



**Consolidated Financial Statements  
December 31, 2006**

## **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 Canadian generally accepted accounting principles 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 Canadian generally accepted auditing 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 & Chief Operating Officer

Saskatoon, Saskatchewan  
March 15, 2007



**KPMG LLP**  
**Chartered Accountants**  
600 - 128 Fourth Avenue South  
Saskatoon SK S7K 1M8

Telephone (306) 934-6200  
Fax (306) 934-6233  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## AUDITORS' REPORT

To the Shareholders of Shore Gold Inc.:

We have audited the consolidated balance sheets of Shore Gold Inc. as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

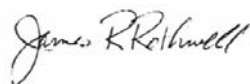
Chartered Accountants

Saskatoon, Canada  
March 15, 2007

**Shore Gold Inc.**  
**(A Development Stage Entity)**  
**Consolidated Balance Sheets**

	December 31, 2006 (in thousands)	December 31, 2005 (in thousands)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 64,683	\$ 261,677
Short-term investments	56,827	-
Receivables (note 3)	8,324	5,160
Prepays	153	588
	129,987	267,425
Mineral properties (note 4)	653,538	677,422
Investment in Wescan Goldfields Inc. (note 7)	2,537	1,212
Property and equipment (note 8)	1,478	827
	\$ 787,540	\$ 946,886
<b>Liabilities &amp; Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 11,713	\$ 14,777
Current portion of asset retirement obligations (note 10)	158	-
	11,871	14,777
Asset retirement obligations (note 10)	293	-
Future income tax liability (note 11)	117,309	216,803
Shareholders' equity:		
Share capital (note 12)	733,467	692,985
Contributed surplus (note 12)	19,209	39,466
Deficit	(94,609)	(17,145)
	658,067	715,306
Commitments and Contingencies (note 16)		
	\$ 787,540	\$ 946,886

On behalf of the Board:



James R. Rothwell  
Chairman of the Board



Arnie E. Hillier  
Chairman of the Audit Committee

**Shore Gold Inc.**  
**(A Development Stage Entity)**  
**Consolidated Statements of Loss and Deficit**

	2006	2005
	<u>(in thousands)</u>	<u>(in thousands)</u>
<b>Revenue</b>		
Interest and other income	<u>\$ 9,463</u>	<u>\$ 3,367</u>
<b>Expenses</b>		
Administration	3,275	7,743
Consulting & professional fees	2,022	2,713
Corporate development	692	1,835
Amortization and accretion	<u>272</u>	<u>63</u>
	<u>6,261</u>	<u>12,354</u>
<b>Income (loss) before the undernoted items</b>	3,202	(8,987)
Loss on sale of property interest (note 5)	(180,439)	-
Loss from Wescan Goldfields Inc. (note 7)	(33)	(74)
Gain on dilution of interest in Wescan Goldfields Inc. (note 7)	<u>308</u>	<u>947</u>
<b>Net loss before income taxes</b>	(176,962)	(8,114)
Income tax recovery (expense) (note 11)	<u>99,498</u>	<u>(377)</u>
<b>Net loss</b>	(77,464)	(8,491)
<b>Deficit, beginning of year</b>	<u>(17,145)</u>	<u>(8,654)</u>
<b>Deficit, end of year</b>	<u>\$ (94,609)</u>	<u>\$ (17,145)</u>
<b>Net loss per share</b>		
Basic and diluted (note 13)	(0.44)	(0.08)
<b>Weighted average number of shares outstanding</b>	174,820	101,502

