

Shear Minerals Ltd.

Consolidated Interim Financial Statements
(Unaudited)
May 31, 2005

To the Shareholders of Shear Minerals Ltd.:

The consolidated interim balance sheet of Shear Minerals Ltd. as at May 31, 2005, and the consolidated interim statements of loss and deficit and 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 May 31, 2005

	May 31, 2005 \$	November 30, 2004 \$
Assets		
Current assets		
Cash and cash equivalents	3,564,172	7,298,222
Restricted cash (note 4)	1,071,714	-
Short-term investments - market value - \$ 91,473 (Nov. 2004 - \$160,238)	89,573	129,330
Accounts receivable	177,575	540,225
Operator recoveries	417,598	189,246
Prepaid expenses	6,718	41,516
	<u>5,327,350</u>	<u>8,198,539</u>
Equipment	21,062	28,227
Mineral properties (note 5)	<u>10,852,288</u>	<u>9,062,670</u>
	<u>16,200,700</u>	<u>17,289,436</u>
Liabilities		
Current liabilities		
Accounts payable and accruals	688,598	1,607,177
Deposits	<u>525,140</u>	<u>681,531</u>
	1,213,738	2,288,708
Future income taxes	<u>2,427,823</u>	<u>1,043,023</u>
	<u>3,641,561</u>	<u>3,331,731</u>
Shareholders' equity		
Share capital (note 6)	15,272,911	16,469,461
Contributed surplus	1,458,825	1,320,700
Deficit	<u>(4,172,597)</u>	<u>(3,832,456)</u>
	<u>12,559,139</u>	<u>13,957,705</u>
	<u>16,200,700</u>	<u>17,289,436</u>

Approved by the Board of Directors

"Pamela Strand"

"Frank Agar"

Director

Director

Shear Minerals Ltd.

Consolidated Interim Statements of Operations and Deficit

(Unaudited)

For the periods ended May 31, 2005

	Three Months Ended May 31, 2005 \$	Three Months Ended May 31, 2004 \$	Six Months Ended May 31, 2005 \$	Six Months Ended May 31, 2004 \$
Revenue				
Management fees	15,241	20,393	39,011	28,111
Interest	25,027	19,862	50,478	39,366
	<u>40,268</u>	<u>40,255</u>	<u>89,489</u>	<u>67,477</u>
Expenses				
General and administrative	64,157	115,277	139,451	188,705
Management fees	21,000	18,000	41,000	36,000
Professional fees	24,809	38,499	30,464	50,808
Consulting fees	17,500	29,829	33,669	52,640
Amortization	3,583	3,541	7,165	6,380
	<u>131,049</u>	<u>205,146</u>	<u>251,749</u>	<u>334,533</u>
	<u>(90,781)</u>	<u>(164,891)</u>	<u>(162,260)</u>	<u>(267,056)</u>
Other income (expenses)				
Write down of short-term investments	(54,430)	-	(39,756)	-
Gain on sale of short term investments	-	1,163	-	9,471
Share-based compensation (note 6)	(9,800)	-	(138,125)	(218,000)
	<u>(64,230)</u>	<u>1,163</u>	<u>(177,881)</u>	<u>(208,529)</u>
Net loss for the period	<u>(155,011)</u>	<u>(163,728)</u>	<u>(340,141)</u>	<u>(475,585)</u>
Deficit – Beginning of period	<u>(4,017,586)</u>	<u>(2,879,532)</u>	<u>(3,832,456)</u>	<u>(2,567,675)</u>
Deficit – End of period	<u>(4,172,597)</u>	<u>(3,043,260)</u>	<u>(4,172,597)</u>	<u>(3,043,260)</u>
Basic loss per share	<u>(0.003)</u>	<u>(0.004)</u>	<u>(0.006)</u>	<u>(0.010)</u>
Weighted average number of shares outstanding	<u>54,622,986</u>	<u>46,666,711</u>	<u>54,436,388</u>	<u>45,437,290</u>

Shear Minerals Ltd.

