

Shear Minerals Ltd.
(a development stage company)

Consolidated Financial Statements
November 30, 2006 and 2005

March 15, 2007

Auditors' Report

To the Shareholders of Shear Minerals Ltd.

We have audited the consolidated balance sheets of **Shear Minerals Ltd.** as at November 30, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Edmonton, Alberta

Shear Minerals Ltd.
 Consolidated Balance Sheets
 As at November 30, 2006 and 2005

	2006 \$	2005 \$
Assets		
Current assets		
Cash and cash equivalents	2,658,440	558,328
Restricted cash (note 4)	42,537	1,113,714
Short-term investments – market value \$101,627 (2005 – \$72,883)	95,427	72,483
Accounts receivable	175,671	319,200
Operator recoveries	107,701	187,854
Prepaid expenses	26,920	25,921
	<u>3,106,696</u>	<u>2,277,500</u>
Equipment (note 5)	64,758	78,816
Mineral properties (note 6)	14,094,988	12,506,998
	<u>17,266,442</u>	<u>14,863,314</u>
Liabilities		
Current liabilities		
Accounts payable and accruals	270,854	326,621
Deposits from exploration partners	70,315	635,933
	<u>341,169</u>	<u>962,554</u>
Future income taxes (note 7)	2,379,622	2,587,309
	<u>2,720,791</u>	<u>3,549,863</u>
Shareholders' Equity		
Share capital (notes 8 and 11)	19,538,477	15,775,692
Contributed surplus (note 8)	1,614,666	1,458,825
Deficit	(6,607,492)	(5,921,066)
	<u>14,545,651</u>	<u>11,313,451</u>
	<u>17,266,442</u>	<u>14,863,314</u>

Approved by the Board of Directors

(Signed) "Pamela Strand"

 Director

(Signed) "David Mullen"

 Director

Shear Minerals Ltd.

Consolidated Statements of Loss and Deficit For the years ended November 30, 2006 and 2005

	2006 \$	2005 \$
Revenue		
Interest	94,101	87,233
Management fees	79,143	79,071
Other revenue	28,405	16,292
	<u>201,649</u>	<u>182,596</u>
Expenses		
General and administrative	392,761	348,706
Management fees (note 9)	124,500	195,225
Professional fees	117,455	80,454
Consulting fees	68,644	83,394
Amortization	26,068	22,049
Interest	-	96
	<u>729,428</u>	<u>729,924</u>
	(527,779)	(547,328)
Recovery (write down) of short-term investments	22,944	(55,847)
Write down of mineral properties (note 6)	(876,698)	(165,701)
Loss on sale of short-term investments	-	(350)
Loss before income taxes	(1,381,533)	(769,226)
Future income tax recovery (note 7)	695,107	57,365
Net loss for the year	(686,426)	(711,861)
Deficit – Beginning of year	(5,921,066)	(3,832,456)
Distribution of assets on spin off transaction (note 2)	-	(1,376,749)
Deficit – End of year	<u>(6,607,492)</u>	<u>(5,921,066)</u>
Basic and diluted loss per common share	<u>(0.011)</u>	<u>(0.013)</u>
Weighted average number of shares common outstanding	<u>63,304,361</u>	<u>54,623,079</u>

Shear Minerals Ltd.

