

**Shear Minerals Ltd.**  
(a development stage company)

Interim Financial Statements  
For the three months ended February 29, 2008  
(Unaudited)

To the Shareholders of Shear Minerals Ltd.:

The interim balance sheet of Shear Minerals Ltd. as at February 29, 2008, and the interim statements of operations and deficit and of cash flows for the period then ended have been compiled by management.

No audit or review of this information has been performed by the company's auditors.

# Shear Minerals Ltd.

## Interim Balance Sheets

### Nature of operations and going concern (note 1)

	February 29, 2008 \$	November 30, 2007 \$
	(Unaudited)	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,925,202	1,040,035
Restricted cash	42,926	42,926
Short-term investments	64,990	58,103
Accounts receivable	83,806	292,186
Operator recoveries	687,994	482,160
Prepaid expenses	25,149	23,253
	3,830,067	1,938,663
<b>Equipment</b>	126,812	109,485
<b>Mineral properties</b> (note 4)	23,817,531	23,371,962
	27,774,410	25,420,110
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accruals	400,555	985,432
Deposits from exploration partners	8,906	22,552
	409,461	1,007,984
<b>Future income taxes</b>	3,518,137	1,466,853
	2,927,598	2,474,837
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 5(a))	27,837,577	26,748,597
<b>Contributed surplus</b> (note 5(d))	2,118,480	2,147,857
<b>Deficit</b>	(6,109,245)	(5,951,181)
	23,846,812	22,945,273
	27,774,410	25,420,110

**Commitment** (note 8)

**Subsequent event** (note 9)

**Approved by the Board of Directors**

(Signed) "Pamela Strand"

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Director

(Signed) "David Mullen"

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Director

# Shear Minerals Ltd.

## Interim Statements of Operations and Deficit (Unaudited)

	<b>Three months ended February 29, 2008 \$</b>	<b>Three months ended February 28, 2007 \$</b>
<b>Revenue</b>		
Management fees	29,205	9,377
Interest	29,540	22,636
	<u>58,745</u>	<u>32,013</u>
<b>Expenses</b>		
General and administrative	140,913	105,310
Management fees (note 7)	30,000	25,000
Professional fees	37,283	14,882
Consulting fees	5,232	30,600
Amortization	10,268	6,367
	<u>223,696</u>	<u>182,159</u>
	(164,951)	(150,146)
<b>Unrealized gain on short-term investments</b>	6,887	79,541
<b>Gain on sale of short-term investments</b>	<u>-</u>	<u>83,670</u>
<b>Net (loss) income and comprehensive (loss) income for the period</b>	(158,064)	13,065
<b>Deficit – beginning of period</b>	<u>(5,951,181)</u>	<u>(6,601,292)</u>
<b>Deficit – end of period</b>	<u>(6,109,245)</u>	<u>(6,588,227)</u>
<b>Basic and diluted (loss) income per common share</b>	<u>(0.002)</u>	<u>0.000</u>
<b>Weighted average number of common shares outstanding</b>	<u>81,662,157</u>	<u>66,195,785</u>

# Shear Minerals Ltd.

## Interim Statements of Cash Flows (Unaudited)

	Three months ended February 29, 2008 \$	Three months ended February 28, 2007 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net (loss) income for the period	(158,064)	13,065
Items not affecting cash		
Amortization	10,268	6,367
Unrealized gain on short-term investments	(6,887)	(79,541)
Gain on sale of short-term investments	-	(83,670)
	(154,683)	(143,779)
Net change in non-cash working capital balances relating to operating activities	256,436	(150,483)
	101,753	(294,262)
<b>Financing activities</b>		
Issue of shares	3,371,390	92,882
Share issue costs	(260,503)	(14,982)
	3,110,887	77,900
<b>Investing activities</b>		
Mineral properties	(1,338,903)	(633,475)
Operator recoveries received	39,025	151,797
Purchase of equipment	(27,595)	(24,825)
Net proceeds from sale of short-term investments	-	151,080
	(1,327,473)	(355,423)
<b>Increase (decrease) in cash and cash equivalents</b>	1,885,167	(571,785)
<b>Cash and cash equivalents – beginning of period</b>	1,040,035	2,658,440
<b>Cash and cash equivalents – end of period</b>	2,925,202	2,086,655
<b>Supplementary information</b>		
Interest received	9,889	17,978

# Shear Minerals Ltd.

Notes to the Interim Financial Statements  
For the three months ended February 29, 2008  
(unaudited)

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## 1. Nature of operations and going concern

These unaudited interim financial statements (the “financial statements”) have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

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. For the three months ended February 29, 2008, the Company reported a net loss of \$158,064 and an accumulated deficit of \$6,109,245.

