

Shear Minerals Ltd.
(a development stage company)

Interim Financial Statements
(Unaudited)
February 28, 2007

To the Shareholders of Shear Minerals Ltd.:

The interim balance sheet of Shear Minerals Ltd. as at February 28, 2007, and the interim statements of operations 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.

Interim Balance Sheets

(Unaudited)

As at February 28, 2007

	February 28, 2007	November 30, 2006
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	2,086,655	2,658,440
Restricted cash (note 5)	42,537	42,537
Short-term investments	113,758	95,427
Accounts receivable	106,802	175,671
Operator recoveries	154,026	107,701
Prepaid expenses	22,081	26,920
	<u>2,525,859</u>	<u>3,106,696</u>
Equipment	83,216	64,758
Mineral properties (note 6)	<u>14,530,341</u>	<u>14,094,988</u>
	<u>17,139,416</u>	<u>17,266,442</u>
Liabilities		
Current liabilities		
Accounts payable and accruals	108,072	270,854
Deposits from exploration partners	8,906	70,315
	<u>116,978</u>	<u>341,169</u>
Future income taxes	<u>3,003,542</u>	<u>2,379,622</u>
	<u>3,120,520</u>	<u>2,720,791</u>
Shareholders' Equity		
Share capital (note 7)	19,006,068	19,538,477
Contributed surplus (note 7)	1,601,055	1,614,666
Deficit	<u>(6,588,227)</u>	<u>(6,607,492)</u>
	<u>14,018,896</u>	<u>14,545,651</u>
	<u>17,139,416</u>	<u>17,266,442</u>

Approved by the Board of Directors

“Pamela Strand”

“David Mullen”

Director

Director

Shear Minerals Ltd.

Interim Statements of Operations and Deficit
(Unaudited)

For the period ended February 28, 2007

	Three Months Ended Feb. 28, 2007	Three Months Ended Feb. 28, 2006
	\$	\$
Revenue		
Project management fees	9,377	9,351
Interest	22,636	12,496
	<u>32,013</u>	<u>21,847</u>
Expenses		
General and administrative	105,310	84,460
Management fees (note 8)	25,000	22,000
Consulting fees	30,600	15,000
Professional fees	14,882	5,249
Amortization	6,367	6,216
	<u>182,159</u>	<u>132,925</u>
	(150,146)	(111,078)
Gain on sale of short-term investments	83,670	-
Unrealized gain on short-term investments	<u>79,541</u>	<u>9,092</u>
Net income (loss) and comprehensive income (loss) for the period	<u>13,065</u>	<u>(101,986)</u>
Deficit – Beginning of period	(6,607,492)	(5,921,066)
Adjustment to the carrying value of short-term investments (note 4)	<u>6,200</u>	<u>-</u>
Revised deficit – beginning of period	<u>(6,601,292)</u>	<u>(5,921,066)</u>
Deficit – End of period	<u>(6,588,227)</u>	<u>(6,023,052)</u>
Basic and diluted income (loss) per share	<u>0.000</u>	<u>(0.002)</u>
Weighted average number of shares outstanding	<u>66,195,785</u>	<u>59,403,893</u>
	#	#

Shear Minerals Ltd.

Interim Statements of Cash Flows

(Unaudited)

For the period ended February 28, 2007

	Three Months Ended Feb. 28, 2007	Three Months Ended Feb. 28, 2006
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	13,065	(101,986)
Items not affecting cash		
Amortization	6,367	6,216
Gain on sale of short-term investments	(83,670)	-
Unrealized gain on short-term investments	(79,541)	(9,092)
	<hr/>	<hr/>
	(143,779)	(104,862)
Net change in non-cash working capital balances relating to operating activities	<hr/>	<hr/>
	(196,808)	(391,221)
	<hr/>	<hr/>
	(340,587)	(496,083)
Financing activities		
Issuance of shares	92,882	1,449,799
Share issue costs	(14,982)	(159,832)
	<hr/>	<hr/>
	77,900	1,289,967
Investing activities		
Mineral properties		
Acquisition costs	(61,829)	(59,218)
Exploration costs	(373,524)	(464,755)
Purchase of equipment	(24,825)	-
Proceeds on sale of short term investments	151,080	-
Decrease in restricted cash	-	995,714
	<hr/>	<hr/>
	(309,098)	471,741
Increase (decrease) in cash and cash equivalents	<hr/>	<hr/>
	(571,785)	1,265,625
Cash and cash equivalents – Beginning of period	<hr/>	<hr/>
	2,658,440	558,328
Cash and cash equivalents – End of period	<hr/>	<hr/>
	2,086,655	1,823,953
Supplementary information		
Interest received	<hr/>	<hr/>
	17,978	17,103

Shear Minerals Ltd.

Notes to Interim Financial Statements

(Unaudited)

February 28, 2007

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 unaudited interim financial statements should be read in conjunction with the Company’s November 30, 2006 audited financial statements and the notes thereto. These interim financial statements have been prepared by management 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, 2006.

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.

Shear Minerals Ltd.

Notes to Interim Financial Statements

(Unaudited)

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Consolidation

Effective December 1, 2006, the Company was amalgamated with its wholly owned subsidiary companies 4579 Nunavut Limited and 5098 Nunavut Limited. Amounts from prior periods are thus presented on a consolidated basis. The amalgamation had no effect on the financial statements.

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.

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

Shear Minerals Ltd.

Notes to Interim Financial Statements

(Unaudited)

February 28, 2007

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.

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 periods of net losses, this calculation is anti-dilutive.

