

Shear Minerals Ltd.

Consolidated Interim Financial Statements
(Unaudited)
February 28, 2005

To the Shareholders of Shear Minerals Ltd.:

The consolidated interim balance sheet of Shear Minerals Ltd. as at February 28, 2005, and the consolidated interim statements of loss and deficit and of cash flows for the period then ended have been compiled by management.

No audit or review of this information has been performed by the company's auditors.

Shear Minerals Ltd.

Consolidated Interim Balance Sheets

(Unaudited)

As at February 28, 2005

| | February 28, 2005 | November 30, 2004 |
|---|------------------------------|----------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash | 3,693,515 | 7,298,222 |
| Restricted cash (note 4) | 1,071,714 | - |
| Short-term investments (market value - \$154,425; 2004 - \$160,238) | 144,003 | 129,330 |
| Accounts receivable | 502,895 | 540,225 |
| Operator recoveries | 713,312 | 189,246 |
| Prepaid expenses | 44,326 | 41,516 |
| | <hr/> | <hr/> |
| | 6,169,765 | 8,198,539 |
| Equipment | 24,645 | 28,227 |
| Mineral properties (note 5) | 9,831,897 | 9,062,670 |
| | <hr/> | <hr/> |
| | 16,026,307 | 17,289,436 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accruals | 382,244 | 1,607,177 |
| Deposits | 525,140 | 681,531 |
| | <hr/> | <hr/> |
| | 907,384 | 2,288,708 |
| Future income taxes | 2,427,823 | 1,043,023 |
| | <hr/> | <hr/> |
| | 3,335,207 | 3,331,731 |
| Shareholders' Equity | | |
| Share capital (note 6) | 15,259,661 | 16,469,461 |
| Contributed surplus | 1,449,025 | 1,320,700 |
| Deficit | (4,017,586) | (3,832,456) |
| | <hr/> | <hr/> |
| | 12,691,100 | 13,957,705 |
| | <hr/> | <hr/> |
| | 16,026,307 | 17,289,436 |

Approved by the Board of Directors

"Pamela Strand"

"Frank Agar"

Director

Director

Shear Minerals Ltd.

Consolidated Interim Statements of Loss and Deficit
(Unaudited)

For the period ended February 28, 2005

| | Three Months Ended Feb. 28, 2005 | Three Months Ended Feb. 29, 2004 |
|--|---|--|
| | \$ | \$ |
| Revenue | | |
| Management fees | 23,770 | 7,718 |
| Interest | 25,451 | 19,504 |
| | <hr/> | <hr/> |
| | 49,221 | 27,222 |
| | <hr/> | <hr/> |
| Expenses | | |
| General and administrative | 75,294 | 73,428 |
| Management fees | 20,000 | 18,000 |
| Professional fees | 5,655 | 12,309 |
| Consulting fees | 16,169 | 22,811 |
| Amortization | 3,582 | 2,839 |
| | <hr/> | <hr/> |
| | 120,700 | 129,387 |
| | <hr/> | <hr/> |
| | (71,479) | (102,165) |
| | <hr/> | <hr/> |
| Other income (expenses) | | |
| Recovery of write down of short-term investments | 14,674 | - |
| Gain on sale of short-term investments | - | 8,308 |
| Share-based compensation (note 6) | (128,325) | (218,000) |
| | <hr/> | <hr/> |
| | (113,651) | (209,692) |
| | <hr/> | <hr/> |
| Net loss for the period | (185,130) | (311,857) |
| Deficit – Beginning of period | (3,832,456) | (2,567,675) |
| | <hr/> | <hr/> |
| Deficit – End of period | (4,017,586) | (2,879,532) |
| | <hr/> | <hr/> |
| Basic and diluted loss per share | (0.003) | (0.007) |
| | <hr/> | <hr/> |
| Weighted average number of shares outstanding | 54,245,643 | 43,108,248 |
| | <hr/> | <hr/> |

Shear Minerals Ltd.

Consolidated Interim Statements of Cash Flows

(Unaudited)

