



Management Discussion & Analysis
December 31, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management Discussion and Analysis is prepared as of March 15, 2007 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006. Shore Gold Inc. ("Shore" or "the Company") prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are reported in Canadian dollars unless otherwise indicated.

Overview

During the first and second quarter of 2006, the Company's exploration efforts focused on the Fort à la Corne area of central Saskatchewan on its 100% owned Star Diamond Property and its then owned 42.245% interest in the Fort à la Corne Joint Venture ("FALC-JV"). In the third quarter of 2006 the Company concluded a significant initiative regarding the ownership of the FALC-JV. Effective September 29, 2006, Shore, through its 100% wholly-owned subsidiary, Kensington Resources Ltd. ("Kensington") acquired the remaining 57.755% in the FALC-JV from the former joint venture participants and concurrently sold 40% of its interest in the property to Newmont Mining Corporation of Canada Limited ("Newmont"). As a result of these transactions, Kensington retained a 60% controlling interest in the FALC-JV and became operator.

Before the change in ownership took place, the former joint venture participants had come to a unanimous agreement on a \$43.2 million budgeted program for the 2006 fiscal year of which Shore would have been responsible to fund approximately \$20 million. By late June 2006, the core pattern-drilling program (that was part of the previously approved \$43.2 million budget) had commenced on the Orion Kimberlite Cluster of the FALC-JV. That program was budgeted to consist of over 200 core drill holes and between five to nine large diameter ("LD") holes. Scheduled completion of the program was projected to be in late December, however, with the change in ownership in the FALC-JV in late September, the program was reevaluated to more aggressively explore the property. The technical teams from Shore and Newmont met to reevaluate all available FALC-JV data to reassess the balance of the 2006 exploration program and to establish a program and budget for 2007. On November 8, 2006 (see SGF News Release November 8, 2006), Shore announced a \$20.3 million budget on the FALC-JV property for the last quarter of 2006 and a \$46.2 million budget for the 2007 exploration program. The primary focus of these programs is the Orion Cluster of kimberlites, with emphasis on performing core and LD drilling to define the best location for a new shaft which would enable a bulk sample to be extracted. The original \$43.2 million budget for 2006 had a similar focus and as a result of the modifications by the new JV participants the total budget increased to \$45.2 million. The addition of LD drilling holes to the program was the main reason for the increase in budget.

Considerable advancement was also achieved on Shore's 100% owned Star Kimberlite Property's advanced exploration program. The Company announced that a geological model estimate of approximately 275.8 million tonnes of kimberlite (see SGF News Release October 17, 2006) had been constructed for the Star Kimberlite including the

portion referred to as Star West (the portion of the kimberlite that falls within the FALC-JV). This tonnage estimate will continue to be refined as recovered diamonds from Phase 3 bulk sampling and LD drilling are valued and incorporated into the model. The completion of certain aspects of the Star advanced exploration program have been deferred as the LD drilling rigs have temporarily been moved to the Orion Kimberlite Cluster on the FALC-JV property in order to expedite results from this area. Once the first phase of LD drilling on the Orion Kimberlite Cluster has been completed in early 2007, the LD drilling rigs will return to the Star Kimberlite to complete the remaining LD holes. According to the current schedule, and assuming the results from the remaining samples are positive, management anticipates that a Mineral Resource estimate may be available for the Star Kimberlite in early to mid 2008 and that the work required for converting the Mineral Resource to a Mineral Reserve is expected to be achieved by mid to late 2008.

FALC-JV Interest Purchases and Sale

On September 25, 2006 (see SGF News Release September 25, 2006), Shore announced that Kensington had entered into agreements to acquire De Beers Canada Inc.'s ("De Beers") 42.245% participating interest in the FALC-JV for \$180 million and to acquire Cameco Corporation's ("Cameco") and UEM Inc.'s ("UEM") remaining interests for a combined cash price of \$66.1 million giving Kensington 100% ownership. Concurrent with these acquisitions, Kensington sold a 40% interest in the FALC-JV to Newmont for \$170.4 million on the same terms and conditions as those associated with the De Beers, Cameco and UEM acquisitions.

These transactions resulted in Kensington holding a 60% interest in the FALC-JV with Shore maintaining a sufficient cash position to fund exploration programs on both Star and the FALC-JV through to the anticipated timeframe of completing a bankable feasibility study on the Star Property (expected to be achieved by the end of 2008). Kensington also became operator of the FALC-JV which has allowed for a more synergistic use of resources in moving both properties forward.