Consolidated Statements of Cash Flows

For the years ended November 30, 2006 and 2005

	2006 \$	2005 \$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(686,426)	(711,861)
Items not affecting cash		
Amortization	26,068	22,049
Share-based compensation	17,500	120,725
Write down of mineral properties	876,698	165,701
(Recovery) write down of short-term investments	(22,944)	55,847
Loss on sale of short-term investments	-	350
Future income tax recovery	(695,107)	(57,365)
	(484,211)	(404,554)
Net change in non-cash working capital balances relating to operating activities	(398,702)	(1,088,142)
	(882,913)	(1,492,696)
Financing activities		
Issuance of shares	4,575,455	175,000
Share issue costs	(388,409)	(142,219)
	4,187,046	32,781
Investing activities		
Mineral properties		
Acquisition costs	37,418	(167,399)
Exploration costs	(2,300,606)	(3,926,879)
Increase (decrease) in restricted cash	1,071,177	(1,113,714)
Purchase of equipment	(12,010)	(72,637)
Net proceeds from sale of short-term investments	-	650
	(1,204,021)	(5,279,979)
Increase (decrease) in cash and cash equivalents	2,100,112	(6,739,894)
Cash and cash equivalents – Beginning of year	558,328	7,298,222
Cash and cash equivalents – End of year	2,658,440	558,328
Supplementary information		
Interest received	70,808	110,205

Shear Minerals Ltd.

Notes to Consolidated Financial Statements
November 30, 2006 and 2005

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 6 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 Spin off transaction

On November 9, 2005, the Company completed a reorganization whereby it has distributed shares of its wholly owned subsidiary Kaminak Gold Corporation (“Kaminak”) to holders of Shear common shares. The spin off has been recorded as a distribution to shareholders at the carrying amount of net assets held by Kaminak immediately prior to the reorganization.

In connection with the transaction:

- a) Shear issued to Hunter Exploration Group (“Hunter”) an aggregate of 1,500,000 common shares of Shear (“Original Shares”) at a deemed price of \$0.43 per Original Share and warrants to acquire an additional 750,000 Original Shares at a price of \$1.50 per Original Share within one year of issuance to acquire an interest in the Hunter Properties. The tax basis of the Hunter Properties was lower than the accounting basis at the time of acquisition. This created a future tax liability of \$216,850 which has been included in the carrying value of the assets transferred to Kaminak;
- b) Shear transferred its interest in the Hunter Properties and Shear’s gold properties (Back River Gold) to Kaminak for 11,225,684 Kaminak Shares; and
- c) Shear exchanged each outstanding Original Share for one new common share of Shear and 1/5 of a common share of Kaminak. All common shares of Kaminak were distributed in this manner to Shear’s shareholders.

Shear Minerals Ltd.

Notes to Consolidated Financial Statements November 30, 2006 and 2005

The aggregate carrying value of the assets transferred from the Company to Kaminak is as follows:

	\$
Mineral properties – Hunter	861,850
Mineral properties – Back River Gold	<u>514,899</u>
	<u>1,376,749</u>

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.

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 the market value of an investment which was previously written down to market value has recovered, 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.

Shear Minerals Ltd.

Notes to Consolidated Financial Statements
November 30, 2006 and 2005

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 if an impairment is identified, 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.

Income taxes

The asset and liability method is used for determining future 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 enacted or 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.

Asset retirement obligations

The Company recognizes a liability for retirement obligations associated with long-lived assets, including the abandonment of mineral properties and returning properties to their original condition. Asset retirement costs must be recognized at fair value in the period incurred, along with a corresponding increase in the carrying value of the related long-lived asset. The liability is subsequently adjusted for the passage of time and recognized as an accretion expense in the statement of loss and deficit. The increase in the carrying value of the asset is amortized on the same basis as the related long-term asset. At this time, the Company does not have any significant asset retirement obligations.

Shear Minerals Ltd.

Notes to Consolidated Financial Statements
November 30, 2006 and 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 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 which is recognized over the vesting period with a corresponding credit to contributed surplus. 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. In years of net losses, this calculation is anti-dilutive.

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 figures

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

Shear Minerals Ltd.

Notes to Consolidated Financial Statements
November 30, 2006 and 2005

4 Restricted cash

The Company has provided guaranteed investment certificates (“GIC”) in the amount of \$42,537 (2005 – \$1,113,714) to secure letters of credit in support of the Company’s exploration activities.

5 Equipment

	2006		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Field equipment	104,953	48,577	56,376
Computer equipment	28,909	20,527	8,382
	<u>133,862</u>	<u>69,104</u>	<u>64,758</u>
	2005		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Field equipment	92,943	30,867	62,076
Computer equipment	28,909	12,169	16,740
	<u>121,852</u>	<u>43,036</u>	<u>78,816</u>

Shear Minerals Ltd.

