



Management Discussion & Analysis
June 30, 2006

RESTATED

MANAGEMENT'S DISCUSSION & ANALYSIS - RESTATED

For the quarter ended June 30, 2006

The following Management's Discussion and Analysis should be read in conjunction with the restated unaudited consolidated financial statements for the period ended June 30, 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.

Restatements

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.

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 details of these restatements are shown in note 2 of the restated unaudited consolidated financial statements for the period ended June 30, 2006.

Overview

During the first and second quarter of 2006, the Company's exploration efforts continued to focus on the Fort à la Corne area of central Saskatchewan on 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”) (the operator), Cameco Corporation (“Cameco”) and UEM Inc. (“UEM”), (collectively called the “JV Participants”).

Management of Shore has been actively working on its Star Diamond Property pre-feasibility program. With Phase I completed, and Phase II well underway, management announced Phase III in April of 2006. Phase III was deemed necessary after core drilling results warranted further infill drilling of highly prospective targets. Interpretation of results of the first two bulk samples also required further bulk-sampling to ensure a representative sample was taken of two other kimberlite types (Pense and Cantuar) that comprise a significant volume of the Star Kimberlite. The Phase III announcement brings the budgets for Phase II and III of the Star Property to approximately \$60 million.

In addition to working on the Star Diamond Property, the JV Participants have commenced an exploration program on the FALC-JV Property. By mid April 2006, the JV Participants were able to come to a unanimous agreement on a \$43.2 million budgeted program for the 2006 fiscal year on the FALC-JV Property of which Shore will fund approximately \$20 million. This consensus was reached despite DeBeers having launched an action to void the Voting Agreement between Kensington, Cameco and UEM and to restrain the parties from holding a Management Committee meeting. The action and subsequent appeal were both dismissed by the courts. By the end of June, two of the expected five core drilling rigs had begun drilling on the Orion Kimberlite Cluster. Drilling is projected to be complete by late December. The program is to include approximately 200 PQ (75 millimetres) core holes and between five to nine large diameter drill (1.2 metre) holes.

During the second quarter, 3.2 million shares were issued as a result of the final outstanding warrants and broker warrants from the former Kensington security holders being exercised for gross proceeds of \$12.4 million.

Finally, during the second quarter, the Fidelity Group of Funds acquired a 12.5% interest in the Company. Management believes this investment by Fidelity shows strong support for the Company and its long-term growth potential.

Star Diamond Property Pre-feasibility Program

Phase I of the pre-feasibility program started in 2003 where management’s objective was to extract a 25,000 tonne bulk sample. In early 2005, the results of the first 3,050 carats extracted from the 25,000 bulk sample were released, indicating an average modeled value of \$135 US per carat. On March 20 2006, the results of a second valuation exercise were released that took the original 3,050 carat parcel of diamonds 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 and revalued the total 5,950 carat

parcel. The results of this second valuation exercise increased confidence in the original modeled diamond value announced in 2005.

As a result of work done during the first two bulk sample phases, the Star Kimberlite has been broken down into five principal kimberlite types and include the Early (“EJF”), Mid (“MJF”) and Late (“LJF”) Joli Fou, Cantuar and Pense. The first two bulk samples focused on the Early Joli Fou Kimberlite type with approximately 82% of the tonnes recovered coming from this kimberlite type. Because additional types were identified, management announced a third phase to the Star pre-feasibility study on April 12, 2006. The purpose of this phase will be to bulk sample both the Pense and Cantuar kimberlite types in order to get a representative sample of all kimberlite types of the Star Kimberlite. 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. By the end of July, all but eight core holes had been drilled from the expanded infill drilling. Bulk sampling of Phase III is well underway with an aim to recover in excess of 1,000 carats from each of the Cantuar and Pense Kimberlites. On June 15, 2006, the first of the recoveries related to the Cantuar Kimberlite was announced and by the end of July, drifting to start sampling the Pense had been completed. Large diameter drilling of Phase II continues to progress and the number of metres drilled has seen some significant improvement as the Company’s contractor has adjusted procedures to minimize the impact of poor ground conditions.