**Shore Gold Inc.**  
**(A Development Stage Entity)**  
**Consolidated Statements of Cash Flows**

	<u>2006</u>	<u>2005</u>
	(in thousands)	(in thousands)
<b>Cash provided by (used in):</b>		
<b>Operations:</b>		
Net loss	\$ (77,464)	\$ (8,491)
Non-cash items:		
Amortization and accretion	272	63
Gain on dilution of interest in Wescan Goldfields Inc. (note 7)	(308)	(947)
Share of loss in Wescan Goldfields Inc. (note 7)	33	74
Fair value of stock options expensed (note 12)	625	9,030
Future income tax recovery (note 11)	(99,494)	254
Loss on sale of property interest (note 5)	180,439	-
Net change in non-cash operating working capital items:		
Prepays	435	(585)
Receivables	(1,084)	(488)
Payables and accrued liabilities	62	272
	<u>3,516</u>	<u>(818)</u>
<b>Investing:</b>		
Mineral properties	(325,986)	(51,465)
Proceeds on sale of mineral properties (note 5)	170,315	
Investment in Wescan Goldfields Inc. (note 7)	(1,050)	-
Cash acquired on Kensington Resources Ltd. merger (note 6)	-	35,537
Kensington merger costs (note 6)	-	(8,585)
Property and equipment	(915)	(615)
Purchase of short-term investments	(56,827)	-
Net change in non-cash investing working capital items:		
Receivables	(2,080)	(3,708)
Payables and accrued liabilities	(3,126)	7,905
	<u>(219,669)</u>	<u>(20,931)</u>
<b>Financing:</b>		
Issue of common shares (net of issue costs)	19,159	254,742
	<u>19,159</u>	<u>254,742</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(196,994)	232,993
<b>Cash and cash equivalents, beginning of year</b>	<u>261,677</u>	<u>28,684</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 64,683</u>	<u>\$ 261,677</u>

## **Shore Gold Inc.**

(A Development Stage Enterprise)

Notes to the Consolidated Financial Statements (years ended December 31, 2006 and 2005)

(In thousands of Canadian dollars except per share amounts or as otherwise noted)

### **1. Nature of operations**

Shore Gold Inc. was incorporated under the Canada Business Corporations Act on April 29, 1985. Shore Gold Inc. and its subsidiaries (collectively, "Shore" or "the Company") are engaged primarily in the exploration for and the development, mining and sale of precious metals and gems. Substantially all of the Company's efforts are devoted to the exploration and development of its mineral properties. The Company has not earned significant revenue and is therefore, considered to be in the development stage with respect to its current mineral property holdings.

### **2. Significant accounting policies:**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Generally accepted accounting principles require that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Areas of significance requiring the use of management estimates include the determination of the recoverability of capitalized mineral exploration costs and investments, the determination of asset retirement obligations, the determination of stock-based compensation costs, and the determination of future income tax assets and liabilities. Actual recovered amounts could differ from those estimates.

A summary of significant accounting policies are as follows:

#### Consolidation principles

The consolidated financial statements include the accounts of the Company and its subsidiaries. Interests in joint ventures are accounted for by the proportionate consolidation method.

#### 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.

#### Mineral properties

Subject to compliance with provincial mineral regulations, the Company holds the right to explore for and develop mineral resources on various Crown property dispositions within the Province of Saskatchewan. These rights are classified as mineral properties for financial statement purposes.

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production from a property, the related accumulated costs are amortized using the unit of production method over estimated recoverable reserves. Interest on debt associated with the acquisition of mineral properties is capitalized until commencement of commercial production. There have been no interest costs capitalized to date. Management assesses carrying values of non-producing properties each time it issues financial statements and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are expensed.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditures are required and proceeds exceed costs, the excess proceeds are reported as a gain.

### Asset retirement obligations

The fair value of liabilities for asset retirement obligations are recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the mineral property and then amortized over its estimated useful life. The fair value of the asset retirement obligations is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligations. Changes in the obligations due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligations due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related asset.

### Investments

Investments in companies over which the Company has the ability to exercise significant influence are accounted for by the equity method. Under this method, the Company includes its proportionate equity interest of earnings (losses) of such companies. If the Company's interest in the investment is diluted from various equity transactions of the investee company, a dilution gain (loss) is recognized to reflect the fair market value increase (decrease) of the portion of the investment that had been diluted.

### Property and equipment

Property and equipment purchases are recorded at cost and are amortized 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 plus one renewal term or the estimated useful lives. Annual amortization rates are as follows:

Automotive equipment	30%
Building	4%
Computer equipment	30%
Computer software	100%
Furniture and equipment	20%

### Future income taxes

Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is recognized in earnings in the period which includes the enactment date. Future income tax assets and liabilities are recorded in the financial statements if realization is considered more likely than not. The valuation of future income taxes is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated recoverable amount.

