

## Shore Welcomes Saskatchewan Government Announcement of Diamond Royalty

On June 2, the Saskatchewan government introduced a new royalty system for future diamond production in Saskatchewan. Shore welcomed the development of a diamond royalty system which is competitive with other diamond-producing jurisdictions.

Representatives of the mining sector including Shore were consulted in the government's process of developing the system, and given the opportunity to provide input. Shore Senior Vice President Exploration and Development, George Read, stated: "Shore considers the royalty system fair" and that "it brings us another step closer to our goal of establishing Saskatchewan's first diamond mine."

The royalty regime features:

- a 1% base royalty on the value of mine production, with an initial five-year holiday;
- a stepped royalty rate on profits to a maximum of 10% once capital investment is fully recovered; and
- a full-cost recognition including a 100% depreciation rate of capital costs and a processing allowance.

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## Shore has Five Information Gathering Agreements with Aboriginal Groups, MOUs with Three

### *Information Gathering Agreement Reached with Three Bands of the James Smith Reserve*

The August signing of an information gathering agreement with the James Smith Cree Nation, Chakastaypasin Band of the Cree and Peter Chapman First Nation to gather information on aboriginal traditional land use will assist in preparation of Shore's Environmental Impact Statement ("EIS") related to the Star-Orion South Diamond Project.

Similar agreements are already in place with Sturgeon Lake First Nation, Métis Nation -- Saskatchewan Eastern Region II and Western Region II and Red Earth Cree Nation.

Shore Vice President Corporate Affairs Eric Cline welcomed the agreement with the bands. "We want to ensure we accurately describe our impact on aboriginal land use and traditional sites, present the information to government, and avoid adverse impact where possible," he said.

In addition to informing the EIS, the gathering of traditional knowledge creates a permanent database of information for the use of the aboriginal party concerned, which owns and controls the information, and which may remain confidential at the option of the band.

### *Memoranda of Understanding Signed with Métis Regions*

MOUs signed June 16 and 17 with Métis Nation -- Saskatchewan Eastern Region II and Western Region II commit the parties to holding discussions on future cooperation. Specifically, the parties agree to meet about potential education and training, employment, and business opportunities for Métis people in the region surrounding the proposed mine site.

A similar MOU was reached with Sturgeon Lake First Nation earlier in the year. The objective is to arrive at a process whereby aboriginal people benefit from development through jobs and business opportunities.

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*Diamond Development Advisory Committee members Orest Romanchuk and Rolena Krawec, Shore Gold Open House - Prince Albert, 2010*

## Province Funds Environmental Assessment Participation by First Nations and Métis People

The Government of Saskatchewan reached agreements in August to fund participation in the Environmental Impact Assessment of Shore's proposed open pit mines and related infrastructure. Pursuant to the agreements, funds will be provided to Muskoday First Nation, the bands of the James Smith reserve and Métis Nation -- Saskatchewan Eastern Region II and Western Region II.

It is anticipated the Environmental Impact Statement ("EIS") will be filed later this year, followed by assessment by Saskatchewan's Ministry of Environment and federal authorities. Both governments are required to consult First Nations and Métis people before giving environmental approval to proceed. The recent agreements will assist aboriginal people in reviewing the EIS and providing input to the process.

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## Rising Diamond Prices, Significant Presence of Type IIa Diamonds in Star Strengthening Project Economics

### *Higher Diamond Prices*

The positive Star-Orion South Pre-Feasibility Study announced February 10, 2010 was based on March 2008 diamond prices. The Pre-Feasibility Study concluded that, on the basis of the March 2008 prices, there was a reasonable economic prospect for diamond mining at Star-Orion South. Since that time, revaluation of the diamonds from Star and Orion South kimberlites has shown price increases between 11 and 19 per cent (see News Release of June 8, 2010). Prices range between US\$116 and US\$344 per carat.

