



**1st Quarter Report  
2010**



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

For the quarter ended March 31, 2010

The following discussion and analysis is prepared by Management as of May 5, 2010 and should be read in conjunction with the unaudited consolidated financial statements for the period ended March 31, 2010, as well as the audited consolidated financial statements and annual MD&A for the year ended December 31, 2009 available on SEDAR at [www.sedar.com](http://www.sedar.com). Shore Gold Inc. ("Shore", "SGF", 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 quarter of 2010, the Company's main focus was the completion of the combined pre-feasibility study ("PFS") and Mineral Reserve estimate on the Star – Orion South Diamond Project ("Combined PFS") in central Saskatchewan. The Combined PFS includes the 100 percent Shore owned Star Diamond Project ("Star"), as well as Star West and the Orion South Kimberlite, which fall within the adjacent Fort à la Corne Joint Venture ("FALC-JV"), of which Shore has a 63 percent (2009 – 60 percent) interest. The FALC-JV partners are Shore and Newmont Mining Corporation of Canada Limited ("Newmont") (37 percent) (2009 – 40 percent).

### Combined Star - Orion South Diamond Project

During the quarter, the Company announced the completion of the Combined PFS. The Combined PFS, led by independent Qualified Persons from P&E Mining Consultants Inc. ("P&E"), includes Probable Mineral Reserves of 279 million tonnes at a weighted average grade of 12.5 carats per hundred tonnes ("cph") containing 35 million carats (See SGF News Release February 10, 2010). The net present value ("NPV") of the Combined PFS is \$1.3 billion (using a 7 percent discount rate) with an internal rate of return ("IRR") of 16 percent before taxes and royalties and an after-taxes and royalties NPV of \$786 million with an IRR of 13.5 percent. The Technical Report that documents the Combined PFS can be viewed on the Company's website ([www.shoregold.com](http://www.shoregold.com)) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

An additional 70 million tonnes of inferred resources and 180 to 220 million tonnes of kimberlite designated by Shore as a 'potential mineral deposit' lie outside the current PFS pit design, which defines the mineral reserves and resources in the Star and Orion South Kimberlites. These additional tonnes are conceptual in nature, and are not a resource estimate and it is uncertain if additional exploration work would lead to the tonnes presently included in the 'potential mineral deposit' being upgraded to a resource category. This 'potential mineral deposit' cannot be relied upon when considering any project economics.



Shore is in the process of preparing an Environmental Impact Statement ("EIS") to submit to provincial and federal authorities, as part of the Environmental Impact Assessment ("EIA") required by provincial and federal legislation for proposed developments. To assist in the process, the Company was pleased to announce it had reached agreements with Sturgeon Lake First Nation, Métis Nation – Saskatchewan Eastern Region II and Métis Nation – Saskatchewan Western Region II to gather information on traditional aboriginal land use and traditional knowledge in the Fort à la Corne forest (See SGF News Release April 1, 2010). This information will be used in preparation of Shore's EIS for the Star – Orion South Diamond Project.

### **Buffalo Hills Joint Venture Exploration Program**

The Company holds a 28.5 percent interest (2009 – 22.5 percent) in the Buffalo Hills property ("Buffalo Hills") in north central Alberta. Canterra Minerals Corporation ("Canterra") holds a 28.5 percent interest and EnCana Corporation holds the remaining 43 percent interest. Canterra is the Operator of Buffalo Hills with Canterra and Shore each contributing 50 percent of the exploration expenditures.

Exploration work on Buffalo Hills during the quarter focused on a delineation drilling program which completed 13 drill holes for an aggregate of 1,510 metres on the K5, K6 and K91 kimberlites. All recovered drill cores have been transferred to Shore's core logging facility where they will be subject to quantitative and qualitative geological analysis.

### **Financial Highlights**

Selected financial information of the Company for the quarters ended March 31, 2010 and 2009 is summarized as follows:

	Three Months Ended March 31, 2010 \$	Three Months Ended March 31, 2009 \$
<b>Revenues</b> (millions)	-	0.1
<b>Net and comprehensive income (loss)</b> (millions)	0.4	(3.9)
<b>Net income (loss) per share</b> <sup>(1)</sup>	0.00	(0.02)
<b>Total assets</b> (millions)	270.1	251.6
<b>Working capital</b> (millions)	33.8	16.9

(1) Basic and diluted.

### **Results of Operations**

For the quarter ended March 31, 2010, the Company recorded net income of \$0.4 million or \$0.00 per share compared to a net loss of \$3.9 million or \$0.02 per share for the same period in 2009. Net income during the quarter ended March 31, 2010 was primarily due to the impact the renunciation of flow-through expenditures had on the Company's future



income taxes. The net loss for the comparative period in 2009 was primarily due to the \$5.7 million write-down of certain mineral property expenditures incurred during that quarter.

### ***Revenues***

The Company invested excess cash reserves in interest-bearing short-term deposits while ensuring funds were available to meet cash outflow requirements associated with the Company's mineral property projects and for general corporate matters. For the quarter ended March 31, 2010 the Company reported interest and other revenue of \$34 thousand as compared to \$93 thousand for the quarter ended March 31, 2009. The \$59 thousand decrease in revenue from the quarter ended March 31, 2009 was from lower interest earned by the Company as a result of falling interest rates.

