

Shear Minerals Ltd.
(a development stage company)

Interim Financial Statements
(Unaudited)
August 31, 2007

To the Shareholders of Shear Minerals Ltd.:

The interim balance sheet of Shear Minerals Ltd. as at August 31, 2007, and the interim statements of operations and deficit and of cash flows for the periods 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)

	August 31, 2007	November 30, 2006
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,681,909	2,658,440
Restricted cash (note 5)	42,925	42,537
Short-term investments	70,511	95,427
Accounts receivable	396,646	175,671
Operator recoveries	880,328	107,701
Prepaid expenses	36,097	26,920
	<hr/>	<hr/>
	3,108,416	3,106,696
Equipment	83,070	64,758
Mineral properties (note 6)	22,304,352	14,094,988
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	25,495,838	17,266,442
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Liabilities		
Current liabilities		
Accounts payable and accruals	810,509	270,854
Deposits from exploration partners	56,153	70,315
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	866,662	341,169
Future income taxes	2,935,442	2,379,622
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	3,802,104	2,720,791
	<hr/>	<hr/>
Shareholders' Equity		
Share capital (note 7)	26,952,754	19,538,477
Contributed surplus (note 7)	1,748,845	1,614,666
Deficit	(7,007,865)	(6,607,492)
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	21,693,734	14,545,651
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	25,495,838	17,266,442
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Approved by the Board of Directors

“Pamela Strand”

“David Mullen”

Director

Director

Shear Minerals Ltd.

Interim Statements of Operations and Deficit (Unaudited)

	Three Months Ended Aug. 31, 2007 \$	Three Months Ended Aug. 31, 2006 \$	Nine Months Ended Aug. 31, 2007 \$	Nine Months Ended Aug. 31, 2006 \$
Revenue				
Project management fees	88,912	19,662	148,071	59,666
Interest	35,729	42,404	73,820	70,419
Other	-	-	23,400	13,680
	<u>124,641</u>	<u>62,066</u>	<u>245,291</u>	<u>143,765</u>
Expenses				
General and administrative	122,244	84,291	345,699	232,493
Management fees (note 8)	32,500	22,500	87,500	67,000
Consulting fees	37,445	15,000	102,753	47,400
Professional fees	11,785	12,906	49,039	54,196
Amortization	7,190	6,439	20,123	19,316
	<u>211,164</u>	<u>141,136</u>	<u>605,114</u>	<u>420,405</u>
	(86,523)	(79,070)	(359,823)	(276,640)
Gain on sale of short-term investments	-	-	83,670	-
Unrealized (loss) gain on short-term investments	(15,140)	(4,746)	36,294	15,358
Write down of mineral properties (note 6)	-	-	(234,814)	-
Net loss and comprehensive loss before income taxes for the period	(101,663)	(83,816)	(474,673)	(261,282)
Future income tax recovery	-	-	68,100	-
Net loss and comprehensive loss for the period	<u>(101,663)</u>	<u>(83,816)</u>	<u>(406,573)</u>	<u>(261,282)</u>
Deficit – Beginning of period	(6,906,202)	(6,098,532)	(6,607,492)	(5,921,066)
Adjustment to the carrying value of short-term investments (note 4)	-	-	6,200	-
Revised deficit – beginning of period	<u>(6,906,202)</u>	<u>(6,098,532)</u>	<u>(6,601,292)</u>	<u>(5,921,066)</u>
Deficit – End of period	<u>(7,007,865)</u>	<u>(6,182,348)</u>	<u>(7,007,865)</u>	<u>(6,182,348)</u>
Basic and diluted loss per share	<u>(0.001)</u>	<u>(0.001)</u>	<u>(0.005)</u>	<u>(0.004)</u>
	#	#	#	#
Weighted average number of shares outstanding	<u>69,324,863</u>	<u>65,957,068</u>	<u>75,079,881</u>	<u>62,370,784</u>

Shear Minerals Ltd.