### Flow-through shares

The Company finances a portion of its exploration activities through the issue of flow-through shares. The Company renounces the deductions to investors and accordingly records share issue costs related to the future tax liability of the temporary difference arising from the renunciation. As a result, share capital is reduced and future income tax liabilities are increased by the estimated tax benefits when renounced by the Company to the investors, except to the extent that the Company has unused tax benefits on loss carry forwards and tax pools in excess of book values available for deduction against which a valuation allowance has been provided. In these circumstances, the future tax liability reduces the valuation allowance, if any, and the reduction is recognized in earnings.

### Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds received on exercise of options and warrants would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

### Stock-based compensation

The Company has a share option plan that is described in note 12(e).

Options granted under the share option plan are accounted for using the fair-value method. Under this method, the fair-value of stock options granted is measured at estimated fair-value at the grant date and recognized over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options granted is transferred to share capital.

### **3. Accounts receivable**

At December 31, accounts receivable consisted of the following:

	2006	2005
Newmont Mining Corporation of Canada Ltd.	\$ 4,628	\$ -
Goods and services tax refunds	1,266	1,766
Fuel tax rebate	1,210	478
Accrued interest receivable	1,084	488
Mineral claim fees receivable	-	2,262
Other	136	166
	<u>\$8,324</u>	<u>\$5,160</u>

### **4. Mineral properties**

Mineral properties are made up of the following:

	Star Property (a)	Fort à la Corne Property (b)	Other Diamond Properties (c)	Total
Balance, December 31, 2004	\$ 33,319	\$ -	\$103	\$ 33,422
Expenditures during 2005				
Acquisition & staking	402	588,948	-	589,350
Intangibles (d)	-	10,037	-	10,037
Exploration:				
Personnel	7,641	28	-	7,669
Recording fees & permits	47	65	-	112
Drilling/Advanced evaluation study	31,619	2,568	-	34,187
Equipment	1,516	-	-	1,516
Sampling/assaying	561	-	-	561
Field/project supplies	186	-	-	186
Travel	382	-	-	382
Balance, December 31, 2005	\$75,673	\$601,646	\$103	\$677,422
Expenditures during 2006				
Acquisition & staking	140	247,387	-	247,527
Less carrying value of 40% share of property interest (note 5)	-	(350,754)	-	(350,754)
Exploration:				
Equipment	1,122	-	-	1,122
Personnel	6,683	1,159	-	7,842
Recording fees & permits	9	-	-	9
Drilling/Advanced evaluation study	45,555	21,686	-	67,241
Geophysical	641	55	-	696
Sampling/assaying	965	72	-	1,037
Travel	797	156	-	953
Asset retirement obligation	247	196	-	443
Balance, December 31, 2006	\$131,832	\$521,603	\$103	\$653,538

The recoverability of the amounts for mineral properties is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to establish the existence of reserves and to complete the development of such reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date and calculated fair-values of properties acquired, less write-downs, losses and recoveries, and does not necessarily reflect present or future values.

a) Star Property

At December 31, 2006 the Company held a 100% interest in the Star Property, consisting of certain mineral dispositions located in the Fort à la Corne kimberlite field approximately 60 kilometers east of Prince Albert, Saskatchewan. The majority of expenditures incurred by the Company over the past two years have been on exploring this property, including bulk sampling and the commencement of an advanced evaluation study.

b) Fort à la Corne Property

The Company, through its wholly owned subsidiary, Kensington Resources Ltd. ("Kensington") held a 42.245% interest in certain mineral claims in the Fort à la Corne area of Saskatchewan. Other interests in the property were De Beers Canada Inc. ("De Beers")(42.245%), UEM Inc. ("UEM")(10% carried) and Cameco Corporation ("Cameco")(5.51%). On September 29, 2006 Kensington completed a series of transactions to purchase the remaining participating interest in the Fort à la Corne Property. Concurrent to these transactions, the Company also sold a 40% interest in the property to the Company's new joint venture partner Newmont Mining Corporation of Canada Limited. As a result of these transactions, Kensington increased its ownership interest in the Fort à la Corne Property by 17.755% to 60%. The details of the transaction are described in note 4 of these financial statements.

