

## **SHEAR MINERALS LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**November 30, 2006**

#### **GENERAL**

This management discussion and analysis (“MD&A”) supplements, but does not form part of, the consolidated financial statements and notes for the year ended November 30, 2006. The following information, prepared as of March 15, 2007, 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](http://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.

#### **DESCRIPTION OF BUSINESS**

Shear Minerals Ltd. (“Shear” or the “Company”) is an exploration stage company focussed on diamond exploration. The Company acquires and explores mineral properties located primarily in the Northwest and Nunavut Territories, Alberta, Saskatchewan and Alaska. The Company is a reporting issuer in Alberta and British Columbia and trades on the TSX Venture Exchange under the symbol SRM.

#### **SUMMARY OF ANNUAL AND QUARTERLY RESULTS**

The following table sets out selected annual financial information of Shear. Shear’s annual financial statements are prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

<b>Period</b>	<b>Revenues (\$)</b>	<b>Net Loss (\$)</b>	<b>Basic Loss per Share (\$)</b>	<b>Total Assets (\$)</b>
Year ended November 30, 2006	201,649	686,426	0.011	17,266,442
Year ended November 30, 2005	182,596	711,861	0.013	14,863,314
Year ended November 30, 2004	171,532	1,264,781	0.026	17,289,436

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.

<b>Period</b>	<b>Revenues (\$)</b>	<b>Net Loss (\$)</b>	<b>Mineral Property Expenditures (\$)</b>	<b>Basic Loss per Share (\$)</b>
Three months ended November 30, 2006	57,884	425,144	541,791	0.008
Three months ended August 31, 2006	62,066	83,816	909,363	0.001
Three months ended May 31, 2006	59,852	75,480	288,061	0.001
Three months ended February 28, 2006	21,847	101,986	523,973	0.002
Three months ended November 30, 2005	32,023	282,884	861,469	0.005
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

The Company's revenues are derived mainly from interest on deposits and short-term investments and management fees charged to joint venture partners. These items fluctuate from quarter to quarter and year to year depending on the amount of property work being done and our outstanding investment balance, but have remained fairly consistent overall during the past two years. The Company is in the exploration stage and has no revenue from mining operations. The variations in the net loss from year to year are primarily due to non-cash items such as mineral property write downs net of future income tax recoveries, write-downs and recoveries of short-term investments, and share based compensation.

## **RESULTS OF OPERATIONS**

*For the year ended November 30, 2006*

Shear incurred a net loss of \$686,426 for the year ended November 30, comparable to a net loss of \$711,861 the prior year.

The Company's administrative costs were \$729,428 for the year ended November 30, 2006 which was consistent with \$729,924 for the year ended November 30, 2005.

General and administrative expenses totalled \$392,761 for the year ended November 30, 2006, an increase of \$44,055 from the prior year. General and administrative expenses consisted of corporate travel and tradeshow of \$85,224 (2005 - \$75,253), office expenses of \$108,253 (2005 - \$97,722), payroll of \$80,615 (2005 - \$49,834), shareholder communications and promotion of \$78,479 (2005 - \$87,134), regulatory and transfer fees of \$35,089 (2005 - \$26,951), and other expenses of \$5,101 (2005 - \$11,812). The increase in payroll expenses was due to increased time spent by geologists on exploration project planning.

In the year ended November 30, 2006, the Company also incurred management fees of \$124,500 (2005 - \$195,225), professional fees of \$117,455 (2005 - \$80,454), consulting fees of \$68,644 (2005 - \$83,394), and amortization of \$26,068 (2005 - \$22,049). The decrease in management

fees and consulting fees is primarily due to share based compensation of \$102,225, and \$16,325 respectively in year ended November 30, 2005 compared to \$nil charged in the year ended November 30, 2006. The increase in professional fees was due to increased share based compensation, higher audit costs, and additional time needed to comply with regulatory requirements.

*For the three months ended November 30, 2006*

Shear incurred a net loss of \$425,144 (2005 - \$282,884) for the three months ended November 30, 2006, an increase of \$142,260 from the prior year. This increase is due to the write down of mineral properties, being higher by \$710,997 in the current period. Partially offsetting this was a recovery of future income tax of \$695,107 in the three months ended November 30, 2006, versus a recovery of future income tax of \$57,365 in the quarter ended November 30, 2005, a net change of \$637,742 between the periods.

The Company's administrative costs were \$309,023 for the three months ended November 30, 2006 compared to \$178,878 for the three months ended November 30, 2005.

