

## SHEAR MINERALS LTD.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### THREE AND NINE MONTHS ENDED AUGUST 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 nine months ended August 31, 2008 of Shear Minerals Ltd. ("Shear" or the "Company"). The following information, prepared as of October 23, 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:

	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	\$ 8,048	\$ 70,837	\$ 58,745	\$ 60,883	\$ 124,641	\$ 88,637	\$ 32,013	\$ 57,884
Net (loss) income	(664,425)	(611,076)	(158,064)	1,056,684	(101,663)	(317,975)	13,065	(425,144)
Mineral property expenditures	2,626,735	2,236,039	445,569	370,531	3,621,858	1,832,967	435,353	541,791
Basic and diluted (loss) income per share	(0.008)	(0.007)	(0.002)	0.014	(0.001)	(0.005)	-	(0.008)

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.

The decline in revenue for the three months ended August 31, 2008 is due primarily to lower management fees charged to a joint venture partner as a result of the partner's election to not participate in the current year's program.

### **Results of operations for the three months ended August 31, 2008**

Shear had a net loss of \$664,425 for the three months ended August 31, 2008 (2007 – \$101,663). The increase in net loss of \$562,762 is primarily due to mineral property write downs of \$869,252 in the current quarter (2007 – nil) as well as a \$116,593 decrease in revenue from the comparative period. These decreases in income were partially offset by a future income tax recovery of \$304,058 (2007 - \$nil) and decreased general and administrative expenses from the comparative period.

The Company's expenses were \$94,377 for the three months ended August 31, 2008 compared to \$211,164 for the three months ended August 31, 2007.

General and administrative expenses totalled \$30,730 for the three months ended August 31, 2008, a decrease of \$91,514 from the comparative quarter. General and administrative expenses consisted of corporate travel and tradeshows of \$1,169 (2007 - \$11,698), office expenses of \$14,435 (2007 - \$27,457), payroll of \$2,312 (2007 - \$21,591), shareholder communications and promotion of \$3,542 (2007 - \$56,006), regulatory and transfer fees of \$1,241 (2007 - \$2,874), and other expenses of \$8,031 (2007 - \$2,618).

The decrease in corporate travel and trade shows is due to timing of expenditures related to conferences and trade shows. The decreases in office expenses and payroll are primarily due to additional expenditures charged to the Company's exploration projects in the current period. The decrease in shareholder communication and promotion is due to annual report printing costs occurring in the fourth quarter of 2008 compared to the third quarter of 2007.

In the three months ended August 31, 2008, the Company also incurred management fees of \$9,311 (2007 - \$32,500), professional fees of \$38,170 (2007 - \$11,785), consulting fees of \$5,462 (2007 - \$37,445), and amortization of \$10,704 (2007 - \$7,190). The decrease in management fees is due to expenditures of \$22,189 (2007 - \$nil) that were charged to the Company's mineral properties in the current period. The increase in professional fees of \$26,385 and the corresponding decrease in consulting fees of \$31,983 is a result of changes in staff composition. A reduction in corporate consultants has caused a corresponding increase in professional fees in the current period.

### **Results of operations for the nine months ended August 31, 2008**

Shear had a net loss of \$1,433,565 for the nine months ended August 31, 2008 (2007 – \$406,573). The increase in net loss of \$1,026,992 is primarily due to stock based compensation of \$589,523 (2007 – nil) expensed during the current period as well as an increase of \$634,438 in mineral property write downs from the comparative period.

The Company's expenses were \$1,120,016 for the nine months ended August 31, 2008 compared to \$605,114 for the nine months ended August 31, 2007.

General and administrative expenses totalled \$581,568 for the nine months ended August 31, 2008, an increase of \$235,869 from the comparative period due primarily to stock based compensation expense of \$314,934 (2007 – nil), partially offset by decreases in other general and administrative expenses, in the current period. Other general and administrative expenses consisted of corporate travel and tradeshows of \$72,827 (2007 - \$74,680), office expenses of \$79,892 (2007 - \$90,960), payroll of \$69,756 (2007 - \$64,800), shareholder communications and promotion of \$18,881 (2007 - \$85,236), regulatory and transfer fees of \$16,079 (2007 - \$21,442), and other expenses of \$9,199 (2007 - \$8,581).