c) Other Diamond Properties

At December 31, 2006 the Company held a 100% interest in two additional diamond properties located northwest of the Fort à la Corne kimberlite field area known as the Foxford/Birchbark and Weirdale properties.

d) Intangibles

In 2005, Shore entered into a voting arrangement with Cameco and UEM relating to the Fort à la Corne Property. Pursuant to this arrangement, these parties agreed to vote with Shore on all operating decisions over a term up to seven years in exchange for a cash payment of \$10 million by Shore.

The voting arrangement became effective October 31, 2005 and was to expire on October 31, 2012. The cost of the arrangement was to be amortized over its estimated useful life of 7 years on a straight-line basis. When Shore acquired the remaining interests in the Fort à la Corne Joint Venture, provisions of the voting agreement ceased to be applicable and the unamortized costs were capitalized to mineral properties.

## **5. Purchase and sale of property interest**

On September 29, 2006, Shore, through its 100% owned subsidiary Kensington Resources Ltd., completed a series of transactions to affect the purchase of the remaining participating interest in the Fort à la Corne Property for \$246.1 million. Concurrent to these transactions, the Company also sold a 40% interest in the property for \$170.4, of which \$0.1 was assigned to net identifiable assets. As a result of these transactions, the Company increased its ownership interest in the Fort à la Corne Property by 17.755% to 60% for \$77.1 million, including transaction costs of \$1.4 million. The sale transaction was accounted for as follows:

Proceeds on sale of property interest	\$ 170,315
Less carrying value of 40% share of property interest	350,754
Loss on sale of property interest before future income tax recovery	<u>\$ (180,439)</u>
Future income tax recovery	55,936
Net loss on sale of property interest	<u>\$ (124,503)</u>

The carrying value of the Fort à la Corne Property is based on actual costs and fair-values of acquiring the property that have been accumulated since the merge with Kensington Resources Ltd. (note 6). The loss resulting from the 40% sale of the property is not indicative of present or future values of the Fort à la Corne Property.

## 6. Merger with Kensington Resources Ltd.

On August 15, 2005 Shore and Kensington announced the signing of a definitive agreement (the "Combination Agreement") to merge the two companies. On October 21, 2005, the shareholders' of Kensington approved the Plan of Arrangement ("the Plan") as contemplated in the Combination Agreement. On October 28, 2005 the Supreme Court of the Yukon Territory approved the merger between Shore and Kensington.

Pursuant to the Combination Agreement and the Plan of Arrangement, Shore issued an aggregate of 51,706,786 common shares, representing 0.64 common shares for each issued and outstanding common share of Kensington to the former shareholders of Kensington as at October 28, 2005. An additional 6,879,962 common shares were reserved for issuance pursuant to options, warrants and broker warrants held by the former security holders of Kensington.

The purchase price, based on the fair value of common shares, options, and warrants issued by Shore on October 28, 2005 is \$392.7 million plus merger costs of \$8.6 million. The merger was accounted for using the purchase method with Shore being identified as the acquirer. The results of operations of Kensington are included in Shore's consolidated financial statements from the effective date of the merger. The allocation of the purchase price is summarized below:

Net assets acquired:	
Working capital, including cash of \$35,537	\$ 30,919
Property and equipment	182
Mineral properties	588,948
Future income tax liabilities	(218,765)
<b>Total net assets acquired</b>	<b>\$ 401,284</b>
Purchase price financed by:	
Common shares of Shore (51,706,786 shares at \$7.02)	\$ 362,982
Fair value of Shore options issued to Kensington option holders <sup>(1)</sup>	16,542
Fair value of Shore warrants and broker warrants issued to Kensington warrant and broker warrant holders <sup>(2)</sup>	13,175
Transaction costs	8,585
<b>Total purchase price</b>	<b>\$ 401,284</b>

(1) On October 28, 2005 Kensington had outstanding 4,610,000 options that were exchanged for Shore options at a rate of 0.64:1. The options were valued using the Black-Scholes option-pricing model with the following assumptions: volatility of 65%, risk-free rate of return of 4%, expected dividend of 0%, and expected term of 2.7 years

(2) On October 28, 2005 Kensington had 6,139,940 warrants and broker warrants outstanding that were exchanged for Shore warrants, which entitled the holder to 0.64 shares of Shore shares upon exercise. The warrants were valued using the Black-Scholes option-pricing model with the following assumptions: volatility of 40%, risk-free rate of return 4%, expected dividend of 0%, and expected term of 0.5 years.