General and administrative expenses totalled \$160,268 for the three months ended November 30, 2006, an increase of \$84,857 from the comparative quarter. General and administrative expenses consisted of corporate travel and tradeshows of \$30,904 (2005 - \$12,675), office expenses of \$37,726 (2005 - \$28,917), payroll of \$33,735 (2005 - \$15,917), shareholder communications and promotion of \$38,535 (2005 - \$10,801), regulatory and transfer fees of \$18,115 (2005 - \$5,536), and other expenses of \$1,253 (2005 - \$1,565). The increase in shareholder communications and promotion was due to incurring annual report printing expenses in the fourth quarter of 2006 compared with 2005 when this expense was incurred in the third quarter.

In the three months ended November 30, 2006, the Company also incurred management fees of \$57,500 (2005 - \$31,000), professional fees of \$63,259 (2005 - \$46,301), consulting fees of \$21,244 (2005 - \$15,000), and amortization of \$6,752 (2005 - \$11,070). The increase in management fees is primarily due to the board of directors awarding higher management bonuses in 2006.

## **LIQUIDITY AND SOLVENCY**

The Company has no operating revenue to date and relies upon the proceeds of equity financings to support its mineral property acquisition and exploration projects and to provide working capital. The Company had working capital of \$2,765,527 as at November 30, 2006 as compared with \$1,314,946 as at November 30, 2005.

On May 19, 2006, the Company closed a non-brokered private placement of 1,228,500 units ("Units") at a price of \$0.65 per Unit and 3,073,500 flow-through common shares at a price of \$0.70 per flow-through share for gross proceeds of \$2,949,975. Each Unit consisted of one common share and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at a price of \$0.80 at any time within 18 months of issuance. In connection with the private placement, the Company issued non-transferable share purchase warrants to acquire 284,676 common shares. The warrants are exercisable at a price of \$0.65 at anytime within 18 months of issuance. Related to this, the Company recorded share-based compensation in the amount of \$45,548 as a share issue cost.

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

Management may raise additional capital through equity financings to continue to meet its corporate and exploration commitments over the next year. The Company also has outstanding share options and warrants that if exercised, would result in additional cash proceeds to support corporate activity. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity and the viability of equity markets.

## **RELATED PARTY TRANSACTIONS**

During the year ended November 30, 2006, the Company incurred management fees of \$124,500 (2005 - \$119,100) 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 a non-participating partner 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.

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 Stella Polaris Property within one year to earn an undivided 49% interest in the Property.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

As at March 15, 2007, Shear had 66,603,726 common shares outstanding. The following table provides a summary of Shear's share options and warrants outstanding at March 15, 2007:

Security	Number	Exercise Price (\$)	Expiry Date
Share options	734,000	0.26	February 4, 2008
Share options	1,525,000	0.84	September 8, 2008
Share options	530,000	0.83	February 2, 2009
Share options	50,000	0.75	September 3, 2009
Share options	1,325,000	0.40	February 22, 2010
Share options	50,000	0.41	May 3, 2010
Share options	300,000	0.60	April 12, 2011
Warrants	589,250	0.80	September 20, 2007
Warrants	273,476	0.65	September 20, 2007

## **MINERAL PROPERTIES**

During the year ended November 30, 2006, cash expenditures on exploration and acquisition of the Company's mineral properties totalled \$2,263,188 compared to \$4,094,278 in the year ended November 30, 2005. In 2006, approximately 81% (2005 – 85%) of the Company's exploration budget was spent on the Churchill Diamond Project.

### **1. CHURCHILL DIAMOND, NUNAVUT**

The Churchill Diamond Project ("Churchill") is composed of mineral rights to approximately 2.0 million acres near the community of Rankin Inlet in the Kivalliq region of Nunavut. This project is a new and expanding kimberlite district which Shear and its partners discovered in 2003. To date a total of 51 kimberlites (includes 2 on the Churchill West Diamond Property) including six kimberlite outcrops have been discovered on the property over an area of approximately 60km by 60km. Shear has a 51.88% interest in the project and is the operator. Stornoway Diamond Corp. and BHP Billiton Diamonds Inc. ("BHP Billiton") have 35.62% and 12.50% 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. 100% of all non diamond rights are held by Kaminak Gold Corp.