The decrease in office expenses is primarily due to additional expenditures charged to the Company's exploration projects in the current period. The decrease in shareholder communication and promotion is due to annual report printing costs occurring in the fourth quarter of 2008 compared to the third quarter of 2007.

In the nine months ended August 31, 2008, the Company also incurred management fees of \$201,811 (2007 - \$87,500), professional fees of \$232,214 (2007 - \$49,039), consulting fees of \$72,447 (2007 - \$102,753), and amortization of \$31,976 (2007 - \$20,123). 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, partially offset by expenditures of \$22,189 that were charged to the Company's mineral properties. The net increase in professional and consulting fees of \$152,869 is primarily due to stock based compensation of \$144,589 (2007 – nil). There was also a shift from consulting fees to professional fees due to a change in 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 deficiency of \$528,349 as at August 31, 2008 as compared with working capital of \$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 which were renounced to the holders of the flow-through shares effective 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.

In August of 2008, the Company issued 3,962,000 flow-through shares at a price of \$0.25 per share and 604,000 units at a price of \$0.25 per unit for total gross proceeds of \$1,141,500. The Company will be required to incur \$990,500 of qualifying expenditures which will be renounced to the holders of the flow-through shares effective on or before December 31, 2008. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.40 at any time within 18 months of issue. In addition, agents received 210,000 warrants as commission at an exercise price of \$0.30 per common share, which expire in February 2010.

Management intends to raise additional capital through equity financings to continue to meet its corporate and exploration commitments over the next year and to continue as a going concern. 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 August 31, 2008, the Company incurred fees of \$50,714 (2007 – \$32,500) to a proprietorship controlled by an officer of Shear and to a company in which a director and officer of Shear has significant influence, of which \$28,525 (2007 - \$32,500) was recorded in expenses and \$22,189 (2007 – nil) was recorded in mineral properties.

During the nine months ended August 31, 2008, the Company incurred fees of \$173,741 (2007 - \$87,500) to a proprietorship controlled by an officer of Shear and to a company in which a director and officer of Shear has significant influence, of which \$151,552 (2007 – \$87,500) was recorded in expenses and \$22,189 (2007 – nil) was recorded in mineral properties.

In the opinion of management, these fees are considered to be at fair value and are recorded at the exchange amount.

## DISCLOSURE OF OUTSTANDING SHARE DATA

As at October 23, 2008, Shear had 87,981,627 common shares outstanding. The following table provides a summary of Shear's share options and warrants outstanding at October 23, 2008:

<b>Security</b>	<b>Number</b>	<b>Exercise Price (\$)</b>	<b>Expiry Date</b>
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 15, 2013
Share options	895,000	0.50	April 15, 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
Warrants	210,000	0.30	February 15, 2010
Warrants	302,000	0.40	February 15, 2010

On April 15, 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 August 31, 2008, expenditures on exploration and acquisition of the Company's mineral properties totalled \$2,626,735 compared to \$3,621,858 in the three months ended August 31, 2007.

### 1. CHURCHILL DIAMOND, NUNAVUT

The Churchill Diamond Project ("Churchill") is composed of mineral rights to approximately 1.0 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, 88 kimberlites (2 on the Churchill West Diamond Property) have been discovered on the property, including 9 discovered in 2008. 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 approximately 62%.

The property is subject to a 1% gross overriding royalty and net smelter royalty in favour of the Hunter Exploration Group ("Hunter") and 1% in favour of International Royalty Corp. with respect to the commercial production of diamonds. 100% of all non diamond rights are held by Kaminak Gold Corp.

The property hosts 11 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, including four narrow unnamed dykes within the Sedna Corridor, and the fifth is the Meeka kimberlite located southeast of Jigsaw. In 2008, two new high-interest kimberlites, Killiq and the Kahuna Breccia, were discovered.