## 7. Investment in Wescan Goldfields Inc.

At December 31, 2006, Shore and its subsidiaries held 11,474,086 (2005 – 8,474,086) shares of Wescan Goldfields Inc. (“Wescan”). As a result of various option and warrant exercises during 2006, Shore’s interest in Wescan was diluted by approximately 3.0% (2005 – 9.2%) prior to Shore’s participation in a private placement in late 2006. The dilution of the Company’s interest in Wescan resulted in a gain of \$307,815 (2005 - \$947,397). Shore acquired an additional 3 million units from the private placement for \$0.35 per unit to bring its interest in Wescan to 19.4%. Each unit consisted of one common share and one-half purchase warrant. Each full warrant is exercisable at \$0.45 per warrant and will expire on December 19, 2007. Shore has accounted for its interest in Wescan on an equity basis. During the year, Shore’s weighted average investment in Wescan was 17.2% (2005 – 23.4%).

The change in the investment is summarized as follows:

Balance - December 31, 2004	\$ 337
Fair value of Wescan shares held by Kensington Resources Ltd. upon amalgamation	2
Gain on dilution in equity investment	947
Share of losses	(74)
<b>Balance – December 31, 2005</b>	<b>\$ 1,212</b>
Investment – private placement (3 million units)	1,050
Gain on dilution in equity investment	308
Share of losses	(33)
<b>Balance - December 31, 2006</b>	<b>\$ 2,537</b>

Wescan is publicly traded on the TSX Venture exchange. The trading value of the Company’s equity interest in Wescan at December 31, 2006 was \$5,163,000 (2005 – \$8,389,000).

## 8. Property and equipment

Property and equipment is made up of the following:

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Automotive equipment	\$ 38	\$ 16	\$ 22	\$ 32
Buildings	280	8	272	-
Computer equipment	175	77	98	64
Computer software	7	7	-	4
Furniture & equipment	766	157	609	337
Leasehold improvements	576	99	477	390
	<b>\$1,842</b>	<b>\$364</b>	<b>\$1,478</b>	<b>\$827</b>

## 9. Accounts payable and accrued liabilities

At December 31, accounts payable and accrued liabilities consisted of the following:

	2006	2005
Trade payables	\$10,133	\$ 6,035
Accrued liabilities	1,515	1,520
Property cash calls accrued	65	7,222
	<b>\$11,713</b>	<b>\$14,777</b>

## 10. Asset retirement obligations

The Company's asset retirement obligations consist of reclamation costs predominately relating to exploration drill pads and related access roads on both the Star and the Fort à la Corne Joint Venture properties. The present value of obligations relating to mineral properties is currently estimated at \$255,000 and \$196,000, respectively. The obligations were determined using a 5% discount rate and expected payment of future obligations of \$498,000 over the next 1 to 3 years. Accretion expense of \$8,000 has been charged to operations in 2006 to reflect an increase in the carrying amount of the asset retirement obligation. A summary of the asset retirement obligations is as follows:

	Star Property	Fort à la Corne Property	Total 2006	Total 2005
Asset retirement obligations, beginning of year	\$ -	\$ -	\$ -	\$ -
Liabilities incurred	247	196	443	
Liabilities settled	-	-	-	-
Accretion expense	8	-	8	-
Asset retirement obligations, end of year	255	196	451	-
Less: current portion	(89)	(69)	(158)	
Asset retirement obligations	\$ 166	\$ 127	\$ 293	\$ -

In relation to these obligations, and as required by regulatory authorities, the Company has provided a letter of credit as security for reclamation related to the Star property in the amount of \$247,000. As security for this letter of credit, the Company has provided an investment certificate of the same amount, with proceeds of maturities being re-invested as part of the investment. The Company and regulatory authorities are currently negotiating potential security for reclamation related to the Fort à la Corne Joint Venture Property and this process will be completed once a review of the Property has been conducted.