On March 27, 2006 BHP Billiton 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 May 30, 2003, the Company entered into an agreement with BHP Billiton whereby BHP Billiton will fund the entire cost to collect, sample and process the initial 200 tonnes of kimberlitic material from the Churchill Property and sign a standstill agreement for a four year period whereby BHP Billiton is prohibited from participating in a takeover bid, merger, or acquisition of more than 10% of the voting securities of Shear.

In 2006, extensive exploration totalling \$4.5 million including mini-bulk sampling was carried out in the areas where kimberlite dykes were discovered. In February 2007, the Company announced the recovery of 585 diamonds greater than 0.85mm yielding 16.42 carats from a cumulative 17.26 dry tonne sample from four spatially separate kimberlite dykes on the Churchill Project.

The PST003 kimberlite yielded 7.24 carats from a 3.55-tonne sample, resulting in a sample grade of 2.04 carats per tonne (cpt). A 3.13-tonne sample at the Kahuna kimberlite returned 3.4 carats, producing a sample grade of 1.09 cpt. At Notch, a 4.93-tonne sample returned 3.4 carats resulting in a sample grade of 0.69 cpt. and a smaller sample of 0.5 tonnes at Notch North yielded 0.4 carats producing a sample grade 0.8 cpt. At Jigsaw, a 5.15-tonne sample yielded 1.99 carats resulting in a sample grade of 0.39 cpt. All calculations are based on diamond weights from stones found on the 0.85mm sieve size or larger.

The three largest diamonds from PST003 measured 5.1x4.4x2.8mm (0.55 carats), 5.6x4.6x2.2mm (0.29 carats), and 3.7x2.84x2.6mm (0.16 carats). The three largest stones from Kahuna measured 4.78x3.94x2.66mm (0.27 carats), 4.08x3.58x2.56mm (0.18 carats), and 2.4x2.2x2.14mm (0.1 carats). To date, preliminary observation describes the majority of the diamonds as clear, colorless to white and dominated by octahedrons with some macles, dodecahedrons, and twins.

Sample Number	Sample Weight Dry (tonnes)	Sample Grade Carats per tonne (+0.85mm)	Weight of Diamonds Recovered (carats) (>+0.85mm)	Number of stones >0.85 mm	0.85 mm Sieve	1.18 mm Sieve	1.70 mm Sieve	2.36 mm Sieve	3.35 mm Sieve
PST003 <sup>1</sup>	3.55	2.04	7.24	229	126	76	20	6	1
Kahuna <sup>2</sup>	3.13	1.09	3.40	175	129	38	6	2	0
Notch <sup>3</sup>	4.93	0.69	3.39	133	75	45	13	0	0
Notch North <sup>4</sup>	0.5	0.8	0.40	23	15	7	1	0	0
Jigsaw <sup>5</sup>	5.15	0.39	1.99	72	47	16	8	1	0

<sup>1</sup> Largest stone dimensions 5.1x4.4x2.8mm white octahedroid; 5.6x4.6x2.2mm white twinned octahedron; 3.7x2.84x2.6mm white broken octahedron.

<sup>2</sup> Largest stone dimensions: 4.78x3.94x2.66mm white; 4.08x3.58x2.56mm white broken aggregate, 2.4x2.2x2.14mm pink cubic.

<sup>3</sup> Largest stone dimensions: 3.6x3.4x1.92mm white broken aggregate; 3.64x2.4x1.8mm colorless broken, 3.1x2.1x2mm white 2.9x2.3x2.1 colorless octahedron

<sup>4</sup> Largest stone dimensions: 3.24x1.88x0.9mm white fragment; 2.04x1.48x1.28mm amber octahedroid; 1.7x1.58x1.2mm clear octahedroid.

<sup>5</sup> Largest stone dimensions: 3.08x2.9x2.6mm black octahedroid, 2.2x1.82x1.44mm colorless broken, 3.72x2.32x2.3mm colorless broken aggregate.

The samples reported were collected by Shear using surface trenching in August and September 2006. Sample results are based on the recovery of diamonds by Dense Media Separation (DMS) at De Beers Processing plant in Grande Prairie, AB after an initial 8.0mm primary crush. Samples were finished by a caustic fusion of the concentrate at the Saskatchewan Research Council. Sample weights and diamond counts are reported for standard sieve classes greater than 0.85mm (using a square mesh).

