

SHEAR MINERALS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

August 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 nine months ended August 31, 2007. The following information, prepared as of October 24, 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.

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.

Period	Revenues (\$)	Net income (Loss) (\$)	Mineral Property Expenditures (\$)	Basic Income (Loss) per Share (\$)
Three months ended August 31, 2007	124,641	(101,663)	3,621,858	(0.001)
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)

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 August 31, 2007

Shear had a net loss of \$101,663 (2006 - loss of \$83,816) for the three months ended August 31, 2007. The increase in net loss of \$17,847 is primarily due to increases in general and administrative expenses, management fees, consulting fees, and unrealized loss on short-term investments, net of increased project management fees.

The Company's expenses were \$211,164 for the three months ended August 31, 2007 compared to \$141,136 for the three months ended August 31, 2006.

General and administrative expenses totalled \$122,244 for the three months ended August 31, 2007, an increase of \$37,953 from the comparative quarter. General and administrative expenses consisted of corporate travel and tradeshow of \$11,698 (2006 - \$8,886), office expenses of

\$27,457 (2006 - \$28,694), payroll of \$21,591 (2006 - \$14,438), shareholder communications and promotion of \$56,006 (2006 - \$27,706), regulatory and transfer fees of \$2,874 (2006 - \$3,938), and other expenses of \$2,618 (2006 - \$629). The increase in payroll was due to the hiring, support, and training of additional employees to support the Company's exploration projects. The increase in shareholder communications and promotion was due to annual report printing costs occurring in the third quarter in 2007 compared to the fourth quarter in 2006.

In the three months ended May 31, 2007, the Company also incurred management fees of \$32,500 (2006 - \$22,500), professional fees of \$11,785 (2006 - \$12,906), consulting fees of \$37,445 (2006 - \$15,000), and amortization of \$7,190 (2006 - \$6,439). 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 nine months ended August 31, 2007

Shear had a net loss of \$406,573 (2006 - loss of \$261,282) for the nine months ended August 31, 2007. The increase in net loss of \$145,291 is primarily due to a write off of the carrying amounts relating to the Shulin Lake property (\$234,814), and increased general and administrative expenses and consulting fees. The net loss was reduced by an increase in revenue of \$101,526, 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 \$605,114 for the nine months ended August 31, 2007 compared to \$420,405 for the nine months ended August 31, 2006.

General and administrative expenses totalled \$345,699 for the nine months ended August 31, 2007, an increase of \$113,206 from the comparative period. General and administrative expenses consisted of corporate travel and tradeshow of \$74,680 (2006 - \$54,320), office expenses of \$90,960 (2006 - \$68,721), payroll of \$64,800 (2006 - \$46,880), shareholder communications and promotion of \$85,236 (2006 - \$39,944), regulatory and transfer fees of \$21,442 (2006 - \$16,974), and other expenses of \$8,581 (2006 - \$5,654). The increase in corporate travel and tradeshow 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 support 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 2007 compared to 2006 and annual report printing costs occurring in the third quarter in 2007 compared to the fourth quarter in 2006.

In the nine months ended August 31, 2007, the Company also incurred management fees of \$87,500 (2006 - \$67,000), professional fees of \$49,039 (2006 - \$54,196), consulting fees of \$102,753 (2006 - \$47,400), and amortization of \$20,123 (2006 - \$19,316). 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.

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 \$2,241,754 as at August 31, 2007 as compared with \$2,765,527 as at November 30, 2006.

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 nine months ended August 31, 2007, the Company incurred management fees of \$87,500 (2006 – \$67,000) 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.

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 was \$35,553 owing from Lyncorp as of August 31, 2007.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at October 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 October 24, 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	November 19, 2007
Warrants	273,476	0.65	November 19, 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 August 31, 2007, cash expenditures on exploration and acquisition of the Company's mineral properties totalled \$3,621,858 compared to \$909,363 in the three months ended August 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 75 kimberlites (2 on the Churchill West Diamond Property) including over twenty 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 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 was completed including mini-bulk sampling 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 as follows:

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	3.55	2.04	7.24	229	126	76	20	6	1
Kahuna	3.13	1.09	3.40	175	129	38	6	2	0
Notch	4.93	0.69	3.39	133	75	45	13	0	0
Notch North	0.5	0.8	0.40	23	15	7	1	0	0
Jigsaw	5.15	0.39	1.99	72	47	16	8	1	0

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 and is open along strike in both directions. Six holes from three set ups were drilled into PST003 in 2006.

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. In 2006 five drill holes from three setups have intersected the Kahuna kimberlite as well as trenching at two sites.

