



Consolidated Financial Statements
June 30, 2006
RESTATED

SHORE GOLD INC.
Restated Unaudited Interim Consolidated Financial Statements

For the Six-Month Period Ended
June 30, 2006

Notice to Reader

Management has compiled the restated unaudited consolidated financial statements of Shore Gold Inc. for the six-month period ended June 30, 2006 (along with the comparative interim period in 2005). The Corporation's external auditors have not reviewed these statements.

Shore Gold Inc.
(A Development Stage Entity)
Consolidated Balance Sheets - Restated Note 2

	June 30, 2006 (in thousands) <u>Restated - Note 2</u>	December 31, 2005 (in thousands) <u>Restated - Note 2</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 240,303	\$ 261,677
Receivables	3,630	5,160
Prepays	<u>374</u>	<u>588</u>
	244,307	267,425
Mineral properties (note 4)	713,793	677,422
Investment in Wescan Goldfields Inc. (note 5)	1,265	1,212
Property and equipment	<u>1,519</u>	<u>827</u>
	<u><u>\$ 960,884</u></u>	<u><u>\$ 946,886</u></u>
Liabilities & Shareholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,908	\$ 14,777
Future income tax liability	172,748	216,803
Shareholders equity:		
Share capital (note 6)	730,251	692,985
Contributed surplus (note 6)	20,158	39,466
Retained earnings (deficit)	<u>28,819</u>	<u>(17,145)</u>
	<u>779,228</u>	<u>715,306</u>
	<u><u>\$ 960,884</u></u>	<u><u>\$ 946,886</u></u>

Shore Gold Inc.
(A Development Stage Entity)
Consolidated Statements of Income and Deficit - Restated Note 2

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006 (in thousands) Restated - Note 2	2005 (in thousands)	2006 (in thousands) Restated - Note 2	2005 (in thousands)
Revenue				
Interest and other income	\$ 2,641	\$ 810	\$ 4,761	\$ 1,093
Expenses				
Administration	739	276	1,418	1,395
Consulting & professional fees	503	333	1,052	770
Corporate development	131	213	299	598
Amortization	76	4	141	9
	<u>1,449</u>	<u>826</u>	<u>2,910</u>	<u>2,772</u>
Income (loss) before the undernoted items	1,192	(16)	1,851	(1,679)
Income (loss) from Wescan Goldfields Inc.	<u>(12)</u>	<u>(44)</u>	<u>53</u>	<u>21</u>
Net income (loss) before income taxes	1,180	(60)	1,904	(1,658)
Income tax expense (recovery)	<u>(44,380)</u>	<u>118</u>	<u>(44,060)</u>	<u>120</u>
Net income (loss)	45,560	(178)	45,964	(1,778)
Deficit, beginning of period	<u>(16,741)</u>	<u>(10,254)</u>	<u>(17,145)</u>	<u>(8,654)</u>
Earnings (deficit), end of period	<u>\$ 28,819</u>	<u>\$ (10,432)</u>	<u>\$ 28,819</u>	<u>\$ (10,432)</u>
Net income (loss) per share				
Basic and diluted	0.26	(0.00)	0.27	(0.02)
Weighted average number of shares outstanding (000's)	174,785	94,242	173,165	83,690

Shore Gold Inc.
(A Development Stage Entity)
Consolidated Statements of Cash Flows - Restated Note 2

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
	<u>Restated - Note 2</u>	<u> </u>	<u>Restated - Note 2</u>	<u> </u>
Cash provided by (used in):				
Operations:				
Net income (loss)	45,560	(178)	45,964	(1,778)
Non-cash items:				
Amortization	76	4	141	9
Share of (income) loss in Wescan Goldfields Inc.	12	44	(53)	(21)
Fair value of stock options expensed	17	46	107	1,465
Future income tax expense (recovery)	(44,375)	-	(44,055)	-
Net change in non-cash operating working capital items:				
Prepays	(72)	(8)	214	(93)
Payables and accrued liabilities	(273)	(981)	(158)	182
	<u>945</u>	<u>(1,073)</u>	<u>2,160</u>	<u>(236)</u>
Investing:				
Mineral properties	(18,670)	(4,808)	(36,203)	(9,550)
Property and Equipment	(612)	(11)	(704)	(24)
Net change in non-cash investing working capital items:				
Receivables	(1,060)	370	1,530	496
Payables and accrued liabilities	(925)	1,048	(5,957)	(587)
	<u>(21,267)</u>	<u>(3,401)</u>	<u>(41,334)</u>	<u>(9,665)</u>
Financing:				
Issue of common shares (net of issue costs)	13,105	1,438	17,800	121,518
	<u>13,105</u>	<u>1,438</u>	<u>17,800</u>	<u>121,518</u>
Increase (decrease) in cash and cash equivalents	(7,217)	(3,036)	(21,374)	111,617
Cash and cash equivalents, beginning of year	247,520	143,337	261,677	28,684
Cash and cash equivalents, end of year	\$ 240,303	\$ 140,301	\$ 240,303	\$ 140,301

SHORE GOLD INC.