### **PST003**

The PST003 kimberlite is located 2 km to the south of Notch within the Sedna Corridor. It is a 0.8m wide vertical dyke estimated to trend for 500m based on geophysical interpretation. Six holes from three set ups have been drilled into PST003. The largest diamonds from the mini-bulk samples weighed 0.55, 0.29, 0.17, 0.163, and 0.16 carats. Recent geophysical interpretation has identified what could be the southern extension to PST003, trending for 4-5 km to the southwest.

### **Kahuna**

The Kahuna kimberlite is located within the Josephine River Corridor and is a 3.5m to 4m wide vertical kimberlite dyke that trends for more than 5.5 km based on geophysical interpretation. Five drill holes from three setups have intersected the Kahuna kimberlite as well as trenching at two sites. The largest diamonds from the mini-bulk samples were 0.27, 0.18 and 0.10 carats. The largest diamond recovered prior to this at Kahuna measured 3.55x2.95x2.90mm and weighed 0.3 carats.

### **Notch**

The Notch kimberlite is located 15 km southwest of Kahuna in the Sedna Corridor and is a 1.5m wide vertical kimberlite dyke that trends for more than 3 km based on geophysical interpretation. Notch North was collected 1.5 km north of the main Notch outcrop. The largest diamonds are

0.129, 0.11, and 0.108 carats. A total of 11 drill holes from 7 setups have been drilled into the Notch kimberlite trend.

### **Jigsaw**

The Jigsaw kimberlite is located 20 km northwest of Notch to the northwest of the head of the Sedna Corridor. Jigsaw is a 1.3m wide vertical dyke estimated to be 1 km in length based on geophysical interpretation. No drilling has been conducted on the Jigsaw trend. The largest diamonds are 0.16, 0.14 and 0.12 carats.

In 2006, a total of 850 till samples were collected on the Churchill Property in order to infill the sampling density in the core areas and to better define the indicator mineral trains. Since 2000, more than 8,500 surface samples have been collected and processed and more than 20,000 microprobe analyses have been completed. The increased detail from the refined till sample data set will enable the technical team to target subtle geophysical anomalies within the remaining 17 key areas of interest based on mineral chemistry for the 2007 drill program. Results are pending.

In 2006 a total of 23 holes have been drilled (1,447m) resulting in the discovery of the Notch and PST02 kimberlite dykes within the Sedna Corridor. In 2006 within the Josephine River Corridor a total of 15 holes were drilled (1,125m). The Kahuna kimberlite dyke was discovered as well as four additional kimberlites, three are classified as low diamond potential based on visual characteristics. Seven additional targets were tested but no kimberlite intersected.

### **Future Plans**

In 2007 Shear is planning to take a larger bulk sample of between 100 to 500 tonnes from one or all of the kimberlite dykes that were mini-bulk sampled in 2006. The Company is also planning detailed drilling along the strike length of the known dykes, ground geophysics, till sampling, and ongoing exploration drilling to target the 17 high interest dispersions that remain unsourced on the property. 2007 budget plans are currently underway.

## **2. CHURCHILL WEST, NUNAVUT**

The Company is currently exploring the Churchill West project with International Samuel Exploration Corp. ("Samuel"), Stornoway and BHP Billiton where the Company holds a 26.32% interest, and Samuel, Stornoway and BHP Billiton have interests of 48.50%, 18.28% and 6.90%, respectively in the diamond rights to the property. The property is subject to a 2.0% gross overriding royalty and net smelter royalty in favour of Hunter with respect to the commercial production of diamonds. 100% of all non diamond rights are held by Kaminak Gold Corp.

On March 27, 2006 BHP Billiton 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. Shear has assumed operatorship of the Churchill West Diamond Joint Venture.

The Churchill West project encompasses 397,705 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.

In 2005 the Company and its partners completed a \$300,000 high resolution airborne geophysical survey at the Churchill West Diamond Property. The 3,658 line km magnetic-electromagnetic

airborne geophysical survey was intended to follow up indicator mineral chemistry of interest in the south eastern region of the property and was flown at 100 meter line spacing.

The 2006 program included ground geophysics, till sampling and prospecting of 70 priority geophysical targets.

### **Future Plans**

Indicator mineral results are still pending for the till samples taken in 2006. Based on those results, final 2007 program plans will be finalized but will likely include ground geophysical surveys over selected targets.

### **3. HECLA, NUNAVUT**

The Hecla Diamond Project is composed of 465,000 acres of federal prospecting permits located on Melville Island in the NWT. Shear has 100% of this project.

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.

