

## **SHEAR MINERALS LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **THREE AND SIX MONTHS ENDED MAY 31, 2008**

##### **GENERAL**

This management discussion and analysis (“MD&A”) supplements, but does not form part of, the financial statements and notes for the three and six months ended May 31, 2008 of Shear Minerals Ltd. (“Shear” or the “Company”). The following information, prepared as of July 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:

	<b>2008</b>		<b>2007</b>				<b>2006</b>	
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
Revenue	\$ 70,837	\$ 58,745	\$ 60,883	\$ 124,641	\$ 88,637	\$ 32,013	\$ 57,884	\$ 62,066
Net (loss) income	(611,076)	(158,064)	1,056,684	(101,663)	(317,975)	13,065	(425,144)	(83,816)
Mineral property expenditures	2,050,145	1,338,903	370,531	3,621,858	1,832,967	435,353	541,791	909,363
Basic and diluted (loss) income per share	(0.007)	(0.002)	0.014	(0.001)	(0.005)	-	(0.008)	(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 May 31, 2008**

Shear had a net loss of \$611,076 for the three months ended February 29, 2008 (2007 – \$317,975). The increase in net loss of \$293,101 is primarily due to stock based compensation of \$583,655 (2007 – nil) expensed in the current quarter. The increase was partially offset by the fact that there were no mineral property write downs in the current quarter (2007 - \$234,814).

The Company's expenses were \$801,943 for the three months ended May 31, 2008 compared to \$211,791 for the three months ended May 31, 2007.

General and administrative expenses totalled \$409,925 for the three months ended May 31, 2008, an increase of \$291,780 from the comparative quarter. This increase is primarily due to stock-based compensation of \$312,733 (2007 – nil) recorded in general and administrative expenses in the current quarter. Other general and administrative expenses consisted of corporate travel and tradeshows of \$23,031 (2007 - \$32,513), office expenses of \$27,050 (2007 - \$39,130), payroll of \$40,781 (2007 - \$26,411), shareholder communications and promotion of \$1,650 (2007 - \$13,740), regulatory and transfer fees of \$4,021 (2007 - \$1,706), and other expenses of \$659 (2007 - \$4,645).

The decrease in corporate travel and trade shows is due to timing of expenditures related to conferences and trade shows. The decrease in office expenses is primarily due to non-recurring fees paid in the comparative period for website redesign. The increase in payroll is due to the hiring of additional employees to support the Company's exploration projects. The decrease in shareholder communication and promotion from the comparative period is due to timing of expenditures for promotional materials compared to the prior year.

In the three months ended May 31, 2008, the Company also incurred management fees of \$162,500 (2007 - \$30,000), professional fees of \$156,761 (2007 - \$22,372), consulting fees of \$61,753 (2007 - \$34,748), and amortization of \$11,004 (2007 - \$6,566). The increase in management fees is due to stock based compensation expense of \$130,000 (2007 - nil). The increase in consulting fees is due to stock based compensation of \$51,700 (2007 – nil) offset by a reduction in corporate consultants hired to support the Company's exploration projects. The reduction in corporate consultants has caused a corresponding increase in professional fees in the current period. The remainder of the increase in professional fees is due to stock based compensation of \$89,222 recorded in the current period (2007- nil).

### **Results of operations for the six months ended May 31, 2008**

Shear had a net loss of \$769,140 for the six months ended May 31, 2008 (2007 – \$304,910). The increase in net loss of \$464,230 is primarily due to stock based compensation of \$583,655 (2007 – nil) expensed during the current period. The increase was partially offset by the fact that there were no mineral property write downs in the current period (2007 - \$234,814).

The Company's expenses were \$1,025,639 for the six months ended May 31, 2008 compared to \$393,950 for the three months ended May 31, 2007.

General and administrative expenses totalled \$550,838 for the six months ended May 31, 2008, an increase of \$327,383 from the comparative quarter due primarily to stock based compensation expense of \$312,733 (2007 – nil) recorded in the current period. Other general and administrative expenses consisted of corporate travel and tradeshow of \$71,658 (2007 - \$62,982), office expenses of \$64,897 (2007 - \$63,503), payroll of \$70,203 (2007 - \$43,209), shareholder communications and promotion of \$15,339 (2007 - \$29,230), regulatory and transfer fees of \$14,838 (2007 - \$18,568), and other expenses of \$1,170 (2007 - \$5,963).