Star Diamond Property Advanced Exploration Program

On October 17, 2006, the Company announced a 275.8 million tonne geological model estimate of the Star Kimberlite, including Star West. The model is an estimate of the size of the kimberlite body based on information gathered to date and is not considered a Mineral Resource estimation. The model is the culmination of significant exploration work over the past several years that was required to adequately test the large kimberlites of the Fort à la Corne region. As information developed regarding the potential size of the kimberlites in the area, Shore geologists developed and tested exploration methods to specifically evaluate such large bodies. These exploration methods include but are not limited to the following:

1. **Pattern Core drilling** is performed in a systematic manner to outline the kimberlite body. This process, combined with detailed quantitative logging,

- whole rock geochemistry, density measurements and downhole geophysics, helps to define the size and shape as well as map the internal structure of the kimberlite;
2. **Large Diameter (LD) drilling** (1.2 metre in diameter) recovers mini-bulk samples for diamond grade and value modeling purposes across the kimberlite in three dimensions and is a much more cost effective method of data collection than performing the number of bulk samples that would be required to obtain similar information. The LD drill holes are always paired with core holes so that the kimberlite geology is known prior to drilling; and
 3. **Underground bulk sampling** is performed on major kimberlite lithologies for accurate diamond grade and value estimates on macrodiamond (+1.0 millimetre) parcels in the hope of recovering in excess of 1,000 carats from significant lithologies within a kimberlite.

Star Core Drilling

A total of 52,749 meters of surface core drilling has been completed on the Star Kimberlite which included exploration drilling (9,640 metres) and pattern core drilling (43,109 metres). The exploration drilling gave an early indication of the size and shape of the Star Kimberlite. The pattern core drilling was mostly completed in 2005 on a 100-metre grid and forms the framework of the geologic model. Certain in-fill drilling occurred during 2006 resulting in the identification of two other lithologies in the Star Kimberlite, namely the Cantuar and Pense lithologies. From the information available to date, Shore geologists have determined that the Star Kimberlite contains five dominate lithologies, namely the Early ("EJF"), Mid ("MJF") and Late ("LJF") Joli Fou, Cantuar and Pense. The core drilling is nearing completion on the Star Kimberlite, however certain exploration drilling is planned in 2007 on other prospective targets in Shore's 100% owned land claims.

Star LD Drilling

As of March 15, 2007, a total of 8,899 metres of LD drilling was completed from 46 holes producing approximately 6,400 tonnes of kimberlite samples. The majority of this LD drilling was completed in the 2006 fiscal year. The LD drilling program on Star has been temporarily interrupted (at approximately 65% complete to date) while the two LD rigs drill a twenty-hole program on the Orion Kimberlite Cluster (FALC-JV kimberlites). The processing of these samples from the Star LD drilling has also been delayed while the material from the underground samples from the Star Kimberlite and the LD samples from the Orion Kimberlite Cluster are processed. On August 14, 2006 (see SGF New Release August 14, 2006), Shore announced the results of the first 15 holes from the LD drilling component of the advanced exploration program. A total of 2,249 dry tonnes of EJF kimberlite had been sampled which resulted in 266 carats for an average grade of 11.84 carats per hundred tonne ("cpht"). The mini-bulk samples have been taken from LD drill holes several hundred metres apart and at a significant distance from the underground workings. When compared to the grades achieved from the initial 2,200 tonne underground bulk sample of EJF, the results of these samples are encouraging due to the consistency in stone size and grade compared to that of the original bulk sample. Thus far, the results achieved suggest that the grade may be consistent across the entire kimberlite body, however more samples will need to be processed before definite

conclusions can be reached. Figure 1 illustrates the relative distance and cpht recovered from the bulk samples from the 15 LD drilling samples reported to date.

