

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

MANAGEMENT DISCUSSION AND ANALYSIS

Nine Months Ended August 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 nine months ended August 31, 2005. The following information, prepared as of October 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 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.

In the three months ended August 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 August 31, 2005, approximately 85% of the Company’s exploration budget was spent on the Churchill Diamond Project.

Churchill Diamond Project

The 8.5 million acre Churchill Diamond Project (“Churchill”), 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 41 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.

In September of 2005, the Company and its partners completed a drill program which consisted of 52 drill holes testing 44 separate targets resulting in the discovery of 17 new kimberlites. The

Company also had a successful prospecting program that resulted in the discovery of two occurrences of kimberlite outcrop and numerous occurrences of kimberlite float. Also significant was the discovery of the first diamond at surface, a clear, octahedron measuring 0.44x0.40x0.36mm recovered from a 69.8kg sample of pyrope garnet bearing beach sands which occur in a narrow higher interest area within the larger Josephine River kimberlite indicator mineral corridor.

Diamond analysis is pending on four new kimberlites as well as two larger samples collected from kimberlites KD900 and KD209. About 100kg of kimberlite was also collected for analysis from the second kimberlite outcrop (FF119).

Samples from half the core of thirteen kimberlites were submitted to the ISO/IEC 17025 accredited Saskatchewan Research Council Geoscientific Laboratories (“SRC”), for diamond analysis using caustic fusion. Diamonds were recovered from four kimberlites and are described below:

Drill Hole Number	Sample Weight (kg)	0.106mm Sieve	0.15mm sieve	0.212mm Sieve	0.3mm Sieve	0.425mm sieve	0.6 mm sieve
05KD428-02 ¹	178.6	1	0	0	0	0	0
05KD900-01 ²	246.6	2	4	4	2	0	1
05KD573-01 ³	68.8	2	0	0	0	0	0
05KD209-01 ⁴	76.45	1	3	3	0	1	1

¹ The largest stone measured 0.18x0.14x0.10mm (clear colourless octahedron)

² The largest stones measured 0.84x0.74x0.64mm (clear colourless aggregate); 0.50x0.36x0.32mm (clear colourless aggregate), 0.42x0.36x0.30mm (clear, colourless octahedron)

³ The largest stones measured 0.22x0.16x0.10mm (colourless octahedron), 0.3x0.2x0.12mm (colourless octahedron)

⁴ The four largest diamonds measured 0.9x0.88x0.64mm (clear); 0.8x0.58x0.46mm (clear amber); 0.74x0.24x0.08mm (colorless fragment) and 0.54x0.26x0.22mm (colorless broken octahedron)

Kimberlite KD900 is of particular interest. It hosts the first macrodiamond recovered from the Churchill property and is situated within the Josephine River corridor, an area that hosts favorable G10 mineral chemistry, and is a focus of this year’s drilling. KD900 is 12km from tidewater, under 6m of overburden and is up ice from several pyrope beach sands also hosting favorable G10 mineral chemistry. Samples from these beaches have been collected for both indicator minerals and diamonds. The geophysical signature at KD900 indicates an 80m by 200m target characterized by a subtle 100nT magnetic low. Similiar untested targets exist within 500m of KD900. Through visual observation of the drill core different phases are evident including an altered kimberlite breccia hosting limestone fragments and hypabyssal kimberlite. Close examination shows visible olivine macrocrysts (upto 2cm), picroilmenite, pyrope and eclogitic garnet plus possible mantle nodules.

Through prospecting, kimberlite float was found at more than ten different locations on the Churchill Diamond Project. Also, a kimberlite outcrop was identified and samples were taken at two separate sites from the outcrop. All samples were submitted to the SRC. To date, diamonds were recovered from one kimberlite outcrop and are as follows:

Float Target Number	Sample Weight (kg)	0.106mm sieve	0.15mm sieve	0.212mm Sieve	0.3mm Sieve	0.425mm Sieve
KD5845-1 (outcrop) ¹	121	5	1	0	0	0
KD5845-2(outcrop) ²	26.6	1	1	0	1	0

¹The largest diamond measured 0.26x0.20x0.20 (octahedron fragment)

² The largest diamond measured 0.7x0.5x0.10mm (colourless fragment); 0.34x0.26x0.06mm (clear fragment)

The outcrop kimberlite KD5845 recovered one of the largest diamonds to date at Churchill. Additional material was collected from this location for macrodiamond processing.