Interim Statements of Cash Flows (Unaudited)

	Three Months Ended Aug. 31, 2007 \$	Three Months Ended Aug. 31, 2006 \$	Nine Months Ended Aug. 31, 2007 \$	Nine Months Ended Aug. 31, 2006 \$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(101,663)	(83,816)	(406,573)	(261,282)
Items not affecting cash				
Amortization	7,190	6,439	20,123	19,316
Share-based compensation	-	-	-	87,500
Gain on sale of short-term investments	-	-	(83,670)	-
Unrealized loss (gain) on short-term investments	15,140	4,746	(36,294)	(15,358)
Write down of mineral properties	-	-	234,814	-
Future tax recovery	-	-	(68,100)	-
	(79,333)	(72,631)	(339,700)	(169,824)
Net change in non-cash working capital balances relating to operating activities	(969,263)	(101,202)	(477,286)	(664,201)
	(1,048,596)	(173,833)	(816,986)	(834,025)
Financing activities				
Issuance of shares	6,016,815	112,296	6,159,257	4,575,455
Share issue costs	(524,818)	-	(540,881)	(380,909)
	5,491,997	112,296	5,618,376	4,194,546
Investing activities				
Mineral properties				
Acquisition costs	(1,240,278)	(213,732)	(1,353,150)	32,306
Exploration costs	(2,381,580)	(695,631)	(4,537,028)	(1,753,703)
Purchase of equipment	(6,435)	-	(38,435)	(8,875)
Proceeds on sale of short term investments	-	-	151,080	-
(Increase) decrease in restricted cash	-	(74,000)	(388)	921,714
	(3,628,293)	(983,363)	(5,777,921)	(808,558)
Increase (decrease) in cash and cash equivalents	815,108	(1,044,900)	(976,531)	2,551,963
Cash and cash equivalents – Beginning of period	866,801	4,155,191	2,658,440	558,328
Cash and cash equivalents – End of period	1,681,909	3,110,291	1,681,909	3,110,291
Supplementary information				
Interest received	29,413	26,830	103,668	49,509

Shear Minerals Ltd.

Notes to Interim Financial Statements

(Unaudited)

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1 Nature of operations

Shear Minerals Ltd. (the “Company” or “Shear”) is in the business of acquiring and exploring mineral properties located primarily in Canada. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable and the Company is not presently carrying on active exploration efforts on certain of its mineral properties. To date, the Company has not earned significant revenues and is considered to be in the development stage. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown in note 6 represent costs to date for property acquisition (including mineral claims and permits) and exploration expenditures, and do not necessarily reflect present or future values.

2 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, except as described in note 4.

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

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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)

August 31, 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.

Upon initial recognition, the Company has designated its cash and cash equivalents, restricted cash, and 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. Accounts receivable and operator recoveries have been classified as loans and receivables, and accounts payable and accruals have been classified as other liabilities, all of which are measured at amortized cost.

The fair value of short-term investments 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.

Regular-way purchases and sales of financial assets will be accounted for using trade-date accounting, and transaction costs on financial instruments other than those classified as held for trading will be recognized in income in the period.

Operator recoveries are due from companies which operate in the mining exploration industry and accordingly, are subject to the risks associated with this industry. It is management's opinion that the Company is not exposed to other significant interest, currency or credit risks arising from their financial instruments.

In accordance with the new policies, an adjustment of \$6,200 was made to the Company's deficit as at December 1, 2006 to reflect the recognition of short-term investments at fair value.

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Notes to Interim Financial Statements

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5 Restricted cash

The Company has provided guaranteed investment certificates (“GICs”) in the amount of \$42,925 to secure letters of credit in support of the Company’s exploration activities.

6 Mineral properties

				Aug. 31, 2007	Nov. 30, 2006
	Ownership interest %	Acquisition costs \$	Exploration costs \$	Net carrying amount \$	Net carrying amount \$
Northwest and Nunavut Territories					
Churchill Diamond Project	58.14	4,535,458	14,386,842	18,922,300	11,411,972
Churchill West	26.32	57,785	262,424	320,209	272,197
XYZ	80.00	180,956	473,688	654,644	639,439
Afridi Lake	58.20	153,906	819,365	973,271	562,331
Hecla	100.00	17,102	195,509	212,611	208,201
Sakari	50.00	97,618	185,940	283,558	97,618
Aylmer Lake West	61.90	5,157	-	5,157	-
Alberta					
Liege	*51.00	51,492	222,162	273,654	230,060
Piche	*51.00	9,973	160,480	170,453	163,727
Saskatchewan					
Stella	*51.00	155,210	19,287	174,497	146,835
Alaska					
Shulin Lake	8.20	-	-	-	234,814
Michigan					
Crystal	100.00	113,864	200,134	313,998	127,794
		<u>5,378,521</u>	<u>16,925,831</u>	<u>22,304,352</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.

