990)	(2,150)	(843)	(7,123)	(11,106)
Charge for the year	(150)	(241)	(53)	(514)	(958)
Eliminated on disposals	-	-	31	-	31
Balance – December 31, 2011	$ (1,140)	$ (2,391)	$ (865)	$ (7,637)	$ (12,033)

	Automotive Equipment	Buildings and Leasehold Improvements	Computer Software and Equipment	Furniture and Equipment	Total
Net book value					
Balance – January 1, 2010	$ 598	$ 1,573	$ 185	$ 2,427	$ 4,783
Balance – December 31, 2010	$ 390	$ 1,297	$ 147	$ 1,779	$ 3,613
Balance – December 31, 2011	$ 266	$ 1,056	$ 116	$ 1,265	$ 2,703

The Company's share of net book value of property and equipment that relates to the FALC-JV is $618 (December 31, 2010 – $870 and January 1, 2010 – $1,226).

11. Exploration and evaluation assets

Exploration and evaluation assets for the year ended December 31, 2011 are made up of the following:

	Fort à la Corne properties (a)
Balance – December 31, 2010 and January 1, 2010	$ 208,437
Impairment	(208,437)
Balance – December 31, 2011	$ -

(a) Fort à la Corne properties
Shore holds a 100% interest in the Star property located in the central part of Saskatchewan, Canada. Kensington Resources Ltd. holds a 67% interest in the FALC-JV which is adjacent to the Star property. The Company acts as operator of the FALC-JV. These properties are accounted for as one CGU. The carrying value of the Fort à la Corne properties represents the acquisition of minority interests of the FALC-JV since 2005, net of impairments.

The decline in the Company's share price during the year resulted in the Company's market capitalization being substantially less than the carrying value of the Company's net assets. Due to the existence of this indicator of impairment, the Company was required to assess the exploration and evaluation assets for impairment by comparing the carrying value of these assets to estimated discounted future cash flows. Due to the uncertainty surrounding project financing, the Company was unable to determine a reliable weighted average cost of capital to perform this assessment. As a result, the Company wrote down the carrying value of the Fort à la Corne properties to nil at December 31, 2011. Since the completion of the Feasibility Study, Shore has been actively pursuing various options for the financing of the Star – Orion South Project development.

12. Exploration and evaluation expense

The Company's exploration and evaluation expense for the year ended December 31, 2011, is comprised of the following:

	December 31, 2011	December 31, 2010
Fort à la Corne properties		
Acquisition and staking	$ -	$ 1,022
Amortization of tangible assets	791	1,084
Exploration and feasibility	5,460	16,303
Provision for rehabilitation	7	14
Share-based payments	339	477
Total (a)	6,597	18,900
Buffalo Hills property (b)	18	480
Total	$ 6,615	$ 19,380

(a) Fort à la Corne properties
The Company's share of exploration and evaluation expense that relates to the FALC-JV is $3.7 million (December 31, 2010 – $11.5 million).

(b) Buffalo Hills property
The above amount reflects exploration and evaluation expense of the Buffalo Hills JV. Shore holds approximately 33% interest in the Buffalo Hills JV located in central Alberta, Canada. Canterra Minerals Corporation is the operator of the Buffalo Hills JV.

13. Environmental rehabilitation provision

	Fort à la Corne properties	Buffalo Hills property	Total
Balance – January 1, 2010	$ 1,337	$ 60	$ 1,397
Additions	14	-	14
Work completed	(63)	-	(63)
Revisions in estimate and change in discount rate	38	-	38
Unwinding of discount	33	2	35
Balance – December 31, 2010	1,359	62	1,421
Additions	7	-	7
Work completed	(65)	-	(65)
Revisions in estimate and change in discount rate	48	-	48
Unwinding of discount	25	1	26
Balance – December 31, 2011	1,374	63	1,437
Less current portion – December 31, 2011	66	-	66
Long term portion – December 31, 2011	$ 1,308	$ 63	$ 1,371

The environmental rehabilitation provision represents the Company's share of the present value of decommissioning and rehabilitation costs related to exploration and evaluation work conducted on the above properties to date. The Company expects to rehabilitate certain drill pads and exploration areas over the next five years. These provisions have been created based on the Company's internal estimates. Assumptions are based on the current economic environment and are believed to be a reasonable basis to estimate the future liability. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary work required. Furthermore, the timing of the decommissioning and rehabilitation is dependent upon if and when development of these exploration properties take place in the future. The Company estimates its total undiscounted future decommissioning and reclamation costs to be $1.5 million (December 31, 2010 – $1.6 million and January 1, 2010 – $1.6 million). The provision was determined using a discount rate of 1.3% (December 31, 2010 – 2.4% and January 1, 2010 – 2.8%).