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 increase in payroll is due to the hiring of additional employees to support the Company's exploration projects. The decrease in shareholder communication and promotion from the comparative period is due to timing of expenditures for promotional materials compared to the prior year.

In the six months ended May 31, 2008, the Company also incurred management fees of \$192,500 (2007 - \$55,000), professional fees of \$194,004 (2007 - \$37,254), consulting fees of \$66,985 (2007 - \$65,308), and amortization of \$21,272 (2007 - \$12,933). The increase in management fees is due to stock based compensation of \$130,000 (2007 – nil) and compensation increases that are consistent with industry conditions. The net increase in professional and consulting fees of \$158,427 is primarily due to stock based compensation of \$140,922 (2007 – nil). There was also a shift from consulting fees to professional fees due to a change staff composition.

## **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 \$1,020,510 as at May 31, 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.

On July 21, 2008, the Company announced a non-brokered private placement of units at a price of \$0.30 per unit and flow-through common shares at a price of \$0.30 per share. Each unit will consist of one common share of the Company and one-half of a share purchase warrant. Each whole warrant will entitle the holder to acquire an additional common share at a price of \$0.40 at any time within 18 months of issue. On closing, the Company anticipates aggregate gross proceeds of \$1,000,000 from the offering.

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 and six months ended May 31, 2008, the Company incurred management and professional fees of \$63,061 and \$123,026, respectively, (three and six months ended May 31, 2007 – \$30,000 and \$55,000, respectively) to a proprietorship controlled by an officer of Shear, and a company in which a director and officer of the Shear 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 July 25, 2008, Shear had 83,215,627 common shares outstanding. The following table provides a summary of Shear's share options and warrants outstanding at July 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	1,333,250	0.95	December 12, 2008
Warrants	504,840	0.75	December 12, 2008
Warrants	286,995	0.75	December 19, 2009

On April 24, 2008, a total of 2,920,000 options were granted by the Company. Consistent with the Company's past business practices, the options were granted as both additional compensation for services received and as a retention incentive for certain directors, officers, employees and consultants of the Company.

## MINERAL PROPERTIES

During the three months ended May 31, 2008, cash expenditures on exploration and acquisition of the Company's mineral properties totalled \$2,050,145 compared to \$3,031,333 in the three months ended May 31, 2007.

### 1. CHURCHILL DIAMOND, NUNAVUT

The Churchill Diamond Project ("Churchill") is composed of mineral rights to approximately 2.0 million acres near the communities of Rankin and Chesterfield 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. Stornoway has informed the Company that it has chosen not to participate in the 2008 exploration program. As a result, Shear's interest in the project could potentially increase to 62.3%.

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 nine 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. Diamond grade 1.04 cpt (carats per tonne).

*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. Diamond grade 0.82 cpt.

*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. Diamond grade 2.18 cpt.

*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. Diamond grade 0.49 cpt.

In 2007 an additional five high interest kimberlites were discovered. Four are narrow dykes (and are unnamed) within the Sedna Corridor and the fifth is the Meeka kimberlite located southeast of Jigsaw.

<b>Churchill High Interest Kimberlites : Dimensions Implied by Current Drilling</b>							
<b>Kimberlite Name</b>	<b>Body Type</b>	<b>Grade (Carats Per Tonne) for stones &gt;0.85mm</b>	<b>Tonnes processed to date</b>	<b>Width (m)</b>	<b>Length (m)</b>	<b>Deepest Drill Intersection (metres below surface)</b>	<b>Dip (degrees)</b>
Kahuna	Dyke	0.95	356	2.8	5,500	151.6	Vertically-emplaced
Notch	Dyke	0.82	8.66	1.5	3,000	79.5	Vertically-emplaced
North Notch	Dyke	0.8	0.6	1	n/a	n/a	Vertically-emplaced
Jigsaw	Dyke	0.49	8.39	1.3	1,000	n/a	Vertically-emplaced
Meeka	Dyke	n/a	1.8	unknown	500	n/a	Vertically-emplaced
PST 003	Dyke	2.18	6.24	0.8	500	53.9	Vertically-emplaced

