

## **SHEAR MINERALS LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**May 31, 2007**

#### **GENERAL**

This management discussion and analysis (“MD&A”) supplements, but does not form part of, the unaudited interim financial statements and notes for the six months ended May 31, 2007. The following information, prepared as of July 25, 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 Michigan. The Company is a reporting issuer in Alberta and British Columbia and trades on the TSX Venture Exchange under the symbol SRM.

## SUMMARY OF QUARTERLY RESULTS

The following table sets out selected unaudited quarterly financial information of Shear and is derived from unaudited quarterly financial statements prepared by management. Shear's interim financial statements are prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

<b>Period</b>	<b>Revenues (\$)</b>	<b>Net income (Loss) (\$)</b>	<b>Mineral Property Expenditures (\$)</b>	<b>Basic Income (Loss) per Share (\$)</b>
Three months ended May 31, 2007	88,637	(317,975)	1,832,967	(0.005)
Three months ended February 28, 2007	32,013	13,065	435,353	0.000
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)

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 three months ended May 31, 2007*

Shear had a net loss of \$317,975 (2006 - loss of \$75,480) for the three months ended May 31, 2007. The increase in net loss of \$242,495 is primarily due to a write off of the carrying amounts relating to the Shulin Lake property in the amount of \$234,814 as the Company has no current plans for further exploration on this property.

The Company's expenses were \$211,791 for the three months ended May 31, 2007 compared to \$146,344 for the three months ended May 31, 2006.

General and administrative expenses totalled \$118,145 for the three months ended May 31, 2007, an increase of \$54,403 from the comparative quarter. General and administrative expenses consisted of corporate travel and tradeshow of \$32,513 (2006 - \$16,701), office expenses of

\$39,130 (2006 - \$15,133), payroll of \$26,411 (2006 - \$14,538), shareholder communications and promotion of \$13,740 (2006 - \$9,702), regulatory and transfer fees of \$1,706 (2006 - \$4,875), and other expenses of \$4,645 (2006 - \$2,793). The increase in corporate travel and tradeshows was due to increased investor relations activity and additional travel by senior management and consultants to the Company's exploration properties. The increase in office expenses and payroll was due to the hiring, support, and training of additional employees to staff the Company's exploration projects.

In the three months ended May 31, 2007, the Company also incurred management fees of \$30,000 (2006 - \$22,500), professional fees of \$22,372 (2006 - \$36,041), consulting fees of \$34,708 (2006 - \$17,400), and amortization of \$6,566 (2006 - \$6,661). The increase in management fees is due to salary increases that are consistent with industry conditions. The increase in consulting fees is due to increased resources required to manage the Company's larger exploration programs and further development of the Company's corporate strategy.

*For the six months ended May 31, 2007*

Shear had a net loss of \$304,910 (2006 - loss of \$177,466) for the six months ended May 31, 2007. The increase in net loss of \$127,444 is primarily due to a write off of the carrying amounts relating to the Shulin Lake property in the amount of \$234,814. The increase in net loss was reduced by an increase in revenue of \$38,951, a gain on the sale of short term investments of \$83,670 and a future income tax recovery of \$68,100 relating to the write off of the Shulin Lake property.

The Company's expenses were \$393,950 for the six months ended May 31, 2007 compared to \$279,269 for the six months ended May 31, 2006.

General and administrative expenses totalled \$223,455 for the six months ended May 31, 2007, an increase of \$75,253 from the comparative period. General and administrative expenses consisted of corporate travel and tradeshows of \$62,982 (2006 - \$45,434), office expenses of \$63,503 (2006 - \$40,027), payroll of \$43,209 (2006 - \$32,442), shareholder communications and promotion of \$29,230 (2006 - \$12,238), regulatory and transfer fees of \$18,568 (2006 - \$13,036), and other expenses of \$5,963 (2006 - \$5,025). The increase in corporate travel and tradeshows was due to increased investor relations activity and more travel by senior management and consultants to the Company's exploration properties. The increase in office expenses and payroll was due to the hiring, support, and training of additional employees to staff the Company's exploration projects. The increase in shareholder communications and promotion was due to an increase in advertising expense and promotional materials for investor conferences in the first quarter of 2007 compared with 2006.