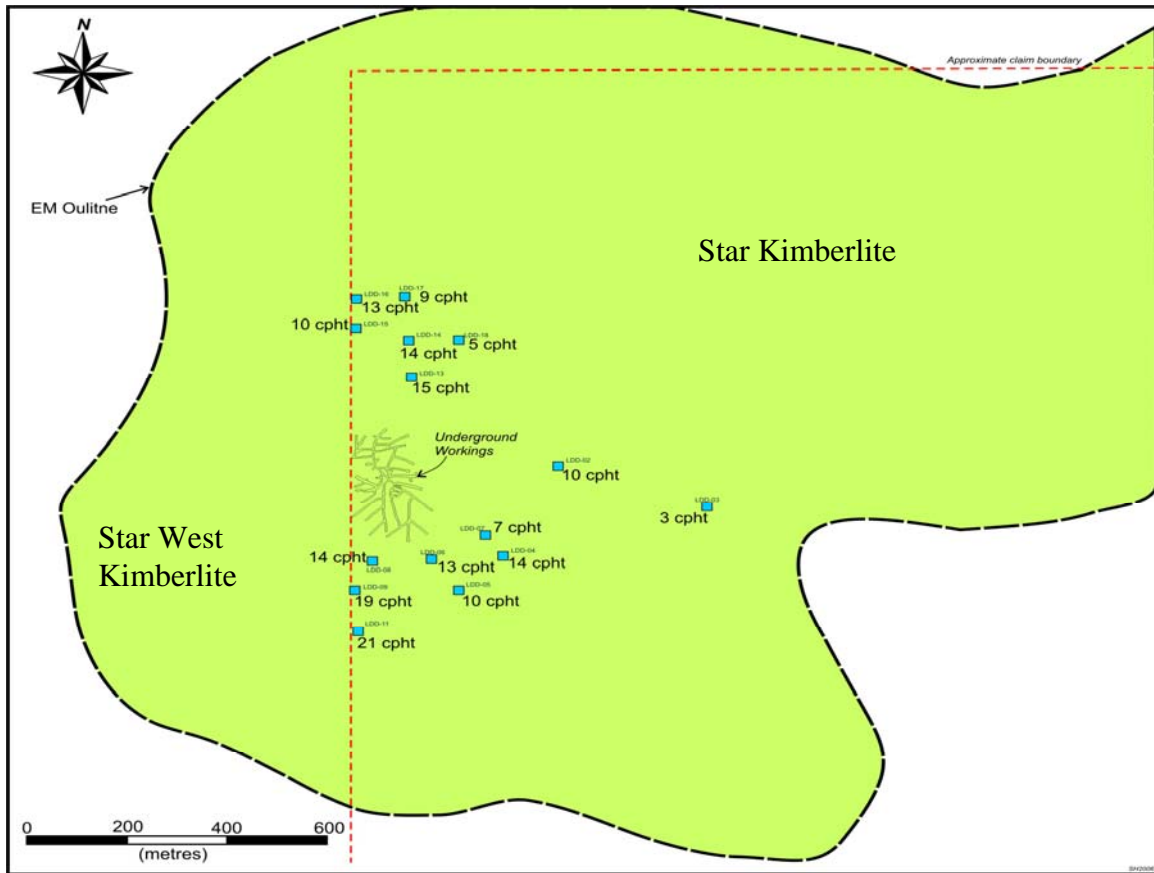


Figure 1: Results of first 15 large diameter drilling mini-bulk samples

Star underground bulk sampling

Two phases of underground bulk sampling have been completed and a 5,950 carat parcel of rough diamonds that were sent to third party valuers determined the average value to be \$135US per carat. Management anticipated the underground samples for Star would be complete after the second phase, but as Phase 2 of underground bulk sampling was nearing completion, surface pattern core drilling intersected significant volumes (estimated to be greater than 20 million tonnes) of Cantuar and Pense Kimberlite to the southwest and east of the shaft, respectively. To ensure a representative sample was obtained from all significant lithologies identified, the underground bulk sample program expanded to include Phase 3 in April of 2006. This phase was intended to target the Cantuar and Pense Kimberlite lithologies with the aim of recovering macrodiamond parcels in excess of 1,000 carats. Based on minerals and textures observed in the core drilling intersections, Shore believes that these two kimberlite lithologies could significantly impact the future economics of the Star Kimberlite. As of March 15, 2007, the Cantuar component of Phase 3 of the underground bulk sample had been completed and the Pense component was well advanced and scheduled for completion sometime in the later part of March 2007. Once completed, the shaft and underground workings will

be decommissioned on the Star Kimberlite, which will free up resources to sink another shaft on the FALC-JV, currently scheduled to begin in mid 2007.

The kimberlite tonnage sampled and the diamonds (carats) recovered from each phase of sampling from the Star Kimberlite are listed in the following table.

Phase of Underground Bulk Sampling	Kimberlite Sampled (Dry tonnes)	Diamonds Recovered (Carats)
Phase 1	25,253	4,049
Phase 2	18,272	3,016
Phase 3 (reported to date)	10,426	1,563
Total (reported to date)	53,951	8,628

In early 2005, the results of the first 3,050 carats extracted from the 25,000 bulk sample were released (see SGF News Release February 23, 2005), indicating an average modeled value of \$135 US per carat. By March 2006 (see SGF News Release March 20, 2006), the results of a second valuation exercise were released that took into account the 4,049 carats recovered from the Phase 1 bulk sample as well as 1,901 carats from Phase 2. The results of this second valuation exercise increased confidence in the original modeled diamond value of \$135US per carat. Approximately 1,100 carats remain to be valued from Phase 2 and will be included in the next valuation exercise which is expected to occur in late 2007.

The on-site processing plant continues to process both bulk and LD drilling samples. The concentrates (as recovered from the on-site processing plant) are sent to a third party to process final diamond recoveries. The results of many of these samples are pending and will be released once available. As at March 15, 2007, approximately 3,200 tonnes of LD samples and approximately 7,000 tonnes of underground samples are waiting to be processed into concentrates to be sent to a third party for final diamond recoveries. Once all the programs have been completed and the results have been fully evaluated, a Mineral Resource estimation is expected to be available in early to mid 2008 and that the work required for converting the Mineral Resource to a Mineral Reserve is expected to be achieved by mid to late 2008. Assuming the Mineral Reserve is successfully defined for the Star Kimberlite in these timeframes, the completion of a full bankable feasibility study would be possible by the end of 2008.