<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 <sup>(1)</sup>	356	2.8	5,500	151.6	Vertically-emplaced
Notch	Dyke	0.82	4.93	1.5	3,000	79.5	Vertically-emplaced
North Notch	Dyke	0.8	0.5	1	n/a	n/a	Vertically-emplaced
Jigsaw	Dyke	0.49	5.15	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	3.55	0.8	500	53.9	Vertically-emplaced
Killiq	Dyke	unknown	n/a	0.75	1,000	n/a	Unknown

<sup>(1)</sup> An additional 6.196 carats were recovered from an audit of 15–22% of the tailings indicating a potential grade increase to 1.04 cpt.

#### Exploration Update

Final results from the 2007 exploration program, including a mineral chemistry update, Kahuna breakage study and diamond descriptions, results from the Kahuna bulk sample tailings audit, and a Meeka kimberlite update were reported in the Company's interim MD&A dated July 25, 2008.

The 2008 field program was completed in September 2008 and included:

- Collection of an aggregate of 26.1 wet tonnes of kimberlite from the Notch kimberlite which will be processed using dense media separation to provide a preliminary assessment of commercial diamond content (stones >0.85mm) and stone quality.
- Testing of 40 targets with a reverse circulation drill resulting in the discovery of two kimberlites, including one (Killiq kimberlite) visually similar to kimberlites on the property that have returned high diamond grades.
- Completion of 14 core drill holes, testing 10 targets that resulted in the discovery of one new high-interest kimberlite system within a brecciated zone adjacent to the Kahuna kimberlite referred to as the Kahuna Breccia.
- Extensive prospecting and structural interpretation over high priority geochemical areas that resulted in the discovery of 24 new kimberlite float occurrences plus seven

new outcrop/subcrop occurrences including one that was also confirmed by reverse circulation drilling.

- 455 till samples to infill known priority areas to help identify additional high-interest sources.
- Ground gravity and ground penetrating radar test surveys over the Kahuna and Notch kimberlite trends.
- Geological and structural mapping at the Kahuna and Notch kimberlites.
- High resolution ground magnetic surveys over priority areas.

#### Prospecting Discoveries

A total of 220 kg of kimberlite was collected from the new outcrop/subcrop occurrences and will be examined using petrography and mineral chemistry to determine diamond potential.

Of particular note is the discovery of the KEM kimberlite located adjacent to the Killiq Kimberlite in the Sedna Corridor. Ground crews were able to trace the float and outcrop for 70 metres, up-ice of high-interest mineral chemistry. KEM trends north-south and appears to be highly clay-altered at the location where it would be expected to intersect the Killiq Kimberlite.

#### Kahuna Area Update

Ground gravity surveys designed to identify zones of increased width or possible blows along the Kahuna Kimberlite dyke, together with detailed geological and structural mapping completed by Stubleby Geoscience Ltd., led to the drill testing of three gravity low targets during the summer program. Interpretation of the results suggests that at least portions of the Kahuna kimberlite dyke are associated with wider zones of brecciation and alteration not currently recognized elsewhere on the property. Drill hole 08KD-10, drilled at -60 degrees, tested a gravity low immediately west of Kahuna and intersected intensely altered and brecciated granite over 52 metres downhole. A series of Type B kimberlite stringers (ranging from 1 cm to 15 cm wide) encountered within the breccia zone could indicate a more explosive emplacement for Kahuna than has been typically observed in association with the other kimberlite dykes discovered on the property. It is not yet clear if this Kahuna Breccia zone represents a separate blow or diatreme along the Kahuna structure. Two other RC holes testing gravity lows in this general vicinity had to be abandoned due to poor ground conditions.

One new kimberlite was discovered 3.7km southwest of the Kahuna kimberlite by reverse circulation drilling. Target RC58 is a magnetic high dyke-like signature that trends north-south for more than 1 km. Follow up of this trend in the field resulted in an outcrop exposure 135m south of the drill intersection that is interpreted to be the same kimberlite body.

### Ground Geophysics

Ground penetrating radar surveys were completed over the Kahuna and Notch trend and were successful at mapping overburden depths that will be useful for potential future bulk sampling programs.