Notes to Consolidated Financial Statements
November 30, 2006 and 2005

6 Mineral properties

				2006	2005
	Percentage ownership interest %	Acquisition costs \$	Exploration costs \$	Net carrying amount \$	Net carrying amount \$
Northwest and Nunavut Territories					
Churchill Diamond Project	51.88	797,367	10,614,605	11,411,972	9,689,430
Aylmer Lake West	-	-	-	-	866,300
XYZ	80.00	170,956	468,483	639,439	601,397
Afridi Lake	58.20	125,126	437,205	562,331	520,988
Hecla	100.00	17,102	191,099	208,201	248,181
Churchill West	26.32	57,261	214,936	272,197	234,529
Sakari	*50.00	97,618	-	97,618	-
Alaska					
Shulin Lake	8.20	3,821	230,993	234,814	233,681
Alberta					
Piche	*51.00	9,973	153,754	163,727	6,414
Liege	*51.00	51,492	178,568	230,060	11,848
Saskatchewan					
Stella	*51.00	142,460	4,375	146,835	-
Other	100.00	2,016	125,778	127,794	94,230
		<u>1,475,192</u>	<u>12,619,796</u>	<u>14,094,988</u>	<u>12,506,998</u>

*The Company is in the process of earning into an ownership interest through completion of terms in option agreements (see below).

During 2006, the Company wrote off the carrying amounts related to the Aylmer Lake West property in the amount of \$876,698 as the Company has no current plans for further exploration on this property.

During 2005, the Company wrote off the carrying amounts related to the Aylmer Lake/Afridi East property in the amount of \$165,701 as the Company had no current plans for further exploration on this property.

Contractual options and commitments

a) Churchill Diamond Project

The Company is currently exploring the Churchill Diamond Project with Stornoway Diamond Corp. ("Stornoway") and BHP Billiton Diamonds Inc. ("BHPB") where the Company holds a 51.88% interest, and Stornoway and BHPB have 35.62% and 12.50% interest, respectively in the diamond rights to the property. The property is subject to a 2.00% gross overriding royalty and net smelter royalty in favour of the Hunter Exploration Group ("Hunter") with respect to the commercial production of diamonds.

Shear Minerals Ltd.

Notes to Consolidated Financial Statements November 30, 2006 and 2005

On May 30, 2003, the Company entered into an agreement with BHPB whereby BHPB 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 BHPB is prohibited from participating in a takeover bid, merger, or acquisition of more than 10.00% of the voting securities of Shear.

On March 27, 2006, BHPB informed Shear of its intention not to participate in the 2006 Churchill and Churchill West exploration programs and to allow its interest in the two projects to dilute accordingly.

Shear is the operator of the project.

b) XYZ

This project operates under a joint venture agreement with Hunter. Hunter retains a 2.00% net smelter royalty on non-diamond production as well as a 2.00% 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.

c) Afridi Lake

This project operates under a joint venture agreement with International Samuel Exploration Corporation ("Samuel"), New World Resource Corp. ("New World") and Mantle Resources Inc. ("Mantle"). Shear currently holds a 58.20% interest in the property and Samuel, New World and Mantle have 25.40%, 8.20% and 8.20%, 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 5.00% gross overriding royalty and net smelter fee on production of the property.

d) Hecla

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 2.00% gross overriding royalty fee, of which 1.00% can be purchased by Shear for \$1.5 million.

Shear Minerals Ltd.

Notes to Consolidated Financial Statements November 30, 2006 and 2005

e) Churchill West

The Company is currently exploring the Churchill West project with Samuel, Stornoway and BHPB where the Company holds a 26.32% interest, and Samuel, Stornoway and BHPB have interests of 48.50%, 18.28% and 6.90%, respectively in the diamond rights to the property. The property is subject to a 2.00% gross overriding royalty and net smelter royalty in favour of Hunter with respect to the commercial production of diamonds. Hunter currently holds the non-diamond rights to the property although Shear and Stornoway have a joint right of refusal on these rights.