To date, the Company has not earned significant revenues and is considered to be in the development stage, and therefore it is subject to risks and challenges similar to other companies in a comparable stage of development. These risks include, but are not limited to, continuing losses, dependence on partners, successful development, securing and maintaining title and interest in the properties, and the ability to secure adequate financing to meet the minimum capital required to successfully complete the exploration of the properties (note 4) and continue as a going concern. There is no assurance that these initiatives will be successful and, as a result, there is substantial doubt regarding the going concern assumption.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material.

The amounts shown in note 4 represent costs to date for property acquisition (including mineral claims and permits) and exploration expenditures, and do not necessarily reflect present or future values. 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.

## 2. Basis of presentation

These financial statements are prepared in accordance with generally accepted accounting principles for interim financial statements and do not include all of the disclosures normally contained in the Company’s annual financial statements. Since the determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality. Except as disclosed in note 3, these financial statements follow the same significant accounting policies as described and used in the most recent annual financial statements of the Company for the year ended November 30, 2007 and should be read in conjunction with those annual financial statements.

Certain amounts from the comparative period have been reclassified to conform to the current period’s presentation.

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## 3. Accounting policy developments

### a) Accounting policy changes

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

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

These new standards do not affect the accounting treatment of transactions. However, they require additional disclosure related to the Company's policies and processes of managing its capital and commentary related to the risks associated with its financial instruments.

Section 3862 describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. These sections replaced Section 3861, "Financial Instruments – Disclosure and Presentation".

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

The additional disclosures required as a result of the adoption of these standards have been included in note 6.

### b) Recent accounting pronouncements not yet adopted

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". The purpose of this Section is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as intangible assets. The Section harmonizes Canadian standards with International Financial Reporting Standards and is effective for the Company's interim and annual financial statements commencing December 1, 2008. The Company is currently evaluating the impact of this standard.

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## 4. Mineral properties

	<b>February 29, 2008</b>			
	<b>Percentage ownership interest %</b>	<b>Acquisition costs \$</b>	<b>Exploration costs \$</b>	<b>Net carrying amount \$</b>
Northwest and Nunavut Territories				
Churchill	58.14	4,609,203	15,598,438	20,207,641
Afridi Lake	58.20	168,366	989,021	1,157,387
XYZ	80.00	180,956	474,074	655,030
Churchill West	26.45	57,785	262,019	319,804
Sakari	50.00	97,618	185,940	283,558
Hecla	100.00	17,102	195,509	212,611
Aylmer Lake West	62.90	10,314	34	10,348
Alberta				
Piche	*51.00	9,973	195,074	205,047
Liege	*51.00	60,867	329,715	390,582
Michigan				
Crystal	100.00	113,864	261,659	375,523
		<b>5,326,048</b>	<b>18,491,483</b>	<b>23,817,531</b>
	<b>November 30, 2007</b>			
	<b>Percentage ownership interest %</b>	<b>Acquisition costs \$</b>	<b>Exploration costs \$</b>	<b>Net carrying amount \$</b>
Northwest and Nunavut Territories				
Churchill	58.14	4,598,435	15,360,749	19,959,184
Afridi Lake	58.20	168,332	942,925	1,111,257
XYZ	80.00	180,956	473,937	654,893
Churchill West	26.45	57,785	261,719	319,504
Sakari	50.00	97,618	185,940	283,558
Hecla	100.00	17,102	195,509	212,611
Aylmer Lake West	62.90	10,314	-	10,314
Alberta				
Piche	*51.00	9,973	169,147	179,120
Liege	*51.00	51,492	229,792	281,284
Michigan				
Crystal	100.00	113,864	246,373	360,237
		<b>5,305,871</b>	<b>18,066,091</b>	<b>23,371,962</b>

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

## 5. Share capital and contributed surplus

### a) Common shares

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Issued and outstanding

	<b>Three months ended February 29, 2008</b>	
	<b>Common shares #</b>	<b>Amount \$</b>
Balance – beginning of period	78,183,361	26,748,597
Shares issued for cash	4,263,266	3,197,450
Share options exercised	669,000	263,586
Share issue costs	-	(320,772)
Future income taxes	-	(2,051,284)
	<hr/>	<hr/>
Balance – end of period	83,115,627	27,837,577

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, which were renounced to the holders of the flow-through shares on December 31, 2007. 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.