#### 2007 Mineral Chemistry Update

In 2007, a total of 479 till samples were collected on the property in order to further resolve existing high interest dispersions and to follow-up on high interest samples or prospecting targets previously identified. Overall, 97% of the 2007 samples were positive for indicator minerals with a total of 10,089 kimberlite indicator mineral grains recovered. Probe results have been received for 979 grains to date, representing the silicates and chromites recovered from the first 400 samples. The highest count sample (07C488) returned 482 grains including 480 microilmenites. The highest pyrope count was from sample 07C441 with 245 grains recovered from 44% of the concentrate, including 136 pyrope garnets. This sample is located 2km down ice (Southeast) of the PST kimberlite and may indicate a new distinct source in the vicinity of the sample.

Since 2004, Shear has contracted Mineral Services Canada Inc. (“MSC”) to assist with the ongoing resolution of possible sources of the very high interest G10 garnet compositions present on the Churchill property. From the 2007 till sample data, MSC has identified a number of additional high interest indicator mineral trains on the property. Out of a total of 42 mineral dispersions identified to date, 35 have yet to be explained by known kimberlite sources. Of these, 17 are ranked high priority, 10 are ranked moderate priority, and 8 are ranked low priority for additional follow-up work. Seven high interest dispersions can be confidently associated with known kimberlite sources, however five of these have mineral dispersions that suggest possible input of grains from additional undiscovered kimberlite sources. The mineral dispersions are ranked on the basis of the indicator mineral abundance, mineral compositions and presence of primary surface features on the recovered garnets and ilmenites.

One of the goals for the 2008 field season is to find the kimberlite sources to as many of these high diamond potential dispersion trains as possible.

#### Kahuna Breakage Study and Diamond Descriptions

MSC was contracted to undertake an evaluation of the value characteristics of the Kahuna macrodiamonds. MSC completed detailed characterization of a total of 1,757 stones out of the total population of 11,347 diamonds. These included all stones falling on the +7 DTC sieve class and larger (464 diamonds in total), plus representative sub-sets of the smaller DTC sieve classes (1,293 diamonds in total). The work was carried out at MSC's secured diamond recovery facility in North Vancouver, BC. The primary goal of the study was to investigate the value characteristics of the macrodiamonds and how these vary with increasing diamond size.

MSC describes the Kahuna diamond population as having encouraging value characteristics. Most notably, the diamonds contain a high abundance of colourless and near colourless varieties and octahedral shapes are the dominant morphology. Diamond clarity in the smaller DTC size classes is described as being mostly very good, however, clarity does decrease in the larger DTC size classes due to an increase in the frequency of inclusions and internal fractures, and not due to the presence of coating on the diamonds. The larger stones also show increased fragmentation, which MSC believes to be due to the increase in occurrence of inclusions and fractures. In terms of cutability, the majority of the stones were classified as having elongated (B) forms that would most likely place them into the makeable category. Further information on the diamond population is available on the Company's website at [www.shearminerals.com](http://www.shearminerals.com)

A breakage assessment was completed internally in order to firstly assess the Kahuna diamonds for physical evidence of breakage through mechanical means (i.e. man-made through crushing) and secondly to determine if the large diamond fragments recovered could be fitted back together to represent a single stone or stones. Diamond shapes and populations were compared from samples #2 (no crushing) and #3 (crushed) and no significant difference was noted. In order to piece together the diamond fragments all diamond surfaces were examined for resorption, crystallographic orientation, catholuminescence and other mineralogical characteristics. Based on this it was concluded that seven fragmented diamonds, totaling 13.42 carats, most likely originated from a single, larger stone. It also indicated that some of these diamonds exhibited physical evidence of breakage through mechanical means during processing.

#### Kahuna Bulk Sample Tailings Audit

On June 26, 2008 the Company announced the recovery of additional macrodiamonds from an audit of the tailings material from the 2007 Kahuna bulk sample. Based on the results of the audit, the calculated diamond grade for Kahuna (as reported on December 3, 2007) has the potential to increase from 0.96 cpt to 1.04 cpt.