FALC-JV Property Exploration Program

The former FALC-JV Management Committee agreed to a \$43.2 million 2006 FALC-JV Exploration program on April 21, 2006. The program was to include some 200 core drill holes and between five and nine LD drill holes on the Orion Kimberlite Cluster. The Orion Cluster is made up of a group of nine defined kimberlites that are believed to form a seven-kilometer long continuous belt of kimberlite (kimberlites 133, 140, 141, 145, 147, 148, 219, 220, and 120). The program was also to include the Star West Kimberlite and three other selected kimberlites (kimberlites 118, 123, and 152). Figure 2 illustrates the relative size and proximity of the above kimberlites to Shore's Star Kimberlite based on current information.

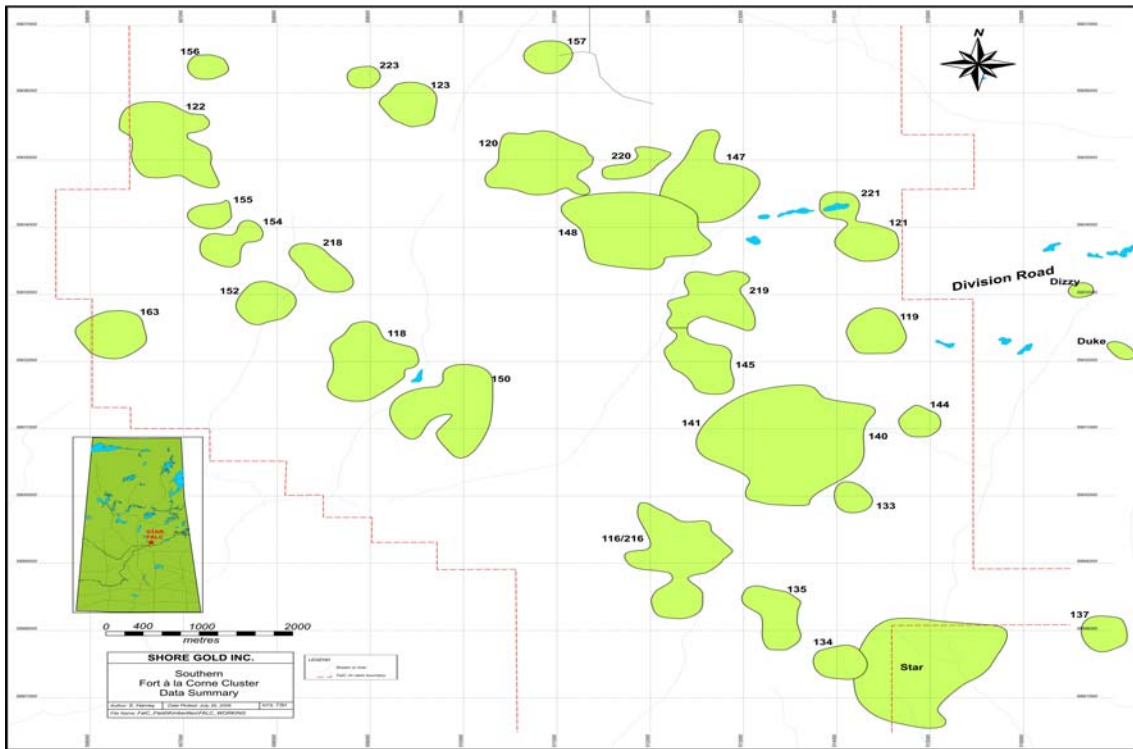


Figure 2: FALC-JV Kimberlites

On November 8, 2006 the new FALC-JV partners (Shore and Newmont) reached a unanimous agreement on new budgets for the remainder of 2006 as well as for the 2007 exploration program. The new budgets for Quarter 4 - 2006 was \$20.3 million and \$46.2 million for 2007. The aim of these programs will be to provide sufficient evidence to justify and determine the optimum location for a shaft to be sunk to produce an underground bulk sample from the Orion Cluster of kimberlites. This determination should result in the drilling for the shaft freeze wall in the overburden to commence in April 2007. Based on this timeline, the shaft is estimated to be complete in the third quarter of 2008. In addition to Orion Cluster work, the 2006/2007 program contains plans to perform core, LD drilling and underground sampling on Star West.

As a result of the core drilling already completed, a tonnage estimate of 800-870 million tonnes of kimberlite for Orion North was recently released (see SGF News Release November 24, 2006) and more recently (see SGF News Release March 2, 2007) a tonnage estimate for Orion South was estimated to be 360-400 million tonnes. Though neither estimate is a Resource or a Reserve, the tonnage estimates are based on the significant core drilling performed to date. Based on the drilling results to date, the tonnage estimate for Orion South has more than doubled from the previous September 2004 estimate of 134 million tonnes. The announcements to date bring the total estimate of kimberlite to 1.2 billion tonnes from seven of the sixty known kimberlites on the FALC-JV.

