

Shear Minerals Ltd.
(a development stage company)

Consolidated Interim Financial Statements
(Unaudited)
February 28, 2006

To the Shareholders of Shear Minerals Ltd.:

The consolidated interim balance sheet of Shear Minerals Ltd. as at February 28, 2006, 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, 2006

	February 28, 2006	November 30, 2005
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,823,953	558,328
Restricted cash (note 4)	118,000	1,113,714
Short-term investments – market value \$86,575 (2005 – \$72,883)	81,575	72,483
Accounts receivable	65,926	319,200
Operator recoveries	217,162	187,854
Prepaid expenses	24,969	25,921
	<u>2,331,585</u>	<u>2,277,500</u>
Equipment	72,600	78,816
Mineral properties (note 5)	<u>13,030,971</u>	<u>12,506,998</u>
	<u>15,435,156</u>	<u>14,863,314</u>
Liabilities		
Current liabilities		
Accounts payable and accruals	309,305	326,621
Deposits from exploration partners	37,110	635,933
	<u>346,415</u>	<u>962,554</u>
Future income taxes	<u>3,074,729</u>	<u>2,587,309</u>
	<u>3,421,144</u>	<u>3,549,863</u>
Shareholders' Equity		
Share capital (note 6)	16,552,764	15,775,692
Contributed surplus (note 6)	1,484,300	1,458,825
Deficit	<u>(6,023,052)</u>	<u>(5,921,066)</u>
	<u>12,014,012</u>	<u>11,313,451</u>
	<u>15,435,156</u>	<u>14,863,314</u>

Approved by the Board of Directors

Director

Director

Shear Minerals Ltd.

Consolidated Interim Statements of Loss and Deficit
(Unaudited)

For the period ended February 28, 2006

	Three Months Ended Feb. 28, 2006	Three Months Ended Feb. 28, 2005
	\$	\$
Revenue		
Management fees	9,351	23,770
Interest	12,496	25,451
	<hr/>	<hr/>
	21,847	49,221
	<hr/>	<hr/>
Expenses		
General and administrative	84,460	94,869
Management fees (note 7)	22,000	122,225
Consulting fees	15,000	22,694
Professional fees	5,249	5,655
Amortization	6,216	3,582
	<hr/>	<hr/>
	132,925	249,025
	<hr/>	<hr/>
	(111,078)	(199,804)
	<hr/>	<hr/>
Recovery of write down of short-term investments	9,092	14,674
	<hr/>	<hr/>
Net loss for the period	(101,986)	(185,130)
	<hr/>	<hr/>
Deficit – Beginning of period	(5,921,066)	(3,832,456)
	<hr/>	<hr/>
Deficit – End of period	(6,023,052)	(4,017,586)
	<hr/>	<hr/>
Basic and diluted loss per share	(0.002)	(0.003)
	<hr/>	<hr/>
	#	#
	<hr/>	<hr/>
Weighted average number of shares outstanding	59,403,893	54,245,643

Shear Minerals Ltd.

Consolidated Interim Statements of Cash Flows
(Unaudited)

For the period ended February 28, 2006

	Three Months Ended Feb. 28, 2006	Three Months Ended Feb. 28, 2005
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(101,986)	(185,130)
Items not affecting cash		
Amortization	6,216	3,582
Share-based compensation	-	128,325
Recovery of write down of short-term investments	(9,092)	(14,674)
	<hr/>	<hr/>
	(104,862)	(67,897)
Net change in non-cash working capital balances relating to operating activities	<hr/>	<hr/>
	(391,221)	(1,870,869)
	<hr/>	<hr/>
	(496,083)	(1,938,766)
Financing activities		
Issuance of shares	1,449,799	175,000
Share issue costs	(159,832)	-
	<hr/>	<hr/>
	1,289,967	175,000
Investing activities		
Mineral properties		
Acquisition costs	(59,218)	(143,246)
Exploration costs	(464,755)	(625,981)
Decrease (increase) in restricted cash	995,714	(1,071,714)
	<hr/>	<hr/>
	471,741	(1,840,941)
Increase (decrease) in cash and cash equivalents	<hr/>	<hr/>
	1,265,625	(3,604,707)
Cash and cash equivalents – Beginning of period	<hr/>	<hr/>
	558,328	7,298,222
Cash and cash equivalents – End of period	<hr/>	<hr/>
	1,823,953	3,693,515

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

(Unaudited)

February 28, 2006

1 Nature of operations

Shear Minerals Ltd. (the “Company” or “Shear”) is in the business of acquiring and exploring 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 existence 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, 2005 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, 2005.

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 4579 Nunavut Limited and 5098 Nunavut Limited.

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

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Revenue recognition

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

Cash and cash equivalents

Cash and cash equivalents are defined as amounts on deposit with banks and readily convertible guaranteed investment certificates 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 amount of impairment is determined as the carrying amount in excess of fair values and 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 and the properties are written down to estimated fair value. 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.

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Notes to Consolidated Interim Financial Statements

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February 28, 2006

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.

