

## **SHEAR MINERALS LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **THREE MONTHS ENDED FEBRUARY 29, 2008**

##### **GENERAL**

This management discussion and analysis (“MD&A”) supplements, but does not form part of, the financial statements and notes for the three months ended February 29, 2008 of Shear Minerals Ltd. (“Shear” or the “Company”). The following information, prepared as of April 25, 2008, 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 is an exploration stage company focused 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 selected financial information is derived from unaudited quarterly financial statements prepared by management:

	<u>2008</u>	<u>2007</u>				<u>2006</u>		
	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>
Revenue	\$ 58,745	\$ 60,883	\$ 124,641	\$ 88,637	\$ 32,013	\$ 57,884	\$ 62,066	\$ 59,852
Net (loss) income	(158,064)	1,056,684	(101,663)	(317,975)	13,065	(425,144)	(83,816)	(75,480)
Mineral property expenditures	1,338,903	370,531	3,621,858	1,832,967	435,353	541,791	909,363	288,061
Basic and diluted (loss) income per share	(0.002)	0.014	(0.001)	(0.005)	-	(0.008)	(0.001)	(0.001)

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. 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 February 29, 2008**

Shear had a net loss of \$158,064 (2007 – net income of \$13,065) for the three months ended February 29, 2008. The decrease in net income of \$171,129 is primarily due to increased general and administrative expenses and decreases in realized and unrealized gains on short-term investments from the comparative period. These decreases were partially offset by increased management fee revenue in the current period.

The Company's expenses were \$223,696 for the three months ended February 29, 2008 compared to \$182,159 for the three months ended February 28, 2007.

General and administrative expenses totalled \$140,913 for the three months ended February 29, 2008, an increase of \$35,603 from the comparative quarter. General and administrative expenses consisted of corporate travel and tradeshow of \$48,627 (2007 - \$30,469), office expenses of \$38,407 (2007 - \$24,373), payroll of \$28,864 (2007 - \$16,798), shareholder communications and promotion of \$13,689 (2007 - \$15,490), regulatory and transfer fees of \$10,817 (2007 - \$16,862), and other expenses of \$509 (2007 - \$1,318).

The increase in corporate travel and trade shows is due to increased investor relations activity and the timing of expenditures related to conferences and trade shows. The increases in office expenses and payroll are due to the hiring of additional employees to support the Company's exploration projects, as well as increased occupancy costs from moving to a new corporate office location.

In the three months ended February 29, 2008, the Company also incurred management fees of \$30,000 (2007 - \$25,000), professional fees of \$37,283 (2007 - \$14,882), consulting fees of \$5,232 (2007 - \$30,600), and amortization of \$10,268 (2007 - \$6,367). The increase in management fees is due to salary increases that are consistent with industry conditions. The decrease in consulting fees is due to a reduction in corporate contract consultants hired to support the Company's exploration projects. This reduction has caused a corresponding increase in professional fees in the current period.

### **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 \$3,420,606 as at February 29, 2008 as compared with \$930,679 as at November 30, 2007.

In December of 2007, the Company issued 4,263,266 flow-through shares at a price of \$0.75 per share for gross proceeds of \$3,197,450. The Company will be required to incur \$3,197,450 of qualifying expenditures to be renounced to the holders of the flow-through shares. In addition, agents received 286,995 warrants as commission at an exercise price of \$0.75 per common share, which expire in December 2009. Related to this, the Company has recorded share-based compensation in the amount of \$60,269 as a share issue cost.

Management intends to 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 three months ended February 29, 2008, the Company incurred management fees of \$30,000 (2007 – \$25,000) to Encore Resources Inc., a company in which a director and officer of the Company has significant influence. In the opinion of management, these fees are considered to be at market value and are recorded at the exchange amount.

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

As at April 25, 2008, Shear had 83,115,627 common shares outstanding. The following table provides a summary of Shear's share options and warrants outstanding at April 25, 2008:

<b>Security</b>	<b>Number</b>	<b>Exercise Price (\$)</b>	<b>Expiry Date</b>
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	1,300,000	0.40	February 22, 2010
Share options	275,000	0.60	April 12, 2011
Share options	1,700,000	0.65	April 24, 2013
Share options	1,220,000	0.50	April 24, 2013
Warrants	589,250	0.80	May 19, 2008
Warrants	1,333,250	0.95	December 12, 2008
Warrants	504,840	0.75	December 12, 2008
Warrants	286,995	0.75	December 19, 2009

## MINERAL PROPERTIES

During the three months ended February 29, 2008, cash expenditures on exploration and acquisition of the Company's mineral properties totalled \$1,338,903 compared to \$633,475 in the three months ended February 28, 2007.