Shear has agreed to issue an aggregate of 200,000 common shares as a finder's fee upon the following milestones being achieved: 25,000 shares upon the successful acquisition of the land (completed); 75,000 shares upon the discovery of a kimberlite; and 100,000 shares upon the discovery of one or more diamonds per kilogram in any 25 kilogram sample of kimberlite.

In addition, Shear has granted a 2% gross overriding royalty fee, of which 1% can be purchased by Shear for \$1.5 million.

In July 2005 the Company mobilized a five person crew to Resolute in order to initiate fieldwork on the Hecla Diamond Project located on Melville Island in the Northwest Territories. The 8 day field program included prospecting sites of interest, sampling and mapping. No indicator minerals were recovered from the samples collected. Many areas were not able to be evaluated due to snow cover.

### **Future Plans**

The property was not visited in 2006 but a preliminary budget of \$75,000 has been proposed for a property visit in 2007. Future field visits will be subject to weather conditions due to the northern location of this property.

### **4. AYLMEER LAKE WEST, NORTHWEST TERRITORIES**

During 2006 the Company wrote off the carrying amounts related to the Aylmer Lake West Property as the Company has no current plans for further exploration on this property.

## **5. XYZ, NORTHWEST TERRITORIES**

This project operates under a joint venture agreement with Hunter. Shear holds an 80% interest in the project. Hunter retains a 2.0% net smelter royalty on non-diamond production as well as a 2.0% gross overriding royalty on diamond production from the property. Shear is required to pay Hunter a \$10,000 annual advance royalty payment which increases to \$25,000 annually commencing June 30, 2008.

The XYZ Project is composed of more than 19,000 acres of mineral claims located along the northwest boundary of the Ekati™ Diamond Mine property and 225km northeast of Yellowknife, NWT. The project was acquired in 2001 after a high concentration of G10 garnets (a 5 kg un-concentrated sample yielded 15,500 pyrope garnets, 29% of which were G10's, 10,000 microilmenites and 1,000 olivines) and three diamonds (the largest measuring 0.44x0.42x0.212 mm) were identified in a 194kg beach sand sample from the property. Since that time, Shear has completed airborne geophysics, sampling and ground geophysics and drilling (no kimberlite was intersected).

The source to the indicator minerals being found on surface still remains unknown but Shear believes the source to be local. In 2005 the Company completed a 3 day sampling program and collected 79 till surface samples for kimberlite indicator mineral processing. Results will be incorporated into future planning. The purpose of the sampling is to better rank the geophysical anomalies for follow up drill testing. Shear plans to continue to interpret the data and to follow up on the remaining 10 geophysical targets.

### **Future Plans**

Presently Shear is re-interpreting past geophysical data in conjunction with till sample results. Once results are complete a 2007 budget will be finalized. The 2007 exploration program may include ground follow up and possibly drill testing of priority targets.

## **6. AFRIDI LAKE, NORTHWEST TERRITORIES**

This project operates under a joint venture agreement with International Samuel Exploration Corporation ("Samuel"), New World Resource Corp. ("New World" - formerly Dasher Energy Corp.) and Mantle Resources Inc. ("Mantle"). Shear currently holds 58.2% interest in the property and Samuel, New World and Mantle have 25.4%, 8.2% and 8.2%, respectively.

The Company is obligated to issue 100,000 of its common shares to Mantle for each diamondiferous kimberlite discovered on the property, to a maximum of three kimberlites. The Company is also obligated to pay a 5% gross overriding royalty and net smelter fee on production of the property.

The Afridi Lake Property is comprised of 24 mineral claims and three mineral leases (68,600 acres) located approximately 40km east of the Diavik Diamond Mine and the established diamond district of Lac de Gras and approximately 320 km northeast of Yellowknife, Northwest Territories. There are five known kimberlites on the properties (DA-1, DA-2, DA-3, DA-2SW and the Jordan kimberlites) and more than 100 geophysical targets, some of which have been covered by ground geophysics and are drill-ready.

In 2005 the Company completed a 3 day sampling program and collected 31 surface till samples for kimberlite indicator mineral processing. In 2006 a 2-day site visit was conducted to collect samples of the kimberlites and host rock for physical property testing. Results will be used to determine future geophysical methods.

### **Future Plans**

Joint venture agreements are currently being finalized. Once complete, the 2007 field budget will be finalized. Current work is comprised of compilation with interpretation of the all till sample results to date in conjunction with the geophysical data. 2007 exploration may include additional geophysics (such as airborne and ground gravity) followed by ground checks and drill testing of priority targets. In addition, plans may include the re-interpretation of the known kimberlites to determine whether further drill testing of the kimberlites for diamond analysis is warranted.