(A Development Stage Entity)

Notes to Restated Consolidated Financial Statements (for the six-month period ended June 30, 2006)

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. Restatements

- a) 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. A summary of the effects of the aforementioned adjustments required to the December 31, 2005 and June 30, 2006 consolidated balance sheets follows.
- b) During the second quarter of 2006, the federal and provincial governments enacted amendments to current tax legislation, which provided for a reduction in corporate tax rates. The cumulative effect of the change on Shore's future income tax liability was a reduction of \$44,920,000 resulting in an increase to income of the same amount. The impact on the consolidated balance sheet at June 30, 2006 and consolidated statement of income and deficit for the six-month period ended June 30, 2006 is summarized below:

Consolidated Balance Sheet for the Year Ended December 31, 2005

	(in thousands)		
	As originally reported	Adjustments for item (a)	As restated
Assets:			
Mineral Properties	\$ 507,288	\$ 170,134	\$ 677,422
Liabilities:			
Future Income tax liability	\$ 147,649	\$ 69,154	\$ 216,803
Shareholders equity:			
Share Capital	\$ 600,447	\$ 92,538	\$ 692,985
Contributed Surplus	\$ 31,024	\$ 8,442	\$ 39,466

Consolidated Balance Sheet and Statement of Income and Earnings (Deficit) for the Six-month Period Ended June 30, 2006

	(in thousands)			
	As originally reported	Adjustments for item (a)	Adjustments for item (b)	As restated
Assets:				
Mineral Properties	\$ 543,659	\$ 170,134	\$ -	\$ 713,793
Liabilities:				
Future Income tax liability	\$ 148,514	\$ 69,154	\$ (44,920)	\$ 172,748
Shareholders equity:				
Share Capital	\$ 631,602	\$ 98,649	\$ -	\$ 730,251
Contributed Surplus	\$ 17,827	\$ 2,331	\$ -	\$ 20,158
Retained earnings (deficit)	\$ (16,101)		\$ 44,920	\$ 28,819
Income tax expense (recovery)	\$ 860		\$ (44,920)	\$ (44,060)
Net income	\$ 1,044		\$ 44,920	\$ 45,964
Net income per share	\$ 0.01		\$ 0.26	\$ 0.27

3. General

These restated 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 restated annual audited consolidated financial statements filed on SEDAR.

4. Mineral properties

Mineral properties for the six-month period ended June 30, 2006 is made up of the following:

	Star Property	Fort à la Corne Property	Other Diamond Properties	Total
	(in thousands)			
Balance - December 31, 2005 (note 2)	\$ 75,673	\$ 601,646	\$ 103	\$ 677,422
Expenditures during 2005				
Acquisition & staking	312	-	-	312
Exploration:				
Equipment	849	-	-	849
Personnel	2,996	-	-	2,996
Recording fees & permits	44	-	-	44
Drilling/Pre feasibility	27,304	2,962	-	30,266
Geophysical	599	-	-	599
Sampling/assaying	835	-	-	835
Travel	466	4	-	470
Balance - June 30, 2006	\$ 109,078	\$ 604,612	\$ 103	\$ 713,793

5. Investment in Wescan Goldfields Inc.

The Company accounts for its 17.1% investment in Wescan Goldfields Inc. (“Wescan”) on an equity basis. Wescan is publicly traded on the TSX Venture exchange.

At June 30, 2006, Shore and its wholly owned subsidiaries held 8,474,086 (2005 – 8,470,105) shares of Wescan. The market value of the Company’s equity interest in Wescan at June 30, 2006 is \$3,800,000 (2005 - \$3,400,000).

6. Share capital

Authorized

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

Issued and outstanding

	Common Shares	Warrants	Amount
	(in thousands)		
Balance - December 31, 2005 (note 2)	170,515	5,434	\$ 692,985
Warrants exercised (a)	400	(625)	2,519
Broker warrants exercised (b)	296	-	2,010
Options exercised (c)	1,410	-	8,201
Issue costs	-	-	-
Balance - March 31, 2006	172,621	4,809	\$705,715
Warrants exercised/expired (a)	3,066	(4,809)	22,259
Broker warrants exercised (b)	133	-	899
Options exercised (c)	304	-	1,378
Issue costs	-	-	-
Balance – June 30, 2006 (note 2)	176,124	-	\$730,251

a) Warrants

As part of the merger between the Company and Kensington Resources Ltd. (“Kensington”), each outstanding warrant of Kensington became a warrant of the Company. At October 28, 2005 there were 5,434,358 warrants of Kensington which entitled the holder to 0.64 shares of Shore for a total of 3,477,989 shares of Shore being issued upon exercise. During the period ended June 30, 2006, 5,416,038 warrants were exercised that converted to 3,466,264 shares of Shore being issued and 18,320 expired. A summary of outstanding warrants (in thousands) is as follows:

	Warrants	Average Price	Expiry Dates
Balance - December 31, 2005	5,434	\$2.43	March 24, 2006 to May 6, 2006
Exercised	(625)	1.89	
Balance - March 31, 2006	4,809	\$2.50	May 6, 2006
Exercised	(4,791)	2.50	May 6, 2006
Expired	(18)	2.50	May 6, 2006
Balance - June 30, 2006	-	-	-

b) Broker warrants

As part of the merger with Kensington, each outstanding broker warrant of Kensington became a broker warrant of the Company. At October 28, 2005 there were 543,579 broker warrants and attached underlying warrants of 162,000 of Kensington which entitled the holder to 347,890 and 103,680 shares of Shore being issued upon exercise, respectively. During the period ended June 30, 2006, 325,012 broker warrants and 103,680 underlying warrants were exercised. A summary of the outstanding broker warrants (in thousands) is as follows:

	Broker Warrants	Average Price	Underlying Warrants	Average Price
Balance - December 31, 2005	325	\$3.28	104	\$3.91
Exercised	(219)	3.28	(77)	3.91
Balance - March 31, 2006	106	\$3.28	27	\$3.91
Exercised	(106)	3.28	(27)	3.91
Balance - June 30, 2006	-	-	-	-

Kensington broker warrants and underlying warrants were scheduled to expire May 6, 2006.

c) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, consultants and employees to purchase common shares of the Company. As at June 30, 2006, the number of shares reserved under the plan is 12,899,920. 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. Options vest six to twelve months after grant date and have varying expiration dates between 4 and 5 years from the date of the grant of the options.

The fair value of stock options issued in the period 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 ranging from 54.9% to 63.1% (2005 – 59.8% to 61.1%) and a risk free rate ranging from 4.23% to 4.50% (2005 – 4.25%). During the quarter ended June 30, 2006, the Company granted 152,000 (2005 - 20,000) options to officers, directors, consultants and employees at an average strike price of \$6.17 (2004 - \$4.14). During the six months ended June 30, 2006, the Company granted 172,000 (2005 - 900,000) options to officers, directors, consultants and employees at an average strike price of \$6.37 (2005 - \$3.07). The fair value in respect of stock options issued for the quarter ended June 30, 2006 was \$448,328 (2005 - \$45,548). Of this amount \$51,017 (2005 – \$0) was capitalized as an addition to mineral properties and \$16,608 (2005 – \$45,548) was expensed, while the remainder of the fair-value will be recognized over the corresponding vesting periods. The fair value in respect of stock options issued for the six-month period ended June 30, 2006 was \$538,800 (2005 - \$2,141,122). Of this amount \$51,017 (2005 – \$676,533) was capitalized as an addition to mineral properties and \$107,080 (2005 – \$1,464,589) was expensed, while the remainder of the fair-value will be recognized over the corresponding vesting periods.

For options outstanding at June 30, 2006, weighted average exercise prices are as follows:

	Options	Average Price
Balance – December 31, 2005	7,901,440	\$3.52
Granted	20,000	7.90
Exercised	(1,409,680)	1.77
Balance – March 31, 2006	6,511,760	\$3.91
Granted	152,000	6.17
Exercised	(303,800)	2.22
Expired	(62,000)	7.13
Balance – June 30, 2006	6,297,960	\$4.02

The options expire between the dates of July 2006 to May 2011.

d) Contributed surplus

The fair-value of certain stock options, warrants and broker warrants have been valued using the Black-Scholes option-pricing model. The fair-value 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, 2005 (note 2)	\$ 39,466
Fair value of options granted	90
Less: contributed surplus related to options exercised	(5,702)
Less: contributed surplus related to warrants exercised	(1,341)
Less: contributed surplus related to broker warrants exercised	(992)
Balance – March 31, 2006 (note	\$ 31,521
Fair value of options granted	68
Less: contributed surplus related to options exercised	(704)
Less: contributed surplus related to warrants exercised	(10,281)
Less: contributed surplus related to broker warrants exercised	(446)
Balance – June 30, 2006 (note 2)	20,158

7. Related party transactions

During the six-month period ended June 30, 2006, management and consulting fees of \$874,918 (2005 – \$449,333) were paid to directors, officers and companies controlled by common directors; \$224,900 (2005 - \$120,000) of these fees was capitalized as additions to mineral properties; \$367,068 (2005 - \$209,333) was included as administration expense and \$282,950 (2005 - \$120,000) 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 - \$1,437,469).

During the six-month period, the Company charged \$210,043 (2005 - \$36,000) to Wescan Goldfields Inc. for rent of office space, administration services, and rental of equipment.

Accounts receivable includes \$167,338 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.

8. Comparative Figures

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