Higher prices will have a significant positive effect on the future economics of the Star-Orion South Diamond Project.

The effect of higher prices will be factored into reserve estimates and the economic model. Further details are published at [www.shoregold.com](http://www.shoregold.com), News Releases, June 8, 2010 under "Investors".

### *Significant Proportion of Type IIa Diamonds in Star Kimberlite*

Twenty-six per cent of all diamonds exceeding 2.7 carats in size from the Star Kimberlite underground bulk sample are Type IIa diamonds. These diamonds are rare, accounting for probably less than 2% of all natural rough diamonds in the world. They are regularly produced at only a small number of active diamond mines.

Type IIa diamonds contain no nitrogen or boron impurities, and their presence greatly increases potential for the recovery of large (>100 carat), high quality diamonds at Star. Further details can be viewed at [www.shoregold.com](http://www.shoregold.com), News Releases, June 9, 2010 under "Investors".

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## Shore Acquires Rights to All Net Profits from the Star Kimberlite Formerly Subject to Seagrove's Net Profits Interest

In August, Shore exercised its contractual right to purchase the 3% Net Profits Interest ("NPI") held by Seagrove Capital Corporation, for the agreed amount of \$1 million.

Fifteen claims were subject to the NPI, three of which are directly associated with the Star Kimberlite. The claims were originally staked in 1995, and transferred to Shore in 1997 in return for the 3% NPI on any eventual production. Shore had the option to purchase the NPI from Seagrove Capital Corporation, the successor party holding the NPI, at any time prior to 90 days after a production decision, and did so.

The acquisition of the NPI is an important step in consolidation of Shore's interest in the Star-Orion South Diamond Project.

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## Hundreds Show Community Support at Second Round of Open Houses

June 14 -- 17 saw a team of Shore personnel and Diamond Development Advisory Committee community representatives out and about meeting the public in Meath Park, Choceland, Nipawin, Tisdale, Melfort and Prince Albert.

Over 600 people came out to the Community Open House meetings where, in addition to detailed handouts, poster boards, video mining simulations and photographic representations, people were able to view a scale model of the Star-Orion South Diamond Project. Comments demonstrated virtually unanimous support for the project to proceed.

At least nine Shore staff were on hand at all times to answer questions. Separate stations featured the topics of Geology, Mining and Processing, Environmental Monitoring, and Jobs and Economy.



Scale model of Star-Orion South Diamond Project, Shore Gold Open House – Meath Park, 2010

Keeping the public fully updated on the proposal and possible environmental impacts, and receiving input, are important components of the Environmental Impact Assessment. Public questions and concerns were responded to, and will be reported to government in the Environmental Impact Statement.

Poster boards and handouts from the Open Houses can be viewed online at [www.shoregold.com](http://www.shoregold.com), click on “Community”.

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## Second Quarter Financial Results Released

Financial results for the quarter ended June 30, 2010, released in August, included:

- working capital of \$27.9 million at June 30, 2010 (\$26.9 million as of August 6, 2010);
- net loss of \$1 million (\$0.00 per share rounded) for the six-month period ending June 30, 2010, compared to a net loss of \$6.1 million (\$0.03 per share) for the same period in 2009. This loss results primarily from ongoing operating

### Caution regarding Forward-Looking Statements

*This newsletter 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. Forward-looking information is often, but not always, identified by the use of words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “forecast”, “target”, “project”, “guidance”, “may”, “will”, “should”, “could”, “estimate”, “predict” or similar words suggesting future outcomes or language suggesting an outlook. In particular, statements regarding Shore’s future operations, future exploration and development activities or other development plans constitute forward-looking statements. Forward-looking statements in this newsletter include, but are not limited to, the timing and scheduling of the EIA process, and the impact of increases in diamond prices.*

*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 and annual and interim MD&A, 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. Unless otherwise required by applicable securities legislation, Shore does not undertake to update any forward-looking statement that may be contained herein.*

costs exceeding interest revenue earned on cash and cash equivalents and short term investments during the pre-production phase, at which time no revenue from production is yet being earned.