During the period, the Company renounced \$7,197,490 (2007 - \$2,151,450) of qualifying expenditures to holders of flow-through shares, resulting in a future income tax liability of \$2,051,284 (2007 - \$623,920) and a corresponding reduction of share capital.

During the period 669,000 options were exercised. The total addition to share capital includes \$173,940 in cash proceeds plus \$89,646 in share-based compensation that had been recorded in contributed surplus pending exercise of the options.

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## b) 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:

	<b>Three months ended February 29, 2008</b>	
	<b>Number of options outstanding #</b>	<b>Weighted average exercise price \$</b>
Balance – Beginning of period	4,399,000	0.60
Expired	(50,000)	0.50
Exercised	(669,000)	0.26
	<hr/>	
Balance – End of period	3,680,000	0.66

The following table summarizes information about the Company's share options outstanding and exercisable as at February 29, 2008:

	<b>Number of options outstanding #</b>	<b>Weighted average exercise price \$</b>	<b>Weighted average remaining contractual life Years</b>
	1,525,000	0.84	0.5
	530,000	0.83	0.9
	50,000	0.75	1.5
	1,300,000	0.40	2.0
	275,000	0.60	3.1
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	3,680,000	0.66	1.3

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## c) Warrants

The following table summarizes activity related to warrants:

	<b>Three months ended February 29, 2008</b>	
	<b>Number of warrants #</b>	<b>Weighted average exercise price \$</b>
Balance – Beginning of period	2,427,340	0.87
Issued	286,995	0.75
Balance – End of period	<u>2,714,335</u>	<u>0.87</u>

The Company has recorded share issue costs in the amount of \$60,269 relating to warrants issued to agents in connection with the December 2007 private placement. The warrants vested four months from the issue date, and the fair values were calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free rate	4.08%
Expected volatility	94.00%
Annual dividend yield	0.00%
Expected life of warrants	2 years

## d) Contributed surplus

The following table summarizes activity related to contributed surplus:

	<b>Three months ended February 29, 2008</b>
Balance – beginning of period	2,147,857
Value of share options exercised	(89,646)
Value of agent warrants issued	<u>60,269</u>
	<u>2,118,480</u>

# Shear Minerals Ltd.

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## 6. Financial instruments and risk management

### a) Fair value of financial instruments

The Company's financial instruments as at February 29, 2008 include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, operator recoveries and accounts payable and accruals. Cash and cash equivalents, restricted cash and short-term investments are recognized on the balance sheet at their fair values. The fair values of accounts receivable, operator recoveries and accounts payable and accruals approximate their carrying amounts due to their short terms to maturity.

### b) Risk management

The Company has exposure to the following risks from its use of financial instruments:

#### *Credit risk*

Operator recoveries are due from companies which operate in the mining exploration industry and, accordingly, are subject to the credit risks associated with this industry. The Company regularly monitors the activities and balances in these accounts to manage its credit risk and to assess the need for an allowance for any doubtful accounts.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its current obligations as they are due. The Company prepares annual exploration and administration budgets and monitors expenditures to manage short-term liquidity. Due to the nature of the Company's activities, funding for long-term liquidity needs are dependent on the Company's ability to obtain additional financing through various means, including equity financing. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

It is management's opinion that the Company is not exposed to other significant interest, currency or credit risks arising from its financial instruments.

### c) Capital management

The Company considers its capital structure to include shareholders' equity and working capital. The Company's capital management objective is to ensure that there are adequate capital resources to fund planned exploration, sustain operations, and continue as a going concern.

In order to facilitate the management of its capital requirements, the Company prepares annual exploration and administrative budgets that consider various factors including successful capital deployment and general industry conditions.

# Shear Minerals Ltd.

## Notes to the Interim Financial Statements

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(unaudited)

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The Company manages its capital and makes adjustments to it in light of the changes in economic conditions and the risk characteristics of mineral property assets. In order to maintain or adjust the capital structure, the Company may from time to time issue shares to finance its exploration spending and operational needs.

The Company's share capital is not subject to any external restriction. There were no changes in the Company's approach to capital management during the period.

### **7. Related party transactions**

During the period, 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.

### **8. Commitment**

The Company has an obligation to incur approximately \$4.5 million of qualifying expenditures by December 31, 2008 related to flow-through shares issued in June and December 2007.

### **9. Subsequent event**

Subsequent to February 29, 2008, the Company issued 2,920,000 stock options with a weighted average exercise price of \$0.59 to employees and consultants of the Company. The options will be exercisable for a period of five years and will vest over various periods of up to 18 months from the date of grant. This will result in share based compensation of \$305,122 in the three months ended May 31, 2008 and a total of \$69,688 in subsequent periods.