In the six months ended May 31, 2007, the Company also incurred management fees of \$55,000 (2006 - \$44,500), professional fees of \$37,254 (2006 - \$41,290), consulting fees of \$65,308 (2006 - \$32,400), and amortization of \$12,933 (2006 - \$12,877). The increase in management fees is due to salary increases that are consistent with industry conditions. The increase in consulting fees is due increased resources required to manage the Company's larger exploration programs and further development of the Company's corporate strategy.

## **LIQUIDITY AND SOLVENCY**

The Company has minimal operating revenue to date and relies primarily 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 \$472,523 as at May 31, 2007 as compared with \$2,765,527 as at November 30, 2006.

On June 12, 2007 the Company closed a brokered private placement of 4,545,500 flow-through common shares at a price of \$0.88 per share and 2,666,500 units at a price of \$0.75 per unit for gross proceeds of \$5,999,915 (see note 9 in interim financial statements for details).

On July 17, 2007, the Company acquired an additional 6.25% interest in the Churchill Diamond Project from BHP Billiton Diamonds Inc. by paying \$1,250,000 cash and issuing 3,928,571 common shares.

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 six months ended May 31, 2007, the Company incurred management fees of \$55,000 (2006 – \$44,500) 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., a private company owned by a director of Shear. There were no amounts owing from Lyncorp as of May 31, 2007.

#### **DISCLOSURE OF OUTSTANDING SHARE DATA**

As at July 25, 2007, Shear had 77,909,297 common shares outstanding. The following table provides a summary of Shear's share options and warrants outstanding at July 25, 2007:

Security	Number	Exercise Price (\$)	Expiry Date
Share options	669,000	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
Warrants	1,333,250	0.95	December 12, 2008
Warrants	504,840	0.75	December 12, 2008

## **MINERAL PROPERTIES**

During the three months ended May 31, 2007, cash expenditures on exploration and acquisition of the Company's mineral properties totalled \$1,832,967 compared to \$288,061 in the three months ended May 31, 2006.

### **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 over 50 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.

Prior to July 17, 2007, Shear and Stornoway Diamond Corp. owned a 51.89% and a 35.61% interest respectively in the Churchill Diamond Project. On April 25, 2007 the two companies entered into an agreement to acquire the remaining 12.5% interest owned by BHP Billiton.

On July 17, 2007 Shear and Stornoway each acquired 50% of the BHP Billiton interest in the Churchill Diamond Project. Shear paid \$1,250,000 in cash and issued 3,928,571 common shares. Currently, Shear and Stornoway own 58.14% and 41.86% interest, respectively in the project.

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.

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.

### **2007 Exploration Program**

On April 25, 2007, the Company announced the approval and commencement of an \$8.5 million exploration program at Churchill. The program will focus on a further assessment of three significantly diamondiferous kimberlite dykes discovered in 2006 and will also include further exploration drilling of prospective, unexplained geochemical and geophysical targets.

On May 2, 2007, the Company announced that the collection of a 400-tonne mini bulk sample from the Kahuna kimberlite dyke on the Churchill project in Nunavut was completed and that shipment of sample material off-site had commenced. In addition, a new kimberlite, KD308, located along a parallel structure close to the Kahuna dyke, was discovered from drilling.

#### *Bulk Sampling*

Approximately 400 tonnes of kimberlite was collected from three surface pits situated along a strike length of 215 metres at the Kahuna kimberlite dyke. Locations were selected based on overburden depths of less than three metres. All the material has been transported overland and is currently in Rankin Inlet. Part of the sample has been transported to an independent processing facility. The balance will be shipped by barge this summer.

The Kahuna kimberlite appears to be structurally controlled and displays local variability in width from one to four metres with wider zones within the sampling pits. One exposure in the sampling pit, for example, measured a true width of 4.7 metres. Additional delineation drilling will be required to determine its overall size and tonnage potential.

The aim of the bulk sampling program at Churchill in 2007 is to recover at least 200 carats of diamonds from one or more of the kimberlites to better estimate grade and provide a preliminary assessment of diamond value. The Kahuna kimberlite returned an encouraging initial diamond sample grade of 1.09 carats per tonne and appears to contain the highest tonnage potential of the four diamond bearing kimberlites discovered last summer. The diamond populations are dominated by clear white (colourless) stones with high value characteristics which indicate the potential for high average diamond values.

#### *KD308 Kimberlite*

Exploration drilling intersected a new kimberlite, KD308. Two holes were drilled into the target. Both intersected kimberlite that is interpreted to represent a possible kimberlite blow with a true width of about 23 metres situated along a prominent structure that parallels the Kahuna trend, some 2.5 kilometres to the east.