The Company's share of the current portion and long-term portion of the decommissioning and rehabilitation provision that relates specifically to the FALC-JV is $0.1 million (December 31, 2010 – $0.1 million and January 1, 2010 – $0.1 million) and $0.6 (December 31, 2010 – $0.6 and January 1, 2010 – $0.6), respectively. The above amount reflects the Company's share of the environmental rehabilitation provision for the Buffalo Hills JV.

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

14. Interest in joint assets

The Company jointly, with other participants, owns certain exploration properties and assets. The Company owns 67% (2010 – 66%) of the FALC-JV assets and 33% (2010 – 33%) of the Buffalo Hills JV assets.

Information regarding the Company's share of jointly controlled assets, liabilities and operations can be found in the following notes: restricted cash – note 7, plant and equipment – note 10, exploration and evaluation assets – note 11, exploration and evaluation expenses – note 12, and current and long-term portion of the environmental rehabilitation provision – note 13.

Other than the liabilities disclosed in the above referenced notes, the Company does not have any other commitments through jointly controlled assets.

15. Deferred tax assets and liabilities

Reconciliation between expected tax recovery for accounting purposes and actual recovery

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

	December 31, 2011	December 31, 2010
Net loss before income taxes	$ 219,902	$ 25,955
Combined federal and provincial tax rate (a)	28.5%	30.0%
Expected tax recovery	(62,672)	(7,786)
Increase in taxes resulting from:		
Effect of change in effective tax rates	3,281	723
Non-deductible amounts	348	552
Unrecognized additions to resource and other tax pools	57,895	5,156
Unrecognized non-capital loss carry-forwards	1,148	1,355
Deferred income tax recovery	$ -	$ -

(a) The federal income tax rate was legislatively enacted to decrease from 18% in 2010 to 16.5% in 2011.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	January 1, 2010	Increase/ (decrease) in deferred tax asset	Expiry of tax pools	December 31, 2010
Deferred tax assets				
Exploration and evaluation	$ 23,498	$ 5,279	$ -	$ 28,777
Property and equipment	3,031	72	-	3,103
Non-capital loss carried forward	9,784	1,355	(279)	10,860
Share issue costs	714	(239)	-	475
Decommissioning and rehabilitation provision	378	6	-	384
Revaluation of investments	796	14	-	810
Unrecognized deferred tax assets	$ 38,201	$ 6,487	$ (279)	$ 44,409

	December 31, 2010	Increase/ (decrease) in deferred tax asset	Expiry of tax pools	December 31, 2011
Deferred tax assets				
Exploration and evaluation	$ 28,777	$ 58,241	$ -	$ 87,018
Property and equipment	3,103	(31)	-	3,072
Non-capital loss carried forward	10,860	1,148	-	12,008
Capital loss carried forward	-	595	-	595
Share issue costs	475	(239)	-	236
Decommissioning and rehabilitation provision	384	4	-	388
Revaluation of investments	810	(652)	-	158
Unrecognized deferred tax assets	$ 44,409	$ 59,066	$ -	$103,475

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

Tax losses

As at December 31, 2011, the Company had estimated capital losses for Canadian income tax purposes of $4,404 thousand (December 31, 2010 – nil). These losses do not expire and may be utilized to reduce future capital gains, if any.

As at December 31, 2011, the Company's has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below. These tax losses will expire as follows:

Year of Expiry	Taxable losses (in thousands)
2013	$ 1,214
2014	4,041
2015	2,295
2026	10,941
2027	4,750
2028	5,268
2029	6,695
2030	5,018
2031	4,251
Total	$44,473

The loss expiring in 2026 contains $2,571 thousand that is currently under dispute with Canada Revenue Agency regarding the deductibility of an expense. Should the Company be unsuccessful in its attempts to defend the deductibility of this amount, the loss related to 2026 would be reduced by $10,282 thousand and $7,711 thousand would be added to the cumulative eligible capital tax pool.

The Company also had unrecorded investment tax credits totaling $15.2 million (December 31, 2010 – $14.5 million) relating to pre-production mining expenditures. These investment tax credits begin to expire starting in 2026.