## 11. Income taxes

The significant components of future income tax assets and liabilities at December 31, 2006 and 2005 are as follows:

	2006	2005
Future income tax assets		
Non-capital loss carry forwards	\$ 6,594	\$ 5,347
Share issue costs	2,751	4,802
	9,345	10,149
Future income tax liabilities		
Investments	\$ (183)	\$ (187)
Mineral properties	(126,470)	(226,765)
Future income tax liabilities	(126,653)	(226,952)
Net future income tax liability	\$ (117,309)	\$ (216,803)

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. The reasons for these differences are as follows:

	2006	2005
Loss before income taxes	\$ 176,962	\$ 8,114
Combined federal and provincial tax rate	39.6%	43.0%
Expected tax recovery	(70,077)	(3,489)
Increase (decrease) in taxes resulting from:		
Non-deductible stock option expenses	248	3,883
Other non-deductible amounts	51	53
Non-taxable dilution gain	(54)	(204)
Effect of change in effective tax rates	(29,662)	11
Future income tax (recovery) expense	(99,494)	254
Large corporations tax	(4)	123
Provision for income tax recovery (expense)	\$ (99,498)	\$ 377

During the year the Company paid \$76,000 (2005 – \$ 47,000) in large corporation taxes.

At December 31, 2006, the Company had operating losses for income tax purposes approximating \$21,000,000 available to reduce taxes in future years and expire over the period to the year 2026.

## 12. Share capital

### Authorized

The authorized share capital of the Company consists of unlimited common shares.

The common shares of the Company are entitled to dividends pro-rated and when declared by the Board of Directors 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.

### Issued and outstanding (in thousands)

	2006			2005		
	Common Shares	Warrants	Amount	Common Shares	Warrants	Amount
Balance - beginning of year	170,515	5,434	\$692,985	68,539	9,333	\$ 68,181
Common shares issued (a)	-	-	-	21,200	-	116,600
Common shares issued (note 6)	-	-	-	51,707	5,434	362,982
Common shares issued (b)	-	-	-	17,150	-	120,050
Warrants exercised/expired (c)	3,466	(5,434)	24,778	9,333	(9,333)	23,683
Broker warrants exercised (d)	429	-	2,909	1,443	-	4,635
Options exercised (e)	2,352	-	12,795	1,143	-	4,927
Issue costs	-	-	-	-	-	(8,073)
Balance - end of year	176,762	-	\$733,467	170,515	5,434	\$692,985

#### a) Common shares

During March of 2005 the Company issued, through a public offering, 21,200,000 shares for gross proceeds of \$116,600,000.

#### b) Common shares

During November of 2005 the Company issued, through a public offering, 17,150,000 shares for gross proceeds of \$120,050,000.

c) Warrants

On certain issues of common shares, the Company attached warrants to the common shares entitling the holder to acquire additional common shares of the Company. A summary of the outstanding warrants (in thousands) is as follows:

	Warrants	Average Price
Balance - December 31, 2004	9,333	\$2.54
Granted	-	-
Issued on Kensington merger (note 6)	5,434	2.43
Exercised	(9,333)	2.54
Balance - December 31, 2005	5,434	\$2.43
Granted	-	-
Exercised	(5,416)	2.43
Expired	(18)	2.50
Balance - December 31, 2006	-	\$ -

As part of the merger with Kensington each outstanding warrant of Kensington became a warrant of the Company. At October 28, 2005 there were 5,434,358 warrants of Kensington which entitled the holder to 0.64 shares of Shore for a total of 3,477,989 shares of Shore being issued upon exercise.

d) Broker warrants and broker unit warrants

On certain issuances of common shares, the Company granted either broker unit warrants or broker warrants as partial consideration to the agent for services associated to such share issues. A summary of the outstanding broker warrants (in thousands) is as follows:

	Broker Warrants	Average Price	Underlying Warrants	Average Price
Balance - December 31, 2004	796	\$2.20	624	\$2.51
Granted	-	-	-	-
Issued on Kensington merger (note 6)	348	3.28	104	3.91
Exercised	(819)	2.20	(624)	2.51
Balance - December 31, 2005	325	\$3.28	104	\$3.91
Granted	-	-	-	-
Exercised	(325)	\$3.28	(104)	\$3.91
Balance - December 31, 2006	-	\$ -	-	\$ -

As part of the merger with Kensington each outstanding broker warrant of Kensington became a broker warrant of the Company. At October 28, 2005 there were 543,579 broker warrants and attached underlying warrants of 162,000 of Kensington which entitled the holder to 347,890 and 103,680 shares of Shore being issued upon exercise, respectively.

e) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, consultants and employees to purchase common shares of the Company. On February 2, 2005, the Company amended its stock option plan so that the maximum number of common shares issuable under the plan was changed from a fixed maximum to a rolling maximum of 10% of the issued and outstanding shares. As at December 31, 2006, the number of shares reserved under the plan is 12,261,320. 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 have expiration dates of 5 years from the date of the grant of the options.

During 2006, the Company granted 639,000 (2005 – 3,696,000) options to officers, directors, consultants and employees. The fair value of these options was determined using the Black-Scholes option-pricing model with the following assumptions:

	2006	2005
Number of options granted (in thousands)	639	3,696
Average strike price	\$ 5.52	\$ 5.74
Expected dividend	-	-
Expected volatility	58.32%	62.18%
Risk-free interest rate	4.09%	4.05%
Expected life of options (in years)	5.00	5.00
Weighted average grant date fair values	\$1,895	\$12,565

The fair value of the options granted during 2006, using the Black-Scholes option-pricing model was \$1,895,108 (2005 - \$12,565,389). The fair value attributable to options that were granted and vested during the year was \$1,066,134 (2005 - \$12,565,389). Of this amount, \$441,036 (2005 - \$3,535,467) was capitalized as an addition to mineral properties and \$625,098 (2005 - \$9,029,922) was expensed with a corresponding increase of \$1,066,134 (2005- \$12,565,389) to contributed surplus.

For options outstanding (in thousands) at December 31, 2006 and 2005, weighted average exercise prices are as follows:

	Options	Average Price
Balance - December 31, 2004	2,398	\$1.22
Granted	3,696	5.74
Issued on Kensington merger (note 6)	2,950	1.70
Exercised	(1,143)	1.20
Balance - December 31, 2005	7,901	\$3.52
Granted	639	5.52
Exercised	(2,352)	1.93
Expired/forfeited	(458)	6.86
Balance - December 31, 2006	5,730	\$4.12

For options outstanding and exercisable (in thousands) at December 31, 2006, the range of exercise prices; weighted average exercise price and the weighted average remaining contractual life is as follows:

Option Price Per Share	Outstanding			Exercisable	
	Options December 31, 2006	Weighted Average Exercise Price	Weighted Average Remaining Life	Options December 31, 2006	Weighted Average Exercise Price
\$0.00 – 0.99	575	\$0.77	1.22 years	575	\$0.77
\$1.00 – 1.99	1,481	1.60	1.88 years	1,481	1.60
\$2.00 – 2.99	112	2.98	3.39 years	112	2.98
\$3.00 – 3.99	656	3.06	3.16 years	656	3.06
\$4.00 – 4.99	670	4.62	3.58 years	535	4.57
\$5.00 – 5.99	427	5.34	4.52 years	282	5.41
\$6.00 – 6.99	164	6.32	3.57 years	123	6.33
\$7.00 – 7.99	1,645	7.34	3.86 years	1,645	7.34
	5,730	\$4.12	3.00 years	5,409	\$4.06

f) Shareholder protection rights plan

The directors of the Company approved a shareholder protection rights plan (“Rights Plan”) on January 19, 2005. In the event a bid to acquire control of the Company is made, the Rights Plan is designed to give the directors of the Company time to consider alternatives to allow shareholders to receive full and fair value for their shares. In the event that a bid, other than a permitted bid, is made, shareholders become entitled to exercise rights to acquire common shares of the Company at 50 percent of market value. This would significantly dilute the value of the bidder’s holdings.