Details can be viewed at [www.shoregold.com](http://www.shoregold.com), News Releases, August 12, 2010, click on “Investors”.

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## Environmental Update

### Wildlife Baseline Information Compiled

The compilation of wildlife information, through field surveys and a literature review, has been completed, and forms a baseline for use in the Environmental Impact Assessment (EIA) of the proposed Star-Orion South Diamond Project. This work was largely focused on the Local Study Area (LSA), the area closest to the proposed mining site. A summary of this baseline follows.

The Fort à la Corne (FalC) area is an island forest complex, surrounded by agricultural land, and is located in close proximity to several larger urban communities. The forest size and diversity of vegetation support many wildlife species. The LSA occurs in one of the least complex areas of the FalC forest in terms of vegetation cover; however, the ravines and

Saskatchewan River valley provide important upland and wetland habitats and function as wildlife movement corridors.

White-tailed deer is the most common ungulate (animals with hooves) in the FalC forest and LSA. Moose and elk are also common in the area, and mule deer are present, although not common. At present, chronic wasting disease, evident in ungulates in surrounding areas, appears to be limited to the eastern edge of the FalC forest.

The FalC forest supports resident large carnivores including black bear, lynx, cougar and wolves. Several other furbearers, including beaver, muskrat, weasels, otter, mink, marten, red squirrel and snowshoe hare are also present in the area. Based on aerial surveys, it appears that the wolf population was relatively high in 2007/2008; however, trapping in 2008/2009 and 2009/2010 to reduce predation of livestock in surrounding agricultural lands has reduced wolf numbers in the area.

At least 251 species of birds have been noted in the FalC forest, with over 130 species recorded in the LSA during the study. Nine species of eagles, hawks, falcons, and vultures, and four species of owls, were recorded either during the

course of the baseline surveys or incidentally, and several other species are known to appear in the area. Thirty-three species of water birds/shorebirds were recorded during spring baseline surveys, with the American coot, mallard, and Canada goose being the most common species. Of the 59 species recorded during the upland breeding bird survey, 49 species of songbirds were present, with the red-eyed vireo, white-throated sparrow, chipping sparrow, dark-eyed junco, common yellowthroat, and least flycatcher being the most frequently recorded species. Regenerating jack pine and deciduous forest areas had the highest number of bird species recorded, while the highest relative abundance of birds occurred near river shoreline, beaver pond, treed conifer swamp, and aspen-white spruce habitats.

Amphibians detected in the FalC forest included boreal chorus frog (most common species), wood frog, Canadian toad, and tiger salamander. The habitat range of the red-sided garter snake extends up to the FalC forest, but was not observed during surveys.

Ten species at risk have been recorded in the FalC forest region, although not necessarily observed during recent surveys, including five bird species (common nighthawk, olive-sided flycatcher, Canada warbler, whip-poor-will, and Chimney swift) designated as Threatened by COSEWIC, and two bird species (horned grebe, short-eared owl) designated as Special Concern. There is potential for northern leopard frog, yellow rail, and rusty blackbird to also occur in wetland areas of the FalC forest.

### Interests Workshop

As part of Shore’s public engagement program, an interests workshop is being planned for October 26th, 2010, to be held in Prince Albert. This workshop will bring together interested stakeholders to present the initial technical results of the environmental impact assessment and discuss potential monitoring and mitigation. Topics will include groundwater, wildlife and water quality, as well as others. Stakeholders will be invited to the workshop in the coming weeks. Results of the workshop will then be incorporated into the Environmental Impact Statement (EIS), which will then be submitted to the regulators.

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## Upcoming Events

### Diamond Development Advisory Committee Meeting

Tuesday, September 21, 2010  
Fort a la Corne Site  
Fort a la Corne, SK

