



**Management Discussion & Analysis**  
**March 31, 2006**

**RESTATED**

## **MANAGEMENT'S DISCUSSION & ANALYSIS - RESTATED**

For the quarter ended March 31, 2006

The following Management's Discussion and Analysis should be read in conjunction with the restated unaudited consolidated financial statements for the period ended March 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.

### **Restatement – Correction of fair value of merger with Kensington Resources Ltd.**

During the preparation of the Company's interim financial statements for the third quarter of 2006, an error was identified in the original assessment regarding the accounting for the merger with Kensington Resources Ltd. ("Kensington") as originally reported in the Company's consolidated financial statements for the year ended December 31, 2005. The original accounting treatment afforded the merger with Kensington valued the transaction using the average share price of the Company's shares commencing two days prior to and ending two days subsequent to August 15, 2005, the date the merger was agreed to and announced between Shore and Kensington. This average price was used to value the common shares, options and warrants issued by Shore, to the shareholders of Kensington, on October 28, 2005, the closing date of the transaction. During the preparation of the 2006 third quarter interim financial statements, the accounting treatment of this transaction was reassessed and it was concluded that the original treatment of accounting for the transaction was incorrect and, based on the definitions of a business by the Canadian Institute of Chartered Accountants, it was determined that Kensington did not constitute a business as it was a development stage entity. As such, the merger between Shore and Kensington should have been treated as a purchase of an asset versus the purchase of a business. The result of this reinterpretation was that the transaction should have been valued using the price of the Company's shares on the closing date of \$7.02 per share versus the \$5.25 per share originally used. This change results in a larger value being assigned to the Company's mineral properties together with a larger future income tax liability and an increase in share capital to reflect the value of the shares, options and warrants issued as consideration for the merger with Kensington. This restatement does not impact either the consolidated statement of loss and deficit or the consolidated statement of cash flows for the year ended December 31, 2005. The details of these restatements are shown in note 2 of the restated unaudited consolidated financial statements for the period ended March 31, 2006.

### **Overview**

During the first quarter of 2006, the Company's exploration efforts continued to be focused on the Fort à la Corne area of central Saskatchewan where its 100% owned Star Diamond Property and its 42.245% interest in the Fort à la Corne Joint Venture ("FALC-JV"). The FALC-JV participants include Kensington Resources Ltd. ("Kensington"), a wholly owned subsidiary of Shore, De Beers Canada Inc. ("De Beers"), Cameco

Corporation (“Cameco”) and UEM Inc. (“UEM”), (collectively called the “JV Participants”).

Shore continued to focus on the Star Diamond Property by completing a second underground bulk sample and forging ahead with both core and large diameter drilling that were announced as part of the second phase of the pre-feasibility study on the property in May of 2005. In early April of this year, Shore announced phase three of the pre-feasibility study, which will see additional bulk sampling and infill drilling and add approximately \$16 million to the total pre-feasibility budget.

In addition to working on the Star Diamond Property, Shore and the JV Participants have also commenced an exploration program on the FALC-JV Property. An action was launched by De Beers in February of 2006 to void the Voting Agreement between Kensington, Cameco and UEM and to restrain the parties from holding a Management Committee meeting; however, the JV Participants were able to come to an unanimous agreement by mid April of 2006 on a \$43.2 million budgeted program for the 2006 fiscal year on the FALC-JV Property. The courts dismissed the claim by De Beers to void the Voting Agreement; however, De Beers has filed an appeal to the Court of Appeals in Saskatchewan and it is scheduled to be heard on May 18, 2006. The 2006 FALC-JV exploration budget will not be affected by the outcome of this pending appeal.

The 2006 estimated budgets for both the Star and FALC-JV properties now totals approximately \$80 million of which Shore will fund approximately \$60 million.

### **Star Diamond Property Pre-feasibility Program**

In March 2006, the results of a second valuation exercise were released. The original 3,050 carat parcel of diamonds from the first valuation exercise done in the early part of 2005 were revalued together with the balance of the diamonds recovered from the initial bulk sample as well as diamonds recovered from the second phase of bulk sampling. The total 5,950 carat parcel separated the diamond values between kimberlite types based on information gathered by Shore geologists. The kimberlite types identified during the bulk sample process included Early, Mid and Late Joli Fou, Cantuar and Pense. The Early Joli Fou was further broken down into two sub-types (Kimberlite Breccia & Pyroclastic). Of particular note was the 1,992.6 carats retrieved from the Early Joli Fou Kimberlite Breccia which had a modeled value of US\$173 per carat. This compares to a modeled value of US\$112 for the Early Joli Fou Pyroclastic kimberlite.