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. In 2006 a total of 11 drill holes from 7 setups were 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 to date.

2007 Exploration Overview

On April 25, 2007, the Company announced the approval and commencement of an \$8.5 million exploration program at Churchill. The program will focussed on a further assessment of three significantly diamondiferous kimberlite dykes discovered in 2006 and included 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

On May 2, 2007, the Company announced that the collection of a 400-tonne mini bulk sample from the Kahuna kimberlite dyke was completed and that shipment of sample material off-site had commenced. The sample was collected from three surface pits situated along a strike length of 215 metres at the Kahuna kimberlite dyke.

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.

The aim of the bulk sampling program at Churchill in 2007 was 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.

On September 18, 2007, the Company reported partial results from the first phase of processing of the 400-tonne bulk sample extracted earlier this year from the Kahuna kimberlite. From an

initial 106.6 dry tonnes, 3,239 diamonds greater than 0.85mm were recovered yielding 93.54 carats with the three largest diamonds weighing 1.39, 1.19 and 0.73 carats. Preliminary observation describes the majority of the diamonds as white and colorless with a good population of octahedrons. The sample grade of 0.88 carats per tonne (cpt) is based on diamonds recovered on a 0.85mm sieve size or larger (using a square mesh).

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
Kahuna – Sample 2	106.57	0.88	93.54	3,239	1,609	1,374	203	40	13

Sample results are based on the recovery of diamonds by dense media separation (DMS) at Kennecott Canada Exploration Inc.'s independent processing plant in Thunder Bay, ON, using a 1mm square mesh bottom cut off. No crushing of Kahuna Sample 2 was required as the kimberlite was pervasively clay altered. A 950.7kg heavy mineral concentrate was generated and then passed through an x-ray sorter and picked for diamonds.

Results from Tailings Audit

On August 1, 2007 the Company announced recovery of additional macrodiamonds from an audit of the tailings material from the 2006 Jigsaw, PST003, Notch and Kahuna mini bulk samples.

As a result of the audit, diamond content for the four kimberlites as reported on February 12, 2007, has increased from 0.69 carats per tonne (cpt) to 0.82 cpt for Notch; 0.39 cpt to 0.49 cpt for Jigsaw; 1.09 cpt to 1.11 cpt for Kahuna, and 2.04 cpt to 2.18 cpt for PST003. The diamond content of Notch North remains unchanged (see tables below for details).

The primary goal of the audit work was to determine the efficiency of the primary processing circuit applied to the 2006 mini bulk samples. The original samples were processed by Dense Media Separation (DMS) at De Beers Processing plant in Grande Prairie, AB after an initial 8.0 mm primary crush using a jaw crusher. Sample concentrates were finished by caustic fusion at the Saskatchewan Research Council Geoanalytical Laboratories.

All tailings from the 2006 sampling of Kahuna, PST003, Notch and Jigsaw kimberlite dykes were processed at Kennecott Canada Exploration Inc.'s Dense Media Separation (DMS) facility in Thunder Bay, Ontario. Tailings underwent an initial pass through the DMS circuit to produce a heavy mineral concentrate that which was then subjected to a magnetic separation through an Eritz magnetic separator. The non magnetic fraction was picked for diamonds. The +4mm tailings were re-crushed using a high-pressure roll crusher, and this material was then run through the DMS as a separate batch, and treated as described above.

The results of the tailings audit are summarized in the following two tables:

Results of tailings audit of 2006 mini-bulk sample as reported today:

Kimberlite	Weight of Tails Audited (kg)	Weight of Diamonds Recovered (carats) (+0.85mm)	Number of Locked Stones	Number of total stones +0.85 mm	0.85 mm Sieve	1.18 mm Sieve	1.70 mm Sieve	2.36 mm Sieve	3.35 mm Sieve
Notch	3,732	0.64	19	20	9	9	1	1	0
Jigsaw	3,236	0.54	4	6	3	2	0	0	1
Kahuna	833	0.08	0	5	3	2	0	0	0
PST003	2,688	0.48	3	6	1	1	4	0	0
Notch North	99	0.00	0	0	0	0	0	0	0

Updated sample grades for 2006 mini-bulk samples

Kimberlite	Original Sample Weight Dry (tonnes)	Original Sample Grade Carats per tonne (+0.85mm) ¹	Weight of Diamonds Recovered (carats) (+0.85mm) ¹	Weight of Diamonds Recovered in Audit (carats) (+0.85mm)	Total Weight of Diamonds Recovered in Sample (carats) (+0.85mm)	New Sample Grade Carats per tonne (+0.85mm)
Notch	4.93	0.69	3.39	0.64	4.03	0.82
Jigsaw	5.15	0.39	1.99	0.54	2.53	0.49
Kahuna	3.13	1.09	3.40	0.08	3.48	1.11
PST003	3.55	2.04	7.24	0.48	7.72	2.18
Notch North	0.5	0.80	0.80	0.00	0.8	0.80