For the period ended February 28, 2005

| | Three Months Ended Feb. 28, 2005 | Three Months Ended Feb. 29, 2004 |
|---|---|--|
| | \$ | \$ |
| Cash provided by (used in) | | |
| Operating activities | | |
| Net loss for the period | (185,130) | (311,857) |
| Items not affecting cash | | |
| Amortization | 3,582 | 2,839 |
| Share-based compensation | 128,325 | 218,000 |
| Recovery of write down of short-term investments | (14,674) | - |
| Gain on sale of short-term investments | - | (8,308) |
| | <u>(67,897)</u> | <u>(99,326)</u> |
| Net change in non-cash working capital balances relating to operating activities | <u>(2,942,583)</u> | <u>286,783</u> |
| | <u>(3,010,480)</u> | <u>187,457</u> |
| Financing activities | | |
| Issuance of shares | <u>175,000</u> | <u>1,174,125</u> |
| Investing activities | | |
| Mineral properties | | |
| Acquisition costs | (143,246) | (111,027) |
| Exploration costs | (625,981) | (267,634) |
| Proceeds on sale of short-term investments | - | 16,165 |
| | <u>(769,227)</u> | <u>(362,496)</u> |
| (Decrease) increase in cash | <u>(3,604,707)</u> | <u>999,086</u> |
| Cash – Beginning of period | <u>7,298,222</u> | <u>3,349,645</u> |
| Cash – End of period | <u>3,693,515</u> | <u>4,348,731</u> |

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

February 28, 2005

1 Nature of operations

Shear Minerals Ltd. (the “Company” or “Shear”) is in the business of acquiring and exploring its mineral properties located primarily in Canada. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable and the Company is not presently carrying on active exploration efforts on certain of its mineral properties. To date, the Company has not earned significant revenues and is considered to be in the development stage. The recoverability of the amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown in note 5 represent costs to date for property acquisition (including mineral claims and permits) and exploration expenditures, and do not necessarily reflect present or future values.

2 Basis of presentation

These consolidated interim financial statements should be read in conjunction with the Company’s November 30, 2004 audited financial statements and the notes thereto. These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles by the Company and follow the same accounting policies and method of application as the Company’s consolidated financial statements for the year ended November 30, 2004.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in Canada have been omitted. In the opinion of management, all adjustments of a normal and recurring nature that are necessary for a fair presentation of the balance sheet, results of operations, and cash flows of the interim periods have been included.

3 Accounting policies

Use of estimates

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies 974134 N.W.T. Limited and 4579 Nunavut Limited.

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

February 28, 2005

Revenue recognition

Fees for project management are recorded on an accrual basis as services are provided under the respective operating agreements.

Cash

Cash is defined as cash on deposit and term deposits in money market instruments with original maturities of less than three months.

Short-term investments

Short-term portfolio investments are carried at the lower of cost or market value. When an investment which was previously written down to market value has recovered in market value, a recovery of short-term investments is recorded in the statement of loss and deficit and the carrying value of the investment is adjusted accordingly, up to the maximum of its original cost.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method at 30% per annum on computer equipment and 20% per annum on field equipment. Equipment is considered to be impaired when its carrying value exceeds the total cash flows expected from its use and eventual disposition. The impairment is charged to income in the period incurred.

Mineral properties

Direct costs relating to the acquisition, exploration and development of mineral properties, including interest on borrowings directly related to a property, are capitalized on an area of interest basis. When the Company is the operator of a project and incurs costs on behalf of joint venture partners, these costs are periodically charged back to the partners and are recorded as operator recoveries. Operator recoveries are credited to exploration costs. Cumulative expenditures will be charged against income, through unit-of-production depletion, when properties are developed to the stage of commercial production. Where the Company's exploration commitments for an area of interest are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations. The impairment of mineral properties is assessed whenever changes in circumstances indicate the carrying amount may not be recoverable. Specifically, if the Company's work program on an area of interest has significantly changed so that it no longer has plans for future exploration, previously deferred costs related to the property are charged to operations.

Income taxes

The asset and liability method is used for determining income taxes. Under this method, future tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

February 28, 2005

Flow-through common shares

The Company credits the proceeds of flow-through common shares, which transfer the deductibility of exploration expenses to the investor, to share capital. A future tax liability is recorded and share capital is reduced by the cost of future income taxes when the expenditures are renounced to the holders of these shares.

Share-based compensation

The Company grants share options to executive officers, directors and certain consultants pursuant to a share option plan. In addition, from time to time in connection with short form offerings and private placements, the Company issues warrants to agents as commission for services. Awards of share options are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense and a credit to contributed surplus when share options are granted. Awards of warrants to agents are also accounted for using the fair value method and result in share issue costs and a credit to contributed surplus when the warrants are issued. Any consideration paid on exercise of share options is credited to share capital.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, deemed proceeds from the exercise of options and warrants whose exercise prices are below the average market price of the shares are considered to be used to reacquire common shares at the average market price during the year.

Joint interest options

Certain of the Company's exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

4 Restricted cash

The Company has provided a GIC in the amount of \$1,071,714 to secure an irrevocable letter of credit in favour of the Receiver General of Canada. The letter of credit is a deposit required to maintain prospecting permits at the Churchill Diamond Project, and expires on January 31, 2006. The funds will be released when the assessment reports of the work completed are filed and approved.