### ***Expenses***

Total operating costs for the quarter ended March 31, 2010 were \$2.0 million compared to \$1.3 million for the quarter ended March 31, 2009. This \$0.7 million increase is largely attributed to the fair value of stock-based compensation that was expensed during the first quarter of 2010 (\$0.9 million) as compared to the first quarter of 2009 (nil). Once the effect of accounting for stock-based compensation is removed, the specific categories of expenses become more comparable year over year. After removing the effect of accounting for stock-based compensation, expenses for the quarter ended March 31, 2010 decreased by \$0.2 million to \$1.1 million from \$1.3 million during the quarter ended March 31, 2009. This decrease was primarily due to lower administration expenditures incurred by the Company during the quarter ended March 31, 2010.

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

At March 31, 2010, Shore held 12,955,567 (2009 – 12,955,567) shares of Wescan Goldfields Inc. ("Wescan"), a publicly traded company on the TSX Venture exchange. The Company accounts for its 16.2 percent investment in Wescan on an equity basis. The Company recognized its estimated share of Wescan losses of \$0.8 million to the end of March 31, 2010.

### ***Write-down of mineral properties***

Due to the economic downturn that began in 2008, the Company's share price, as with many other exploration companies, remains significantly below mid-2008 levels. This decline resulted in the Company assessing impairments on certain of its mineral properties at December 31, 2008 and for subsequent periods.

The Company applies undiscounted future cash flow methodologies as an initial step in assessing impairment. For the quarter ended March 31, 2010, independent reserve estimates for the Star Kimberlite and the Orion South Kimberlite were available to perform this initial step. Based on this analysis, the Company did not adjust the carrying value of these properties at March 31, 2010.



However, during the period ended March 31, 2009, there was no independent mineral reserve or resource estimate for the Orion South Kimberlite on which to base an undiscounted cash flow model. Given the existence of market related impairment indicators, the Company wrote down \$5.7 million of expenditures that were incurred on this property during the three-months ended March 31, 2009.

As there are currently no independent estimates of reserves or resources for any of the Company's other mineral properties, the Company was unable to apply undiscounted future cash flow methodologies as an initial step in assessing impairment. Using other indicators, the carrying value of the Company's other mineral properties at March 31, 2010 were written down to nil. Write-downs relating to these properties during the quarter ended March 31, 2010 were \$0.4 million (2009 – \$0.1 million).

### ***Change in fair value of long-term investments***

At March 31, 2010 the Company held investments (collectively, the "Notes") with a total par value of \$14.3 million (2009 – \$18.7 million). As there is currently no active market for these Notes, the fair value was determined by the Company using a discounted cash flow approach which considered available information regarding the credit risk attributable to the underlying assets, relevant market interest rates, and the expected amount and timing of principal and interest payments. Ultimately the amount recovered could be significantly different from the current carrying value of \$8.4 million.

For the quarter ended March 31, 2010, the fair value of the Company's Notes was increased by \$0.1 million compared to a fair value reduction of \$0.3 million during the same period in 2009.

During the quarter ended March 31, 2010, the Company received \$4 thousand (2009 – \$0.6 million) of quarterly interest payments and \$4 thousand (2009 – nil) in principal repayments from the restructured Notes. Interest payments received or receivable are included in the fair value calculation of the Notes and not interest and other income.

### ***Income taxes***

Income tax recoveries were \$3.4 million for the quarters ended March 31, 2010 and 2009 due to the impact the renunciation of flow-through expenditures had on the Company's future income taxes (relating to the 2009 and 2008 flow-through financing respectively).

### ***Investing***

Mineral property additions for the quarter ended March 31, 2010 totaled \$3.6 million (excluding the \$0.4 million write-down) compared to \$6.3 million for the quarter ended March 31, 2009 (excluding the \$5.7 million write-down). The 2010 additions represent approximately \$0.9 million on Star, \$2.3 million on the FALC-JV and \$0.4 million on Buffalo Hills. The main activities for Star and the FALC-JV were the desk-top engineering studies, data analysis and geotechnical and hydrogeological drilling required to advance the unitized Star – Orion South Diamond Project.



## Financing

No financing activities occurred during the three-month period ended March 31, 2010.