Thus far, the bulk sampling has focused on the Early Joli Fou kimberlite phase with approximately 80% of the tonnes recovered coming from this kimberlite type. Overall, the bulk sampling to date has been successful in meeting its objective of increasing confidence in the modeled diamond values announced in 2005 and these results will ultimately form part of a larger geological and economic model that will encompass all kimberlite types on the Star Diamond Property. The third phase of the Star pre-feasibility study will see a concerted effort on both the Pense and Cantuar kimberlite types. Shore believes, based on minerals and textures observed in the core drilling

intersections, that these two kimberlite types are highly prospective and could significantly impact the future economics of the Star Diamond Property. The third phase of the pre-feasibility program will also see additional infill drilling to better define areas containing Pense kimberlite with an objective of locating a Pense feeder vent. As part of the second phase of the pre-feasibility program, some 30,000 meters of PQ core (75 millimeter) drilling was completed in a total of 125 holes. There are a total of 30 infill holes proposed for the third phase and they will be concentrated in a ravine 600 metres east of the shaft. With the announcement of the third phase, the total pre-feasibility study on the Star Diamond Property now has a budget of approximately \$60 million.

### **FALC-JV Property 2006 Exploration Plan**

The 2006 Exploration program on the FALC-JV property was unanimously agreed to by the Management Committee of the FALC-JV on April 21, 2006. The program will include some 318 core drill holes and 12 large diameter drill holes on the Orion Cluster of kimberlites, the Star West kimberlite and 3 other selected kimberlites. The Orion Cluster is made up of a group of eight defined kimberlites that are believed to form a seven-kilometer long continuous belt of kimberlite, while Star West is defined as the part of the Star Kimberlite that falls within the claim boundaries of the FALC-JV. Star West is presently estimated to include 22 percent of the Star Kimberlite. To put the magnitude of this program into perspective, the core drilling planned for the 2006 FALC-JV program is approximately twice that of the Star Property's 155 core drill holes that is to be completed as part of all three phases of the Star pre-feasibility study. The 2006 program is expected to cost \$43.2 million of which Shore, through its wholly owned subsidiary, Kensington, will fund 46.94%.

## Financial Highlights

Selected financial information of the Company for the quarters ended March 31, 2006 and 2005 is summarized as follows:

	Three Months Ended March 31, 2006 \$ Restated	Three Months Ended March 31, 2005 \$
Revenues (000's)	2,120	283
Net income (loss) (000's)	404	(1,600)
Net income (loss) per share <sup>(1)</sup>	0.00	(0.02)
Total assets (000's)	947,478	183,571
Working capital (000's)	240,532	142,733

(1) Basic and diluted.

## Results of Operations

For the quarter ended March 31, 2006, the Company recorded net income of \$0.4 million or \$0.00 per share compared to a net loss of \$1.6 million or \$0.02 per share for the same period in 2005. The difference between March 31, 2005 and 2006 is predominately related to two items. Firstly, the Company generated increased interest income for the first quarter of 2006 compared to the same period in 2005 which was the result of having excess cash on hand after the completion of two significant financings during 2005. Secondly, the fair-value of stock options expensed during the first quarter of 2005 was approximately \$1.3 million larger than the expense for the 2006 period. The increased interest revenue has resulted in the generation of income from operations; something not normally associated with an exploration company.

### *Revenues*

The Company invested excess cash reserves in short-term deposits to maximize return while ensuring funds would be available for significant cash outflow requirements associated with the Star Diamond Property and FALC-JV Property. For the quarter ending March 31, 2006 the Company reported interest revenue of \$2.1 million as compared to \$0.3 million for the quarter ending March 31, 2005. The increased interest income is the result of a substantially larger cash position after the completion of equity financings during the first and fourth quarters of 2005. In addition, the Company's consolidated cash increased on the amalgamation of Kensington which held approximately \$35 million in cash and cash equivalents at the time of amalgamation.

### *Expenses*

Total operating costs for the quarter ending March 31, 2006 equaled \$1.4 million compared to \$1.9 million for the quarter ended March 31, 2005. This represents a decrease of \$0.5 million or 26%. This decrease is explained due to the fair-value of stock-based compensation that was expensed during the first quarter of 2005 compared to 2006. The fair-value of the options expensed during the first quarter of 2006 was \$0.1 million in contrast to the 2005 expense of \$1.4 million. Once the effect of accounting for

stock-based compensation is removed, the comparison between specific categories of expenses becomes more meaningful. The following discussion related to expense variances removes the affect of stock-based compensation for comparative purposes. Administration increased from \$0.2 in 2005 to \$0.5 million or 150% for the quarter ended March 31, 2006. The increase is due to increased lease costs from a doubling of office space, increased personnel, and increased listing fees from the Toronto Stock Exchange. These increases are consistent with the growth the Company has experienced over the last year. Consulting and professional fees increased by 150% from \$0.2 in the first quarter of 2005 to \$0.5 million in 2006 and are primarily the result of 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.

### ***Investing***

Mineral properties additions totaled \$17.5 million this quarter compared to \$5.4 million for the quarter ended March 31, 2005. The additions represent approximately \$16.6 million on the Star Diamond Property and another \$0.9 million on the FALC-JV property. The expenditures on the Star Property relate to components of the pre-feasibility study with significant expenditures coming from the completion of the bulk sampling, sample processing, large diameter and core drilling. The expenditures on the FALC-JV property relate to processing of samples from the 2005 Advanced Exploration and Evaluation plan and the commencement of core drilling on Star West. The 2005 expenditures related to the completion of the first 25,000 tonne bulk sample and general exploration activities of the Star Diamond Property.