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 income tax liability is recorded and share capital is reduced by the cost of future income taxes when the Company files the renouncement documents to renounce the tax credits 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.

Comparative amounts

Certain comparative amounts have been reclassified to conform to the current year presentation.

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Notes to Consolidated Interim Financial Statements

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February 28, 2006

4 Restricted cash

The Company has provided a guaranteed investment certificate (“GIC”) in the amount of \$76,000 to secure an irrevocable letter of credit in favour of the Receiver General of Canada. The letter of credit is 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. \$42,000 in additional GIC’s have been provided to secure other letters of credit in support of the Company’s exploration activities.

5 Mineral Properties

				Feb. 28, 2006	Nov. 30, 2005
	Percentage ownership interest %	Acquisition costs \$	Exploration costs \$	Net carrying amount \$	Net carrying amount \$
Northwest and Nunavut Territories					
Churchill Diamond Project	51.00	992,288	8,907,140	9,899,428	9,689,430
Aylmer Lake West	61.90	135,937	730,401	866,338	866,300
XYZ	80.00	160,956	467,310	628,266	601,397
Afridi Lake	56.00	102,222	437,017	539,239	520,988
Hecla	100.00	17,102	192,520	209,622	248,181
Churchill West	23.00	57,111	184,744	241,855	234,529
Alaska					
Shulin Lake	9.20	3,821	229,860	233,681	233,681
Alberta					
Piche	*51.00	5,540	88,271	93,811	6,414
Liege	*51.00	13,150	77,447	90,597	11,848
Other	100.00	105,638	122,496	228,134	94,230
		1,593,765	11,437,206	13,030,971	12,506,998

*In the process of earning into an ownership interest through completion of terms in option agreements.

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Notes to Consolidated Interim Financial Statements

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6 Share capital and contributed surplus

Common shares

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Issued and issuable

	For the three months ended February 28, 2006	
	Common shares #	Amount \$
Balance – Beginning of period	56,128,421	15,775,692
Shares issued for cash	4,832,664	1,449,799
Share issue costs	-	(185,307)
Future income taxes	-	(487,420)
	<hr/>	<hr/>
Balance – End of period	60,961,085	16,552,764

On December 30, 2005, the Company closed a non-brokered private placement of 4,832,664 flow-through common shares at a price of \$0.30 per flow-through share for gross proceeds of \$1,449,799. In connection with the private placement, the Company issued non-transferable share purchase warrants to acquire 318,441 common shares of Shear. The warrants are exercisable at a price of \$0.30 within one year of issuance. Related to this, the Company recorded share-based compensation in the amount of \$25,475 as a share issue cost.

During the period, the Company renounced \$1,499,799 (2005 - \$4,000,000) of qualifying expenditures to holders of flow-through shares, resulting in future income taxes of \$487,420 (2005 - \$1,384,800) which is reflected as a cost of issuing flow through shares.

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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.

The following table summarizes activity related to share options:

	For the three months ended February 28, 2006	
	Number of options outstanding #	Weighted average exercise price \$
Balance – Beginning of period	5,275,000	0.55
Granted	-	-
Exercised	-	-
Balance – End of period	<u>5,275,000</u>	<u>0.55</u>

The following table summarizes information about the Company's share options outstanding as at February 28, 2006:

Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years
400,000	0.25	0.3
311,000	0.21	1.0
734,000	0.26	2.0
1,725,000	0.84	2.5
530,000	0.83	2.9
50,000	0.75	3.5
1,475,000	0.40	4.0
50,000	0.41	4.2
<u>5,275,000</u>	<u>0.55</u>	<u>2.7</u>

All of the Company's outstanding share options as at February 28, 2006 were exercisable.

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Warrants

The following table summarizes activity related to warrants:

	For the three months ended February 28, 2006	
	Number of warrants #	Weighted average exercise price \$
Balance – Beginning of period	750,000	1.50
Issued	318,441	0.30
Balance – End of year	<u>1,068,441</u>	<u>1.14</u>

The Company has recorded share issue costs in the amount of \$25,475 relating to warrants issued to agents in lieu of cash compensation relating to the private placement during the period. The warrants vest four months from the issue date, and the fair values were calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free rate	3.9%
Expected volatility	72.0%
Annual dividend yield	0.0%
Expected life of warrants	1 year

Contributed surplus

The following table summarizes activity related to contributed surplus:

	For the three months ended February 28, 2006 \$
Balance – Beginning of period	1,458,825
Value of agent warrants issued	<u>25,475</u>
Balance – End of period	<u>1,484,300</u>

Shear Minerals Ltd.

Notes to Consolidated Interim Financial Statements

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7 Related party transactions

During the three months ended February 28, 2006, the Company incurred management fees of \$22,000 (2005 – \$46,100 – including \$26,100 in share based compensation) to Encore Resources Inc., a company in which certain directors and officers of the Company have significant influence. In the opinion of management, these fees are considered to be at market value.