Since Kensington has taken over the operatorship of the FALC-JV, the programs have proceeded as planned; \$17.4 million of the \$20.3 million fourth quarter budget had been

spent, bringing total spending on the FALC-JV for 2006 to \$41.8 million. As of March 15, 2007, in excess of 63,000 metres of core drilling had been completed on the Orion Cluster since the beginning of 2006. This drilling has resulted in 6 new feeder vents being discovered, bringing the total number of feeder vents discovered on the FALC-JV to ten (See SGF News Release October 30, 2006). In addition, 18 large diameter drill holes out of the 20 holes on Orion North had been completed and mining of the underground sample (which targeted the Cantuar lithology) was complete on Star West. Assuming all required permits are granted by regulatory bodies, the sinking of the shaft for an underground bulk sample on the Orion Cluster will proceed as planned.

Selected Annual Information

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

	2006 \$	2005 \$	2004 \$
Revenues (millions)	9.5	3.4	0.2
Net loss (millions)	77.5	8.5	1.5
Net loss per share ⁽¹⁾	0.44	0.08	0.03
Total assets (millions)	787.5	946.9	63.5
Working capital ⁽²⁾ (millions)	118.1	252.6	27.6

(1) Basic and diluted.

(2) Before net change in non-cash working capital items.

Results of Operations

For the year ended December 31, 2006, the Company recorded a net loss of \$77.5 million or \$0.44 per share compared to a net loss of \$8.5 million, or \$0.08 per share for 2005. The reason for the large loss in 2006 compared to 2005 relates to the disposition of a 40% interest in the FALC-JV property resulting in a loss of \$124.5 million net of a \$55.9 million future income tax recovery. This loss was offset by a \$44.9 million future income tax recovery that was recorded during the second quarter of 2006 resulting from the federal and provincial governments enacting a decrease in corporate income tax rates. Furthermore, a \$6.1 million increase in interest and other income was offset by a \$2.1 million increase in operating cash expenditures. The increase in interest revenue is indicative of the level of investments the Company held after the completion of two significant financings in 2005 that were undertaken to fund expanding exploration efforts. These expanding exploration efforts include operating two multi-million dollar exploration programs which has required the Company to rapidly expand its personnel and administrative support over the past twelve months. Non-cash expenses in 2006 of approximately \$0.6 million related to the fair value of stock-based compensation were significantly less than the \$9.0 million in 2005. After the effects of the mineral property sale and the corporate income tax rate change have been removed, the increased interest income this year has resulted in the Company creating taxable income of approximately \$4.2 million that led to a non-cash future income tax expense of \$1.3 million.

Revenues

For the year ended December 31, 2006 the Company reported interest and other revenue of \$9.5 million as compared to \$3.4 million for the year ended December 31, 2005. The \$6.1 million increase in revenue in 2006 is the result of investing cash on hand after the completion of two equity financings during 2005. Positive trends in interest rates for 2006 also attributed to increased interest revenue over 2005 levels.

Expenses

Total operating costs for the year ended December 31, 2006 equaled \$6.3 million compared to \$12.4 million for the year ended December 31, 2005. This represents a decrease of \$6.1 million or 49%. This decrease can generally be explained due to the fair value of stock-based compensation that was expensed during 2005 from the issuance of stock options. The fair value of the options expensed during 2006 was \$0.6 million compared to \$9.0 million for 2005. Once the effect of accounting for stock-based compensation is removed, the specific categories of expenses become more comparable period over period. The Company's significant growth over the past year has caused administrative expenses to rise in order to support the large amount of activity occurring on the Company's projects. The following discussion relates to the expense variances, and removes the effect of stock-based compensation for comparative purposes.

Administration expense increased from \$1.5 million for 2005 to \$2.7 million for 2006. The \$1.2 million increase (an 80% increase) in administration expense is due to increased lease costs from the tripling of office space, increased personnel, increased listing fees from the Toronto Stock Exchange, and bonuses paid to senior management. These increases are representative of the growth the Company has experienced over the last year. Consulting and professional fees increased by 122% from \$0.9 for in 2005 to \$2.0 million for the same period in 2006. The increase is partially the result of bonuses paid to certain consultants; however, the majority of the increase relates to increased legal fees associated with defending the claim filed against the Company, and its wholly owned subsidiary, Kensington, by De Beers regarding the Voting Agreement between Kensington, Cameco and UEM. Corporate development expenditures remained relatively unchanged at \$0.7 million.

Loss on sale of property interest

On September 29, 2006, Shore, through its 100% owned subsidiary Kensington, completed a series of transactions to affect the purchase of the remaining participating interest in the Fort à la Corne Property from the other joint venture participants. Concurrent with these transactions, the Company sold a 40% interest in the property. The sale of the 40% property interest resulted in a loss for accounting purposes since the pro rata share of the carrying value of the mineral property exceeded the cash proceeds by approximately \$180.4 million. After the future income tax recovery of \$55.9 million was applied, the net loss on the sale equaled \$124.5 million. The loss is attributable to the build up of costs on the FALC-JV mineral property. When Shore merged with Kensington in October of 2005, the transaction was accounted for using the fair values of the shares, options and warrants given up to Kensington shareholders on October 28,

2005. Additionally, because shares were acquired with virtually no tax base, an additional increase to the fair value had to be determined to factor in the future income tax expense associated with these fair values. The series of transactions in late September 2006 leading to the acquisition of a 100% interest in the FALC-JV were accounted for as a purchase of assets, resulting in an accounting and tax base of equal values. The combination of the two accounting methods for the specific circumstances has resulted in a carrying value on a pro rata basis in excess of the 40% interest that was sold. Management is of the belief that the resulting loss on this transaction is the result of the accounting treatments for the various steps in the acquisitions as opposed to a reflection of the true economic value of the project.