Ground magnetic surveys were completed over selected high interest areas such as the Killiq discovery. At Killiq the surveys outlined possible extensions of the kimberlite dyke over more than 1.1km and identified a large circular feature to the north that could represent a possible blow where the Killiq dyke intersects a structural feature referred to as the "Star" structure. In 2007, drill hole 07KD-16 partially tested this feature and intersected a high grade kimberlite dyke (see news release Jan 31, 2008).

### **Future Plans**

Results from the 2008 exploration program are pending. Once results are received, the Company will develop future exploration plans for the property.

## **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. Kaminak Gold Corp. 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 project.

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**

A review of all past data focused on mineral chemistry is underway. Based on those results, future budgets will be discussed with joint venture partners and finalized.

## **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.

## **Future Plans**

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

## **4. 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.

Completion of the 2008 field program was reported in the Company's interim MD&A dated July 25, 2008. Results from the program are still pending.

## **Future Plans**

A remaining 6 priority targets have been identified and designated for drill testing from the 2008 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 exploration in 2009-2010, subject to budget approvals by joint venture partners.

## **5. 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.

In 2007, Shear completed a ground gravity survey over the seismic target. The gravity data has been fully modelled and is interpreted as a priority drill target suggestive of kimberlite.

#### **Future Plans**

The Company is currently evaluating all the past data collected. 2008-2009 plans include ground checks of the remaining targets plus possible ground geophysical surveys (magnetics, EM and/or gravity). The Company is currently in the process of acquiring the required government land-use permits in anticipation of drill testing the seismic target in 2009.

### **6. 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.

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 future drill testing.

#### **Future Plans**

Seven priority targets have been identified and designated for drill testing. At the present time, the joint venture is applying for all government land-use permits in anticipation of drill testing and additional ground geophysics and prospecting in 2009.

### **7. 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 (completed); 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**

A compilation of all existing well data for the region is currently underway and, once complete, future plans for the property will be developed.

### **8. 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.

The 2008 exploration program, with a budget of \$310,000, was approved by the partners to evaluate 10 targets with follow-up exploration including ground geophysics and reverse circulation drill testing of up to three of the most favourable targets.

#### **Future Plans**

Results from the 2008 exploration program will be interpreted by Diamonds North, after which future plans for the project will be determined.

### **9. 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 picroilmenite. 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.

#### **10. HECLA & XYZ, NORTHWEST TERRITORIES**

During the three months ended August 31, 2008, the Company wrote off the carrying amounts of \$655,436 and \$213,816 related to the XYZ and Hecla properties, respectively, as the Company has no current plans for further exploration on the properties at this time.

## ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

	Three Months Ended August 31, 2008											
	Churchill	Churchill West	Aylmer Lake West	XYZ	Afridi Lake	Piche	Liege	Hecla	Sakari	Rattlesnake North	Crystal	Total
<b>Acquisition Costs</b>												
Land tenure	\$ 894	\$ -	\$ 359	\$ -	\$ -	\$ -	\$ 4,190	\$ -	\$ -	\$ 800	\$ -	\$ 6,243
Option costs - cash	-	-	-	-	-	-	-	-	-	25,000	-	25,000
Option costs - shares	-	-	-	-	-	-	28,000	-	-	50,000	-	78,000
Write down of mineral property	-	-	-	(180,956)	-	-	-	(17,102)	-	-	-	(198,058)
Expenses recovered from partners	-	(359)	-	-	(191)	-	-	-	-	-	-	(550)
	894	(359)	359	(180,956)	(191)	-	32,190	(17,102)	-	75,800	-	(89,365)
<b>Exploration Costs</b>												
General exploration	936,251	2,815	-	406	(3,724)	983	2,319	-	12,265	-	3,413	954,728
Bulk sampling	48,612	-	-	-	(2,892)	-	-	-	-	-	-	45,720
Environment	34,815	-	-	-	3,038	120	7,332	-	-	-	-	45,305
Drilling	990,949	-	-	-	(9,778)	150	2,620	-	67,500	-	-	1,051,441
Sampling	94,289	-	-	-	-	-	-	-	20,000	-	-	114,289
Ground geophysics	129,842	-	-	-	86,997	376	1,459	-	66,311	-	-	284,985
Airborne geophysics	(92,939)	93,065	-	-	-	-	-	-	-	-	-	126
Prospecting	149,049	-	-	-	-	-	-	-	-	-	-	149,049
Community consultations	306	305	-	-	1,031	-	-	-	-	-	-	1,642
Write down of mineral properties	-	-	-	(474,480)	-	-	-	(196,714)	-	-	-	(671,194)
Expenses recovered from partners	(27,789)	(101,454)	-	-	-	-	-	-	-	-	-	(129,243)
	2,263,385	(5,269)	-	(474,074)	74,672	1,629	13,730	(196,714)	166,076	-	3,413	1,846,848
	\$ 2,264,279	\$ (5,628)	\$ 359	\$ (655,030)	\$ 74,481	\$ 1,629	\$ 45,920	\$ (213,816)	\$ 166,076	\$ 75,800	\$ 3,413	\$ 1,757,483