All three phases of the pre-feasibility will ultimately form part of a larger geological and economic model that will encompass all kimberlite types on the Star Kimberlite.

FALC-JV Property 2006 Exploration Plan

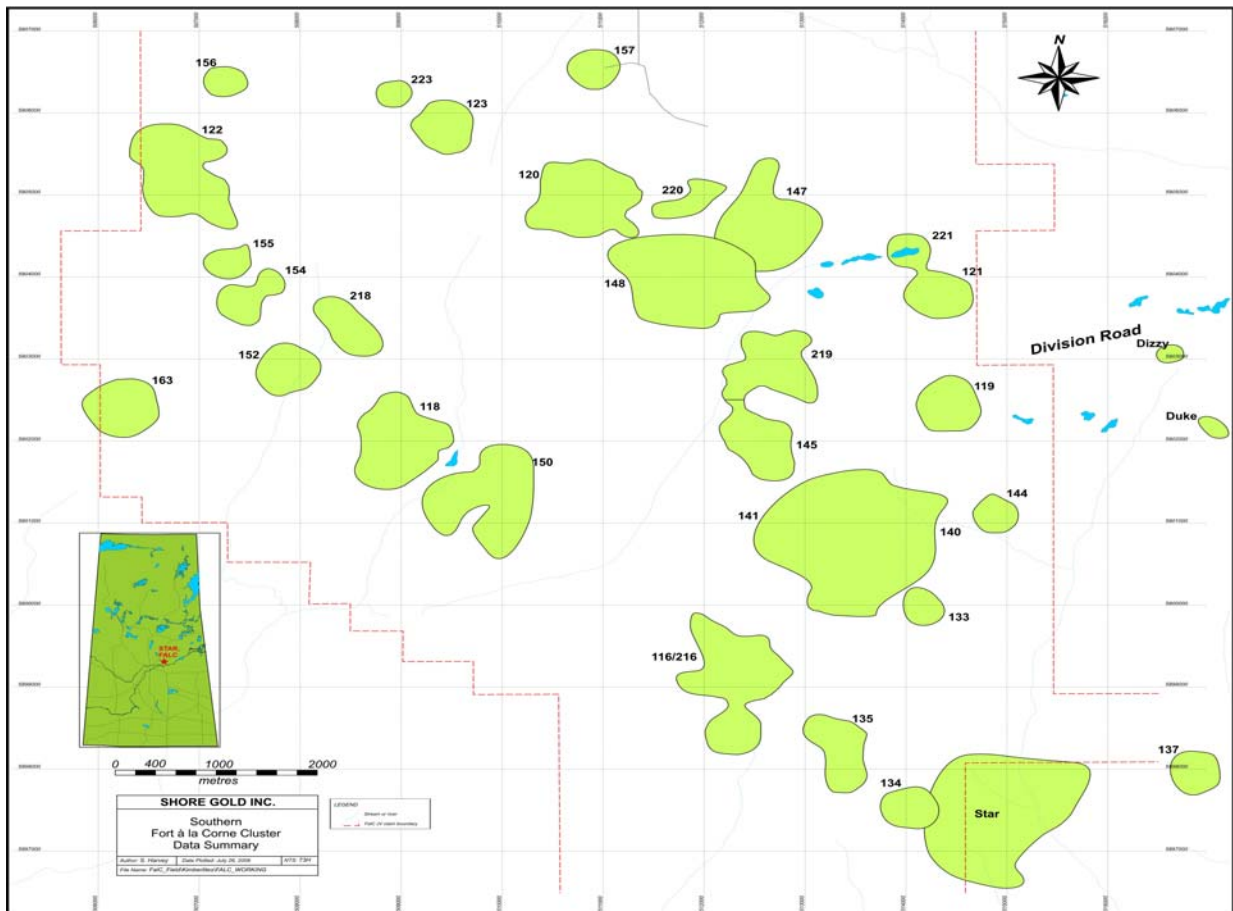
The Management Committee of the FALC-JV unanimously agreed to the 2006 Exploration program on the FALC-JV property on April 21, 2006. The program will include some 200 core drill holes and between five to nine large diameter drill holes on the Orion Kimberlite Cluster (kimberlites 133, 140/141, 145, 147, 148, 219, 220, and 120), the Star West Kimberlite and 3 other selected kimberlites (kimberlites 118, 123, and 152). Pending agreement among the JV Participants, a limited amount of tonnes will be taken from the Star West Kimberlite during Phase III of the underground bulk-sample on the Star Kimberlite to make up the total tonnage required to recover 1,000 carats from the Cantuar Kimberlite type. Figure 1 illustrates the relative size and proximity of the above kimberlites to Shore’s Star Kimberlite based on current information.

