

SHEAR MINERALS LTD. (“Shear” or the “Company”)

MANAGEMENT DISCUSSION AND ANALYSIS

Six Months Ended May 31, 2005

Note to Reader

This management discussion and analysis (“MD&A”) supplements, but does not form part of, the unaudited interim consolidated financial statements and notes for the six months ended May 31, 2005. The following information, prepared as of July 20, 2005, should be read in conjunction with those statements, which have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). All amounts have been expressed in Canadian dollars unless otherwise indicated. Additional information related to the Company can be found on SEDAR at www.sedar.com.

Forward-Looking Information

The following MD&A is management’s assessment of the Company’s operations and financial results, together with future prospects. Certain statements contained in the following MD&A are considered forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the performance and actual results of the Company to be materially different from any future results expressed or implied.

Overall Performance and Results of Operations

Shear Minerals Ltd. (“the Company”) is an active junior mineral resource exploration company that has property interests in North America with diamond and/or gold potential. The Company is concentrating on exploring its diamond properties, which are located in the Northwest and Nunavut Territories and Alaska. These mineral-rich regions are favourable investment climates in that they are economically proactive, politically stable and committed to infrastructure development. The Company’s gold properties are currently being re-evaluated given the recent appreciation of the gold market and current activity on other exploration properties in the area.

In the three months ended May 31, 2005, the Company conducted exploration programs in Nunavut and the Northwest Territories. Exploration resources were concentrated on the Churchill Diamond Project in Nunavut. In the three months ended May 31, 2005, approximately 81% of the Company’s exploration budget was spent on the Churchill Diamond Project.

Churchill Diamond Project

The 8.5 million acre Churchill Diamond Project, located near the community of Rankin Inlet in the Kivalliq region of Nunavut is a new and expanding kimberlite district which Shear and its partners discovered in 2003. To date, a total of 32 kimberlites (2 on the Churchill West Diamond Property) have been discovered. Shear has a 51% interest in the project and is operator. Stornoway Diamond Corp. and BHP Billiton Diamonds Inc. have 35% and 14% interests respectively. The property is subject to a 2.0% gross overriding royalty and net smelter royalty in favour of the Hunter Exploration Group (“Hunter”) with respect to the commercial production of diamonds. Hunter currently holds the non diamond rights to the Property although Shear and Stornoway have a joint right of first refusal on these rights.

On March 7, 2005 Shear and its partners announced the approval of a \$5 million exploration program and budget to drill test up to 50 geophysical targets located at the head of discrete mineral trains containing high-interest indicator mineral chemistry.

On May 5, 2005 Shear and its partners announced that spring exploration drilling on the Churchill Diamond Project had commenced and a new kimberlite had been intersected in the first hole.

On June 28, 2005, Shear and its partners announced that seven new kimberlites (eight in total for 2005) have been discovered on the Churchill Diamond Project, Nunavut in 2005.

Target KD-428NW is characterized by an elongated magnetic high anomaly with coincident EM approximately 80m by 180m. A vertical drill hole was drilled to a depth of 125m and intersected 116m of kimberlite terminating in kimberlite, the first kimberlite drilled in 2005.

Target KD-5135 was tested by a drill hole that showed multiple intersections of kimberlite totaling 8.3m within iron formation host rocks. This target is a circular magnetic high 75m in diameter.

Target KD-900 is an 80m by 200m magnetic low anomaly. A vertical drill hole intersected 96.7m of kimberlite from 6.0m to 102.7m.

Target KD-5108 was determined to be an approximately 1m wide kimberlite dyke.

Target KD-217 was redrilled as a result of losing the drill hole in 2004 due to bad ground after recovering only 3.3m of kimberlite. Due to its location a second vertical hole was drilled and recovered 43.7m of kimberlite from 26m to 69.7m.

Target KD-5821 was a magnetic low anomaly tested by a vertical hole, intersecting 75.3m of kimberlite from 11m to 86.3m.