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

February 28, 2005

5 Mineral properties

| | | | Feb. 28, 2005 | Nov. 30, 2004 | |
|-----------------------------------|--|----------------------------|----------------------------|---------------------------------|---------------------------------|
| | Percentage ownership interest % | Acquisition costs \$ | Exploration costs \$ | Net carrying amount \$ | Net carrying amount \$ |
| Northwest and Nunavut Territories | | | | | |
| Churchill Diamond Project | 51.0 | 1,021,464 | 6,049,934 | 7,071,398 | 6,397,415 |
| Aylmer Lake West | 61.9 | 130,780 | 720,793 | 851,573 | 850,758 |
| XYZ | 80.0 | 146,719 | 400,216 | 546,935 | 546,935 |
| Afridi Lake | 56.0 | 96,398 | 361,454 | 457,852 | 456,452 |
| Back River Gold | 100.0 | 219,632 | 220,566 | 440,198 | 430,603 |
| Aylmer Lake/Afridi East | 100.0 | - | 164,977 | 164,977 | 164,977 |
| Churchill West | 22.95 | 51,128 | 31,581 | 82,709 | 7,904 |
| Hecla | 100.0 | 49,155 | 40 | 49,195 | 49,155 |
| Alaska | | | | | |
| Shulin Lake | 9.2 | - | 144,000 | 144,000 | 144,000 |
| Other | 100.0 | 2,016 | 21,044 | 23,060 | 14,471 |
| | | 1,717,292 | 8,114,605 | 9,831,897 | 9,062,670 |

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

February 28, 2005

6 Share capital

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Common shares issued:

| | For the three months ended February 28, 2005 | |
|-------------------------------|---|----------------------|
| | Number outstanding # | Amount \$ |
| Balance – Beginning of period | 53,903,421 | 16,469,461 |
| Options exercised | 700,000 | 175,000 |
| Future income taxes | - | (1,384,800) |
| Balance – End of period | <u>54,603,421</u> | <u>15,259,661</u> |

During the period, the Company renounced \$4,000,000 of qualifying expenditures to holders of flow-through shares, resulting in future income taxes of \$1,384,800, which is reflected as a share issue cost.

Share options

The Company has a share option plan for the benefit of directors, management and certain consultants of the Company. Under the plan, the Company may grant options for up to 10% of the issued common shares. The exercise price of each option may be discounted up to 25% from the market price of the Company's common shares on the date of grant and an option's maximum term is five years. Options are granted at various points throughout the year and vest immediately.

The following table summarizes activity related to share options:

| | For the three months ended February 28, 2005 | |
|-------------------------------|---|---|
| | Number outstanding # | Weighted average exercise price \$ |
| Balance – Beginning of period | 4,450,000 | 0.55 |
| Granted | 1,475,000 | 0.40 |
| Exercised | (700,000) | 0.25 |
| Balance – End of period | <u>5,225,000</u> | <u>0.55</u> |

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The following table summarizes information about the Company's share options outstanding as at February 28, 2005:

| Exercise price \$ | Number outstanding # | Weighted average remaining contractual life Years |
|-----------------------------|--------------------------------|---|
| 0.25 | 400,000 | 1.3 |
| 0.21 | 311,000 | 2.0 |
| 0.26 | 734,000 | 3.0 |
| 0.84 | 1,725,000 | 3.5 |
| 0.83 | 530,000 | 3.9 |
| 0.75 | 50,000 | 4.5 |
| 0.40 | 1,475,000 | 5.0 |
| | <hr/> | |
| | 5,225,000 | 3.7 |

All of the Company's outstanding share options as at February 28, 2005 were exercisable.

The Company has recorded share-based compensation expense and contributed surplus in the amount of \$128,325 in the consolidated statement of loss and deficit for options granted in the period. The share-based compensation expense has been determined based on the fair value of 1,475,000 options at the grant date (\$0.087 per option). The fair value of each option granted is estimated on the date of grant, using the Black-Scholes option-pricing model with the following assumptions:

| | |
|--------------------------|----------|
| Risk-free interest rate | 2.5% |
| Expected volatility | 56.0% |
| Annual dividend yield | 0.0% |
| Expected life of options | 1.0 year |

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

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Warrants

| | For the three months ended February 28, 2005 | |
|-------------------------------|---|---|
| | Number outstanding # | Weighted average exercise price \$ |
| Balance – Beginning of period | 1,435,014 | 1.10 |
| Balance – End of period | <u>1,435,014</u> | <u>1.10</u> |

7 Subsequent Events

On March 21, 2005, 25,000 shares were issued to an individual in connection with the successful acquisition of the Hecla ground on Melville Island.