### 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 79 kimberlites (2 on the Churchill West Diamond Property), including 31 discovered in 2007, have been discovered on the property. Shear and Stornoway Diamond Corp. ("Stornoway") own 58.14% and 41.86% interests, respectively, in the project.

The property is subject to a 2% 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.

The property hosts four high interest, diamond bearing kimberlites:

*Kahuna:* The Kahuna kimberlite is located within the Josephine River Corridor and is a 3.5m to 4m wide vertical kimberlite dyke averaging 2.8m in true width that trends for more than 5.5 km based on geophysical interpretation.

*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.

*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.

*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.

#### **2007 Exploration Update**

The 2007 exploration program 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.

#### **Kahuna Mini Bulk Sampling**

The aim of the bulk sampling program 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.

In May 2007, the collection of a 400-tonne mini bulk sample from the Kahuna kimberlite dyke was completed. The sample was collected from three spatially separate surface locations collected by trenching along a strike length of 215 metres at the Kahuna kimberlite dyke. In addition, a new kimberlite, KD308, located along a parallel structure close to the Kahuna dyke, was discovered from drilling.

Processing of the Kahuna mini bulk sample was completed in November 2007 with 11,088 diamonds greater than 0.85mm recovered from a total sample of 356 dry tonnes for an overall diamond grade of 0.95 carats per tonne. The mini bulk sample yielded 337 carats of diamonds with preliminary observation describing the majority as white and colourless. The five largest stones were 5.44, 2.05, 1.54, 1.44 and 1.32 carats. Several of the larger stones are interpreted to be broken fragments of a larger diamond estimated to have been up to 14 carats in weight.

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	4.75 mm Sieve	6.75 mm Sieve
Kahuna – Sample 1	98.13	1.03	100.80	3,582	1,737	1,528	263	48	6	0	0
Kahuna – Sample 2	106.57	0.88	93.54	3,239	1,609	1,374	203	40	13	0	0
Kahuna – Sample 3	151.63	0.94	142.35	4,267	2,015	1,850	302	76	20	3	1
Total Kahuna	356.33	0.95	336.69	11,088	5,499	4,772	773	165	39	3	1

Sample results are based on the recovery of diamonds by dense media separation at Kennecott Canada Exploration Inc.’s independent processing plant in Thunder Bay, Ontario using a 1mm square mesh bottom cut off. Kahuna Samples 1 and 3 were crushed; Sample 2 required no crushing as the kimberlite was pervasively clay altered. A 135.0kg and 672.8kg heavy mineral concentrate was generated from Samples 1 and 3 respectively and then passed through an x-ray sorter and picked for diamonds. Diamonds were also recovered during an audit of the magnetic fractions and x-ray rejects resulting in the treatment of these fractions by caustic fusion analysis.

#### KD308 Diamond Results

The KD308 kimberlite, which was drilled earlier this year and reported in a May 2, 2007 press release, 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

<sup>1</sup> 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 accredited to the ISO/IEC 17025 standard by the Standards Council of Canada as a testing laboratory for diamond analysis using caustic fusion.

### Results from Tailings Audit

On August 1, 2007 the Company announced recovery of additional macro diamonds from an audit of the tailings material from the 2006 Jigsaw, PST003, Notch and Kahuna mini bulk samples. The primary goal of the audit work was to determine the efficiency of the primary processing circuit applied to the 2006 mini bulk samples.

As a result of the audit, diamond content for the four kimberlites, initially reported in February 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. Detailed results from tailings audit are available in the Company's press release dated August 1, 2007.

### Additional Exploration Results

On October 11, 2007 the Company announced that a total of 31 new kimberlites were discovered from prospecting and drilling in 2007. 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. 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 totalling 5,000 line-km at 40m line spacing and high resolution airborne magnetics surveying using the FUGRO MIDAS system, and 12,000 line-km at 15m line spacing to provide seamless data for follow up.
- 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.
- Sixty-four drill-holes totalling 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 totalling 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. On February 20, 2008, the Company reported that drill core samples totalling 206.3kg were processed and 1,071 diamonds, including 99 macro diamonds, were recovered.

In addition, samples were collected from each of the three mini bulk sample pits for micro diamond modeling. As reported on February 20, 2008, a total of 288.5kg was processed with 1,619 diamonds, including 215 macro diamonds, being recovered.

In addition, 26 exploration targets were tested with 32 drill holes totalling 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 totalling 190.4kg was collected and sent for diamond recovery. The KD308 kimberlite (see above) accounts for 160kg of this material. As reported on January 31, 2008, caustic fusion results from the remaining material have returned significant micro and macro diamond counts ranging from 29 to 138 diamonds per kilogram of kimberlite analyzed.

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 micro diamond analysis using caustic fusion.