16. Share capital and reserves

Authorized

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

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

Common shares issued and fully paid:

	Common Shares (in thousands)	Amount (in thousands)
Balance – December 31, 2010 and January 1, 2010	224,454	$ 797,672
Issue of shares on exercise of options	255	139
Balance – December 31, 2011	224,709	$ 797,811

(a) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, employees and service providers to purchase common shares of the Company. The aggregate number of shares reserved for issuance under this plan, and any other security based compensation arrangement of the

Company, shall not, at the time of the stock option grant, exceed 15,768,360 shares. Refer to note 18 for further details of this plan.

(b) Nature and purpose of reserves

Share option reserve
The share option reserve is recognized within contributed surplus and is used to recognize the fair value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. The fair value of stock options has been valued using the Black-Scholes option-pricing model. The fair value of these securities is added to the share option reserve over the vesting period of the securities. Upon exercise, the corresponding fair value related to the security is removed from the share option reserve and added to share capital. Refer to note 18 for further details of this plan.

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

17. Earnings per share

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

	December 31, 2011	December 31, 2010
Numerator:		
Net loss applicable to common shares from continuing and discounted operations	$ (219,902)	$ (25,955)
Denominator:		
Weighted average common shares outstanding at January 1 (in thousands)	224,454	224,454
Weighted average effect of stock options exercised (in thousands)	83	-
Weighted average common shares outstanding at December 31 – basic and diluted (in thousands)	224,537	224,454
Basic and diluted comprehensive loss per common share (a)	$ (0.98)	$ (0.12)

(a) Excluded from the calculation of diluted loss per common share are the effects of outstanding options, as the effect on basic loss per share would be anti-dilutive.

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

18. Share-based payments

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

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

Expense Category included	December 31, 2011	December 31, 2010
Administration	$ 815	$ 825
Consulting and professional	281	309
Corporate development	41	47
Exploration and evaluation	339	477
Total	$ 1,476	$ 1,658

Option movements (in thousands) during the years ended December 31 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 during the period	2,700	0.80	2,650	0.94
Exercised during the period	(255)	0.33	-	-
Expired during the period	(655)	4.08	(2,471)	5.21
Forfeited during the period	(50)	0.82	-	-
Outstanding – December 31	11,560	$ 1.68	9,820	$ 2.05
Exercisable – December 31	11,173	$ 1.71	9,383	$ 2.09

The weighted average share price at the date of exercise for options exercised in the year ended December 31, 2011 was $0.54 (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 year are as follows:

	December 31, 2011	December 31, 2010
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 %
Risk-free interest rate	2.31% – 2.80%	2.52% – 2.82%
Fair value at grant date	$ 0.47 – $ 0.57	$ 0.52 – $ 0.75

For options outstanding and exercisable at December 31, 2011, the range of exercise prices; weighted average exercise price and the weighted average remaining contractual life is as follows:

	Outstanding			Exercisable	
Option Price Per Share	Options December 31, 2011	Weighted Average Exercise Price	Weighted Average Remaining Life	Options December 31, 2011	Weighted Average Exercise Price
$ 0.00 – 0.99	7,565	$ 0.60	3.1 years	7,178	$ 0.59
$ 1.00 – 2.99	825	1.09	3.2 years	825	1.09
$ 3.00 – 3.99	1,775	3.31	0.9 years	1,775	3.31
$ 4.00 – 6.99	1,395	5.86	0.2 years	1,395	5.86
	11,560	$ 1.68	2.4 years	11,173	$ 1.71

19. Subsidiaries of Shore Gold Inc.

The financial statements include the financial statements of Shore Gold Inc. and its subsidiaries. The subsidiaries of the Company are listed in the following table:

		% equity interest		
		As at	As at	As at
Name	Country of incorporation	December 31, 2011	December 31, 2010	January 1, 2010
Kensington Resources Ltd.	Canada	100%	100%	100%
Shore Mining and Development Corporation	Canada	100%	100%	100%

20. Related party transactions

<u>Related party transactions with key management personnel</u>

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include executive and non-executive directors. The Company pays certain of its 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, including payments to related parties owned by executive officers and directors, is as follows:

	December 31, 2011	December 31, 2010
Short-term benefits to officers and directors	$ 382	$ 334
Consulting and management fees to related companies	962	1,374
Share-based payments	773	775
Total compensation paid to key management personnel	$ 2,117	$ 2,483

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period related to key management personnel. The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

	December 31, 2011	December 31, 2010
Administration	$ 1,300	$ 1,408
Consulting and professional fees	817	1,075
Total compensation paid to key management personnel	$ 2,117	$ 2,483

21. Financial instruments

Fair values have been determined for measurement and/or disclosure purposes based on the fair value hierarchy for financial instruments that require fair value measurement after initial recognition. The classification of each financial instrument is described in note 3.