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.

During the period, 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.

Shear Minerals Ltd.

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Contractual options and commitments

a) Crystal Project

On May 7, 2007 the Company issued 100,000 shares to acquire the Crystal Project in Michigan, USA.

The Company is obligated to issue 20,000 of its common shares to the vendors of the project for each diamondiferous kimberlite discovered on the property, to a maximum of 100,000 shares. The Company is also obligated to pay a 3.0% gross overriding royalty on production from the property, of which 1.5% can be purchased by Shear for \$US 1.0 million for each whole percentage, and if any fraction of a percentage is purchased, by an amount pro-rated in accordance with the percentage purchased.

b) Aylmer Lake West

This project operates under a joint venture agreement with Diamondex Resources Ltd. Shear is obligated to pay a 3.5% gross underlying royalty on production from the property.

Shear Minerals Ltd.

Notes to Interim Financial Statements

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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 period ended August 31, 2007	
	Common shares #	Amount \$
Balance – November 30, 2006	66,115,353	19,538,477
Shares issued for cash	7,212,000	5,999,915
Share options exercised	451,000	127,445
Warrants exercised	102,373	54,218
Shares issued for property acquisition	4,028,571	2,554,000
Share issue costs	-	(697,381)
Future income taxes	-	(623,920)
Balance – August 31, 2007	<u>77,909,297</u>	<u>26,952,754</u>

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.

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. Each Unit consisted of one common share and one-half of a share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.95 at any time within 18 months of issuance.

In connection with the brokered private placement, the Company issued 504,840 agents' warrants exercisable at a price of \$0.75 per common share anytime within 18 months following issuance. Related to this, the Company recorded share-based compensation in the amount of \$156,500 as a share issue cost.

During the second quarter 100,000 shares were issued in consideration for the acquisition of the Crystal Project in Michigan, USA.

During the first quarter, 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.

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During the period 451,000 options were exercised. The total addition to share capital includes \$112,210 in cash proceeds plus \$15,235 in share-based compensation that had been recorded in contributed surplus pending exercise of the options.

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.

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 period ended August 31, 2007	
	Number of options outstanding #	Weighted average exercise price \$
Balance – November 30, 2006	4,900,000	0.57
Exercised	(451,000)	0.25
Balance – August 31, 2007	<u>4,449,000</u>	<u>0.60</u>

Shear Minerals Ltd.

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The following table summarizes information about the Company's share options outstanding as at August 31, 2007:

Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years
669,000	0.26	0.4
1,525,000	0.84	1.0
530,000	0.83	1.4
50,000	0.75	2.0
1,325,000	0.40	2.5
50,000	0.41	2.7
300,000	0.60	3.6
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4,449,000	0.60	1.6

All of the Company's outstanding share options as at August 31, 2007 were exercisable.

Warrants

The following table summarizes activity related to warrants:

	For the period ended August 31, 2007	
	Number of warrants #	Weighted average exercise price \$
Balance – November 30, 2006	965,099	0.72
Exercised	(102,373)	0.46
Issued	1,838,090	0.90
	<hr/>	
Balance – August 31, 2007	2,700,816	0.85

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The Company has recorded share issue costs in the amount of \$156,500 relating to 504,840 warrants issued to agents in connection with the June 2007 private placement. The warrants vest on October 13, 2007 and the fair values were calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free rate	4.8%
Expected volatility	97.0%
Annual dividend yield	0.0%
Expected life of warrants	1.5 years

Contributed surplus

The following table summarizes activity related to contributed surplus:

	For the period ended August 31, 2007
	<u>\$</u>
Balance – November 30, 2006	1,614,666
Value of options exercised	(15,235)
Value of agents' warrants exercised	(7,086)
Value of agents' warrants issued	<u>156,500</u>
Balance – August 31, 2007	<u>1,748,845</u>

8 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. has a joint venture at the Shulin Lake Property. One of the partners is Shulin Lake Mining, a private company in which a director of Shear Minerals Ltd. has a 50% ownership position.

In relation to the acquisition of the Stella Polaris Property, Shear entered into an agreement with Lyncorp International Ltd. ("Lyncorp"), a private Alberta company owned by a director of Shear. There was \$35,553 owing from Lyncorp as of August 31, 2007.