## Summary of Quarterly Results

	2010	2009				2008		
	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2
Revenues <sup>(1)</sup> (\$millions)	-	-	-	-	0.1	0.2	0.3	0.4
Net income (loss) <sup>(2)</sup> (\$millions)	0.4	(1.7)	(1.3)	(2.2)	(3.9)	(452.2)	(0.8)	(2.8)
Net income (loss) per share <sup>(3)</sup> (\$)	0.00	(0.01)	(0.00)	(0.01)	(0.02)	(2.45)	(0.00)	(0.02)
Shares outstanding <sup>(4)</sup> (millions)	224.5	224.5	200.2	199.9	199.9	199.9	183.2	183.2

- (1) The trend of declining interest revenue since the second quarter of 2008 is from lower interest earned by the Company as a result of falling interest rates. Also contributing to this decline were reductions in the Company's cash and cash equivalents after incurring mineral property expenditures during this period. Interest payments received on the Notes since the 2009 restructuring have been included in the fair value calculation of the Notes and not included in revenue.
- (2) Net income during the first quarter of 2010 was due to the tax effect on the renouncement of flow-through expenditures relating to the October 2009 financing of 10.0 million flow-through shares. The net losses during the fourth quarter of 2009 and the third quarters of 2009 and 2008 were primarily related to ongoing operating costs incurred by the Company exceeding interest revenue earned. The net losses during the first and second quarters of 2009 and the fourth quarter of 2008 were primarily related to the write-down of certain mineral properties held by the Company. The net loss during the second quarter of 2008 primarily related to changes in the fair value of the Company's ABCP.
- (3) Basic and diluted.
- (4) The Company completed a private placement financing on October 13, 2009 resulting in the issuance of 14.3 million common shares and 10.0 million flow-through shares. The Company completed a private placement financing on November 24, 2008 resulting in the issuance of 16.7 million flow-through shares. Other changes in the number of shares outstanding are the result of option exercises in the respective periods.

## Related Party Transactions

Messrs. Kenneth E. MacNeill (President and Chief Executive Officer), Harvey J. Bay (Chief Financial Officer and Chief Operating Officer), George H. Read (Senior Vice President of Exploration and Development) and Pieter Du Plessis (Vice President of Exploration), through their respective consulting companies, hold management and consulting contracts with the Company. During the three-month period ended March 31, 2010, Messrs. MacNeill, Bay, Read and Du Plessis's monthly contracted fees were \$30 thousand (2009 – \$30 thousand), \$23 thousand (2009 – \$23 thousand), \$18 thousand (2009 – \$18 thousand), and \$16 thousand (2009 – \$16 thousand), respectively.

During the three-month period ended March 31, 2010, management and consulting fees of \$289 thousand were paid to companies controlled by these officers, compared to \$259 thousand for the same period in 2009. Of these fees, \$49 thousand (2009 – \$48 thousand) were capitalized as additions to mineral properties; \$90 thousand (2009 – \$90 thousand) were included in administration expense and \$150 thousand (2009 – \$121 thousand) were included in consulting and professional fees expense. These amounts include adjustments to estimations made by the Company at December 31, 2009.



During the three-month period ended March 31, 2010, the Company charged \$9 thousand (2009 – \$13 thousand) to Wescan for administration services and rent. Accounts receivable includes \$18 thousand (2009 – \$24 thousand) due from Wescan.

The above transactions were in the normal course of operations and are measured at an amount agreed to by the related parties.

## **Liquidity**

The Company does not currently operate any producing properties and, as such, is dependent upon the issuance of new equity to finance its ongoing obligations and advance its exploration properties. Until the Company's surplus cash is required to fund exploration or development activities it is invested in a variety of highly rated instruments. The Company expects its current capital resources will be sufficient to carry out its pre-feasibility and exploration plans through 2010.

At March 31, 2010 the Company had \$36.2 million in cash and cash equivalents and short-term investments. In addition, the Company held \$14.3 million in long-term Notes (\$8.4 million carrying value), the liquidity of which is limited. Since there is currently no active market for the remaining Notes, the timing and amount ultimately recovered by the Company may differ materially from this fair value estimate.

At March 31, 2010 the Company is committed to spend approximately \$6.7 million of qualifying Canadian Exploration Expenses as defined by the *Canadian Income Tax Act* prior to December 31, 2010.

The Company has supplied \$2.3 million (2009 – \$1.8 million) of irrevocable standby letters of credit issued by a Canadian chartered bank, of which the majority are related to asset retirement obligations.

## **Capital Resources and Outstanding Share Data**

As at March 31, 2010, the Company had working capital of \$33.8 million as compared to \$16.9 million at March 31, 2009. This does not include the Company's \$14.3 million (\$8.4 million carrying value) in Notes. The Company expects its current working capital will be sufficient to carry out its pre-feasibility and exploration plans through 2010.

At March 31, 2010 the Company had 224,454,242 shares issued and outstanding compared to 199,904,242 at March 31, 2009. As at May 5, 2010, the Company's issued and outstanding shares remained unchanged from March 31, 2010. A further 11,368,000 options are outstanding at a weighted average exercise price of \$2.75 of which approximately 3.4 million are currently "in the money" and would add an additional \$1.0 million to the Company's capital if exercised.



## Financial Instruments

As at March 31, 2010, the fair value of all of the Company's financial instruments approximates their carrying value. Certain financial instruments are exposed to the following financial risks:

### Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company's credit risk primarily relates to its investments in Notes which were received in exchange for the Company's investment in ABCP.