Target KD-209 was a magnetic low anomaly tested by a vertical hole, intersecting 4.1m of kimberlite from 79.2m to 83.3m. A second inclined hole was repositioned to test the center of the target, and intersected 32.5m of kimberlite from 32.0m to 64.5m.

Target KD-5774 was a magnetic high anomaly tested by an inclined hole intersecting approximately 56m of kimberlite between 80.2m and 152.1m.

Target KD-244 is an 80m by 200m magnetic low anomaly currently being tested by an inclined hole through the center of the strongest magnetic response. Kimberlite was intersected at a depth of 70m, and the hole remained in kimberlite at 77m.

Final representative samples are being collected from each of the kimberlites and will be submitted to the Saskatchewan Research Council (SRC), an independent laboratory, for micro-diamond analysis. Samples will also be collected for petrographic and indicator mineral analysis to fully assess the diamond potential of these discoveries.

Twenty four drill holes and 90 ground geophysical grids have been completed to date in 2005. The goal of the 2005 drill program is test up to 50 high priority targets at the source areas to the high diamond potential mineral chemistry. The drilling has moved from lake based targets to land based targets, and is planned to continue through the summer.

On July 11, 2005, Shear and its partners announced the discovery of the first kimberlite outcrop at the Churchill Diamond Project. The outcrop is located up-ice from a till sample taken in 2004 which contains high counts of kimberlite indicator minerals. In addition, kimberlite boulders have now been recovered from a total of six separate locations during this summer season and prospecting of anomalous sample sites continues.

Ground prospecting by Jennifer Burgess, Project Geologist, led to the discovery of the kimberlite and abundant float. The exposure shows a contact trending north-south and initial interpretation is this may be a dyke-like kimberlite although the width cannot be determined at present. This location is less than 10m up ice of a highly anomalous 2004 till sample located within the North Corridor, approximately 15km northeast of the main Josephine River Corridor. The 2004 till sample yielded high kimberlite indicator mineral counts; a high proportion of which were recovered in the coarser fraction and exhibited primary surface textures suggestive of a proximal source. Approximately 150kg of kimberlite has been collected from two locations and will be processed for diamonds and indicator minerals.

The 2004 till sample returned more than 580 coarse grains (greater than 0.5mm) and greater than 7,000 finer grains (0.5mm-0.25mm) in the picking. Many of the coarse grained indicator minerals display primary surface textures with some agglomerates. The suite of indicator minerals includes pyrope garnets, eclogitic garnets, chrome diopside, olivine, picroilmenite and chromite. Microprobe analysis of the indicator minerals confirmed a total of 190 pyropes, predominately G9 pyropes with two G10 garnets.

This kimberlite as well as several geophysical anomalies of interest proximal to the anomalous sample will be followed up on the ground during this season with sampling, prospecting and ground geophysics.

Hecla Project

On July 18, 2005, the Company announced that a five person crew had been mobilized to Resolute in order to initiate fieldwork on the Hecla Diamond Project located on Melville Island in the Northwest Territories.

The Hecla Diamond Project is composed of 465,000 acres of federal prospecting permits located on Melville Island in the NWT. The project was acquired based on a conceptual idea and as a result of the identification from air photos and satellite imagery of more than 15 features in two locales suggestive of kimberlitic intrusives. There are more than 15 features that are circular in shape and range in diameter up to 200m. The host rocks are Paleozoic flat lying sediments that make these features prominent, similar to the known kimberlites on both Somerset Island and the Brodeur Peninsula. The 7-10 day field visit will include prospecting all sites of interest, sampling and mapping.

The Arctic Islands of the Northwest Territories and Nunavut are an active area for diamond exploration. In the past year numerous diamond exploration companies have been acquiring and exploring lands elsewhere in the Arctic Islands. More than 7 million acres have been acquired on Victoria Island, Devon Island, Banks Island, Price of Wales Island, Baffin Island, and Ellesmere Island by these companies.

