

## **SHEAR MINERALS LTD.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **YEAR ENDED NOVEMBER 30, 2008**

##### **GENERAL**

This management's discussion and analysis ("MD&A") supplements, but does not form part of, the financial statements and notes for the year ended November 30, 2008 of Shear Minerals Ltd. ("Shear" or the "Company"). The following information, prepared as of March 30, 2009, 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).

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 MD&A are considered forward-looking statements. Please refer to "Forward-Looking Information" for a discussion on the risks and uncertainties related to such information.

##### **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, and Michigan. The Company is a reporting issuer in Alberta and British Columbia and trades on the TSX Venture Exchange under the symbol SRM.

##### **FINANCIAL HIGHLIGHTS**

The following selected annual information is derived from the Company's audited annual financial statements:

	<b>Year Ended November 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Revenue	\$ 139,694	\$ 306,174	\$ 201,649
Net (loss) income	(1,521,164)	650,111	(686,426)
Basic and diluted (loss) income per share	(0.02)	0.01	(0.01)
Total assets	28,807,957	25,420,110	17,266,442

##### **Results of Operations for the Year Ended November 30, 2008**

Shear had a net loss of \$1,521,164 for the year ended November 30, 2008 (2007 – net income of \$650,111). The decrease in net income of \$2,171,275 is primarily due to an increase of \$561,403 in stock-based compensation, an increase of \$739,533 in the write down of mineral properties, and a decrease of \$689,896 in the future income tax recovery. The Company's expenses were \$1,299,685 for the year ended November 30, 2008 compared to \$885,156 for the year ended November 30, 2007.

### **General and Administrative Expense**

Significant components of general and administrative expense are as follows:

	<u>2008</u>	<u>2007</u>
Stock-based compensation	\$ 313,833	\$ 29,463
Office expenses	99,644	124,166
Corporate travel and tradeshow	81,850	98,392
Payroll	80,850	85,937
Shareholder communications and promotion	57,509	95,680
Regulatory and transfer fees	23,527	31,239
Other	7,001	11,077
	<u>\$ 664,214</u>	<u>\$ 475,954</u>

General and administrative expense increased by \$188,260 in 2008, primarily due to an increase in stock-based compensation of \$284,370. Excluding stock-based compensation, general and administrative expenses were \$350,381 in 2008 compared to \$446,491 in 2007, a decrease of \$96,110 in the current year.

The decreases of \$24,522 in office expenses, \$16,542 in corporate travel and tradeshow, \$38,171 in shareholder communications and promotion, and \$5,087 in payroll are due primarily to an emphasis on reducing corporate costs in the latter part of 2008. In response to economic conditions, we implemented a number of initiatives to reduce our corporate costs, including reductions in headcount and corporate storage and office facilities. In addition, we reduced our attendance at investment shows and conferences which resulted in lower fees and travel expenses.

### **Other Expenses**

In 2008, the Company also incurred the following expenses:

	<u>2008</u>	<u>2007</u>
Professional fees	\$ 315,324	\$ 113,081
Management fees	210,249	127,500
Consulting fees	67,188	136,540
Amortization	42,710	32,081
	<u>\$ 635,471</u>	<u>\$ 408,202</u>

Professional fees for the year ended November 30, 2008 include stock-based compensation of \$95,333 (2007 - \$nil) related to stock options granted in the year. Excluding stock-based compensation, professional fees increased by \$106,910 during the year. Excluding stock-based compensation of \$51,700 in 2008 (2007 - \$nil), consulting fees were \$15,488 which is a decrease of \$121,052 from 2007. The offsetting increase in professional fees and decrease in consulting fees, a net decrease of \$14,142 excluding stock-based compensation, is primarily attributable to a change in staff composition from 2007 which resulted in lower overall fees in the current year.

Management fees, excluding stock-based compensation of \$130,000 (2007 - \$nil), declined \$47,251 from 2007. The decrease is partly due to fees of \$31,751 that were charged to the Company's mineral properties in 2008 (2007 - \$nil) as well as an overall reduction in management fees in the second half of 2008 implemented in response to the current economic environment.