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

Fair value hierarchy

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

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

Fair value of Notes
Prior to the sale of the investment in Notes, the Company determined the fair value of the Notes based on level 3 using a discounted cash flow. The assumptions used at December 31, 2010 and January 1, 2010 to determine the fair value of the Notes were as follows:

	December 31, 2010	January 1, 2010
Timing of cash flows	6 years	6 – 7 years
Weighted average interest rate	0.79%	0.00%
Weighted average discount rate	6.95%	6.14%

A one percent change in the discount rate of this fair value estimate as recorded in the financial statements would result in a $0.5 million and $0.6 million pre-tax change in the fair value of the Notes as determined at December 31, 2010 and January 1, 2010, respectively.

Fair value of investment in Wescan
The investment in Wescan is based on quoted prices and is therefore considered to be 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's credit risk largely related to its investments in Notes which were disposed of during 2011. The Company's other financial instruments that may have credit risk consist primarily of cash and cash equivalents, short-term investments and restricted cash. The majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are invested in Government of Canada treasury bills which are backed by the Government of Canada. The Board monitors the appropriateness of the Company's investments on a regular basis through the receipt of a monthly report. The Company has gross credit exposure at December 31, 2011, December 31, 2010, and January 1, 2010 relating to cash and cash equivalents, short-term investments, and restricted cash of $18.1 million, $21.2 million and $42.6 million, respectively.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at December 31, 2011, the Company had working capital of $15.9 million, excluding restricted cash. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

As at December 31, 2011, the Company is committed to trade payables and other operating leases as set out in the following table on an undiscounted basis:

	Up to 3 months	Between 3 months and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade payables and accrued liabilities	$ 617	$ -	$ -	$ -	$ -	$ 617
Operating leases	209	628	666	625	-	$ 2,128
Total	$ 826	$ 628	$ 666	$ 625	$ -	$ 2,745

As at December 31, 2011, the Company had guaranteed certain liabilities by issuing $2,607 thousand (December 31, 2010 and January 1, 2010 - $2,307 thousand) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash (note 7). The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The majority of the guarantees relate to environmental rehabilitation provisions as well as a contract related to preliminary engineering work for the supply of electrical service to certain of the Company's exploration and evaluation assets. See note 24 for event after reporting period relating to the SaskPower letter of credit.

The Company is pursuing options to finance the further exploration and development of the Star – Orion South project as it currently does not have sufficient funds to put any of its property interests into production from its own financial resources. Financing options include joint ventures arrangements, debt financing, equity financing or other means. The Company believes it has sufficient liquidity to continue operations until financing is arranged. However, there is no assurance that Shore will be successful in obtaining required financing as and when needed. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or joint operations or reduce or terminate its operations.

(c) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

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

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

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

Equity price risk:
Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Wescan is monitored by management with decisions on sale taken to the Board level. A 10 percent decrease in the fair value of Wescan would result in a $58 thousand decrease in equity.

22. Capital management

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

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

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

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

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

23. 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.

The following is a reconciliation of the Company's assets, liabilities and equity at January 1, 2010 from Canadian GAAP to IFRS:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 2,643	$ -	$ 2,643
Short-term investments		37,637	-	37,637
Receivables		176	-	176
Prepaids		85	-	85
		40,541		40,541
Restricted cash		2,307	-	2,307
Investments		8,330	-	8,330
Investment in Wescan Goldfields Inc.		2,128	-	2,128
Property and equipment	vi	859	3,924	4,783
Exploration and evaluation assets	i	217,114	(4,753)	
	vi		(3,924)	208,437
		$ 271,279	$ (4,753)	$ 266,526
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 2,063	$ -	$ 2,063
Current portion environmental rehabilitation	ii	81	(19)	62
		2,144	(19)	2,125
Environmental rehabilitation provision	ii	1,436	(101)	1,335
Shareholders' equity (deficiency)				
Share capital	iv	795,332	2,340	797,672
Contributed surplus	iii	26,568	3	26,571
Deficit	i	(554,201)	(4,753)	
	ii		120	
	iii		(3)	
	iv		(2,340)	(561,177)
		267,699	(4,633)	263,066
		$ 271,279	$ (4,753)	$ 266,526