Acquisition of Hunter Gold Projects and Spin Out of Non-Diamond Properties

On June 6, 2005, the Company announced that it entered into an arm's length agreement with the Hunter Exploration Group ("Hunter") to acquire all of Hunter's non-diamond mineral interests in 6 projects covering over 15 million acres in Nunavut and British Columbia, including the non-diamond rights to the Churchill Diamond Project located near Rankin Inlet, Nunavut. These projects together with Shear's gold properties (Back River Gold) will be transferred into a new wholly owned subsidiary of Shear ("Kaminak Gold Corporation" or "Kaminak"). Shear will then distribute all of the Kaminak shares to its shareholders pursuant to a reorganization transaction which will result in each shareholder of Shear receiving one-fifth of a Kaminak share for each outstanding common share of Shear held. Kaminak will have the largest land package in North America focused on gold, base metals and uranium exploration.

The Board of Directors of Kaminak will initially be comprised of five members - three appointed by Hunter and two appointed by Shear. John Robins P.Geo., has agreed to be the President and CEO of Kaminak. The exploration team will be led by Rob Carpenter Ph.D., P.Geo., an experienced geologist who has worked extensively in gold and base metal exploration throughout Nunavut.

To acquire the Hunter properties, Shear will issue 1.5 million shares of Shear ("Common Shares") at a deemed value of \$0.43 per share together with warrants to acquire 750,000 Common Shares at an exercise price of \$1.50 per Common Share within one year of issuance. In addition, Kaminak will issue to Hunter 3 million common shares of Kaminak together with warrants to acquire 3 million Kaminak shares exercisable at a price of \$0.35 per Kaminak share for a period of two years. Kaminak will also reimburse Hunter for acquisition costs in an amount not to exceed \$250,000.

The Hunter projects represent a highly diverse and prospective portfolio. Exploration of several of these land packages is highly leveraged through data sharing agreements with several diamond exploration activities on the Hunter properties. To date over \$15 million dollars has been spent on the Churchill Diamond Project and Indicator Minerals Inc. land packages throughout the eastern Arctic.

Part of the Hunter portfolio includes the Matrix project located in south-central Nunavut, which is in a joint venture between Newmont Mining Corporation and Pacific Ridge Minerals Ltd. This \$10 million joint venture is focused on exploring for analogues to the prolific Witwatersrand gold district of South Africa.

Hunter is one of Canada's most successful private exploration groups and has an established track record in the mineral industry. Hunter has been instrumental in many generative projects in northern Canada and British Columbia since 1992 and has been involved in more than 30 kimberlite discoveries and the acquisition of over 30 million acres including the Churchill and Aviat Diamond Projects.

The acquisition from Hunter and the spin-out transaction is subject to a number of conditions, including all applicable third party consents, regulatory and shareholder approval. If approved, this transaction will be treated as a distribution to shareholders at carrying values with no resulting gain or loss to the Company.

Risks and Uncertainties

The success of Shear's business is subject to a number of factors, including but not limited to those risks normally encountered by junior resource exploration companies, such as exploration uncertainty, operating hazards, increasing environmental regulation, competition with companies having greater resources, and lack of operating cash flow. In addition, there is no quoted market price for diamonds and the market price for rough diamonds is dependent on an efficient market management system. Shear's on-going ability to finance exploration beyond those programs budgeted to date will depend on, amongst other things, the viability of equity markets.

Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of Shear and is derived from unaudited quarterly financial statements prepared by management. Shear's interim financial statements are prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

Period	Revenues (\$)	Net Loss (\$)	Mineral Property Expenditures (\$)	Basic Loss per share (\$)
Three months ended May 31, 2005	40,268	155,011	1,007,141	0.003
Three months ended February 28, 2005	49,221	185,130	769,227	0.003
Three months ended November 30, 2004	57,205	569,431	1,145,903	0.011
Three months ended August 31, 2004	46,850	219,765	1,742,571	0.004
Three months ended May 31, 2004	40,255	163,728	1,282,323	0.004
Three months ended February 29, 2004	27,222	311,857	378,661	0.007
Three months ended November 30, 2003	39,979	992,653	838,681	0.023
Three months ended August 31, 2003	34,627	182,217	746,835	0.005
Three months ended May 31, 2003	17,110	98,265	584,373	0.003

The Company's revenues are derived mainly from interest on deposits and short-term investments and management fees charged to joint venture partners. In the past two years, both items have increased. Larger financing activities have led to increased short-term investment balances and increased exploration expenditures, mainly at the Churchill Diamond Project, have resulted in increased revenue from management fees. The Company is in the exploration stage and has no revenue from mining operations.

Liquidity and Capital Resources

The Company has no operating revenues and relies on the issuance of common shares to finance exploration and to provide working capital. The Company incurred a net loss of \$155,011 for the

three months ended May 31, 2005 as compared to a net loss of \$163,728 for the three months ended May 31, 2004.

The Company's operating expenses decreased to \$131,049 in the three months ended May 31, 2005 compared to \$205,146 for the same period in 2004. In the three months ended May 31, 2005, the Company's exploration and acquisition expenditures decreased to \$1,007,141 from \$1,282,323 in the same period in 2004. In the three months ended May 31, 2005, the ratio of operating expenses to exploration and acquisition expenses has gone down from 16% in the same period of 2004 to 13% in 2005.

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

On May 3, 2005, the Company granted 50,000 stock options to a consultant at an exercise price of \$0.41 which expire five years from the date of grant. The Company recorded a share based compensation expense and contributed surplus of \$9,800 in association with the grant.

The Company currently has 54,628,421 common shares issued and outstanding and \$3,604,499 in working capital.

Transactions with Related Parties

During the three months ended May 31, 2005, the Company incurred management fee expense of \$21,000 (2004 – \$18,000) to Encore Resources Inc., a company in which certain directors and officers of the Company have significant influence.

Shear Minerals Ltd. is currently participating in a joint venture at the Shulin Lake Property with two partners. One of the partners is Shulin Lake Mining, a private company in which a director of Shear has a 50% ownership position.

Critical Accounting Estimates

The most significant accounting estimate for the company relates to the carrying value of its mineral property assets. At the end of each quarter, exploration and acquisition expenditures are reviewed and if the expenditures are deemed to have added value to the property, the expenditures are capitalized. Historical exploration and acquisition expenditures are also reviewed each quarter and if a property is inactive for a period of over three years and there are no current plans for further exploration on the property, the property costs are written off. The Company may choose to retain the mineral rights to a property after it is written off if management believes there may be an opportunity to vend or explore the property in the future.

Another significant accounting estimated used by the Company relates to the accounting for stock-based compensation. The Black-Scholes Option Pricing Model is used to determine the fair value of the option and utilizes subjective assumptions such as expected price volatility and expected life of the option. Discrepancies in these input assumptions can significantly affect the fair value estimate.

Subsequent Events

On June 6, 2005 the Company announced the following corporate appointments:

Mr. Gerald Prosalendis has been appointed to the Board of Directors of Shear. Mr. Prosalendis is a corporate strategist who specializes in financial markets, corporate development, shareholder communications and the media. He was Vice President of Corporate Development for Dia Met Minerals Ltd. Mr. Prosalendis has been a consultant to Anderson & Schwab Inc., a mineral and business firm based in New York, a Senior Counselor for James Hoggan & Associates, Business Editor of The Vancouver Sun and is Vice President Corporate Development of Western Silver Corporation.

Mr. Norman Eaton, MBA has been appointed as Chief Financial Officer for Shear. Mr. Eaton holds a Bachelor of Arts from the University of Victoria and a Master of Business Administration from the University of Western Ontario. He is also the CFO of Grizzly Diamonds Ltd., where he supervised the initial public offering and public listing in 2004.