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Joint interest options

Certain of the Company's exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

4 Changes in accounting policies

Effective December 1, 2006, the Company adopted the following new Canadian Institute of Chartered Accountants' Handbook Sections:

- Section 1530 – Comprehensive Income;
- Section 3855, Financial Instruments – Recognition and Measurement;
- Section 3861, Financial Instruments – Disclosure and Presentation, and
- Section 3865, Hedges.

These standards require that the Company initially recognize all financial assets and financial liabilities on the balance sheet at their fair values. Subsequent to initial recognition, financial instruments are measured at fair value, amortized cost or cost depending on the financial instrument classification.

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 or derivative financial instruments.

The Company has classified their short-term investments as held for trading, and accordingly they are recognized on the balance sheet at their fair values, and changes in fair value are recognized in income in the period in which the change arose. Fair value is determined by the bid 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.

In accordance with the new policies, an adjustment of \$6,200 was made to the Company's deficit at the start of the period to reflect the recognition of short-term investments at fair value.

5 Restricted cash

The Company has provided guaranteed investment certificates ("GICs") in the amount of \$42,537 to secure letters of credit in support of the Company's exploration activities.

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6 Mineral properties

				Feb. 28, 2007	Nov. 30, 2006
	Percentage ownership interest %	Acquisition costs \$	Exploration costs \$	Net carrying amount \$	Net carrying amount \$
Northwest and Nunavut Territories					
Churchill Diamond Project	51.88	798,114	10,876,348	11,674,462	11,411,972
XYZ	80.00	170,956	470,632	641,588	639,439
Afridi Lake	58.20	128,360	443,413	571,773	562,331
Hecla	100.00	17,102	195,123	212,225	208,201
Churchill West	26.32	57,261	240,550	297,811	272,197
Sakari	*50.00	97,618	14,630	112,248	97,618
Alaska					
Shulin Lake	8.20	3,821	230,993	234,814	234,814
Alberta					
Piche	*51.00	9,973	158,520	168,493	163,727
Liege	*51.00	51,492	217,464	268,956	230,060
Saskatchewan					
Stella	*51.00	167,460	19,869	187,329	146,835
Other	100.00	34,864	125,778	160,642	127,794
		<u>1,537,021</u>	<u>12,993,320</u>	<u>14,530,341</u>	<u>14,094,988</u>

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

Shear Minerals Ltd.

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7 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, 2007	
	Common shares #	Amount \$
Balance – Beginning of period	66,115,353	19,538,477
Share options exercised	150,000	52,275
Warrants exercised	102,373	54,218
Share issue costs	-	(14,982)
Future income taxes	-	(623,920)
	<hr/>	<hr/>
Balance – End of period	<u>66,367,726</u>	<u>19,006,068</u>

During the period, the Company renounced \$2,151,450 (2006 - \$1,499,799) of qualifying expenditures to holders of flow-through shares, resulting in future income taxes of \$623,920 (2006 - \$487,420) which is reflected as a cost of issuing flow through shares.

During the period 150,000 options were exercised. The total addition to share capital includes \$45,750 in cash proceeds plus \$6,525 in share-based compensation that had been recorded in contributed surplus pending exercise of the warrants.

During the period 102,373 warrants were exercised. The total addition to share capital includes \$47,132 in cash proceeds plus \$7,086 in share-based compensation that had been recorded in contributed surplus pending exercise of the warrants.

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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, 2007	
	Number of options outstanding #	Weighted average exercise price \$
Balance – Beginning of period	4,900,000	0.57
Exercised	(150,000)	0.31
Balance – End of period	<u>4,750,000</u>	<u>0.57</u>

The following table summarizes information about the Company's share options outstanding as at February 28, 2007:

Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years
236,000	0.21	0.0
734,000	0.26	0.9
1,525,000	0.84	1.5
530,000	0.83	1.9
50,000	0.75	2.5
1,325,000	0.40	3.0
50,000	0.41	3.2
300,000	0.60	4.1
<u>4,750,000</u>	<u>0.57</u>	<u>2.0</u>

All of the Company's outstanding share options as at February 28, 2007 were exercisable.

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Warrants

The following table summarizes activity related to warrants:

	For the three months ended February 28, 2007	
	Number of warrants #	Weighted average exercise price \$
Balance – Beginning of period	965,099	0.72
Exercised	(102,373)	0.46
	<hr/>	
Balance – End of year	862,726	0.75

Contributed surplus

The following table summarizes activity related to contributed surplus:

	For the three months ended February 28, 2007 \$
Balance – Beginning of period	1,614,666
Value of options exercised	(6,525)
Value of agent warrants issued	(7,086)
	<hr/>
Balance – End of period	1,601,055

8 Related party transactions

During the three months ended February 28, 2007, the Company incurred management fees of \$25,000 (2006 – \$22,000) 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.

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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. There was \$8,130 due from Lyncorp as of February 28, 2007.

9 Subsequent events

Subsequent to February 28, 2007, 236,000 options were exercised for gross proceeds of \$49,560.

On April 25, 2007, the Company entered into an agreement, together with Stornoway Diamond Corporation, to acquire the remaining 12.5% interest in the Churchill Diamond Project owned by BHP Billiton. Under the terms of the purchase agreement dated April 20, 2007 Shear and Stornoway will each acquire 50% of the BHP Billiton interest for the sum of \$4 million each, to be paid by \$1.25 million cash and the issuance of common shares valued at \$2.75 million. The Shear common shares will be issued at a deemed price of \$0.70 per share and the Stornoway common shares at a deemed price of \$1.25 per share. The agreement is subject to regulatory approvals and will close no later than July 19, 2007. Upon closing, Shear and Stornoway will own a 58.14% and 41.86% interest, respectively in the Churchill project.