Three Months Ended August 31, 2007

	Churchill	Churchill West	Hecla	Aylmer Lake West	XYZ	Afridi Lake	Sakari	Piche	Liege	Stella Polaris	Crystal	Total
<b>Acquisition Costs</b>												
Land tenure	\$ 33,990	\$ 1,353	\$ -	\$ 5,157	\$ -	\$ 7,757	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,257
Option costs - cash	1,250,000	-	-	-	10,000	-	-	-	-	-	-	1,260,000
Option costs - shares	2,475,000	-	-	-	-	-	-	-	-	-	-	2,475,000
Expenses recovered from partners	(14,228)	(1,329)	-	-	-	(40,172)	-	-	-	(12,250)	-	(67,979)
	<u>3,744,762</u>	<u>24</u>	<u>-</u>	<u>5,157</u>	<u>10,000</u>	<u>(32,415)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,250)</u>	<u>-</u>	<u>3,715,278</u>
<b>Exploration Costs</b>												
General exploration	894,299	26,576	50	-	23	16,342	-	353	158	991	-	938,792
Bulk sampling	766,607	-	-	-	-	-	-	-	-	-	-	766,607
Drilling	846,035	-	-	-	-	627	-	-	-	-	-	846,662
Sampling	128,341	23,509	-	-	-	1,614	-	-	-	6,088	-	159,552
Ground geophysics	25,513	1,350	-	-	200	46,466	-	-	-	-	-	73,529
Airborne geophysics	440,996	79,922	-	-	-	438,818	71,529	-	-	-	74,342	1,105,607
Prospecting	230,099	10,030	-	-	-	-	-	-	-	-	-	240,129
Community consultations	2,518	345	-	-	-	-	-	-	207	-	-	3,070
Expenses recovered from partners	(1,381,571)	(95,732)	-	-	-	(252,926)	-	-	-	(22,139)	-	(1,752,368)
	<u>1,952,837</u>	<u>46,000</u>	<u>50</u>	<u>-</u>	<u>223</u>	<u>250,941</u>	<u>71,529</u>	<u>353</u>	<u>365</u>	<u>(15,060)</u>	<u>74,342</u>	<u>2,381,580</u>
	<u>\$ 5,697,599</u>	<u>\$ 46,024</u>	<u>\$ 50</u>	<u>\$ 5,157</u>	<u>\$ 10,223</u>	<u>\$ 218,526</u>	<u>\$ 71,529</u>	<u>\$ 353</u>	<u>\$ 365</u>	<u>\$ (27,310)</u>	<u>\$ 74,342</u>	<u>\$ 6,096,858</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 to our interim financial statements.

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

In February 2008, the Canadian Institute of Chartered Accountants ("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 new Section harmonizes Canadian standards with International Financial Reporting Standards and will be adopted by the company on December 1, 2008.

In April 2008, the CICA published the exposure draft "Adopting IFRS in Canada". The exposure draft proposes to incorporate IFRS into the CICA Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS.

Additional information on these standards is available in note 4 to our interim financial statements.