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. Based on the FALC-JV 2005 microdiamond results that were released on June 13, 2006, the

kimberlites being targeted during the 2006 exploration program are some of the most highly prospective kimberlites on the FALC-JV property.

To the end of July, 11 out of 18 core holes on Star West had been completed, core drilling on the Orion Cluster had begun, and underground diamond drilling was nearing completion on Star West to allow bulk sampling to commence in the near future.

Figure 1: FALC-JV Southern Kimberlite Cluster



Financial Highlights

Selected financial information of the Company for the quarters ended June 30, 2006 and 2005 is summarized as follows:

Highlights

	Three Months Ended June 30, 2006 \$ Restated	Three Months Ended June 30, 2005 \$	Six Months Ended June 30, 2006 \$ Restated	Six Months Ended June 30, 2005 \$
Revenues (000's)	2,641	810	4,761	1,093
Net income (loss) (000's)	45,560	(178)	45,964	(1,778)
Net income (loss) per share ⁽¹⁾	0.26	(0.00)	0.27	(0.02)
Total assets (000's)	960,884	184,941	960,884	184,941
Working capital (000's)	235,399	139,267	235,399	139,267

(1) Basic and diluted.

Second Quarter

Results of Operations

For the quarter ended June 30, 2006, the Company recorded net income of \$45.6 million or \$0.26 per share compared to a net loss of \$0.2 million or \$0.00 per share for the same period in 2005. The increase in income from June 30, 2005 compared to June 30, 2006 is predominately related to the \$44.9 million future income tax recovery that was not originally recorded during the second quarter of 2006, but has now been incorporated into the restated consolidated financial statements for the period. The restated financial statements can be found on the SEDAR website (www.sedar.com). The future income tax recovery resulted from the federal and provincial governments enacting a decrease in corporate income tax rates during the second quarter. Increased interest revenue resulted in positive cash flows from operations for the second quarter of 2006. The generation of income from operations for the second straight quarter resulted in the recognition of further future income taxes as loss carryforwards have begun to be utilized.

Revenues

The Company invested excess cash reserves in short-term deposits to maximize returns while ensuring funds would be available for significant cash outflow requirements associated with the Star Diamond Property and FALC-JV Property. For the quarter ended June 30, 2006 the Company reported interest revenue of \$2.6 million as compared to \$0.8 million for the quarter ended June 30, 2005. The increased interest revenue 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 upon the amalgamation of Kensington which held approximately \$35 million in cash and cash equivalents at that time.

Expenses

Total operating costs before income taxes for the quarter ended June 30, 2006 equaled \$1.4 million compared to \$0.8 million for the quarter ended June 30, 2005. This represents an increase of \$0.6 million or 75%. This increase is generally explained due to the growth the Company has experienced as well as bonuses paid to senior management for their efforts and accomplishments over the last year. Administration expense for the second quarter of 2006 increased from \$0.3 million in 2005 to \$0.7 million or 133% for the quarter ended June 30, 2006. The increase is due to increased lease costs from the tripling of office space, increased personnel, bonuses and a general compensation review. Consulting and professional fees increased by 67% from \$0.3 in the second quarter of 2005 to \$0.5 million in 2006 and is primarily the result of bonuses paid to certain consultants and increased legal fees associated with the successful defense of the DeBeers claim filed against the Company, and its wholly owned subsidiary, Kensington, regarding the Voting Agreement between Kensington, Cameco and UEM. Finally, corporate development costs decreased from \$0.2 million for the second quarter of 2005 to \$0.1 million for the corresponding quarter in 2006. This 50% decrease is the result of

international marketing occurring during the second quarter of 2005 versus the first quarter of 2006.