At March 31, 2010, the Company held Notes with a par value of \$14.3 million (carrying value of \$8.4 million), as outlined in the Company's consolidated financial statements. The consolidated financial statements of the Company reflect management's best estimate of the fair value of these investments. The amount and timing of future cash flows received by the Company may differ materially from this estimate. Due to the nature of certain Notes which are not backed by traditional securitized assets (a significant component is comprised of collateral debt obligations), credit risk could potentially be significant. However, as part of the restructuring, certain financial institutions and stakeholders have provided margin funding facilities that significantly reduce the risk of credit default on these investments. The maximum exposure to credit risk related to the Company's investments in these Notes at March 31, 2010 is represented by the carrying amount of \$8.4 million.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. At March 31, 2010 the Company had working capital of \$33.8 million. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

## 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 as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The uncertainties related to these areas could significantly impact the Company's results of operations, financial condition and cash flows.



A critical accounting estimate in determining the Company's financial results relates to the recoverability of the carried amounts of mineral properties. Management assesses carrying values of non-producing properties each time it issues financial statements. Where information and conditions suggest impairment, estimated future cash flows are calculated using estimated future prices, reserves and resources, weighted probable outcomes and operating, capital and reclamation costs on an undiscounted basis. If it is determined that the future cash flows are less than the carrying value, a write-down to the estimated fair value is expensed for the period. Where no independent estimates of reserves or resources are available for which to estimate future net cash flows and where other conditions suggest impairment, carried costs are written down. As at March 31, 2010, the Company has obtained sufficient information on Star (including Star West) and Orion South to estimate future cash flows. This information has been used in the Company's assessment of impairment during the quarter ended March 31, 2010.

## Future Accounting Changes

### *International Financial Reporting Standards ("IFRS")*

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. The Company's first financial statements presented in accordance with IFRS will therefore be the three-month period ended March 31, 2011. Though IFRS uses a conceptual framework similar to Canadian GAAP, there are some significant differences on recognition, measurement and disclosure requirements. The International Accounting Standard Board ("IASB") has several projects currently underway to change standards however, no significant changes are expected to be mandatory earlier than 2012.

As a result of this convergence, the Company developed a plan to convert its financial statements to IFRS. Regular reporting to the Company's Audit Committee on the status of the IFRS implementation project has been established to ensure proper oversight.

The Company's plan consists of several phases including:

Timing	Plan Phase
2008	<b>An initial scoping phase</b> which included the identification of key differences, important dates, development of milestones, and potential training issues;
2009	<b>Detailed evaluation phase</b> which included a detailed comparison of Canadian GAAP and IFRS in a priority sequence including policy alternatives and business process implications, information systems, internal controls over financial reporting, disclosure controls and procedures and compensation arrangements; and,
2010	<b>Implementation and review phase</b> which will include final policy selection (including an assessment regarding choices under <i>IFRS-1, First Time Adoption of International Financial Reporting Standards</i> and potential changes to IFRS in 2012 that may impact our policy selection) with the culmination of the necessary information systems and data required to prepare IFRS compliant financial statements and disclosures and any necessary adjustments to other business processes that may be impacted.



The initial scoping phase was completed by the Company in 2008. The Company identified the accounting related to the carrying value of the Company's mineral properties to be the area of the most significant potential difference. The carrying value of the Company's mineral properties may be impacted by several standards in IFRS, including the treatment of exploration expenditures, past mineral property purchases and how potential impairments are analyzed. Other areas of less significance that will require adjustments relate to share-based payments, asset retirement obligations and property and equipment.

Currently, Canadian GAAP and IFRS both allow a Company to establish an accounting policy that either capitalizes or expenses exploration expenditures incurred. IFRS policies related to exploration costs, however, are currently under review and are anticipated to change after January 1, 2011. The full extent of the changes are not yet known and, as a result, the Company may change its current policy of capitalizing exploration expenditures retroactively on the date of transition in order to minimize the impact future IFRS changes may have on the Company's financial statements. The Company may also decide to retroactively restate mineral property purchases that may be viewed as business combinations. The choice to retroactively restate the business combination instead of prospectively as allowed under IFRS-1 could materially impact certain components of transactions that occurred in 2005 such as the recognition of goodwill. If the transactions are restated, the goodwill would be written down as a result of asset impairment testing that occurred in 2008 and this impairment would not reverse in future periods should circumstances change. The Company has determined it will adopt the choices allowed under IFRS-1 that have the least impact to the Company's current Canadian GAAP financial statements on areas of lesser significance. For example, the Company is planning to use historical cost under Canadian GAAP on transition for property and equipment instead of fair value, as allowed under IFRS-1.

Throughout the detailed evaluation process management confirmed that the conversion to IFRS will have limited impact to its business processes. Certain of the Company's information systems have already been converted which will allow for the recognition, measurement and disclosure requirements of property and equipment in accordance with IFRS. Members of the conversion team have been provided training regarding IFRS to allow for a successful implementation. As well, the Company's external auditors have validated the areas that management perceives as most significant to the Company regarding the differences between Canadian GAAP and IFRS.

Management has not yet completed its quantification of the effects of adopting IFRS, however the detailed evaluation phase has been substantially completed and final policy selections are still to be made. The consolidated financial performance and financial position as presented in the Company's Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.