g) Contributed surplus

The fair-value of certain stock options, warrants and broker warrants have been valued using the Black-Scholes option-pricing model. The fair-value on the grant of these securities is added to contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital. A summary of the contributed surplus activity is as follows:

	2006	2005
Balance – beginning of year	\$ 39,466	\$ 1,974
Fair value of options vested	1,066	12,565
Fair value of options from Kensington merger (note 6)	-	16,542
Fair value of warrants and broker warrants from Kensington merger (note 6)	-	13,175
Less: amounts related to options exercised	(8,263)	(3,547)
Less: amounts related to warrants exercised	(11,622)	(51)
Less: amounts related to broker warrants exercised	(1,438)	(1,192)
<b>Balance – end of year</b>	<b>\$ 19,209</b>	<b>\$ 39,466</b>

**13. Per share amounts**

Basic loss per common share is computed by dividing net loss applicable to common shares by the weighted average number of common shares issued and outstanding for the relevant period. The Company uses the treasury-stock method for calculating diluted earnings per share. Diluted loss per common share is computed by dividing net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued. The calculation of loss per share amounts is based on the following:

	2006	2005
Numerator:		
Loss applicable to common shares	\$ 77,463	\$ 8,491
Denominator:		
Weighted average common shares outstanding	174,820	101,502
<b>Basic and diluted loss per common share</b>	<b>\$ 0.44</b>	<b>\$ 0.08</b>

Excluded from the calculation of diluted loss per common share were the effects of outstanding options as the effect on basic loss per share would be anti-dilutive.

**14. Related party transactions**

During the year ended December 31, 2006, management and consulting fees of \$1,892,418 (2005 – \$887,334) were paid to directors, officers and companies controlled by common directors and officers; \$400,650 (2005 - \$233,583) of these fees were capitalized as additions to mineral properties; \$781,068 (2005 - \$387,084) were included as administration expense and \$710,700 (2005 - \$266,667) were included as consulting and professional fees expense. The fair value of stock-based compensation related to directors and officers of the Company for the year ended December 31, 2006 was \$442,680 (2005 - \$6,167,510).

During the year ended December 31, 2006, the Company charged \$473,944 (2005 - \$61,587) to Wescan Goldfields Inc. for rent of office space, administration services, and rental of equipment.

The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The fair value of stock-based compensation was determined using the Black-Scholes model.

## 15. Financial instruments

Financial instruments are initially recorded at cost. The fair values of cash and cash equivalents, receivables and payables and accrued liabilities approximate their recorded amounts due to their short-term nature.

## 16. Commitments and Contingencies

### i. Commitments

As at December 31, 2006, the Company is committed to operating leases for office space, various equipment and drilling services as follows:

Year	
2007	\$ 3,683
2008	5,296
2009	5,380
2010	5,385
2011	95
Thereafter	-
Total	\$19,839

### ii. Contingencies

On February 6, 2006, De Beers issued a statement of claim in the Court of Queen's Bench for Saskatchewan which named Shore, Kensington (which is a wholly-owned subsidiary of Shore), Cameco and UEM as defendants. DeBeers' wanted the voting arrangement dated October 31, 2005 among Shore, Cameco and UEM declared void and was seeking an injunction restraining Shore from interfering with the independent exercise of votes by Cameco or UEM under the operating agreement. The claim was also to restrain Cameco and UEM from accepting voting instructions from Shore and for damages against Shore for interference with economic relations and inducing breach of contract.

On August 22, 2006, the action was dismissed with the consent of all parties.

## 17. Comparative Figures

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

## 18. Subsequent Event

Subsequent to December 31, 2006, the Company granted stock options to purchase 1,670,000 common shares, at a weighted average exercise price of \$6.21 per share, to directors, officers and employees. The options can be exercised for the purchase of one common share over a period of five years.