Investing

Mineral properties additions totaled \$18.9 million this quarter compared to \$4.8 million for the quarter ended June 30, 2005. The additions represent approximately \$16.8 million on the Star Diamond Property and another \$2.1 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 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 core drilling on Star West. The 2005 expenditures related to the completion of the first 25,000 tonne bulk sample and the commencement of the pre-feasibility study on the Star Diamond Property.

Financing

The exercise of 3.5 million warrants, broker warrants and options during the quarter resulted in additional cash flow from financing activities of \$13.1 million. The majority of which related to the exercise of virtually all the outstanding warrants and broker warrants that were issued to the former security holders of Kensington upon the merger. For the quarter ended June 30, 2005, the Company issued another 0.7 million shares for the exercise of warrants and options for gross proceeds of \$1.7 million.

Year to Date

Results of Operations

For the six-month period ended June 30, 2006, the Company recorded net income of \$46.0 million or \$0.27 per share compared to a net loss of \$1.8 million or \$0.02 per share for the same period in 2005. The increase in income for the six-month period ended June 30, 2005 compared to June 30, 2006 is predominately related to the \$44.9 million future income tax recovery that was not originally recorded during the second quarter of 2006, but has now been incorporated into the restated consolidated financial statements for that period. The future income tax recovery resulted from the federal and provincial governments enacting a decrease in corporate income tax rates during the second quarter. Excluding the effect of the future income tax recovery from the rate change, there was a \$2.8 million positive change in income from the six-month period ended June 30, 2005 to June 30, 2006. The favourable results compared to the same period from last year is predominately from increased interest revenue as well as an approximate \$1.3 million larger expense during the first quarter of 2005 related to fair-value of stock options expensed. The positive variances from the above items were offset by general increases in expenses for growth achieved by the Company as well as the recognition of future income taxes after the increased interest revenue for the first two quarters of 2006 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 six-month period ended June 30, 2006 the Company reported interest revenue of \$4.8 million as compared to \$1.1 million for the comparable period of 2005. The increased interest revenue is the result of a substantially larger cash position after the completion of equity financings during the first and fourth quarters of 2005 as well as rising interest rates over the last 12-month period.

Expenses

Total operating costs for the six-month period ended June 30, 2006 equaled \$2.9 million compared to \$2.8 million for the six-month period ended June 30, 2005. This represents an increase of \$0.1 million or 4%. Even though total expenses look fairly similar period over period, the first half of 2005 had non-cash expenses of approximately \$1.3 million more than the same period of 2006 which related to the fair-value of stock-based compensation. 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 effect of stock-based compensation for comparative purposes for the six-month period ended June 30, 2006 and 2005. Administration increased from \$0.4 million in 2005 to \$1.3 million for the six-month period ended June 30, 2006. The \$0.9 million increase is due to increased lease costs from the tripling of office space, increased personnel, increased listing fees from the Toronto Stock Exchange, and cash bonuses paid to senior management. These increases are consistent with the growth the Company has experienced over the last year. Consulting and professional fees increased by 120% from \$0.5 for the first six months of 2005 to \$1.1 million for the same period in 2006. The increase is partially the result of bonuses paid to certain consultants; however, the majority of the increase relates to increased legal fees associated with defending the claim filed against the Company, and its wholly owned subsidiary, Kensington, by De Beers regarding the Voting Agreement between Kensington, Cameco and UEM. Finally, corporate development costs of \$0.3 million for the six-month period ended June 30, 2006 are slightly less than the \$0.4 million reported for the corresponding 2005 period. The decrease is attributable to reduced marketing efforts after the completion of two major financings in 2005.