Income taxes

Income tax expense went from almost nil in 2005 to a recovery of almost \$100 million in 2006. The large recovery in 2006 was the result of two major events. Firstly, the loss on the disposition of the 40% interest in the FALC-JV of \$180.4 million resulted in the reversal of taxable temporary differences of \$55.9 million. The second major event was the federal and provincial governments substantially enacting a decrease in the corporate income tax rates resulting in a future income tax recovery of \$44.9 million. The future income tax expense in 2005 predominately related to the taxable temporary difference arising from the dilution gain on the Company's equity investment in Wescan Goldfields Inc. ("Wescan").

Investing

Shore's main focus during 2006 was on exploration programs related to its 100% owned Star Kimberlite Property and its 60% interest in the adjacent FALC-JV Property. Total cash expended by the Company in 2006 for mineral properties in the Fort à la Corne area was \$155.7 million. The Company incurred \$55.5 million (2005 - \$42.3 million) in mineral property additions related to the Star Kimberlite Property and spent another \$23.1 million (2005 - \$2.4 million) for the Company's percentage share of costs related to the FALC-JV Property. The exploration expenditures are in addition to the \$77.1 million spent acquiring an additional 17.755% interest in the FALC-JV property. The expenditures on the Star Kimberlite Property related to additional bulk samples and LD drilling programs, while the expenditures on the FALC-JV Property predominately related to an extensive core drilling program and the beginning of LD drilling in late 2006.

Investing activities in 2006 also included Shore acquiring an additional 3 million units of Wescan, from a 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. The participation in the private placement re-established Shore's interest to 19.4% after having its investment in Wescan diluted by more than 50% since Wescan's initial public offering in 2004. The dilution of its interest has resulted in Shore recognizing gains of \$0.3 million in 2006 and \$0.9 million in 2005.

Financing

During the year ended December 31, 2006, there were 6.2 million (2005 – 11.9 million) warrants, broker warrants and options exercised; resulting in additional cash flow from financing activities of \$19.2 million (2005 - \$28.4 million). All warrant and broker warrants that were exercised during 2006 were the result of the combination between Shore and Kensington on October 28, 2005. 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 fair value of the common shares, options, and warrants issued on October 28, 2005 was approximately \$392.7 million. Kensington's net identifiable assets at the time of the merger approximated \$31 million and included \$35 million in cash that has been used to fund exploration programs and acquisitions on the FALC Property. Predominately all of the warrants and broker warrants issued to the former Kensington holders were exercised during 2006. Out of the 5.7 million options outstanding at December 31, 2006, 1.2 million related to the former Kensington holders.

The Company's investing activities were capital intensive this year; exploration expenditures of \$78.6 million, combined with the net cash disbursement of \$77.1 million to acquire an additional 17.755% interest in the FALC-JV, has reduced the companies cash and short-term investments to \$121.5 million compared to \$261.7 million on December 31, 2005. The Company's large cash position at the end of 2005 was the result of two equity financings that raised over \$236.7 million during that year. Newmont participated in both financings to first acquire a 9.9% interest and subsequently retain their investment interest in the Company.

Summary of Quarterly Results

	2006				2005			
	Qtr 4 \$	Qtr 3 \$	Qtr 2 \$	Qtr 1 \$	Qtr 4 \$	Qtr 3 \$	Qtr 2 \$	Qtr 1 \$
Revenues ⁽¹⁾ (millions)	1.7	3.1	2.6	2.1	1.5	0.8	0.8	0.3
Net income (loss) ⁽²⁾ (millions)	(0.8)	(122.7)	45.6	0.4	(5.6)	(1.1)	(0.2)	(1.6)
Net income (loss)/share ⁽³⁾	0.00	(0.70)	0.26	0.00	(0.05)	(0.01)	(0.00)	(0.02)
Shares outstanding ⁽⁴⁾ (millions)	176.8	176.4	176.1	172.6	170.5	101.0	94.4	93.7

- (1) *The increase in revenue in the last three quarters of 2005 and the first three quarters of 2006 is the result of having increased cash balances from the closing of equity financings in the 1st and 4th quarters of 2005. The decline in interest revenue in the 4th quarter of 2006 resulted from having a decline in the Company's investment base after completing the 17.755% FALC-JV acquisition for \$77.1 million.*
- (2) *The 1st, 3rd and 4th quarters of 2005 saw marked increases in operating costs primarily associated with the fair value of stock-based compensation granted during the respective quarters. Interest revenue from cash reserves contributed to earnings from operations experienced in the 1st and 2nd quarters of 2006. The 2nd quarter of 2006 had significant income as the result of a future income tax recovery after the federal and provincial governments enacted reduced corporate income tax rates. In the 3rd quarter of 2006, the Company disposed of a 40% interest in a mineral property which resulted in a loss of \$124.5 million net of a \$55.9 million income tax recovery.*