2007 Drilling

On October 11, 2007 the Company announced that a total of 31 new kimberlites were discovered from prospecting and drilling in 2007 at the Churchill Diamond Project. Three of the kimberlites are interpreted to be of the high interest variety for diamonds similar to those found elsewhere on the property beginning in 2006.

Sixty-four drill-holes totaling 4,666m were completed on the property to test new exploration targets and to define and better understand the Kahuna kimberlite.

At Kahuna, 30 drill-holes from 18 set-ups totaling 2,333m were drilled along a tested 4.5km strike length of the kimberlite dyke to provide a better understanding of its size and geometry. A total of 142m of kimberlite was intersected down hole, with single intercepts ranging from 0.5 to 4.6 metres and averaging 2.6m in true width. Drill core samples totaling 225kg were also collected for micro diamond analysis to assist in grade modeling.

Also in 2007, 26 exploration targets were tested with 32 drill holes totaling 2,354m resulting in the discovery of 15 new kimberlites on the property. Three of these are interpreted as high diamond potential kimberlite dykes, occurring at the heads of three different G10 pyrope mineral trains in the Sedna Corridor and are believed to be the source of the mineral chemistry. Sample material totaling 190.4kg was collected and sent for diamond recovery. The KD308 kimberlite

(see below) accounts for 160kg of this material and results from the remaining material will be released when available.

2007 Prospecting

Prospecting on the property resulted in 16 new kimberlite discoveries occurring as outcrop and subcrop. A total of 291kg of kimberlite was collected in 15 to 25kg grab samples from each new outcrop and subcrop occurrence. In addition to the outcrops and subcrops, nine unsourced kimberlite float anomalies were found.

Of particular interest is the Meeka kimberlite found from prospecting an east-west linear trend located southeast of the Jigsaw kimberlite. An area of green coloured till was sampled and nineteen diamonds were recovered from a 15kg till sample using caustic fusion. Based on interpretation from a ground geophysical grid, Meeka is an east-west trending dyke 500m in length and open in both directions. Trenching along the kimberlite was unable to establish true width but enabled the collection of a 1.8-tonne mini bulk sample for macro diamond analysis and a 100kg sample collected for microdiamond analysis using caustic fusion.

KD308 Diamond Results

The KD308 kimberlite, which was drilled earlier this year was interpreted to represent a kimberlite blow on a parallel structure 2.5km east of Kahuna. A sample of 160kg of material was collected and analyzed for diamond content. The results are tabulated below:

Sample Number	Sample Weight (kg)	0.106mm Sieve	0.15mm Sieve	0.212mm Sieve	0.3mm Sieve	0.425mm Sieve	0.6 mm Sieve	0.85mm Sieve	1.180 mm Sieve	Total
KD308	160	10	6	4	0	0	1	0	0	21

¹ The three largest diamonds measured 1.00mm x 0.68mm x 0.58mm; 0.5mm x 0.42mm x 0.26mm; 0.38mm x 0.32mm x 0.30mm

All samples were submitted to the Saskatchewan Research Council Geoanalytical Laboratories (“SRC”) accredited to the ISO/IEC 17025 standard by the Standards Council of Canada as a testing laboratory for diamond analysis using caustic fusion.

Additional work in 2007 included the following:

- High resolution geophysical surveys over all high-interest G10 pyrope corridors to assist with target identification and drilling. This consisted of ground geophysics totaling 5,000 line-km at 40m line spacing and high resolution airborne magnetics surveying using the FUGRO MIDAS system totaling 12,000 line-km at 15m line spacing to provide seamless data for followup.
- 488 till samples taken to infill known priority areas.
- 51 auger drill holes completed in the Josephine River Corridor to trace the high-interest pyropes in the glaciofluvial sand deposits. 37 of these holes contained visible kimberlite fragments.

Future Plans

Diamond results from the remainder of the Kahuna bulk sample are still pending. After the results from the entire bulk sample are received and interpreted along with the remainder of the results from the 2007 exploration discoveries (from drilling results, prospecting, and till sampling) the Company will plan develop an exploration plan for 2008.