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

8 Financial instruments

The Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, operator recoveries, accounts payable and accruals, and deposits from exploration partners. The Company has no unrecognized financial instruments.

The fair value of short-term investments is determined by the trading price of the shares at the balance sheet date. The estimated fair market values of the other financial instruments approximate their carrying values due to their short-term maturities.

Operator recoveries are due from companies which operate in the mining exploration industry and accordingly, are subject to the risks associated with this industry. All of the operator recoveries are due from three companies.

9 Subsequent Events

On March 1, 2006 200,000 share options priced at \$0.84 and 75,000 share options priced at \$0.40 expired.

On March 27, 2006, BHP Billiton Diamonds Inc. informed Shear of their intention not to participate in the 2006 Churchill and Churchill West exploration programs and to allow BHP Billiton's interest in the two projects to dilute accordingly.

On April 12, 2006, the Company issued 300,000 share options priced at \$0.60 per option exercisable for a period of 5 years from the date of grant to employees and consultants. This will result in share based compensation of \$105,000 (\$0.35 per option) in the second quarter of 2006.

On April 21, 2006, the Company acquired a significant land position in southern Saskatchewan for diamond exploration. The Stella Polaris Diamond Project (the "Property") is comprised of 235 mineral claims totaling approximately 300,000 hectares (741,000 acres) located approximately 150 km southwest of Regina, SK along

Shear Minerals Ltd.

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the border to the US and is road accessible year round. Shear acquired the Property by staking based on data acquired by Shear from two arm's length parties (the "Vendors").

Pursuant to an agreement dated January 30, 2006 ("the Agreement") between Shear and the Vendors, Shear must:

- (a) within 10 days of receipt of regulatory approval, pay to the Vendors \$25,000 and issue to the Vendors an aggregate of 200,000 common shares of Shear ("Common Shares");
- (b) pay \$25,000 to the Vendors before January 30, 2007;
- (c) pay \$35,000 to the Vendors and issue to the Vendors an aggregate of 100,000 Common Shares before January 30, 2008;
- (d) pay \$50,000 to the Vendors and issue to the Vendors an aggregate of 100,000 Common Shares before January 30, 2009; and
- (e) pay \$75,000 to the Vendors and issue to the Vendors an aggregate of 200,000 Common Shares before January 30, 2010.

(collectively, the "Consideration"). Until the Consideration is fully paid, Shear and the Vendors are subject to an area of mutual interest and will jointly review decisions regarding the Property, including proposed work programs. Shear can elect to accelerate payment of the Consideration, in which case the Vendors will have no further interest in the Property except for a 3% gross overriding royalty ("GORR") on diamonds, metals and minerals produced from the Property. Shear shall be entitled to purchase 1% of the 3% GORR for \$2 million cash at any time. Shear can be relieved of its obligations pursuant to the Agreement, including the payment of the balance of the Consideration following the initial payment and share issuance, by relinquishing all rights in the Property to the Vendors.

In contemplation of the acquisition of the Property, Shear entered into an agreement with LynCorp. International Ltd. ("LynCorp"), a private Alberta company owned by a director of Shear, whereby LynCorp agreed to fund \$250,000 in exploration expenditures or acquisition costs on the Property within one year to earn an undivided 49% interest in the Property. Once the earn-in is complete, a formal joint venture will be formed whereby each party is responsible for their pro rata share of exploration expenditures and property payments consisting of both cash and shares (or cash equivalent). Shear has a right of first refusal on LynCorp's interest. Shear will be the operator of the Property.

On April 26, 2006 the Company announced that it will be offering on a non-brokered private placement basis (the "Offering") up to 1,153,846 units ("Units") at a price of \$0.65 per Unit and up to 2,857,143 flow-through common shares of Shear ("FT Shares") at a price of \$0.70 per FT Share for aggregate gross proceeds of \$2.75 million if the Offering is fully subscribed. Each Unit will consist of one common share of Shear ("Common Share") and one-half of a non-transferable share purchase warrant ("Warrant"). Each whole Warrant will entitle the holder to acquire an additional Common Share at a price of \$0.80 at any time within 18 months of issuance. Insiders of Shear may participate in the Offering.

The FT Shares and Units will be offered to qualified purchasers in reliance upon exemptions from the prospectus and registration requirements of applicable jurisdictions. The Offering is subject to certain conditions, including regulatory approval. The proceeds from the sale of FT Shares will be used to incur

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expenditures which qualify as Canadian Exploration Expenses and will be spent primarily on Shear's Churchill Diamond Project in Nunavut.

Subject to regulatory approval, Shear will pay a finder's fee to brokers or other third parties (a "Finder") consisting of: (a) cash equal to 7% of the gross proceeds realized from sales made to purchasers referred to Shear by the Finder; and (b) non-transferable warrants entitling the Finder to acquire that number of Common Shares equal to 7% of the Units or FT Shares sold to purchasers referred to Shear by such Finder, at a price of \$0.65 per Common Share at anytime within 18 months following closing of the Offering.