## **7. SHULIN LAKE PROJECT, ALASKA**

By not participating in various programs, the Company's interest has been diluted to 8.2%. If the Company decides not to participate in future exploration costs, this interest will be diluted on a pro-rata basis to a minimum 4% profit interest.

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 2,400kg 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.

### **Future Plans**

Upon receiving the result of the current program, Shear will re-evaluate its position with respect to future expenditures.

## **8. PICHE, ALBERTA**

On November 16, 2005, the Company acquired an option on the Piche Lake Property in north central Alberta. Under the terms of the agreement Shear can earn into an initial 51% by incurring a total of \$500,000 of exploration expenditures over two years inclusive of \$100,000 in exploration within the first year. In addition, Shear has the ability to earn an additional 24% in the property by spending an additional \$1 million in exploration expenditures over two years after earning 51%.

The Piche Lake Property is road accessible and is composed of two blocks collectively totaling 380,000 acres and is located 170km northeast of Edmonton, Alberta. Previous exploration by Marmac Mines Ltd. has outlined one prominent pipe like discontinuity on seismic data that is suggestive of a kimberlite pipe. The Piche Lake Property is located within the regional Vegreville kimberlite indicator mineral trend as outlined by the Alberta Geological Survey and is also located along the projected trend of the Snowbird Tectonic Zone, a crustal structure potentially favorable for kimberlite emplacement.

On May 3, 2006 the Company completed an airborne geophysical survey which covered 19 townships at 150m spacings in order to follow up eight high priority seismic pipe-like targets suggestive of kimberlite at both the Piche Lake and Liege Properties. The survey, conducted by Firefly Aviation, provides high resolution data that can assist Shear to more accurately locate and rank the targets and identify any new targets suggestive of kimberlite.

In 2006, Shear completed the ground checking of selected targets plus ground geophysical surveying over priority anomalies from the airborne geophysics. Further interpretation is underway on the Piche Property and several geophysical anomalies suggestive of kimberlite have been picked for follow up.

### **Future Plans**

The Company will evaluate all the data collected in 2006 to plan the exploration program for 2007. Future plans may include additional ground geophysical surveys (magnetics, EM and/or gravity) with possible drill testing of high interest targets. Budgetary meetings for the 2007 field program are currently underway with partners.

### **9. LIEGE, ALBERTA**

On November 30, 2005, the Company acquired a farm-out agreement on a significant land position in north central Alberta for diamond exploration. The property, known as the Liege Diamond Project, was acquired from a Canadian oil and natural gas exploration, development and production company. Under the terms of the agreement, Shear can earn into an initial 51% interest by incurring a total of \$1,000,000 of exploration expenditures over three years inclusive of \$325,000 in exploration within the first year. A \$10,000 cash finder's fee was paid by Shear under the terms of the agreement.

Seven prominent pipe-like targets have been identified from seismic surveys and are suggestive of kimberlites. They were generated during exploration for oil and gas. The Liege Diamond Project consists of 155,000 acres and is located 360km north of Edmonton, Alberta. The project area lies 80km immediately east of the Buffalo Head Hills kimberlite cluster and is located along the projected trend of the Peace River Arch, a crustal structure potentially favorable for kimberlite emplacement.

On May 3, 2006 the Company completed an airborne geophysical survey which covered 19 townships at 150m spacings in order to follow up eight high priority seismic pipe-like targets suggestive of kimberlite at both the Piche Lake and Liege Properties. The survey, conducted by Firefly Aviation, provides high resolution data that can assist Shear to more accurately locate and rank the targets and identify any new targets suggestive of kimberlite.

The interpretation is underway on the Liege Property and several geophysical anomalies suggestive of kimberlite have been picked.

In 2006, Shear completed the ground checking of selected targets plus ground geophysical surveying over priority anomalies from the airborne geophysics. Further interpretation is underway on the Liege Property and several geophysical anomalies suggestive of kimberlite have been picked for follow up.

## **Future Plans**

Once all geophysical data has been interpreted, drill targets will be finalized. Drill testing would mostly likely be planned for the spring of 2008 when winter road access is possible.

## **10. STELLA POLARIS, SASKATCHEWAN**

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 the border to the US and is road accessible throughout the year. 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") (completed);
- (b) pay \$25,000 to the Vendors before January 30, 2007 (completed);
- (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.