## Disclosure Controls and Procedures

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

There have been no significant changes in the Company's disclosure controls during the quarter ended March 31, 2010.

## Internal Controls over Financial Reporting Procedures

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

There have been no significant changes to internal controls over financial reporting during the quarter ended March 31, 2010 that could have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

## Outlook

As of May 5, 2010, the Company had approximately \$33.7 million in cash and cash equivalents and short-term investments. The Company is focused on advancing a unitized



Star – Orion South Diamond Project based on the positive results of the Combined PFS. The positive forecast for the future of diamond prices and related improved economics of the Combined PFS support the Company's view that the Star and Orion South Kimberlites can be economically developed as a world class diamond mine.

The Company's cash and cash equivalents and short-term investments will be used to perform certain required exploration and engineering work based on recommendations in the Combined PFS which will facilitate a production decision on the Star – Orion South Diamond Project. This will include desk-top engineering, data analysis, geotechnical and hydrogeological drilling programs, updating the March 2008 diamond price valuation used in the Combined PFS and advancing the EIS. The Company's funds will also be used to complete planned exploration programs on Buffalo Hills and for general corporate matters. Cash and cash equivalents and short-term investments may also be used to fund various other exploration activities, to purchase certain construction assets or to acquire and explore additional properties as opportunities warrant.

### **Risks and Uncertainties**

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

#### ***Risks Associated With an Exploration Stage Company***

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

The further development and exploration of mineral properties in which Shore holds interests or which Shore acquires may depend upon Shore's ability to obtain financing through joint ventures, debt financing, equity financing or other means. The Company does not have sufficient funds to put any of its property interests into production from its own financial resources. There is no assurance that Shore will be successful in obtaining required financing as and when needed. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or joint operations or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on Shore's future cash flows, earnings, results of operations and financial condition. The relative prices of diamonds and future expectations for such prices have a significant impact on the market



sentiment for investment in diamond mining and exploration companies. To ensure that exploration procedures are being performed effectively and those results are interpreted and reported in a proper manner, management ensures that qualified individuals, service providers and external consultants are utilized in the verification and quality assurance of analytical results.

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

The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, provincial and local governmental authorities. Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. To the best of the Company's knowledge, it is operating in compliance with all applicable rules and regulations. The Company utilizes qualified individuals, service providers and external consultants and maintains constant communications with governmental authorities to ensure that the Company is in compliance with all applicable rules and regulations.

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

As at May 5, 2010, the Company has determined that the Star and Orion South Kimberlites have established reserves. Current forecasts are based on engineering data, projected future rates of production and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserve estimates may be revised based on the results of future drilling, testing or production levels and changes in mine design. In addition, factors including but not limited to market fluctuations in the price of diamonds, changes in foreign exchange rates or estimated recoverable grade from the Star and Orion South Kimberlites may render the mining of ore reserves uneconomical.



## Technical Information

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

## Caution regarding Forward-looking Statements

This MD&A contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of Canadian Securities legislation and the United States Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," and words and expressions of similar import are intended to identify forward-looking statements, and, in particular, statements regarding Shore's future operations, future exploration and development activities or other development plans contain forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, forecasts related to future diamond prices, the use of funds to fund exploration activities, the purchase of construction assets and the acquisition and exploration of additional properties.

These forward-looking statements are based on Shore's current beliefs as well as assumptions made by and information currently available to it and involve inherent risks and uncertainties, both general and specific. Risks exist that forward-looking statements will not be achieved due to a number of factors including, but not limited to, developments in world diamond markets, changes in diamond valuations, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration, development or mining plans due to exploration results and changing budget priorities of Shore or its joint venture partners, the effects of competition in the markets in which Shore operates, the impact of changes in the laws and regulations regulating mining exploration and development, judicial or regulatory judgments and legal proceedings, operational and infrastructure risks and the additional risks described in Shore's most recently filed Annual Information Form, annual and interim MD&A, news releases and technical reports. Shore's anticipation of and success in managing the foregoing risks could cause actual results to differ materially from what is anticipated in such forward-looking statements.

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

## Additional Information

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

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

**For the Three-Month Period Ended**  
**March 31, 2010**

Notice to Reader

Management has compiled the unaudited consolidated financial statements of Shore Gold Inc. for the three-month period ended March 31, 2010 (along with the comparative interim period in 2009). The Corporation's external auditors have not reviewed these statements.