Consolidated Interim Statements of Cash Flows

(Unaudited)

For the periods ended May 31, 2005

	Three Months Ended May 31, 2005	Three Months Ended May 31, 2004	Six Months Ended May 31, 2005	Six Months Ended May 31, 2004
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(155,011)	(163,728)	(340,141)	(475,585)
Items not affecting cash				
Amortization	3,583	3,541	7,165	6,380
Share-based compensation	9,800	-	138,125	218,000
Gain on sale of short-term investments	-	(1,163)	-	(9,471)
Write down of short-term investments	54,430	-	39,756	-
	(87,198)	(161,350)	(155,095)	(260,676)
Net change in non-cash working capital balances relating to operating activities	964,996	(558,078)	(1,977,587)	(271,295)
	877,798	(719,428)	(2,132,682)	(531,971)
Financing activities				
Issuance of shares	-	901,500	175,000	2,075,625
Investing activities				
Mineral properties -				
Acquisition costs	111,702	24,395	(31,544)	(86,632)
Exploration costs	(1,118,843)	(1,306,718)	(1,744,824)	(1,574,352)
Purchase of equipment	-	(14,049)	-	(14,049)
Proceeds on sale of short-term investments	-	1,913	-	18,078
	(1,007,141)	(1,294,459)	(1,776,368)	(1,656,955)
Decrease in cash and cash equivalents	(129,343)	(1,112,387)	(3,734,050)	(113,301)
Cash and cash equivalents – Beginning of period	3,693,515	4,348,731	7,298,222	3,349,645
Cash and cash equivalents – End of period	3,564,172	3,236,344	3,564,172	3,236,344

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

May 31, 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)

May 31, 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)

May 31, 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 Guaranteed Investment Certificate 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 June 1, 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)

May 31, 2005

5 Mineral properties

			May 31, 2005	Nov. 30, 2004
	Percentage ownership interest %	Acquisition costs \$	Exploration costs \$	Net carrying amount \$
Northwest and Nunavut Territories				
Churchill Diamond Project	51.0	891,982	6,954,677	7,846,659
Aylmer Lake West	61.9	130,780	729,634	860,414
XYZ	80.0	146,719	400,514	547,233
Afridi Lake	56.0	96,448	394,865	491,313
Back River Gold	100.0	219,632	278,154	497,786
Aylmer Lake/Afridi East	100.0	-	164,977	164,977
Churchill West	22.95	64,824	37,792	102,616
Hecla	100.0	63,385	152	63,537
Alaska				
Shulin Lake	9.2	3,054	212,137	215,191
Other	100.0	2,016	60,546	62,562
		1,618,840	9,233,448	10,852,288
				9,062,670

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

May 31, 2005

6 Share Capital

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Common shares issued:

	For the periods ended May 31, 2005	
	Number outstanding #	Amount \$
Balance – Beginning of period	53,903,421	16,469,461
1st quarter activity		
Options exercised	700,000	175,000
Future income taxes	-	(1,384,800)
Balance – February 28, 2005	54,603,421	15,259,661
2nd quarter activity		
Shares issued for property acquisition	25,000	13,250
Balance – May 31, 2005	<u>54,628,421</u>	<u>15,272,911</u>

During the first quarter, 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.

During the second quarter, the Company issued 25,000 shares as a finder's fee for the Hecla Project at a deemed value of \$0.53 per shares for a total of \$13,250.

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

May 31, 2005

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 periods ended May 31, 2005	
	Number outstanding #	Weighted average exercise price \$
Balance – Beginning of period	4,450,000	0.55
1st quarter activity		
Granted	1,475,000	0.40
Exercised	(700,000)	0.25
Balance – February 28, 2005	5,225,000	0.55
2nd quarter activity		
Granted	50,000	0.41
Balance – May 31, 2005	5,275,000	0.55

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

May 31, 2005

The following table summarizes information about the Company's share options outstanding as at May 31, 2005:

Exercise price \$	Number outstanding #	Weighted average remaining contractual life Years
0.25	400,000	1.1
0.21	311,000	1.8
0.26	734,000	2.7
0.84	1,725,000	3.3
0.83	530,000	3.7
0.75	50,000	4.3
0.40	1,475,000	4.7
0.41	50,000	4.9
	<hr/>	
	5,275,000	3.4

All of the Company's outstanding share options as at May 31, 2005 were exercisable.

During the first quarter, 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. 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

During the second quarter, the Company has recorded share-based compensation expense and contributed surplus in the amount of \$9,800 in the consolidated statement of loss and deficit for options granted. The share-based compensation expense has been determined based on the fair value of 50,000 options at the grant date (\$0.196 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	2.83%
Expected volatility	87.0%
Annual dividend yield	0.0%
Expected life of options	2.0 years

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

May 31, 2005

Warrants

	For the periods ended May 31, 2005	
	Number outstanding #	Weighted average exercise price \$
Balance – Beginning of period	1,435,014	1.10
1st quarter activity	-	-
2nd quarter activity	-	-
Balance – May 31, 2005	<u>1,435,014</u>	<u>1.10</u>

7 Subsequent Events

On June 6, 2005, the Company 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.

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 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.

On June 8, 2005, 1,037,014 warrants priced at \$1.21 per warrant expired.

On July 12, 2005, 398,000 warrants priced at \$0.80 per warrant expired.