On March 27, 2006 BHPB informed Shear of its intention not to participate in the 2006 Churchill and Churchill West exploration programs and to allow its interest in the two projects to dilute accordingly.

f) Sakari

On August 15, 2006, Shear entered into an agreement with Diamonds North Resources Ltd. ("Diamonds North") whereby Shear can earn a 50.00% interest in approximately 42,000 acres of claims located in the Pelly Bay Diamond District of Nunavut by making a payment of \$97,000 in refundable deposits (completed) and incurring exploration expenditures of \$186,000 before June 30, 2007. The property is subject to a 2.00% gross overriding royalty on all diamonds and a 2.00% net smelter royalty on other minerals payable to BHPB.

g) Shulin Lake

During 2006, the Company allowed its vested interest in the Shulin Lake project to dilute to 8.20% because Shear decided not to fully participate in the 2006 drilling programs.

If the Company decides not to participate in future exploration costs, this interest will continue to be diluted on a pro-rata basis to a minimum 4.00% interest.

h) Piche

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 51.00% 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 24.00% in the property by spending an additional \$1 million in exploration expenditures over two years after earning 51.00%.

i) Liege

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 51.00% interest by incurring a total of \$1,000,000 of exploration expenditures over three years inclusive of \$325,000 in exploration by April 30, 2007. A \$10,000 cash finder's fee was paid by Shear under the terms of the agreement.

Shear Minerals Ltd.

Notes to Consolidated Financial Statements November 30, 2006 and 2005

j) Stella Polaris

On April 21, 2006, the Company acquired The Stella Polaris Diamond project (the “Property”) in southern Saskatchewan by paying \$25,000 and issuing 200,000 common shares of Shear (“Common Shares”) to the Vendors.

In addition, pursuant to an agreement between Shear and the Vendors (the “Agreement”), Shear must:

- i) pay \$25,000 to the Vendors before January 30, 2007;
- ii) pay \$35,000 to the Vendors and issue to the Vendors an aggregate of 100,000 Common Shares before January 30, 2008;
- iii) pay \$50,000 to the Vendors and issue to the Vendors an aggregate of 100,000 Common Shares before January 30, 2009; and
- iv) 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 3.00% gross overriding royalty (“GORR”) on diamonds, metals and minerals produced from the Property. Shear shall be entitled to purchase 1.00% of the 3.00% 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 49.00% 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 is the operator of the project.

Shear Minerals Ltd.

Notes to Consolidated Financial Statements November 30, 2006 and 2005

7 Income taxes

The income tax provision differs from the amount computed by applying the statutory rates to pre-tax income as a result of the following:

	2006 \$	2005 \$
Income tax recovery expected based on a combined federal and provincial (territorial) tax rate of 34.78% (2005 – 37.71%)	483,976	290,075
Increase (decrease) in recovery resulting from		
Impact of tax rate changes	405,145	(6,791)
Unrecognized deductible temporary differences	(187,927)	(180,394)
Share-based compensation	(6,087)	(45,525)
	<u>695,107</u>	<u>57,365</u>

The future income tax assets and liabilities comprise the following temporary differences:

	2006 \$	2005 \$
Non-capital losses	1,009,620	885,037
Deductible finance fees	217,014	211,324
Equipment	26,256	21,674
Valuation allowance	(1,252,890)	(1,118,035)
Future income tax assets	-	-
Mineral properties	(2,379,622)	(2,587,309)
Future income tax liabilities	<u>(2,379,622)</u>	<u>(2,587,309)</u>

The Company has incurred the following non-capital losses for tax purposes, which have not been recognized as future income tax assets:

	Non-capital losses \$	Expiry date
November 30, 2001	197,042	2008
2002	292,721	2009
2003	656,382	2010
2004	774,737	2014
2005	487,351	2015
2006	848,976	2026
	<u>3,257,209</u>	

Shear Minerals Ltd.