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 or 2007 Churchill West exploration programs 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

A review of all past data focussed on mineral chemistry is underway. Based on those results, future budgets will be discussed with joint venture partners and finalized. Plans will likely include ground geophysical surveys over selected targets and prospecting.

3. AYLMEER LAKE WEST, NORTHWEST TERRITORIES

This project operates under a joint venture agreement with Diamond Resources Ltd. Shear currently holds 61.9% of the project. Shear is obligated to pay a 3.5% gross underlying royalty on production from the property. The property is comprised of two mineral leases (5,165 acres) located 50 km 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 two known kimberlites on the property: the Nicholas Bay and Nic2 kimberlites. A 2-day site visit was conducted in 2006.

During 2006 the Company wrote off the accumulated carrying amounts related to the Aylmer Lake West Property. However, in the period ended August 31, 2007 the Company made lease payments to keep the property in good standing.

Future Plans

Future plans may include the re-interpretation of the known kimberlites to determine whether further sampling of the kimberlites is warranted.

4. 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 or in 2007. Future field visits will be subject to weather conditions due to the northern location of this property.

5. XYZ, NORTHWEST TERRITORIES

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

The XYZ Project is composed of more than 19,000 acres of mineral claims located along the northwest boundary of the Ekati™ Diamond Mine property and 225km northeast of Yellowknife, NWT. The project was acquired in 2001 after a high concentration of G10 garnets (a 5 kg un-concentrated sample yielded 15,500 pyrope garnets, 29% of which were G10's, 10,000 microilmenites and 1,000 olivines) and three diamonds (the largest measuring 0.44x0.42x0.212 mm) were identified in a 194kg beach sand sample from the property. Since that time, Shear has

completed airborne geophysics, sampling and ground geophysics and drilling (no kimberlite was intersected).

The source to the indicator minerals being found on surface still remains unknown but Shear believes the source to be local.

Future Plans

Presently Shear is re-interpreting past geophysical data in conjunction with till sample results. The 2008 exploration program may include ground follow up and possibly drill testing of priority targets.

6. AFRIDI LAKE, NORTHWEST TERRITORIES

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

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

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

On May 17, 2007, the Company and its joint venture partners announced the approval of a \$1.2 million exploration program which consisted of a 2,850 line kilometer high resolution airborne gravity survey to show density contrast between the surrounding rock and kimberlite. Targets were ranked and checked using ground geophysics.

Future Plans

Presently Shear is interpreting the geophysical data collected in the fall of 2007. Once the interpretation is complete a 2008 budget will be finalized. The 2008 exploration program may include drill testing of priority targets.

7. 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.

8. PICHE, ALBERTA

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

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

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

In 2006, Shear 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).

9. LIEGE, ALBERTA

On November 30, 2005, the Company acquired a farm-out agreement on a significant land position in north central Alberta for diamond exploration. The property, known as the Liege Diamond Project, was acquired from a Canadian oil and natural gas exploration, development and production company. Under the terms of the agreement, Shear can earn into an initial 51% interest by incurring a total of \$1,000,000 of exploration expenditures over three years inclusive of \$325,000 in exploration 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 2008 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 a spring 2008 drill program when winter road access is possible.

10. STELLA POLARIS, SASKATCHEWAN

On April 21, 2006, the Company acquired a significant land position in southern Saskatchewan for diamond exploration. The Stella Polaris Diamond Project (the "Property") is comprised of 235 mineral claims totaling approximately 300,000 hectares (741,000 acres) located approximately 150 km southwest of Regina, SK along the border to the US and is road accessible throughout the year. Shear acquired the Property by staking based on data acquired by Shear from two arm's length parties (the "Vendors").

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

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

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

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

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

In the summer of 2006, a total of 6,819 kimberlite indicator minerals were recovered from 25 surface samples collected from the Property. All samples contained kimberlite indicator minerals with total counts ranging from one grain per sample to the highest count of 1,218 picked kimberlite indicator minerals. In general the samples are dominated by purple pyrope garnets with the highest pyrope count being 817 pyropes from sample 06S007, of which 43 grains were in the 2-3mm size fraction. Other indicator minerals include orange garnets, ilmenite, chromite and chrome diopside. The highest indicator mineral abundances are located near the centre of the property with abundances decreasing towards the east and west that may suggest multiple undiscovered local kimberlite sources. Samples were processed and picked at Mineral Services Canada in Vancouver, BC. Selected grains will be sent for microprobe analysis and surface feature analysis.

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

Future Plans

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

11. SAKARI PROPERTY, NUNAVUT

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

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

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 included:

- Airborne geophysics
- Evaluating targets with detailed geophysics

Future Plans

The 2007 work program has been completed. Once the geophysical data is interpreted, follow up work will be determined. This may include sampling, ground geophysical surveying and possible drill testing of priority targets.