#### Kahuna Bulk Sample Valuation

Given the completion of the tailings audit and breakage studies on the Kahuna bulk sample, the Company is currently in the process of finalizing arrangements for an independent market valuation exercise for the Kahuna diamonds. The valuation will be conducted in Antwerp,

Belgium, and is designed to give a preliminary estimate of average diamond value for the parcel recovered to date.

### Meeka Kimberlite Update

In 2007 a total of 31 new kimberlites were discovered on the Property including five highly diamondiferous dykes (see news release October 11, 2007) within the Sedna Corridor. This brings the total number of high interest diamondiferous kimberlites to nine. One of these is the Meeka kimberlite found during the field prospecting of an east-west linear trend located southeast of the Jigsaw kimberlite (see news release October 11, 2007). Initially, an area of green coloured till was sampled and nineteen microdiamonds were recovered from a 15kg sample using caustic fusion. Further sampling and caustic fusion of additional material, believed to represent a mixture of till and weathered kimberlite, returned 92 microdiamonds from a 102.8kg sample (see news release January 31, 2008).

Based on the interpretation of a ground geophysical survey conducted over the linear feature, Meeka is believed to be an east-west trending kimberlite dyke approximately 500m in length and open in both directions. Trenching along the body was unable to establish true width due to the highly weathered nature of the kimberlite and surrounding country rock. Nonetheless, a 1.8-tonne mini bulk sample was collected of this material that once dried, resulted in a final sample weighing 860.5 kilograms.

This sample was processed through the Microlithics DMS facility and only one >0.5mm diamond was recovered from a concentrate containing abundant chromite and kyanite. Due to the unconsolidated nature of the sample medium it is interpreted that the mini bulk sample was highly diluted by glacial material and weather country rock. Prospecting of the entire Meeka trend will occur in 2008 to attempt to locate fresh bedrock kimberlite for follow up sampling.

### **Future Plans**

A \$3.8 million exploration program is planned for 2008 and mobilization of a 30-person field camp is now complete.

As a result of the work completed over the past five years, especially in 2007, the partners have an unparalleled dataset that includes coverage over all the high diamond potential areas with closely spaced ground magnetic surveys, detailed grid till samples, high resolution satellite imaging and glacial mapping. A comprehensive structural interpretation is nearing completion that will integrate all aspects of the Churchill dataset to assist in 2008 targeting.

Experienced crews will follow up targeted anomalies on the ground, followed by drilling using a lightweight reverse circulation percussion drill (tests one target per day). The ability to test a high number of targets using this method is an attractive feature due to the high number of untested targets (>1,000) on the property.

Details of the 2008 program include:

- Minibulk sampling of the Notch kimberlite
- 400 infill till samples
- Test ground gravity and ground penetrating radar surveys over known diamondiferous kimberlite dyke structures to look for potential kimberlite blows.

- Intensive prospecting and structural interpretation over high priority geochemical areas
- Lightweight drill testing of 25-50 targets
- Late summer core program to test up to 20 targets suggestive of large tonnage kimberlites.
- Selected ground magnetic surveys over new areas
- Ongoing environmental baseline data collection and reclamation.

## **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.

### **Future Plans**

The 2007 program included till sampling and prospecting of priority geophysical targets. 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.

## **3. AYLMEER 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.

### **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.

##### **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<sup>TM</sup> 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 of 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 a 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 14, 2008, the Company announced the completion of the spring drill program. A total of 12 drill holes, totalling 1,741 m, were completed that tested 12 priority geophysical targets including the DA1 and DA2 diamondiferous kimberlite pipes.

3 holes were completed to test the previously known DA kimberlites. Drill hole AF08-01 tested a gravity low coincident with a magnetic low of the DA1 kimberlite. A vertical hole intersected kimberlite at a depth of 9.1 meters and remained in kimberlite to a depth of 186 meters. The kimberlite has been described as crater facies, mud rich with a sand matrix, visible bedding and large autoliths. Drill hole AF08-02 tested a gravity low between DA1 and DA2, intercepting 0.21 m of kimberlite in a possible fault zone. Drill hole AF08-03 tested DA2 gravity low and intercepted 0.36 m of fine grained kimberlite, possibly a kimberlite dyke offshoot from the main pipe.