Notes to Consolidated Financial Statements
November 30, 2006 and 2005

8 Share capital and contributed surplus

Common shares

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued and issuable

	2006		2005	
	Common shares #	Amount \$	Common shares #	Amount \$
Balance – Beginning of year	56,128,421	15,775,692	53,903,421	16,469,461
Shares issued for cash	9,134,664	4,399,774	-	-
Share options exercised	400,000	100,000	700,000	175,000
Warrants exercised	252,268	95,863	-	-
Shares issued for other consideration	200,000	114,000	1,525,000	658,250
Redemption of Original Shares (note 2(c))	-	-	(56,128,421)	-
Issuance of new shares (note 2(c))	-	-	56,128,421	-
Share issue costs	-	(459,432)	-	(142,219)
Future income taxes	-	(487,420)	-	(1,384,800)
Balance – End of year	66,115,353	19,538,477	56,128,421	15,775,692

In December of 2005, the Company issued 4,832,664 flow-through shares at a price of \$0.30 per share for gross proceeds of \$1,449,799. The Company will be required to incur \$1,449,799 of qualifying expenditures to be renounced to the holders of the flow-through shares. In addition, agents received 318,441 warrants as commission at an exercise price of \$0.30 per common share, which expire in December 2006. Related to this, the Company has recorded share-based compensation in the amount of \$25,475 as a share issue cost.

In May of 2006, the Company issued 3,073,500 flow-through shares at a price of \$0.70 per share and 1,228,500 units at a price of \$0.65 per unit for gross proceeds of \$2,949,975. Each unit consisted of one common share and one-half of one common share purchase warrant. The Company will be required to incur \$2,151,450 of qualifying expenditures to be renounced to the holders of the flow-through shares. In addition, agents received 284,676 warrants as commission at an exercise price of \$0.65 per common share, which expire in November 2007. Related to this, the Company has recorded share-based compensation in the amount of \$45,548 as a share issue cost.

Shear Minerals Ltd.

Notes to Consolidated Financial Statements November 30, 2006 and 2005

In connection with the placements, cash costs totalling \$388,409 (2005 – \$142,219) were incurred and recorded as share issue costs.

During 2006, the Company issued 200,000 (2005 – 25,000) shares at a value of \$114,000 (2005 – \$13,250) to acquire and satisfy contractual obligations under certain mineral property agreements. During 2005, the Company issued 1,500,000 common shares to acquire the Hunter properties as described in note 2.

During 2006, the Company renounced \$1,449,799 (2005 – \$4,000,000) of qualifying expenditures to holders of flow-through shares, resulting in a future income tax liability of \$487,420 (2005 – \$1,384,800) and a corresponding reduction of share capital.

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:

	2006		2005	
	Number of options outstanding #	Weighted average exercise price \$	Number of options outstanding #	Weighted average exercise price \$
Balance – Beginning of year	5,275,000	0.55	4,450,000	0.55
Granted	300,000	0.60	1,525,000	0.40
Expired	(275,000)	0.72	-	-
Exercised	(400,000)	0.25	(700,000)	0.25
Balance – End of year	4,900,000	0.57	5,275,000	0.55

Shear Minerals Ltd.

Notes to Consolidated Financial Statements November 30, 2006 and 2005

The following table summarizes information about the Company's share options outstanding:

2006			2005		
Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years	Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years
311,000	0.21	0.3	400,000	0.25	0.6
734,000	0.26	1.2	311,000	0.21	1.3
1,525,000	0.84	1.8	734,000	0.26	2.2
530,000	0.83	2.2	1,725,000	0.84	2.8
50,000	0.75	2.8	530,000	0.83	3.2
1,400,000	0.40	3.2	50,000	0.75	3.8
50,000	0.41	3.4	1,475,000	0.40	4.2
300,000	0.60	4.4	50,000	0.41	4.4
4,900,000	0.57	2.2	5,275,000	0.55	2.9

4,900,000 of the share options outstanding were exercisable at November 30, 2006 (2005 – 5,175,000).