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

	March 31, 2010 (in thousands)	December 31, 2009 (in thousands)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,526	\$ 2,643
Short-term investments	31,665	37,637
Receivables	282	176
Prepays	258	85
	36,731	40,541
Restricted cash (note 4)	2,307	2,307
Investments (note 5)	8,449	8,330
Investment in Wescan Goldfields Inc. (note 6)	1,316	2,128
Property and equipment	812	859
Mineral properties (note 7)	220,451	217,114
	\$ 270,066	\$ 271,279
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,849	\$ 2,063
Current portion of asset retirement obligations	81	81
	2,930	2,144
Asset retirement obligations	1,470	1,436
Shareholders' equity:		
Share capital (note 8)	791,957	795,332
Contributed surplus (note 8(c))	27,520	26,568
Deficit	(553,811)	(554,201)
	265,666	267,699
	\$ 270,066	\$ 271,279
Commitment (note 12)		
See accompanying notes to consolidated financial statements		

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

	Three Months Ended	
	March 31,	
	2010	2009
	<u>(in thousands)</u>	<u>(in thousands)</u>
<b>Revenue</b>		
Interest and other income	\$ 34	\$ 93
<b>Expenses</b>		
Administration	1,316	902
Consulting and professional fees	497	155
Corporate development	87	81
Amortization and accretion	65	117
	<u>1,965</u>	<u>1,255</u>
<b>Loss before the under noted items</b>	(1,931)	(1,162)
Investment in Wescan Goldfields Inc.	(812)	(6)
Write-down of mineral properties (note 7)	(407)	(5,747)
Change in fair value of investments (note 5)	127	(335)
	<u>(3,023)</u>	<u>(7,250)</u>
<b>Net loss before income taxes</b>	(3,023)	(7,250)
Future income tax recovery (note 9)	3,413	3,379
	<u>390</u>	<u>(3,871)</u>
<b>Net and comprehensive income (loss)</b>	390	(3,871)
<b>Deficit, beginning of period</b>	<u>(554,201)</u>	<u>(545,083)</u>
<b>Deficit, end of period</b>	<u>\$ (553,811)</u>	<u>\$ (548,954)</u>
<b>Net income (loss) per share</b>		
Basic and diluted	\$ 0.00	\$ (0.02)
<b>Weighted average number of shares outstanding (000's)</b>	224,454	199,904

See accompanying notes to consolidated financial statements

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

	Three Months Ended	
	March 31,	
	2010	2009
	(in thousands)	(in thousands)
<b>Cash provided by (used in):</b>		
<b>Operations:</b>		
Net and comprehensive income (loss)	\$ 390	\$ (3,871)
Non-cash items:		
Amortization and accretion	65	117
Investment in Wescan Goldfields Inc.	812	6
Write-down of mineral properties	407	5,747
Change in fair value of investments	(127)	335
Fair value of stock options expensed	850	-
Future income taxes	(3,413)	(3,379)
Net change in non-cash operating working capital items:		
Receivables	(32)	56
Prepays	(173)	(131)
Accounts payable and accrued liabilities	(635)	(1,030)
	<u>(1,856)</u>	<u>(2,150)</u>
<b>Investing:</b>		
Mineral properties	(3,589)	(6,288)
Asset retirement obligations	-	(12)
Property and equipment	1	(40)
Short-term investments	5,972	(3,990)
Investments	8	644
Net change in non-cash investing working capital items:		
Receivables	(74)	6,934
Accounts payable and accrued liabilities	1,421	(7,081)
	<u>3,739</u>	<u>(9,833)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	1,883	(11,983)
<b>Cash and cash equivalents, beginning of period</b>	<u>2,643</u>	<u>22,619</u>
<b>Cash and cash equivalents, end of period</b>	<u><u>\$ 4,526</u></u>	<u><u>\$ 10,636</u></u>
<b>Cash and cash equivalents consists of:</b>		
Cash	\$ 506	\$ 5,526
Treasury bills	4,020	5,110
	<u><u>\$ 4,526</u></u>	<u><u>\$ 10,636</u></u>

See accompanying notes to consolidated financial statements

# SHORE GOLD INC.

(A Development Stage Entity)

Notes to Consolidated Financial Statements (for the three-month period ended March 31, 2010)  
(In thousands of Canadian dollars except 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. General

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting principles and methods of application as the most recent annual audited consolidated financial statements. These consolidated financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements filed on SEDAR.

## 3. Changes in accounting policies and new accounting pronouncements

### International financial reporting standards

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) effective in calendar year 2011. The Company’s first financial statements presented in accordance with IFRS will therefore be the three-month period ended March 31, 2011. Though IFRS uses a conceptual framework similar to Canadian GAAP, there are some significant differences on recognition, measurement and disclosure requirements. The International Accounting Standard Board (“IASB”) has several projects currently underway to change standards however, no significant changes are expected to be mandatory earlier than 2012. If early adoption for any new or amended IFRS that might be issued during 2010 is permitted, the Company would have the option of applying these new standards on changeover (and for 2010 comparatives).

As a result of this convergence, the Company has developed a plan to convert its financial statements to IFRS. Management has not yet completed its quantification of the effects of adopting IFRS. The consolidated financial performance and financial position as presented in the Company’s Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

## 4. Restricted Cash

The Company has pledged \$2,307 thousand in short-term investments as security for letters of credit provided, of which the majority are related to asset retirement obligations. These short-term investments are recorded as restricted cash.

## 5. Investments

At March 31, 2010 the Company held \$8.4 million in investments (“Notes”) with a total par value of \$14.3 million. These Notes were received during January 2009 in exchange for the Company’s Canadian third party asset-backed commercial paper (“ABCP”) upon the successful implementation of the ABCP restructuring plan.