Core will be sent for petrographic analysis to R.L. Barnett Geological Ltd. in order to determine and confirm the mineralogy of the kimberlite as well as to the Saskatchewan Research Council for diamond analysis using caustic fusion. Kimberlite was not encountered in the remaining 9 holes.

In addition, crews completed 2,474 gravity stations as well as 295.5 line km magnetics over eight targets in order to rank targets for testing.

## **Future Plans**

A remaining 6 priority targets have been identified and designated for drill testing from the spring work. A total of 86 geophysical targets suggestive for follow up have been chosen on

the property and will be continuously assessed during ongoing exploration. At the present time the joint venture is applying for all government land-use permits in anticipation of continued prospecting, ground geophysics and drilling at Afridi in late 2008-2009, subject to budget approvals by joint venture partners.

## **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 had agreed to give Shear until May 14, 2008 to complete their \$500,000 in property expenditures. At the present time, Shear and the optionor are reviewing data in anticipation of future work and extensions. In addition, Shear has the ability to earn an additional 24% interest 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.

### **Future Plans**

In 2007 Shear completed a ground gravity survey over the seismic target. Once the gravity data has been fully modelled 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. A \$10,000 cash finder's fee was paid by Shear under the terms of the agreement. The terms of the agreement were amended on May 1, 2008, such that 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 November 30, 2009. On July 14, 2008, the TSX Venture Exchange approved the issue by of 100,000 common shares of the Company, at a deemed price of \$0.33, as consideration for the amendment.

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.

### **Future Plans**

In 2007 Shear completed ground gravity surveys over several targets in order to assist in the prioritization of these targets for drill testing. 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. RATTLESNAKE NORTH, ALBERTA**

On July 7, 2008, the Company entered into an option agreement with Grizzly Diamonds Ltd. to acquire an interest in the Rattlesnake North property (the "Property"), a land position in east central Alberta hosting potash potential.

Under the terms of the agreement, Shear can earn into an initial undivided 51% interest on the following terms:

- \$25,000 cash on signing;
- 200,000 common shares of the Company upon regulatory approval; and
- incurring a total of \$2,000,000 of exploration expenditures before September 1, 2009 including one drill hole to test a specified area of the Property.

Shear can elect to increase its interest in the Property to an undivided 70% interest in the property by carrying Grizzly Diamonds Ltd. to a pre-feasibility study on or before September 1, 2011.

### **Future Plans**

2008 plans for the Rattlesnake North property are currently being developed but will include a compilation of all existing well data for the region.

## **10. 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 from the 2007 exploration program 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.

## **11. CRYSTAL, 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.

Several field programs have been completed at the Crystal Diamond Project. Shear has collected a total of 44 regional till samples that were processed at the Saskatchewan Research Council. Of these samples, over 30 samples yielded diamond indicator minerals with probe confirmed kimberlitic grains including pyrope garnet, olivine, chrome diopside, chromite and microilmenite. A subtle G10 signature of interest is being followed up. Additionally, a regional prospecting and ground check program has identified 17 locations with kimberlite-like fragments.

In 2007, a 6,650 line km high resolution fixed-wing airborne magnetic (HRAM) survey was completed over two priority areas by Firefly Aviation Ltd., of Calgary, Alberta. A review of the geophysical data by independent consultant Christopher Campbell of Intrepid Geophysics, Vancouver BC, identified a total of 84 isolated magnetic targets suggestive of kimberlite, including 10 high priority. To date, a total of nine ground geophysical surveys have been completed over targets and a total of five targets are presently drill ready. All areas of the project are easily accessible year round by state highways, county roads and logging roads.

### **Future Plans**

Future plans for the Crystal project are currently being developed but will likely include additional ground checking and geophysics with follow-up drill testing.

## ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

Three Months Ended May 31, 2008

	Churchill		Aylmer		Afridi Lake	Piche	Liege	Hecla	Sakari	Crystal	Total
	Churchill	West	Lake West								
<b>Acquisition Costs</b>											
Land tenure	\$ 9,052	\$ 500	\$ -	\$ 1,131	\$ -	\$ 3,178	\$ -	\$ -	\$ 4,734	\$ 18,595	
Expenses recovered from partners	-	-	-	(487)	-	-	-	-	-	(487)	
	9,052	500	-	644	-	3,178	-	-	4,734	18,108	
<b>Exploration Costs</b>											
General exploration	756,634	5,257	-	568,377	700	3,688	700	16,824	5,500	1,357,680	
Bulk sampling	(1,541)	-	-	-	-	-	-	-	-	(1,541)	
Environment	22,821	-	69	646	-	34	505	-	-	24,075	
Drilling	48,691	-	-	818,760	-	451	-	20,853	-	888,755	
Sampling	124,669	17,169	-	-	-	-	-	-	-	141,838	
Ground geophysics	163,399	-	-	177,389	-	250	-	1,412	-	342,450	
Airborne geophysics	24,089	14,450	-	3,000	-	-	-	(2,766)	2,000	40,773	
Prospecting	2,478	11,200	-	-	-	-	-	1,647	-	15,325	
Community consultations	6,689	-	-	3,450	-	375	-	-	-	10,514	
Expenses recovered from partners	74,268	-	-	(676,206)	-	-	-	-	-	(601,938)	
	1,222,197	48,076	69	895,416	700	4,798	1,205	37,970	7,500	2,217,931	
	\$ 1,231,249	\$ 48,576	\$ 69	\$ 896,060	\$ 700	\$ 7,976	\$ 1,205	\$ 37,970	\$ 12,234	\$ 2,236,039	

**Three Months Ended May 31, 2007**

	<b>Churchill</b>		<b>Hecla</b>	<b>XYZ</b>	<b>Afridi</b>		<b>Shulin</b>		<b>Liege</b>	<b>Stella</b>		<b>Total</b>
	<b>Churchill</b>	<b>West</b>			<b>Lake</b>	<b>Sakari</b>	<b>Lake</b>	<b>Piche</b>		<b>Polaris</b>	<b>Crystal</b>	
<b>Acquisition Costs</b>												
Land tenure	\$ (7,011)	\$ 500	\$ -	\$ -	\$ 57,961	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,450
Option costs - shares	-	-	-	-	-	-	-	-	-	-	79,000	79,000
Write down of mineral property	-	-	-	-	-	-	(3,821)	-	-	-	-	(3,821)
Expenses recovered from partners	(407)	-	-	-	-	-	-	-	-	-	-	(407)
	<u>(7,418)</u>	<u>500</u>	<u>-</u>	<u>-</u>	<u>57,961</u>	<u>-</u>	<u>(3,821)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,000</u>	<u>126,222</u>
<b>Exploration Costs</b>												
General exploration	932,297	4,078	336	509	23,066	-	-	1,004	2,181	1,532	14	965,017
Drilling	499,667	-	-	-	-	-	-	-	1,362	-	-	501,029
Sampling	718,716	(28,241)	-	-	-	-	-	-	-	12,946	-	703,421
Ground geophysics	214,746	37	-	872	631	-	-	432	488	-	-	217,206
Airborne geophysics	88,500	-	-	1,452	101,314	99,781	-	-	114	-	-	291,161
Prospecting	53,271	-	-	-	-	-	-	-	-	-	-	53,271
Community consultations	49,785	-	-	-	-	-	-	171	188	-	-	50,144
Write down of mineral property	-	-	-	-	-	-	(230,993)	-	-	-	-	(230,993)
Expenses recovered from partners	(999,325)	-	-	-	-	-	-	-	-	-	-	(999,325)
	<u>1,557,657</u>	<u>(24,126)</u>	<u>336</u>	<u>2,833</u>	<u>125,011</u>	<u>99,781</u>	<u>(230,993)</u>	<u>1,607</u>	<u>4,333</u>	<u>14,478</u>	<u>14</u>	<u>1,550,931</u>
	<u>\$ 1,550,239</u>	<u>\$ (23,626)</u>	<u>\$ 336</u>	<u>\$ 2,833</u>	<u>\$ 182,972</u>	<u>\$ 99,781</u>	<u>\$ (234,814)</u>	<u>\$ 1,607</u>	<u>\$ 4,333</u>	<u>\$ 14,478</u>	<u>\$ 79,014</u>	<u>\$ 1,677,153</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.