Investing

Mineral properties additions totaled \$36.4 million for the period ended June 30, 2006 compared to \$10.2 million for the period ended June 30, 2005. The additions represent approximately \$33.4 million on the Star Diamond Property for the completion of Phase II bulk sampling, the start of Phase III bulk sampling, sample processing, large diameter and core drilling. The remaining \$3.0 million of expense were for the FALC-JV property and relate to processing of samples from the 2005 Advanced Exploration and Evaluation

plan, core drilling on Star West, and the commencement of core drilling on the Orion Kimberlite Cluster. Expenditures on the FALC-JV will be significantly larger for the remainder of the year as core drilling had just begun on the Orion Kimberlite Cluster in June and large diameter drilling will be commencing in the near future. The 2005 expenditures related to the completion of the first 25,000 tonne bulk sample and the commencement of the Phase II of the pre-feasibility study on the Star Diamond Property.

Financing

The exercise of 5.6 million warrants, broker warrants and options during the six-month period ended June 30, 2006 resulted in additional cash flow from financing activities of \$17.8 million. For the six-month period ended June 30, 2005, the Company completed a public offering of 21.2 million common shares for gross proceeds of \$116.6 million and issued another 4.7 million shares for the exercise of warrants, broker warrants and options for gross proceeds of \$10.2 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 2 \$ Restated	Qtr 1 \$	Qtr 4 \$	Qtr 3 \$	Qtr 2 \$	Qtr 1 \$	Qtr 4 \$	Qtr 3 \$
Revenues ⁽¹⁾ (000's)	2,641	2,120	1,469	805	810	283	121	29
Net income (loss) ⁽²⁾ (000's)	45,560	404	(5,551)	(1,159)	(180)	(1,600)	(246)	(202)
Net income (loss)/share ⁽³⁾	0.26	0.00	(0.05)	(0.01)	(0.00)	(0.02)	(0.01)	(0.00)
Shares outstanding ⁽⁴⁾ (000's)	176,124	172,621	170,515	100,951	94,395	93,682	68,539	67,282

- (1) The increase in revenue in the last three quarters of 2005 and the first two quarters of 2006 is the result of having increased cash balances from the closing of equity financings in the 1st and 4th quarters of 2005.
- (2) The 1st, 3rd and 4th quarters of 2005 saw marked increases in operating costs primarily associated with the fair-value of stock-based compensation granted during the respective quarters. Interest revenue from cash reserves generated earnings from operations in the 1st and 2nd quarters of 2006. The 2nd quarter of 2006 had significant income as the result of a future income tax recovery after the federal and provincial governments enacted reduced corporate income tax rates.
- (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 the 2006 spending relating to these programs, the Company anticipates having cash reserves of approximately \$200 million to continue its exploration and development efforts.

As at June 30, 2006, the Company has working capital of \$235.4 million as compared to \$252.6 million at December 31, 2005 and \$139.3 million at June 30, 2005. As at August 8, 2006, the Company had a total of 176,287,860 common shares issued and outstanding and 6.1 million options outstanding. In the event all options were exercised, the Company would receive a further \$25.1 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 June 30, 2006, the Company has not yet determined whether any of its mineral properties contain 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 June 30, 2006 and they have determined that such disclosure controls and procedures were effective.

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.

Outlook

As at August 8, 2006, the Company had approximately \$233.8 million in cash and cash equivalents. This will be used to complete certain aspects of the Phase II and the recently announced Phase III of the Star Diamond Property pre-feasibility study as well as to fund the Company's share of exploration on 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), and 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

Press releases referenced in this document can be found on SEDAR at www.sedar.com or on the Company's website at www.shoregold.com. Additional information related to the Company, including the latest available Annual Information Form, is available on SEDAR.