### **Future Plans**

Work is presently underway on planning and budgeting for the 2008 exploration program at Churchill. Work will include ongoing prospecting, till sampling and drilling to find new kimberlites, including the sources of 30 key areas of unexplained high interest G10 mineral chemistry. In addition, exploration is planned on known kimberlites to collect larger samples to gain a better understanding of diamond grade, value, and potential tonnages. This will assist in developing a resource model and enable a preliminary assessment of the project's economic potential.

## **2. CHURCHILL WEST, NUNAVUT**

The Company is currently exploring the Churchill West project with International Samuel Exploration Corp. ("Samuel"), Stornoway and BHPB where the Company holds a 26.45% interest, and Samuel, Stornoway and BHPB have interests of 48.75%, 18.37% and 6.43%, respectively, in the diamond rights to the property. The property is subject to a 2% gross overriding royalty and net smelter royalty in favour of Hunter with respect to the commercial production of diamonds. Hunter currently holds the non-diamond rights to the property although Shear and Stornoway have a joint right of refusal on these rights.

BHPB did not 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 and 2007 programs included till sampling and prospecting of priority geophysical targets.

### **Future Plans**

Once full results have been received from the 2007 till sampling, a review of all past data focussed on mineral chemistry will be completed. 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, followed by drilling of any high priority targets.

## **3. AYLMER LAKE WEST, NORTHWEST TERRITORIES**

This project operates under a joint venture agreement with Diamond Resources Ltd. Shear currently holds 62.9% 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.

During 2006 the Company wrote off the accumulated carrying amounts related to the Aylmer Lake West Property. However, in 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, NORTHWEST TERRITORIES**

The Hecla Diamond Project is composed of 465,000 acres of federal prospecting permits located on Melville Island in the Northwest Territories. 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 2005 the Company mobilized a five person crew to Resolute in order to initiate fieldwork on the Hecla Diamond Project. 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% net smelter royalty on non-diamond production as well as a 2% 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 picroilmenites 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 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 (56,000 acres) located approximately 40km east of the Diavik Diamond Mine within 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. In 2007, Stage 1 of the exploration program was completed and confirmed eight initial priority geophysical targets suggestive of kimberlites ready for drill testing.

In June and July 2007 the partners completed a 2,850 line kilometres high resolution airborne gravity gradient survey. It was proven that the density contrast between the surrounding rock and the known kimberlites was great enough to register an interpretable gravity gradient anomaly of two hectares or larger. A review of the geophysical data identified an initial 24 targets worthy of follow up, including nine high priority. These isolated gravity low targets are suggestive of kimberlite.

In August 2007 a 10 person crew completed ground follow up surveys where more than 50 targets were ground checked and a total of 206 line kilometers of ground magnetics and 791 gravity stations were completed.

### **Future Plans**

On March 26, 2008, the Company announced a \$1.2 million drill program for 2008. From the geophysical data collected in the fall of 2007, a minimum of 15 high priority targets have been chosen for follow up drilling. Exploration will include continued ground magnetic and ground gravity surveying to generate additional drill targets.

## **7. 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. The optionee has agreed to give Shear until May 14, 2008 to complete their \$500,000 in property expenditures. 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 totalling 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 favourable 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.

In 2007 Shear completed a ground gravity survey over the seismic target. Final data is pending.

#### **Future Plans**

Once the gravity data has been received and interpreted, the Company will evaluate all the data collected. 2008 plans include ground checks of the remaining targets plus possible ground geophysical surveys (magnetics, EM and/or gravity).

### **8. 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 favourable 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.

In 2007 Shear completed ground gravity surveys over several targets in order to assist in the prioritization of these targets for drill testing. Final data is pending.

#### **Future Plans**

Seven priority targets have been chosen for drill testing and budgets will be finalized for a 2008 drill program when weather conditions permit, either by winter road access or summer helicopter support.

### **9. SAKARI PROPERTY, NUNAVUT**

During 2007, the Company earned into a 50% interest in approximately 42,000 acres of claims located within the southwest portion of Diamonds North's Amaruk project in the Franklin Kimberlite District of Nunavut. The Sakari property is located adjacent to the Darby project where nine kimberlites have been discovered to date. Diamonds North Resources Ltd. Retains the other 50% interest in the property and is the operator.

During the 2007 exploration program, 1,930 line kilometers of high resolution magnetic airborne surveying was completed over the property. The airborne survey was flown at 100 metre line spacing. To date, only 30% of the geophysical data has been reviewed in a cursory fashion. From this review, 10 targets have been selected for follow-up exploration in 2008.

Prior to the end of the 2007 exploration season, one target selected from preliminary unlevelled geophysical data was ground surveyed and subsequently drill tested using a lightweight reverse circulation drill. No kimberlite was intersected.