## QUARTERLY RESULTS

The following summary of quarterly results is derived from unaudited quarterly financial statements prepared by management:

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 2,064	\$ 8,048	\$ 70,837	\$ 58,745	\$ 60,883	\$ 124,641	\$ 88,637	\$ 32,013
Net (loss) income	(87,599)	(664,425)	(611,076)	(158,064)	1,056,684	(101,663)	(317,975)	13,065
Mineral property expenditures	506,825	2,626,735	2,236,039	445,569	370,531	3,621,858	1,832,967	435,353
Basic and diluted (loss) income per share	(0.001)	(0.008)	(0.007)	(0.002)	0.014	(0.001)	(0.005)	-

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, our outstanding investment balance, and the participation in exploration programs by our joint venture partners. The Company is in the exploration stage and has no revenue from mining operations. The variations in the net loss from quarter to quarter 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 stock-based compensation.

The decline in revenue during 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. The net income in the fourth quarter of 2007 was due to a reduction of \$1,113,308 in the valuation allowance recorded against the Company's future income tax assets.

### Results of Operations for the Three Months Ended November 30, 2008

Shear had a net loss of \$87,599 for the three months ended November 30, 2008 (2007 – net income of \$1,056,684). The decrease in net income of \$1,144,283 is primarily due to a \$1,071,050 decrease in the future income tax recovery, an increase of \$105,095 in the write down of mineral properties, and a decrease in revenue of \$58,819. These decreases in net income were partially offset by a decrease in general and administrative expenses of \$47,609 and a net decrease of \$51,540 in management, professional and consulting fees from the comparative period.

The Company's expenses were \$179,669 for the three months ended November 30, 2008 compared to \$280,042 for the three months ended November 30, 2007. General and administrative expenses totalled \$82,646 for the three months ended November 30, 2008, a decrease of \$47,609 from the comparative quarter. General and administrative expenses

consisted of corporate travel and tradeshows of \$9,023 (2007 - \$23,712), office expenses of \$19,752 (2007 - \$33,206), payroll of \$9,993 (2007 - \$21,137), shareholder communications and promotion of \$38,628 (2007 - \$10,444), regulatory and transfer fees of \$7,448 (2007 - \$9,797), and other income of \$2,198 (2007 – other expenses of \$31,959).

The decreases in corporate travel and trade shows, office expenses, and payroll are due to the cost cutting measures implemented in the second half of 2008 in response to the economic environment. The increase in shareholder relations 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 November 30, 2008, the Company also incurred management fees of \$8,438 (2007 - \$40,000), professional fees of \$83,110 (2007 - \$64,042), and amortization of \$10,734 (2007 - \$11,958). The Company recorded a recovery of consulting fees of \$5,259 (2007 – expense of \$37,787) as a result of a reclassification of certain items to professional fees and office expenses in the fourth quarter.

The decrease in management fees of \$31,562 is due partly to fees of \$9,562 (2007 - \$nil) that were charged to the Company's mineral properties in the current period. The remainder of the decrease is due to an overall reduction in management fees in the second half of 2008. A change in staff composition has resulted in an increase in professional fees and a corresponding decrease in consulting fees in the current year. Together, professional and consulting fees have declined \$19,978 from the comparative quarter due primarily to a decrease in corporate activity in the current period.

## **FINANCIAL CONDITION**

### **Liquidity and Going Concern**

The Company does not generate cash from operations and relies upon the proceeds of private placement financings to support its mineral property acquisition and exploration projects.

In response to the current market volatility and financial crisis, the Company has taken measures to reduce general and administrative expenses, including reductions in staff and management fees, and the closure of certain corporate storage and office facilities. Shear has no commitments for capital expenditures or contractual obligations for future property option payments.

At November 30, 2008, the Company had cash and cash equivalents of \$132,645 (2007 - \$1,040,035) and a working capital deficiency of \$1,251,531 (2007 – working capital of \$930,679). Although funds were raised in a private placement subsequent to November 30, 2008, the Company will need to raise additional capital to sustain operations and continue as a going concern. The Company's financial statements were prepared using generally accepted accounting principles applicable to a going concern. As described below, there are several adverse conditions that cast significant doubt on the validity of this assumption (see also "Risks and Uncertainties" in this document).