- (3) *Basic and diluted.*
- (4) *The Company completed a public offering on March 22, 2005 resulting in the issuance of 21.2 million shares from treasury. To culminate the merger between the Company and Kensington, the Company issued an aggregate of 51.7 million 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. The Company completed its second public offering of 2005 by issuing 17.2 million common shares on November 29, 2005. Newmont participated in this financing to retain their 9.9% interest in the Company. Other changes in the number of shares outstanding are the result of warrant and option exercises.*

Fourth Quarter Results

The fourth quarter was a time for renewed focus for the Company. During the quarter the Company's management and new joint venture partner, Newmont, spent considerable time reevaluating the FALC-JV exploration program. Significant effort was made in taking over the operatorship of the FALC-JV, with much of the fourth quarter project activity pertaining to LD drilling and core drilling on this property.

For the quarter ended December 31, 2006, the Company recorded a net loss of \$0.8 million or \$0.00 per share compared to a net loss of \$5.6 million, or \$0.05 per share for the same period in 2005. The major differences between the quarters ended December 31, 2005 and 2006 is predominately related to the fair value of stock options expensed of approximately \$6.2 million during 2005 and only \$0.4 million during the fourth quarter of 2006.

The Company generated \$1.7 million in interest and other revenue during the fourth quarter of 2006 compared to \$1.5 million for the corresponding period in 2005.

All categories of expenses generally have seen increases when compared to the fourth quarter of 2005. These increases are the result of growth the Company has experienced, requiring additional resources to administer two major exploration programs. The Company has been able to recover certain amounts of administration costs from its new joint venture partner now that Kensington has become operator of the FALC-JV. Despite this recovery total cash costs in the fourth quarter of 2006 were \$0.3 million larger than the same period of 2005.

During the fourth quarter of 2006 the Company incurred \$6.1 million in mineral property additions related to the Star Kimberlite Property and incurred another \$10.3 million for the Company's 60% share of costs related to the FALC-JV Property.

No significant financing activity took place during the last quarter of 2006.

Related Party Transactions

During the year ended December 31, 2006, management and consulting fees of \$1.9 million (2005 – \$0.9 million) were paid to directors, officers and companies controlled by common directors and officers; \$0.4 million (2005 - \$0.2 million) of these fees were capitalized as additions to mineral properties; \$0.8 million (2005 - \$0.4 million) were included as administration expense and \$0.8 million (2005 - \$0.3 million) 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 \$0.4 million (2005 - \$6.2 million).

During the year ended December 31, 2006, the Company charged \$0.5 million (2005 - \$0.1 million) to Wescan 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.

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. The Company's working capital at December 31, 2006 was \$118.1 million. The 2007 exploration budget for the Star Kimberlite Property is \$29.9 million and the FALC-JV Property budget is \$46.2 million of which Shore, through Kensington, will fund \$27.7 million. Based on these 2007 expenditure budgets the Company would have approximately \$65 million in cash and short-term investments to fund further activities after 2007. Until the Company's surplus cash is required to fund exploration or development activities it is being invested in relatively risk-free, short-term instruments. The Company currently has the financial resources to complete a bankable feasibility of the Star Kimberlite Property by the end of 2008. If a bankable feasibility study were successful, additional capital resources would be required to begin construction and development of a commercial diamond mine.

The Company's contractual obligations are as follows:

(Canadian dollars in millions)

	Payment due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
Lease of premises	\$ 2.0	\$ 0.5	\$ 1.0	\$ 0.5	\$ -
Operating lease obligations	0.2	0.2	-	-	-
Drill contracts	17.6	3.0	9.6	5.0	-
Total	\$ 19.8	\$ 3.7	\$ 10.6	\$ 5.5	\$ -

During 2007, the Company will be required to spend approximately \$0.2 million on the Star mineral claims to maintain them in good standing. Claims management on the FALC Property is the responsibility of Kensington (the Operator). All mineral claims are currently in good standing with respect to the FALC-JV.

Capital Resources and Outstanding Share Data

As at December 31, 2006, the Company had working capital of \$118.1 million as compared to \$252.6 million at December 31, 2005 and \$27.6 million at December 31, 2004. During the year ended December 31, 2006, there were 6.2 million (2005 - 11.9 million) warrants, broker warrants and options exercised; resulting in additional cash flow from financing activities of \$19.2 million (2005 - \$28.4 million). All warrant and broker warrants that were exercised during 2006 were the result of the combination

between Shore and Kensington on October 28, 2005. At December 31, 2006 the Company had 176,762,460 shares issued and outstanding compared to 170,515,424 at December 31, 2005.