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 October 4, 2006, Shear announced the presence of a large pyrope dominated kimberlite indicator dispersion plume on the Stella Property.

In the summer of 2006, a total of 6,819 kimberlite indicator minerals were recovered from 25 surface samples collected from the Property. All samples contained kimberlite indicator minerals

with total counts ranging from one grain per sample to the highest count of 1,218 picked kimberlite indicator minerals. In general the samples are dominated by purple pyrope garnets with the highest pyrope count being 817 pyropes from sample 06S007, of which 43 grains were in the 2-3mm size fraction. Other indicator minerals include orange garnets, ilmenite, chromite and chrome diopside. The highest indicator mineral abundances are located near the centre of the property with abundances decreasing towards the east and west that may suggest multiple undiscovered local kimberlite sources. Samples were processed and picked at Mineral Services Canada in Vancouver, BC. Selected grains will be sent for microprobe analysis and surface feature analysis.

In the fall of 2006 a total of 30 till samples were collected and high priority areas were prospected. Indicator mineral results are pending.

### **Future Plans**

Once indicator mineral results and associated mineral chemistry results are received and interpreted, 2007 field program plans will be made. Follow up work may include airborne and ground geophysical surveying over priority areas.

## **11. SAKARI PROPERTY, NUNAVUT**

On August 15, 2006 Shear and Diamonds North Resources Ltd. (“Diamonds North”) entered into an agreement whereby Shear can earn a 50% interest in approximately 42,000 acres of claims located within the southwest portion of Diamonds North’s Amaruk project in the Pelly Bay Diamond District of Nunavut. The Sakari property is located adjacent to the Darby project where a new kimberlite field was recently announced by Indicator Minerals Ltd and Teck Cominco Ltd.

Under the terms of the Agreement Shear can earn into a 50% interest in certain mineral claims totaling approximately 42,000 acres by making a payment of \$97,000 in refundable deposits (completed) and incurring exploration expenditures of \$186,000 before June 30, 2007. Diamonds North will operate the project.

To date, minimal work has been completed on the project with the exception of till sampling on a regional grid where kimberlite indicator minerals were recovered.

### **Future Plans**

In 2006 Shear and Diamonds North agreed to airborne geophysical surveying at 100 metre line spacing with possible target specific sampling follow-up. Due to weather the program was not completed and will be moved forward to the spring of 2007.

## **12. OTHER**

In 2005 and 2006 the Company conducted one regional diamond indicator mineral sampling program based on conceptual ideas. Based on sample results, the Company has decided to acquire mineral rights in the area. Results will be released as soon as possible.

## ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

	For the Year Ended November 30, 2006			For the Year Ended Nov. 30, 2005
	Acquisition Costs	Exploration Costs	Total	Total
<b>Churchill Diamond Project</b>				
Land tenure	\$ (166,249)	\$ -	\$ (166,249)	\$ 103,697
General exploration	-	1,078,349	1,078,349	2,302,780
Environment	-	22,785	22,785	59,392
Drilling	-	861,596	861,596	1,504,910
Sampling	-	878,854	878,854	1,730,902
Ground geophysics	-	111,913	111,913	407,744
Airborne geophysics	-	10,621	10,621	328,311
Prospecting	-	297,225	297,225	-
Community consultations	-	24,776	24,776	24,218
Expenses recovered from partners	(28,095)	(1,369,233)	(1,397,328)	(3,169,939)
	(194,344)	1,916,886	1,722,542	3,292,015
<b>Churchill West Project</b>				
Land tenure	560	-	560	26,106
Option costs - cash	-	-	-	51,000
General exploration	-	23,879	23,879	12,562
Environment	-	915	915	-
Drilling services	-	-	-	1,423
Sampling	-	98,314	98,314	136,550
Airborne geophysics	-	7,451	7,451	257,493
Prospecting	-	1,885	1,885	-
Expenses recovered from partners	(410)	(94,926)	(95,336)	(258,509)
	150	37,518	37,668	226,625
<b>Hecla Project</b>				
Land tenure	(46,283)	-	(46,283)	980
Option costs - shares	-	-	-	13,250
General exploration	-	6,303	6,303	181,805
Sampling	-	-	-	2,991
	(46,283)	6,303	(39,980)	199,026
<b>Aylmer Lake West</b>				
Land tenure	-	-	-	5,157
General exploration	-	10,398	10,398	10,385
Write down of mineral property	(135,937)	(740,761)	(876,698)	
	(135,937)	(730,363)	(866,300)	15,542