Target KD308, which was first drilled in 2006 but not explained due to drilling difficulties, is characterized by a roughly circular magnetic high anomaly approximately 100 meters in diameter that lies underneath a small lake and along a northeast trending dyke-like structure. The kimberlite has been described as moderately macrocrystic kimberlite with 20-25% olivine

macrocrysts and other indicator minerals including ilmenite, blue green phlogopite, orange garnets, chrome diopside and chromite. Several eclogitic nodules were observed. Intervals contained country rock xenoliths and possible mantle nodule breccias. Representative samples have been sent for petrographic analysis by Mineral Services Canada. A total of 160kg of split core from both holes has also been shipped to the Saskatchewan Research Council for microdiamond recovery.

Below is a table with details of the KD308 drill intercepts:

Drill Hole ID	Dip (degrees)	Azimuth (degrees)	End of Hole (m)	Overburden (m)	Kimberlite Intercepts (m)	Total Kimberlite (m)
07KD308-02	-64	015	113.0	9.8	20-73; 79.5-80.1, 86.5-88.1	55.2
07KD308-03	-45	285	80.0	7.4	26-62.2	36.2
06KD308-01 <sup>1</sup>	-50	025	161.0	6.8	147.3-147.4	0.1

<sup>1</sup> Hole drilled in 2006

Other work at Churchill in 2007 includes:

- Ground geophysics to collect detailed magnetic data at 40m line spacing within corridors of high interest G10 chemistry.
- Ongoing exploration drilling to find the source of 17 pyrope dispersion trains.
- Ongoing till sampling and prospecting throughout the summer season.
- Structural study and interpretation.
- Ongoing environmental baseline data collection.

## 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.

BHP Billiton did not to participate in the 2006 Churchill West exploration program and their interest will dilute accordingly. Shear is currently the operator 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 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 budgets will be discussed with joint venture partners and finalized. Plans 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**

No work was conducted on the property 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. 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.

### **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.

## **5. 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.

### **2007 Exploration**

On May 17, 2007, the Company and its joint venture partners announced the approval of a \$1.2 million exploration program for the project which is currently underway.

The exploration program will consist of two stages and commenced in late June:

- Stage 1: A 2,850 line kilometer high resolution airborne gravity survey to show density contrast between the surrounding rock and kimberlite. Targets will be ranked and later checked using ground geophysics.
- Stage 2: Drill testing of priority targets and possible re-testing of known kimberlites.

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

During the period ended May 31, 2007, the Company wrote off the carrying amounts related to the Shulin Lake property in the amount of \$234,814 as the Company has no current plans for further exploration on this property.

## **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 selected 80 anomalies for ground follow up of which 60 were ground checked. Ground geophysical surveys were completed on two priority anomalies from the airborne geophysics. Further interpretation is underway on the Piche Property and 30 geophysical anomalies suggestive of kimberlite remain to be ground checked. To date no targets warrant drill testing.

### **Future Plans**

The Company will evaluate all the data collected and the 2007 plans include ground checks of the remaining targets plus possible ground geophysical surveys (magnetics, EM and/or gravity). Budgetary meetings for the fall 2007 field program are currently underway.

## **7. 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 by May 30, 2008. 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.

In 2006, Shear ground checked 26 priority geophysical anomalies suggestive of kimberlite and completed ground magnetic surveys at 17 anomalies. As a result, seven priority targets have been chosen for drill testing scheduled for the spring of 2008.

### **Future Plans**

Budgetary meetings for the 2007 field program are currently underway. Seven priority targets have been chosen for drill testing and the required permits are being applied for. Once permits are received, budgets will be finalized for the spring 2008 drill program when winter road access is possible.

## **8. 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 additional sampling, airborne and ground geophysical surveying over priority areas based on favourable mineral chemistry.

## **9. 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 (completed). Diamonds North will operate the project.

## **2007 Exploration Program**

On April 17, 2007, the Company announced a \$185,000 budget for the Sakari project. Preliminary targets suggestive of kimberlites have been identified on the Property.

The exploration program will include:

- Airborne geophysics
- Evaluating targets with detailed geophysics
- Drill testing high priority targets

## **Future Plans**

The 2007 work program is currently underway. Once the geophysical survey is complete and interpreted, follow up work will be determined. This may include sampling, ground geophysical surveying and possible drill testing of priority targets.