### ***Financing***

The exercise of 2.1 million warrants, broker warrants and options during the quarter resulted in additional cash flow from financing activities of \$4.7 million. Subsequent to March 31, 2006, virtually all the outstanding warrants and broker warrants that were issued to the former security holders of Kensington were exercised for additional gross proceeds of \$12.4 million. For the quarter ended March 31, 2005, the Company completed a public offering of 21.2 million common shares for gross proceeds of \$116.6 million and issued another 3.9 million shares for the exercise of warrants, broker warrants and options for gross proceeds of \$7.6 million. This public offering saw Newmont Mining Corporation of Canada Limited (“Newmont”) subscribe for 9.25 million shares, resulting in Newmont acquiring a 9.9% interest in Shore at the time of the offering.

### **Summary of Quarterly Results**

Selected financial information of the Company for each of the last 8 fiscal quarters is as follows:

	2006	2005				2004		
	Qtr 1 \$	Qtr 4 \$	Qtr 3 \$	Qtr 2 \$	Qtr 1 \$	Qtr 4 \$	Qtr 3 \$	Qtr 2 \$
Revenues <sup>(1)</sup> (000's)	2,120	1,469	805	810	283	121	29	44
Net income (loss) <sup>(2)</sup> (000's)	404	(5,551)	(1,159)	(180)	(1,600)	(246)	(202)	(567)
Net income (loss)/share <sup>(3)</sup>	0.00	(0.05)	(0.01)	(0.00)	(0.02)	(0.01)	(0.00)	(0.01)
Shares outstanding <sup>(4)</sup> (000's)	172,621	170,515	100,951	94,395	93,682	68,539	67,282	50,523

- (1) The increase in revenue in the last three quarters of 2005 and the first quarter of 2006 is the result of having increased cash balances from the closing of equity financings in the 1<sup>st</sup> and 4<sup>th</sup> quarters of 2005.
- (2) The 1<sup>st</sup>, 3<sup>rd</sup> and 4<sup>th</sup> 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 generated earnings from operations in the 1<sup>st</sup> quarter of 2006.
- (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.

## Liquidity & Financial Resources

The Company does not currently operate any producing properties and, as such, is dependent upon the issuance of new equity as well as interest income to finance its ongoing obligations and advance its exploration properties. The first and fourth quarters of 2005 have proven to be highly successful in this regard allowing the Company to fully finance the expanded \$60 million pre-feasibility study on the Star Diamond Property and the recently announced \$43 million FALC-JV 2006 exploration program. Upon completion of these programs the Company anticipates remaining cash reserves of approximately \$200 million to continue with future work programs.

As at March 31, 2006, the Company has working capital of \$240.5 million as compared to \$252.6 million at December 31, 2005 and \$142.7 million at March 31, 2005. As at May 9, 2006, the Company had a total of 175,980,060 common shares issued and outstanding and 6,376,760 options outstanding. In the event all options were exercised, the Company would receive a further \$25.3 million.

## Accounting Estimates

A summary of the Company's significant accounting policies is contained in Note 3 to the restated audited consolidated financial statements for the years ended December 31, 2005 and 2004. The critical accounting estimate in determining the Company's financial results relates to the recoverability of the carried amounts of mineral properties. Management periodically assesses carrying values of non-producing properties. As at

March 31, 2006, the Company has not yet determined whether any of its mineral properties contains economically recoverable reserves.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures, as defined by Multilateral Instrument 52-109, were evaluated by the Chief Executive Officer and Chief Financial Officer as at the end of March 31, 2006 and they have determined that such disclosure controls and procedures were effective.

### **Related Party Transactions**

During the quarter ended March 31, 2006, management and consulting fees of \$189,001 (2005 – \$201,000) were paid to directors, officers and companies controlled by common directors; \$44,400 (2005 - \$57,500) of these fees was capitalized as additions to mineral properties; \$79,651 (2005 - \$98,500) was included as administration expense and \$64,950 (2005 - \$45,000) was included as consulting and professional fees expense. The fair-value of stock-based compensation related to directors and officers of the Company was \$0 (2005 - \$1,429,175).

During the quarter, the Company charged \$97,322 (2005 - \$36,000) to Wescan Goldfields Inc. for rent of office space, administration services, and rental of equipment.

Accounts receivable include \$92,120 due from Wescan Goldfields Inc. (2005 - \$0).

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

### **Outlook**

As at May 9, 2006, the Company had approximately \$254.7 million in cash and cash equivalents. This will be used to complete certain aspects of the second phase and the recently announced third phase of the Star Diamond Property pre-feasibility study as well as to fund the Company's share of exploration of the FALC-JV Property. The exploration projects on both the Star Diamond Property and the FALC-JV Property will be conducted in order to assist in determining both projects' 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 properties 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.

The balance of cash and cash equivalents will be used to fund various other exploration activities, acquisition and exploration of additional diamond properties (as opportunities warrant) as well as for general corporate matters.

## **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 the Ontario Securities Act 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 import 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 pre-feasibility 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 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 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](http://www.sedar.com)