Management intends to raise additional capital through private placements in the upcoming year to finance additional exploration expenditures and continue as a going concern. The current financial equity market conditions, the challenging funding environment and the low price of the Company's common shares make it difficult to raise funds by private placements of shares. The

junior resource industry has been severely impacted by the world economic situation as it is considered to be a high-risk investment. There is no assurance that the Company will be successful with any financing ventures. The Company is dependent upon the continuing financial support of shareholders and obtaining financing to continue exploration of its mineral property interests. While the Company is expending its best efforts to achieve its plans by examining various financing alternatives, there is no assurance that any such activity will generate funds that will be available for operations.

### **Recent Financings**

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 was 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 was required to incur \$990,500 of qualifying expenditures which were renounced to the holders of the flow-through shares effective 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.

In December 2008, the Company issued 770,000 units ("Units") at a price of \$0.07 per Unit and 23,347,857 flow-through units ("FT Units") at a price of \$0.07 per FT Unit for total gross proceeds of \$1,688,250. Each Unit consisted of one common share and one non-transferable share purchase warrant. Each FT Unit consisted of one flow-through share and one-half of a share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at a price of \$0.20 at any time within 12 months of issue. The Company will be required to incur \$1,634,350 of qualifying expenditures which were renounced to the holders of the flow-through shares effective on December 31, 2008. The fair values attributable to the common shares and warrants issued were \$1,528,075 and \$160,175, respectively. In addition, agents received 853,350 warrants as commission at an exercise price of \$0.10 per common share, which expire in December 2011.

### **RELATED PARTY TRANSACTIONS**

During the year ended November 30, 2008, the Company incurred fees of \$112,000 (2007 – \$127,500) to Encore Resources Inc., a company in which a director and officer of Shear has significant influence, and \$101,526 (2007 – \$nil) to a proprietorship controlled by an officer of Shear. During the year ended November 30, 2007 fees of \$14,109 were paid to a director of the Company. These transactions were in the normal course of operations and were for management, professional and geological consulting services received, including fees paid to officers in their capacity as executives of the Company.

These fees are recorded in the financial statements as follows:

	<u>2008</u>	<u>2007</u>
Paid directly to a director:		
Consulting fees	\$ -	\$ 14,109
Paid to Encore Resources Inc. and to a proprietorship controlled by an officer:		
Management fees	80,249	127,500
Professional fees	101,526	-
Mineral properties	31,751	-
	<u>\$ 213,526</u>	<u>\$ 141,609</u>

There was \$42,204 related to these fees recorded in accounts payable and accrued liabilities at November 30, 2008 (2007 - \$nil). In the opinion of management, these fees are considered to be at fair value and are recorded at the exchange amount.

In relation to the acquisition of the Stella Polaris Property in 2007, Shear entered into an agreement with Lyncorp, a private Alberta company owned by a director of Shear.

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

As at March 30, 2009, Shear had 112,099,484 common shares outstanding. The following table provides a summary of Shear's share options and warrants outstanding at March 30, 2009:

<u>Security</u>	<u>Number</u>	<u>Exercise Price (\$)</u>	<u>Expiry Date</u>
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	895,00	0.50	April 15, 2013
Warrants	1,333,250	0.95	December 12, 2009
Warrants	286,995	0.75	December 19, 2009
Warrants	210,000	0.30	February 15, 2010
Warrants	302,000	0.40	February 15, 2010
Warrants	8,872,500	0.20	December 19, 2010
Warrants	853,350	0.10	December 19, 2010
Warrants	3,571,429	0.20	December 31, 2010
Warrants	499,999	0.30	December 31, 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 year ended November 30, 2008, expenditures on exploration and acquisition of the Company's mineral properties totalled \$5,815,168 compared to \$9,692,216 in the year ended November 30, 2007.