As at March 15, 2007, the Company had a total of 177,179,460 common shares issued and outstanding and a further 6,973,360 options outstanding at a weighted average exercise price of \$4.78. The majority of these options are in-the-money and would add an additional \$33.3 million to the Company's capital if all the options were exercised.

Critical Accounting Estimates

Shore's consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles ("GAAP"). The Company's accounting policies are described in note 2 to the annual consolidated financial statements. Certain of these policies involve critical accounting estimates because 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.

Management considers the following policies to be the most critical in understanding the judgments and estimates that are involved in preparing the Company's consolidated financial statements.

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.

The recoverability of the carried amounts of 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.

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.

Stock-based compensation plans

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.

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.

New accounting pronouncements

Financial Instruments – Recognition and Measurement

In January 2005, the CICA released new Handbook Section 3855, “Financial Instruments – Recognition and Measurement”, effective for annual and interim periods beginning on or after October 1, 2006. This new section establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a

derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. The Company is reviewing the guidance to determine the potential impact these new standards will have on its financial position and results of operations.

Comprehensive Income and Equity

In January 2005, the CICA released new Handbook Section 1530, "Comprehensive Income", and section 3251, "Equity", effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 established standards for reporting comprehensive income. These standards require that an enterprise present comprehensive income and its components, in a separate financial statement that is displayed with the same prominence as other financial statements. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition to Section 1530. The Company is reviewing the guidance to determine the potential impact these new standards will have on its financial position and results of operations.

Accounting for Stripping Costs

In March 2006, the CICA reached a conclusion on the accounting for stripping costs, suggesting such stripping costs should be accounted for according to the benefit received by the entity and recorded as either a component of inventory or a betterment to the mineral property, depending on the benefit received. The implementation of this guidance is effective January 1, 2007, and is not expected to have a material impact on the Company's financial position and results of operations.

Stock-based compensation for employees eligible to retire before the vesting date

In July 2006, the CICA's Emerging Issues Committee issued guidance on how to account for the compensation cost attributable to a stock-based award for a compensation plan containing provision which allow an employee's award to continue vesting after the employee has retired. The implementation of this guidance is effective January 1, 2007, and is not expected to have a material impact on the Company's financial position and results of operations.

Disclosure Controls and Procedures

The Company evaluated the effectiveness and design of its disclosure controls and procedures for the period ended December 31, 2006, and based on this evaluation (which included testing of the key controls by examining evidence demonstrating their existence on a test basis) have determined these controls to be effective.

The Corporation's financial reporting procedures and practices have enabled the certification of the Company's annual filings in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of

financial statements and other annual filings in accordance with Canadian Generally Accepted Accounting Principles.

Management is aware that given the few number of employees involved in the design of internal controls over financial reporting that in-house expertise to deal with complex taxation, accounting and reporting issues may not always be sufficient. The Company obtains outside assistance and advice on new accounting pronouncements and complex accounting and reporting issues, which is common with companies of a similar size.

There have been no significant changes to the Company's internal control over financial reporting during the most recent period that would have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

As at March 15, 2007, the Company had approximately \$110 million in cash and cash equivalents and short-term investments. These funds will be used to complete the advanced exploration program on the Star Kimberlite Property and to fund the Company's portion of the FALC-JV exploration programs. The advanced exploration program of the Star Kimberlite Property will be conducted in order to determine the project's viability under current economic conditions. This will entail the collection of additional exploration information, such as geological, geotechnical, geometallurgical, geochemical, assaying and other relevant information to delineate and define the Star Kimberlite, with a sufficient level of confidence, to estimate a Mineral Resource conforming to National Instrument 43-101 and Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards. Based on current timelines the Company anticipates a Mineral Resource estimate to be defined by early to mid 2008, followed by a Mineral Reserve and a bankable feasibility study. The FALC-JV has similar objectives; however, based on the stage of current exploration programs a Mineral Resource estimate would not likely be available until approximately 2010.

With current exploration plans, cash balances are expected to last until the end of 2008. Alternative sources of financing will be required beyond this point to continue exploration and development efforts.

Caution regarding Forward-looking Information

From time to time, Shore makes written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of Securities legislation in Canada and the United States Private Securities Litigation Reform Act of 1995. Shore may make such statements in press releases, in other filings with Canadian regulators or the United States Securities and Exchange Commission, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to Shore's objectives for the ensuing year, our medium and long-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar nature are intended to identify forward-looking statements. In particular, statements regarding Shore's future operations, future exploration and development activities or the anticipated results of Shore's advanced evaluation study or other development plans contain forward-looking statements.

All forward-looking statements and information are based on Shore's current beliefs as well as assumptions made by and information currently available to Shore concerning anticipated financial performance, business prospects, strategies, regulatory developments,

development plans, exploration, development and mining activities and commitments. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are 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 partner; 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 and short form prospectus, and Shore's anticipation of and success in managing the foregoing risks.

Shore cautions that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Shore, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Shore does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by Shore or on our behalf.

Additional Information

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