The Company has recorded share-based compensation and contributed surplus in the amount of \$105,000 (2005 – \$138,125) related to the 300,000 (2005 – 1,525,000) options granted in the year. The share based compensation was charged to general and administrative expenses (2006 – \$8,750; 2005 – \$2,175); management fees (2006 – \$nil; 2005 – \$102,225); consulting fees (2006 – \$nil; 2005 – \$16,325); professional fees (2006 – \$8,750; 2005 – \$nil); the Churchill mineral property (2006 – \$78,750; 2005 – \$17,400); the Other mineral property (2006 – \$4,375; 2005 – \$nil) and the Stella Polaris mineral property (2006 – \$4,375; 2005 – \$nil). The compensation expense has been determined based on the fair value of the options at the grant date. The fair value of each share option granted is estimated on the date of granting the options using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2006	2005
Risk-free rate	3.99%	2.50%
Expected volatility	88.00%	57.00%
Annual dividend yield	0.00%	0.00%
Expected life of options	3 years	1 year

Option pricing models require the input of highly subjective assumptions including the expected price volatility of the Company's common shares. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's share options.

Shear Minerals Ltd.

Notes to Consolidated Financial Statements November 30, 2006 and 2005

The following table summarizes the weighted average grant date fair value of options granted during 2006 and 2005:

	2006		2005	
	Weighted average exercise price \$	Weighted average grant date fair value of options \$	Weighted average exercise price \$	Weighted average grant date fair value of options \$
Market price of shares at grant date equal to option exercise price	0.60	0.35	0.40	0.09

Warrants

The following table summarizes activity related to warrants:

	2006		2005	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Balance – Beginning of year	750,000	1.50	1,435,014	1.10
Issued	1,217,367	0.63	750,000	1.50
Expired	(750,000)	1.50	(1,435,014)	1.10
Exercised for shares	(252,268)	0.30	-	-
Balance – End of year	965,099	0.72	750,000	1.50

The Company has recorded share issue costs in the amount of \$25,475 (2005 – \$70,000) relating to warrants issued to agents in connection with the December 2005 private placement. The warrants vested 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	3.94%
Expected volatility	72.00%
Annual dividend yield	0.00%
Expected life of warrants	1 year

Shear Minerals Ltd.

Notes to Consolidated Financial Statements November 30, 2006 and 2005

The Company has recorded share issue costs in the amount of \$45,548 relating to warrants issued to agents in connection with the May 2006 private placement. The warrants vested 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	4.22%
Expected volatility	80.00%
Annual dividend yield	0.00%
Expected life of warrants	1.5 years

Warrants issued in 2005 had a fair value of \$nil.

Contributed surplus

The following table summarizes activity related to contributed surplus:

	2006 \$	2005 \$
Balance – Beginning of year	1,458,825	1,320,700
Value of share options granted	105,000	138,125
Value of agent warrants issued	71,023	-
Value of agent warrants exercised	(20,182)	-
Balance – End of year	<u>1,614,666</u>	<u>1,458,825</u>

9 Related party transactions

During 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 and are recorded at the exchange amount.

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.

In relation to the acquisition of the Stella Polaris Property, Shear entered into an agreement with Lyncorp International Ltd. (“Lyncorp”), a private Alberta company owned by a director of Shear (see note 6(j)).

Shear Minerals Ltd.

Notes to Consolidated Financial Statements
November 30, 2006 and 2005

10 Financial instruments

The Company's financial instruments recognized on the balance sheet consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, operator recoveries and accounts payable and accruals. 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.

11 Subsequent events

Subsequent to November 30, 2006, 102,373 warrants were exercised for gross proceeds of \$47,132 and 386,000 options were exercised for gross proceeds of \$95,310.