Master Asset Vehicle (“MAV”)	Class	Par Value <sup>(a)</sup>	Percent of Investment	Fair Value <sup>(b)</sup>
MAV2	Class A-1 Notes	\$ 6,193	43.2%	\$ 4,255
MAV2	Class A-2 Notes	6,467	45.2%	4,157
MAV2	Class B Notes	1,174	8.2%	-
MAV2	Class C Notes	428	3.0%	-
MAV3	Class 9 Notes	58	0.4%	37
<b>Total</b>		<b>\$ 14,320</b>	<b>100.0%</b>	<b>\$ 8,449</b>

(a) Par Value

The par value of the Notes received represents the amortized cost of the Company’s investments at the time the ABCP market ceased to trade, less principal repayments received to date.

(b) Fair value

Since there is currently no active market for these Notes, the fair value of the Company’s Notes at March 31, 2010 was determined using a discounted cash flow approach with the following assumptions:

	<u>Assumption</u>
Timing of cash flows	6 - 7 years
Interest rate	nil <sup>(1)</sup>
Weighted average discount rate	6.14 percent <sup>(2)</sup>

- (1) Interest on MAV2 Notes is the 90-day Bankers’ Acceptance rate less 50 basis points. The 90-day Bankers’ Acceptance rate at March 31, 2010 was less than 0.5 percent, therefore the Company assumed nil interest.  
(2) Excludes Class B and C Notes as fair values have been assessed as nil.

As a result of the fair value assessment of the Notes, the Company recorded an increase in fair value of \$127 thousand during the quarter ended March 31, 2010 (2009 – \$335 thousand decrease in fair value). The amount and timing of future cash flows received by the Company may differ materially from this estimate. A one percent change in the discount rate of this fair value assessment would result in a \$0.6 million pre-tax change in the fair value of the Notes held by the Company.

For the three month period ended March 31, 2010, the Company received \$4 thousand in quarterly interest payments and \$4 thousand in principal repayments from the restructured Notes. For the three month period ended March 31, 2009, the Company received \$644 thousand in interest payments (net of restructuring costs) from the ABCP previously held by the Company. Interest payments received or receivable are included in the fair value calculation of the Notes.

**6. Investment in Wescan Goldfields Inc.**

At March 31, 2010, Shore held 12,955,567 (2009 – 12,955,567) shares of Wescan Goldfields Inc. (“Wescan”), a publicly traded company on the TSX Venture exchange. The Company accounts for its 16.2% investment in Wescan on an equity basis.

At March 31, 2010, the carrying value of the Company’s equity interest in Wescan was \$1.3 million (2009 – \$2.2 million) with a fair value of \$1.5 million (2009 – \$2.5 million).

## 7. Mineral properties

Mineral properties for the three-month period ended March 31, 2010 are made up of the following:

	Star Property	Fort à la Corne Property	Other Diamond Properties	Total
Balance – December 31, 2009	\$ 173,737	\$ 43,377	\$ -	\$ 217,114
Expenditures during 2010				
Acquisition and staking	1	-	-	1
Exploration	991	2,331	407	3,729
Asset retirement obligation	-	14	-	14
Write-down of carrying value (a)	-	-	(407)	(407)
Balance – March 31, 2010	\$ 174,729	\$ 45,722	\$ -	\$ 220,451

### (a) Write-down of carrying value

The Company applies undiscounted future cash flow methodologies as an initial step in assessing impairment. For the period ended March 31, 2010, an independent estimate of reserves for the Star Property, the Star West property (the portion of the Star Kimberlite within the Fort à la Corne Property) and the Orion South component of the Fort à la Corne Property were available to perform this initial step. Based on this analysis, the Company did not adjust the carrying value of these properties for the period ended March 31, 2010.

As there are currently no independent estimates of reserves or resources for any of the Company's other diamond properties, the Company was unable to apply undiscounted future cash flow methodologies as an initial step in assessing impairment. Using other indicators, the carrying value of the Company's other diamond properties were written down to nil.

## 8. Share capital

### Authorized

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

Issued and outstanding:

	Common Shares (in thousands)	Amount
Balance – December 31, 2009	224,454	\$ 795,332
Future income taxes on flow-through expenditures renounced to shareholders (a)		(3,375)
Balance – March 31, 2010	224,454	\$ 791,957

### (a) Flow-through shares

During 2009 the Company issued, through a private placement, 10.0 million flow-through shares of the Company for gross proceeds of \$12.5 million that will be used by Shore to incur Canadian exploration expenses prior to December 31, 2010. During the quarter ended March 31, 2010, the Company recorded a future income tax liability of \$3.4 million relating to the renunciation of the flow-through expenditures to investors, with a corresponding reduction in share capital.

### (b) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, employees and service providers to purchase common shares of the Company. The aggregate number of shares reserved for issuance under this plan, and any other security based compensation arrangement of the Company, shall not, at the time of the stock option grant, exceed 15,768,360 shares. Options granted have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of Shore on the trading day prior to the date on which the

option is granted. Certain options vest immediately while others vest six to twelve months after grant date and all options expire 5 years from the date of the grant of the options.