The following is a reconciliation of the Company's assets, liabilities and equity at December 31, 2010 from Canadian GAAP to IFRS:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 2,780	$ -	$ 2,780
Short-term investments		16,159	-	16,159
Receivables		247	-	247
Prepaids		85	-	85
		19,271		19,271
Restricted cash		2,307	-	2,307
Investments		8,922	-	8,922
Investment in Wescan Goldfields Inc.		1,425	-	1,425
Property and equipment	vi	637	2,976	3,613
Exploration and evaluation assets	i	235,147	(23,734)	
	vi		(2,976)	208,437
		$ 267,709	$ (23,734)	$ 243,975
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 3,618	$ -	$ 3,618
Current portion environmental rehabilitation	ii	54	11	65
		3,672	11	3,683
Environmental rehabilitation provision	ii	1,492	(136)	1,356
Shareholders' equity (deficiency)				
Share capital	iv	791,957	5,715	797,672
Contributed surplus	iii	28,165	64	28,229
Deficit	i	(557,577)	(23,734)	
	ii		125	
	iii		(64)	
	iv		(5,715)	
	v		(167)	(587,132)
Accumulated other comprehensive income	v	-	167	167
		262,545	(23,609)	238,936
		$ 267,709	$ (23,734)	$ 243,975

The following is a reconciliation of the Company's Canadian GAAP statement of comprehensive income to IFRS for the year ended December 31, 2010:

	Note	Year ended December 31, 2010
Net and comprehensive loss for the period under Canadian GAAP		$ (3,376)
Basic and diluted income (loss) per share under Canadian GAAP		(0.02)
Adjustments for differing accounting treatments under IFRS:		
Exploration and evaluation	(i)	(18,981)
Provision for environmental rehabilitation	(ii)	5
Share-based payments	(iii)	(61)
Flow-through shares	(iv)	(3,375)
Available-for-sale financial instruments	(v)	(167)
Net loss for the period under IFRS		(25,955)
Available-for-sale financial instruments	(v)	167
Total comprehensive loss for the period under IFRS		$ (25,788)
Per Share Amounts:		
Basic and diluted loss per share under IFRS		(0.12)

Notes:

Differences between Canadian GAAP and IFRS

(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) Environmental rehabilitation provision (Asset Retirement Obligations)

Under Canadian GAAP, asset retirement obligations were not adjusted for changes in the discount rate. 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. As a result, for flow-through shares that were renounced in 2009, the tax recovery that occurred in 2010 under Canadian GAAP would have occurred in 2009 under IFRS.

(v) Available-for-sale financial instruments

At December 31, 2010, the Company's investment in Wescan was classified as held-for-trading 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 as available-for-sale under IFRS causing any fair value adjustment to be recognized in other comprehensive income. 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.

(vi) 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.

Other impacts due to conversion of IFRS

<u>Expense category by function</u>

The transition to IFRS has resulted in financial statement presentation changes in the Company's financial statements. 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 the administration category. Amortization related to exploration and evaluation equipment that was previously capitalized is now expensed as part of the exploration and evaluation category.

<u>Deferred income taxes</u>

As a result of the transition to IFRS the carrying amounts of various assets and liabilities have been adjusted. There has not been a corresponding change to the tax bases of these assets and liabilities. This will not impact the deferred taxes recognized. However, this will impact the disclosure of individual temporary differences.

Details of the various deferred tax assets and liabilities at January 1, 2010 and December 31, 2010 and 2011 and the corresponding amounts recorded in income and other comprehensive income for the year-ended December 31, 2011 and 2010 are provided in note 15.

Statements 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 statements 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.

24. Events after the reporting period

Since the completion of the Feasibility Study, Shore has been actively pursuing various options for the financing of Star – Orion South Project development (the "Project"). Recently, one of these options reached an advanced stage of negotiation but was not concluded. In light of this development, the management and directors of Shore deemed it necessary to make changes to staff and leadership to meet current corporate priorities. These measures, announced on February 29, 2012, will enable the completion of Project environmental approval while continuing the pursuit of development finance. These measures included reductions in Company Directors, Officers and personnel which will result in termination costs of approximately $1.2 million.

On February 29, 2012, the Company also informed SaskPower that all arrangements for the design and construction of electrical power supply to the Company's Fort à la Corne properties would be terminated. As a result, the balance of the prepaid (as described in note 6), net of any amounts owing up until this date, will be refunded to the Company as well as a $0.8 million letter of credit that was previously provided by the Company to SaskPower.

All of these measures will enable the Company to conserve its present cash position and provide an extended operating window in which Shore can complete the environmental approval and Project permitting and continue to seek opportunities for development capital through participation in the Project by a third party or a syndicate of investors.