## **10. CRYSTAL PROJECT, MICHIGAN, USA**

In 2005 and 2006 the Company conducted a regional diamond indicator mineral sampling program based on conceptual ideas. Based on sample results and prospecting, the Company decided to acquire mineral rights in the state of Michigan, USA.

Results will be release when available.

## **Future Plans**

Future plans will be determined when results are received and interpreted.

## ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

	For the Three Months Ended May 31, 2007			For the Three Months Ended May 31, 2006
	Acquisition Costs	Exploration Costs	Total	Total
<b>Churchill Diamond Project</b>				
Land tenure	\$ (7,011)	\$ -	\$ (7,011)	\$ (271,282)
General exploration	-	932,297	<b>932,297</b>	232,243
Drilling	-	499,667	<b>499,667</b>	111,214
Sampling	-	718,716	<b>718,716</b>	433,003
Ground geophysics	-	214,746	<b>214,746</b>	43,026
Airborne geophysics	-	88,500	<b>88,500</b>	9,514
Prospecting	-	53,271	<b>53,271</b>	-
Community consultations	-	49,785	<b>49,785</b>	11,319
Expenses recovered from partners	(407)	(999,325)	<b>(999,732)</b>	(355,321)
	<b>(7,418)</b>	<b>1,557,657</b>	<b>1,550,239</b>	<b>213,716</b>
<b>Churchill West Project</b>				
Land tenure	500	-	<b>500</b>	560
General exploration	-	4,078	<b>4,078</b>	2,618
Sampling	-	(28,241)	<b>(28,241)</b>	-
Ground geophysics	-	37	<b>37</b>	-
Community consultations	-	-	-	75
	<b>500</b>	<b>(24,126)</b>	<b>(23,626)</b>	<b>3,253</b>
<b>Hecla Project</b>				
General exploration	-	336	<b>336</b>	-
	-	336	<b>336</b>	-
<b>Aylmer Lake West</b>				
General exploration	-	-	-	481
	-	-	-	481
<b>XYZ</b>				
General exploration	-	509	<b>509</b>	897
Ground geophysics	-	872	<b>872</b>	-
Airborne geophysics	-	1,452	<b>1,452</b>	-
Sampling	-	-	-	275
	-	2,833	<b>2,833</b>	1,172
<b>Afridi Lake</b>				
Land tenure	57,961	-	<b>57,961</b>	39,354
General exploration	-	23,066	<b>23,066</b>	7,224
Ground geophysics	-	631	<b>631</b>	-
Airborne geophysics	-	101,314	<b>101,314</b>	-
	<b>57,961</b>	<b>125,011</b>	<b>182,972</b>	<b>46,578</b>

**Sakari**

Airborne Geophysics	-	99,781	<b>99,781</b>	-
	-	99,781	<b>99,781</b>	-

**Shulin Lake**

Analytical	-	-	-	200
Write down of mineral property	(3,821)	(230,993)	<b>(234,814)</b>	-
	(3,821)	(230,993)	<b>(234,814)</b>	200

**Piche**

Land tenure	-	-	-	336
General exploration	-	1,004	<b>1,004</b>	18,212
Ground geophysics	-	432	<b>432</b>	6,770
Airborne geophysics	-	-	-	33,175
Community consultations	-	171	<b>171</b>	1,007
	-	1,607	<b>1,607</b>	59,500

**Liege**

General exploration	-	2,181	<b>2,181</b>	2,157
Drilling	-	1,362	<b>1,362</b>	-
Ground geophysics	-	488	<b>488</b>	-
Airborne geophysics	-	114	<b>114</b>	29,656
Community consultations	-	188	<b>188</b>	325
	-	4,333	<b>4,333</b>	32,138

**Stella Polaris**

Land tenure	-	-	-	4,888
Option costs – shares	-	-	-	114,000
Option costs – cash	-	-	-	25,000
General exploration	-	1,532	<b>1,532</b>	14,975
Sampling	-	12,946	<b>12,946</b>	-
Ground geophysics	-	-	-	860
Airborne geophysics	-	-	-	200
Expenses recovered from partner	-	-	-	(119,275)
	-	14,478	<b>14,478</b>	40,648

**Crystal**

Option costs – shares	79,000	-	<b>79,000</b>	-
General exploration	-	14	<b>14</b>	4,375
	79,000	14	<b>79,014</b>	4,375

\$	126,222	\$	1,550,931	\$	<b>1,677,153</b>	\$	402,061
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## **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.

## **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.