**XYZ**

Land tenure	-	-	-	4,237
Option costs - cash	10,000	-	<b>10,000</b>	10,000
General exploration	-	2,207	<b>2,207</b>	36,476
Sampling	-	25,835	<b>25,835</b>	3,749
	10,000	28,042	<b>38,042</b>	54,462

**Afridi Lake**

Land tenure	39,354	-	<b>39,354</b>	7,807
General exploration	-	12,762	<b>12,762</b>	64,549
Environment	-	540	<b>540</b>	-
Sampling	-	18,273	<b>18,273</b>	14,153
Ground geophysics	-	107	<b>107</b>	-
Expenses recovered from partner	(16,450)	(13,243)	<b>(29,693)</b>	(21,973)
	22,904	18,439	<b>41,343</b>	64,536

**Sakari**

Option costs - cash	97,618	-	<b>97,618</b>	-
	97,618	-	<b>97,618</b>	-

**Back River Gold**

Land tenure	-	-	-	10,111
General exploration	-	-	-	71,374
Sampling	-	-	-	2,811
Spin off transaction	-	-	-	(514,899)
	-	-	-	(430,603)

**Aylmer Lake/Afridi East**

Project consulting	-	-	-	724
Write down of mineral property	-	-	-	(165,701)
	-	-	-	(164,977)

**Shulin Lake**

Land tenure	-	-	-	3,821
General exploration	-	240	<b>240</b>	85,860
Sampling	-	893	<b>893</b>	
	-	1,133	<b>1,133</b>	89,681

**Piche**

Land tenure	4,433	-	<b>4,433</b>	5,540
General exploration	-	20,568	<b>20,568</b>	874
Environment	-	4,924	<b>4,924</b>	-
Sampling	-	206	<b>206</b>	-
Ground geophysics	-	7,199	<b>7,199</b>	-
Airborne geophysics	-	118,822	<b>118,822</b>	-
Community consultations	-	1,161	<b>1,161</b>	-
	4,433	152,880	<b>157,313</b>	6,414

<b>Liege</b>				
Land tenure	39,644	-	<b>39,644</b>	11,848
General exploration	-	12,306	<b>12,306</b>	-
Environment	-	7,265	<b>7,265</b>	-
Sampling	-	570	<b>570</b>	-
Ground geophysics	-	51,883	<b>51,883</b>	-
Airborne geophysics	-	106,219	<b>106,219</b>	-
Community consultations	-	325	<b>325</b>	-
	<u>39,644</u>	<u>178,568</u>	<u><b>218,212</b></u>	<u>11,848</u>
<b>Stella Polaris</b>				
Land tenure	108,810	-	<b>108,810</b>	-
Option costs – cash	25,000	-	<b>25,000</b>	-
Option costs – shares	114,000	-	<b>114,000</b>	-
General exploration	-	88,187	<b>88,187</b>	-
Environment	-	4,811	<b>4,811</b>	-
Sampling	-	7,371	<b>7,371</b>	-
Ground geophysics	-	4,910	<b>4,910</b>	-
Airborne geophysics	-	26,217	<b>26,217</b>	-
Prospecting	-	9,149	<b>9,149</b>	-
Community consultations	-	250	<b>250</b>	-
Expenses recovered from partner	(105,350)	(136,520)	<b>(241,870)</b>	-
	<u>142,460</u>	<u>4,375</u>	<u><b>146,835</b></u>	<u>-</u>
<b>Other</b>				
General Exploration	-	8,048	<b>8,048</b>	21,195
Sampling	-	25,516	<b>25,516</b>	58,564
	<u>-</u>	<u>33,564</u>	<u><b>33,564</b></u>	<u>79,759</u>
	<u>\$ (59,355)</u>	<u>\$ 1,647,345</u>	<u><b>\$ 1,587,990</b></u>	<u>\$ 3,444,328</u>

## **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.

## **Disclosure Controls and Internal Control over Financial Reporting**

Management has designed disclosure controls and procedures that provide reasonable assurance that material information relating to the Company is disclosed on a timely basis. Management believes these disclosure controls and procedures were operating effectively as of November 30, 2006.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles. Lack of optimal segregation of duties has been observed due to the relatively small size of the Company, but management believes that these weaknesses have been adequately mitigated through management oversight, compensating controls, and a strong control environment.

## **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. 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. 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 estimate used by the Company relates to the accounting for share-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.