#### **Future Plans**

All geophysical data is being interpreted by Diamonds North. Once completed, budgets and plans for will be completed for the 2008 program. 2008 exploration work may include sampling, ground geophysical surveying and possible drill testing of priority targets.

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

In 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% 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.

#### **Future Plans**

Future plans will be determined when results from ground geophysics performed in fall 2007 are received and interpreted.

## ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

Three Months Ended February 29, 2008

	Churchill		Aylmer						
	Churchill	West	Lake West	XYZ	Afridi Lake	Piche	Liege	Crystal	Total
<b>Acquisition Costs</b>									
Land tenure	\$ 10,768	\$ -	\$ -	\$ -	\$ 34	\$ -	\$ 9,375	\$ -	\$ 20,177
Expenses recovered from partners	-	-	-	-	-	-	-	-	-
	10,768	-	-	-	34	-	9,375	-	20,177
<b>Exploration Costs</b>									
General exploration	296,208	-	34	137	9,189	934	4,724	85	311,311
Bulk sampling	409	-	-	-	-	-	-	-	409
Environment	8,996	-	-	-	-	-	-	-	8,996
Drilling	50,800	-	-	-	8,534	-	6,486	-	65,820
Sampling	132,955	-	-	-	-	-	-	-	132,955
Ground geophysics	9,431	300	-	-	27,623	24,618	87,213	250	149,435
Airborne geophysics	(24,089)	-	-	-	-	-	-	-	(24,089)
Prospecting	6,513	-	-	-	-	-	-	14,951	21,464
Community consultations	1,325	-	-	-	750	375	1,500	-	3,950
Expenses recovered from partners	(244,859)	-	-	-	-	-	-	-	(244,859)
	237,689	300	34	137	46,096	25,927	99,923	15,286	425,392
	\$ 248,457	\$ 300	\$ 34	\$ 137	\$ 46,130	\$ 25,927	\$ 109,298	\$ 15,286	\$ 445,569

**Three Months Ended February 28, 2007**

	Churchill		Hecla	XYZ	Afridi		Piche	Liege	Stella		Total
	Churchill	West			Lake	Sakari			Polaris	Crystal	
<b>Acquisition Costs</b>											
Land tenure	\$ 1,259	\$ -	\$ -	\$ -	\$ 3,234	\$ -	\$ -	\$ -	\$ -	\$ 32,848	\$ 37,341
Option costs - cash	-	-	-	-	-	-	-	-	25,000	-	25,000
Expenses recovered from partners	(512)	-	-	-	-	-	-	-	-	-	(512)
	<u>747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,234</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>32,848</u>	<u>61,829</u>
<b>Exploration Costs</b>											
General exploration	202,298	4,914	4,024	305	4,096	-	3,753	13,405	4,302	-	237,097
Drilling	6,696	-	-	-	900	-	-	-	-	-	7,596
Sampling	86,906	20,700	-	-	-	-	-	-	19,138	-	126,744
Ground geophysics	29,866	-	-	1,844	1,212	-	903	25,491	184	-	59,500
Airborne geophysics	-	-	-	-	-	14,630	-	-	-	-	14,630
Prospecting	121,373	-	-	-	-	-	-	-	-	-	121,373
Community consultations	4,596	-	-	-	-	-	110	-	-	-	4,706
Expenses recovered from partners	(189,992)	-	-	-	-	-	-	-	(8,130)	-	(198,122)
	<u>261,743</u>	<u>25,614</u>	<u>4,024</u>	<u>2,149</u>	<u>6,208</u>	<u>14,630</u>	<u>4,766</u>	<u>38,896</u>	<u>15,494</u>	<u>-</u>	<u>373,524</u>
	<u>\$ 262,490</u>	<u>\$ 25,614</u>	<u>\$ 4,024</u>	<u>\$ 2,149</u>	<u>\$ 9,442</u>	<u>\$ 14,630</u>	<u>\$ 4,766</u>	<u>\$ 38,896</u>	<u>\$ 40,494</u>	<u>\$ 32,848</u>	<u>\$ 435,353</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 that 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**

The following new Canadian Institute of Chartered Accountants' ("CICA") Handbook Sections were adopted by the Company on December 1, 2007:

- Section 3862, "Financial Instruments – Disclosures";
- Section 3863, "Financial Instruments – Presentation"; and
- Section 1535, "Capital Disclosures".

Additional information on these standards is available in Note 3(a) to our financial statements.

## **RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

CICA Handbook Section 3064, "Goodwill and Intangible Assets" will be adopted by the Company on December 1, 2008. This Section harmonizes Canadian standards with International Financial Reporting Standards. Additional information on this Section is available in Note 3(b) to our financial statements.