Of interest are two particular kimberlite float locations. The first was found at Target KD5797 where a more macrocryst-rich and coarse grained hosting abundant olivine, ilmenite, phlogopite and pyropes with kelyphitic rims was observed. Although a small 8kg sample returned no diamonds, the kimberlite and area remains a priority area. Geophysical target KD5797 is located 250m down ice of the float. Detailed geophysics outlined KD5797 as well as one to two additional targets that will be drill-tested in the current program. The second kimberlite float location is within the Josephine River G10 corridor (05FWR006) that is of interest due to its composition of more than 50% olivine macrocrysts with abundant purple garnets exhibiting kelyphitic rims, possible chromite and abundant phlogopite. None of the kimberlites drilled to date have displayed textures as is seen in this small piece of relatively non-magnetic float (05FWR006) suggesting that this may represent a high interest kimberlitic source. Samples have been taken from all locales for mineral chemistry and where possible for microdiamond analysis.

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 included prospecting all sites of interest, sampling and mapping. Results are pending.

Shulin Lake Project, Alaska

On July 18, 2005, the Company announced that it has been informed by joint venture operator Golconda Resources Ltd. that one white transparent diamond fragment (0.46x0.26x0.14mm) was recovered from 2,400 kg of tuffaceous material from a total of 9 samples. These samples were collected from the drilling of three separate magnetic anomalies and were processed at the SGS Lakefield lab in Lakefield, Ontario. Golconda is currently devising a program to determine the origin of the tuffaceous phase that contains the diamonds that the partnership has recovered over the past three years.

Churchill West

On September 22, 2005 the Company and its partners announced that a \$300,000 high resolution airborne geophysical survey is underway at the Churchill West Diamond Property. The 3,658 line km magnetic-electromagnetic airborne geophysical survey is intended to follow up indicator mineral chemistry of interest in the southeastern region of the property. The area of interest will be flown at 100 meter line spacing.

In addition Samuel has elected not to participate for its portion of the 2005 program expenditure and as a result will have its percentage ownership diluted accordingly. At the conclusion of this program Samuel's ownership is projected to be 47% and Shear, Stornoway and BHP Billiton will have a 27%, 18.5% and 7.5% interest respectively. Shear has assumed operatorship of the Churchill West Diamond Joint Venture.

The Churchill West project encompasses 514,000 acres located near the community of Rankin Inlet in the Kivalliq region of Nunavut, contiguous to the Churchill Diamond Project. In 2003 two kimberlites were discovered on the Churchill West property.

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 were approved by the Company's shareholders at its annual general and special meeting held on August 17, 2005. The transaction is still subject to a number of conditions, including all applicable third party consents, regulatory approval, and the closing of a private placement resulting in sufficient proceeds for Kaminak to meet the Minimum Listing Requirements of the TSX Venture Exchange Tier 2 Mining Issuer. 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 August 31, 2005	61,084	88,836	1,456,441	0.002
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

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 \$88,836 for the three months ended August 31, 2005 as compared to a net loss of \$219,765 for the three months ended August 31, 2004.

The Company's operating expenses decreased to \$161,172 in the three months ended August 31, 2005 compared to \$179,579 for the same period in 2004. In the three months ended August 31, 2005, the Company's exploration and acquisition expenditures decreased to \$1,456,441 from \$1,742,571 in the same period in 2004. In the three months ended August 31, 2005, the ratio of operating expenses to exploration and acquisition expenses has increased slightly to 11% from 10% in the same period of 2004.

The Company currently has 54,628,421 common shares issued and outstanding and \$1,572,313 in working capital.

Transactions with Related Parties

During the three months ended August 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.