### 1. CHURCHILL DIAMOND, NUNAVUT

The Churchill Diamond Project ("Churchill") is comprised of mineral rights to approximately 1.0 million acres near the communities of Rankin Inlet 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 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 chosen not to participate in the 2008 exploration program and, 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. Estimated 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. Estimated diamond grade 0.82 cpt.

*PST:* The PST 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. Estimated 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. Estimated 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	n/a	n/a	0.75	n/a	n/a	Vertical

<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**

### ***2007 Exploration Program – Final Results***

#### 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 picroilmenites. 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.

#### 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, British Columbia. 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 within the Sedna Corridor. 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 Dense Media Separation 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.

### ***2008 Exploration Program***

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 Stubbley 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).

### Caustic Fusion Results - Killiq and Kahuna Breccia

From the Kahuna Breccia kimberlite, a total of 54 diamonds, including three macrodiamonds (>0.5mm in two dimensions), were recovered from a 2.95 kg core sample of kimberlite stringers collected from one drill hole that tested the breccia. From the Killiq kimberlite, a total of 176 diamonds, including five macrodiamonds, were recovered from a composite 29.9 kg sample of kimberlite chips collected from two reverse circulation drill holes. Complete diamond recoveries were as follows:

Kimberlite	Sample Weight (kg)	0.106mm Sieve	0.15mm Sieve	0.212mm Sieve	0.3mm Sieve	0.425mm Sieve	0.6mm Sieve	0.85mm Sieve	Total Diamond Count
Kahuna Breccia (08KD-10) <sup>1</sup>	2.95	15	14	11	7	2	0	1	54
Killiq <sup>2</sup>	29.9	76	49	27	13	9	1	1	176

<sup>1</sup> The three largest diamonds measured 2.14mm x 1.64mm x 1.1mm; 1.12mm x 0.84mm x 0.36mm; 1.24mm x 0.78mm x 0.66mm

<sup>2</sup> The three largest diamonds measured 1.36mm x 1.1mm x 0.76mm; 0.94mm x 0.76mm x 0.68mm; 0.84mm x 0.62mm x 0.54mm

### Additional Results

Additional results pending from the 2008 program include microdiamond analyses from other drilling and prospecting discoveries, indicator mineral results from till samples and macrodiamond results from the Notch bulk sample.

### **Future Plans**

Once additional results from the 2008 exploration program 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 BHP Billiton Diamonds Inc. ("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, one of which was diamondiferous.

### **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 Diamondex 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.

In 2008, a total of 12 drill holes totalling 1,741m 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 was 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. Results are still pending.

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 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 could 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. In addition, Shear had 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 Company did not complete the required expenditures under the terms of the option agreement and the carrying amount of the property of \$209,111 was written off in 2008.

## **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. In March 2009, the expenditure period was extended to April 30, 2010 for no consideration.

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 Company is applying for all government land-use permits in anticipation of future drill testing, additional ground geophysics and prospecting.

## **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, a land position in east central Alberta hosting potash potential.

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

- pay \$25,000 cash on signing;
- issue 200,000 common shares of the Company upon regulatory approval (completed); and
- incur 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 could also elect to increase its interest in the property to an undivided 70% interest by carrying Grizzly Diamonds Ltd. to a pre-feasibility study on or before September 1, 2011.

Subsequent to November 30, 2008, the Company relinquished all rights in the property to Grizzly Diamonds Ltd. and the carrying amount of the property of \$76,138 was written off in 2008.

## **8. SAKARI, 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 Resources Inc.'s Amaruik 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.

In 2008, a total of 18 targets were ground surveyed and three of the targets were tested using a percussion drill. No kimberlite was intersected.

### **Future Plans**

Results from the 2008 exploration program will be interpreted by Diamonds North Resources Inc., 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 Diamond 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\$ 1,000,000 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, British Columbia, 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. 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 was required to pay Hunter a \$10,000 annual advance royalty payment which increased to \$25,000 annually on June 30, 2008.