12. 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 released 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 August 31, 2007			For the Three Months Ended Aug. 31, 2006
	Acquisition Costs	Exploration Costs	Total	Total
Churchill Diamond Project				
Land tenure	\$ 33,990	\$ -	\$ 33,990	\$ 116,333
Option costs – shares	2,475,000	-	2,475,000	-
Option costs – cash	1,250,000	-	1,250,000	-
General exploration	-	894,299	894,299	409,620
Bulk sampling	-	766,607	766,607	-
Drilling	-	846,035	846,035	308,657
Sampling	-	128,341	128,341	146,207
Ground geophysics	-	25,513	25,513	65,413
Airborne geophysics	-	440,996	440,996	-
Prospecting	-	230,099	230,099	151,858
Community consultations	-	2,518	2,518	10,584
Expenses recovered from partners	(14,228)	(1,381,571)	(1,395,799)	(473,698)
	3,744,762	1,952,837	5,697,599	734,974
Churchill West Project				
Land tenure	1,353	-	1,353	(411)
General exploration	-	26,576	26,576	19,653
Sampling	-	23,509	23,509	94,158
Ground geophysics	-	1,350	1,350	-
Airborne geophysics	-	79,922	79,922	-
Prospecting	-	10,030	10,030	1,885
Community consultations	-	345	345	-
Expenses recovered from partners	(1,329)	(95,732)	(97,061)	(90,060)
	24	46,000	46,024	25,225
Hecla Project				
General exploration	-	50	50	1,613
	-	50	50	1,613
Aylmer Lake West				
Land tenure	5,157	-	5,157	-
	5,157	-	5,157	-
XYZ				
Option costs – cash	10,000	-	10,000	10,000
General exploration	-	23	23	-
Ground geophysics	-	200	200	-
	10,000	223	10,223	10,000

Afridi Lake				
Land tenure	7,757	-	7,757	(7,757)
General exploration	-	16,342	16,342	467
Drilling	-	627	627	-
Sampling	-	1,614	1,614	-
Ground geophysics	-	46,466	46,466	-
Airborne geophysics	-	438,818	438,818	-
Expenses recovered from partners	(40,172)	(252,926)	(293,098)	-
	<u>(32,415)</u>	<u>250,941</u>	<u>218,526</u>	<u>(7,290)</u>
Sakari				
Land tenure	-	-	-	97,619
Airborne geophysics	-	71,529	71,529	-
	<u>-</u>	<u>71,529</u>	<u>71,529</u>	<u>97,619</u>
Shulin Lake				
Analytical	-	-	-	693
	<u>-</u>	<u>-</u>	<u>-</u>	<u>693</u>
Piche				
Land tenure	-	-	-	900
General exploration	-	353	353	4,983
	<u>-</u>	<u>353</u>	<u>353</u>	<u>5,883</u>
Liege				
Land tenure	-	-	-	30,068
General exploration	-	158	158	6,756
Community consultations	-	207	207	-
	<u>-</u>	<u>365</u>	<u>365</u>	<u>36,824</u>
Stella Polaris				
General exploration	-	991	991	27,172
Sampling	-	6,088	6,088	-
Airborne geophysics	-	-	-	14,017
Expenses recovered from partner	(12,250)	(22,139)	(34,389)	(51,050)
	<u>(12,250)</u>	<u>(15,060)</u>	<u>(27,310)</u>	<u>(9,861)</u>
Crystal				
Airborne geophysics	-	74,342	74,342	-
Sampling	-	-	-	13,683
	<u>-</u>	<u>74,342</u>	<u>74,342</u>	<u>13,683</u>
	<u>\$ 3,715,278</u>	<u>\$ 2,381,580</u>	<u>\$ 6,096,858</u>	<u>\$ 909,363</u>

Risks and Uncertainties

The success of Shear's business is subject to a number of factors, including but not limited to those risks normally encountered by junior resource exploration companies, such as exploration uncertainty, operating hazards, increasing environmental regulation, competition with companies having greater resources, and lack of operating cash flow. In addition, there is no quoted market price for diamonds and the market price for rough diamonds is dependent on an efficient market management system. Shear's on-going ability to finance exploration beyond those programs budgeted to date will depend on, amongst other things, the viability of equity markets.

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.

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.

Additional information on the changes is available in Note 4 to our August 31, 2007 financial statements. It is management's opinion that these changes will not significantly impact the Company's business operations.