The fair value of stock options issued in the three-month period ended March 31, 2010 was estimated using the Black-Scholes option-pricing model with the following assumptions: 5 year weighted average expected option life, no expected forfeiture rate, dividend yield of 0.0%, a volatility factor of 89.4% and a risk free rate of 2.52%. During the quarter ended March 31, 2010, the Company granted 1,475,000 (2009 – nil) options to directors, officers or employees at an average strike price of \$0.88. The fair value in respect of these stock options granted during the quarter ended March 31, 2010 was \$0.9 million. The amount that vested from this issue and previous issues during the quarter was \$1.0 million (2009 – \$8 thousand). Of this amount, \$0.1 million (2009 – \$8 thousand) was capitalized as an addition to mineral properties and \$0.9 million (2009 – nil) was expensed.

For options outstanding (in thousands) at March 31, 2010, weighted average exercise prices are as follows:

	Options	Average Price
Balance – December 31, 2009	9,641	\$ 3.16
Granted	1,475	0.88
Exercised	-	-
Expired/forfeited	(623)	2.44
Balance – March 31, 2010	10,493	\$ 2.89

The options expire between the dates of May 2010 to February 2015.

(c) Contributed surplus

The fair value of stock options has been valued using the Black-Scholes option-pricing model. The fair value of these securities is added to contributed surplus over the vesting period of the securities. 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:

Balance – December 31, 2009	\$ 26,568
Fair value of options vested	952
Balance – March 31, 2010	\$ 27,520

**9. Future income taxes**

The Company finances a portion of its exploration activities through the issuance of flow-through shares. During the first quarter of 2010, the Company renounced the deductions to investors and accordingly recorded share issue costs related to the future tax liability as a temporary difference arising from the renunciations. As a result, share capital was reduced and future income tax liabilities increased by the estimated tax cost of the deductions renounced by the Company to the investors in the amount of \$3.4 million (2009 – \$3.4 million). To the extent the Company has unrecorded tax assets, the future income tax liabilities were reduced and a corresponding future income tax recovery was recorded.

**10. Related party transactions**

During the three-month period ended March 31, 2010, management and consulting fees of \$289 thousand (2009 – \$259 thousand) were paid to companies controlled by certain officers of the Company. Of these fees, \$49 thousand (2009 – \$48 thousand) were capitalized as additions to mineral properties; \$90 thousand (2009 – \$90 thousand) were included in administration expense and \$150 thousand (2009 – \$121 thousand) were included in consulting and professional fees expense.

During the three-month period ended March 31, 2010, the Company charged \$9 thousand (2009 – \$13 thousand) to Wescan for administration services and rent. Accounts receivable includes \$18 thousand (2009 – \$24 thousand) due from Wescan.

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.

## **11. Financial instruments**

As at March 31, 2010, the fair value of all of the Company's financial instruments approximates their carrying value. Certain financial instruments are exposed to the following financial risks:

### **(a) Credit risk**

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company's credit risk primarily relates to its investments in Notes which were received in exchange for the Company's investment in ABCP.

At March 31, 2010, the Company held Notes with a par value of \$14.3 million (carrying value of \$8.4 million), as outlined in note 5. The consolidated financial statements of the Company reflect management's best estimate of the fair value of these investments. The amount and timing of future cash flows received by the Company may differ materially from this estimate. Due to the nature of the MAV2 Notes which are not backed by traditional securitized assets (a significant component is comprised of collateral debt obligations), credit risk could potentially be significant. However, as part of the restructuring, certain financial institutions and stakeholders have provided margin funding facilities that significantly reduce the risk of credit default on these investments. The maximum exposure to credit risk related to the Company's investments in these Notes at March 31, 2010 is represented by the carrying amount of \$8.4 million.

### **(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. As at March 31, 2010, the Company had working capital of \$33.8 million. Management believes this working capital will be sufficient to meet financial obligations as they fall due.

The Company does not currently operate any producing properties and as such, is dependent upon the issuance of new equity to advance its exploration properties. Although the Company has been successful in the past in obtaining financing, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or joint operations or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on Shore's future cash flows, earnings, results of operations and financial position. The Company expects its current capital resources will be sufficient to carry out its exploration and feasibility plans through to when a production decision is made.

## **12. Commitment**

At March 31, 2010 the Company is committed to spend approximately \$6.7 million of qualifying Canadian Exploration Expenses as defined by the *Canadian Income Tax Act* prior to December 31, 2010, compared to \$10.3 million at December 31, 2009.

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

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George H. Read – Senior Vice President Exploration and Development  
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Eric H. Cline – Vice President Corporate Affairs  
Duane D. DeRosier – Vice President Administration  
Terri L. Uhrich – Corporate Secretary

**Solicitors**

Bennett Jones LLP  
Calgary, Alberta

**Auditors**

KPMG LLP  
Saskatoon, Saskatchewan

**Bank**

Canadian Western Bank  
Saskatoon, Saskatchewan

**Exchange Listing**

TSX  
224,454,242 common shares issued and outstanding as at May 5, 2010

**Trading Symbol:**

SGF

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