The XYZ Project is composed of more than 19,000 acres of mineral claims located along the northwest boundary of the Ekati™ Diamond Mine property and 225km northeast of Yellowknife, NWT. The project was acquired in 2001 after a high concentration of G10 garnets (a 5 kg un-concentrated sample yielded 15,500 pyrope garnets, 29% of which were G10's, 10,000 picroilmenites and 1,000 olivines) and three diamonds (the largest measuring 0.44x0.42x0.212 mm) were identified in a 194kg beach sand sample from the property. Since that time, Shear has completed airborne geophysics, sampling and ground geophysics and drilling (no kimberlite was intersected).

During the year ended November 30, 2008, the Company wrote off the carrying amount of \$655,436 related to the property as the Company has no plans for further exploration on the property.

## **11. 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 \$1,500,000.

In 2005 the Company mobilized a five person crew to Resolute in order to initiate fieldwork on the Hecla Diamond Project. The 8 day field program included prospecting sites of interest, sampling and mapping. No indicator minerals were recovered from the samples collected. Many areas were not able to be evaluated due to snow cover. No work was conducted on the property in 2006, 2007 or 2008.

During the year ended November 30, 2008, the Company wrote off the carrying amount of \$213,816 related to the property as the Company has no plans for further exploration on the property at this time.

## ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

Year Ended November 30, 2008

	Churchill	Churchill West	Aylmer Lake West	XYZ	Afridi Lake	Piche	Liege	Hecla	Sakari	Rattlesnake North	Crystal	Total
<b>Acquisition Costs</b>												
Land tenure	\$ 31,175	\$ 8,690	\$ 359	\$ (50)	\$ 8,922	\$ -	\$ 16,943	\$ -	\$ -	\$ 800	\$ 4,734	\$ 71,573
Option costs - cash	-	-	-	-	-	-	-	-	-	25,000	-	25,000
Option costs - shares	-	-	-	-	-	-	28,000	-	-	50,000	-	78,000
Expenses recovered from partners	-	(359)	-	-	(487)	-	-	-	-	-	-	(846)
Write down of mineral property	-	-	-	(180,906)	-	(9,973)	-	(17,102)	-	(75,800)	-	(283,781)
	31,175	8,331	359	(180,956)	8,435	(9,973)	44,943	(17,102)	-	-	4,734	(110,054)
<b>Exploration Costs</b>												
General exploration	2,300,284	9,436	176	777	575,877	3,844	12,868	700	29,338	338	9,192	2,942,830
Bulk sampling	61,297	-	-	-	-	-	-	-	-	-	-	61,297
Environment	78,029	-	69	-	15,502	120	7,366	505	-	-	-	101,591
Drilling	1,119,921	-	-	-	824,973	150	9,468	-	88,352	-	-	2,042,864
Sampling	355,378	19,399	-	-	-	508	-	-	20,000	-	-	395,285
Ground geophysics	307,899	300	-	-	292,009	24,994	88,923	-	67,723	-	250	782,098
Airborne geophysics	(91,579)	107,514	-	-	3,000	-	-	-	(2,765)	-	2,000	18,170
Prospecting	177,634	11,200	-	-	-	-	-	-	1,647	-	20,581	211,062
Community consultations	13,041	305	-	-	6,482	375	3,125	-	-	-	-	23,328
Expenses recovered from partners	(159,424)	(101,454)	-	-	(676,206)	-	-	-	-	-	-	(937,084)
Write down of mineral properties	-	-	-	(474,714)	-	(199,138)	-	(196,714)	-	(338)	-	(870,904)
	4,162,480	46,700	245	(473,937)	1,041,637	(169,147)	121,750	(195,509)	204,295	-	32,023	4,770,537
	\$ 4,193,655	\$ 55,031	\$ 604	\$ (654,893)	\$ 1,050,072	\$ (179,120)	\$ 166,693	\$ (212,611)	\$ 204,295	\$ -	\$ 36,757	\$ 4,660,483

Year Ended November 30, 2007

	Churchill	Churchill West	Hecla	Aylmer Lake West	XYZ	Afridi Lake	Sakari	Shulin Lake	Piche	Liege	Stella Polaris	Crystal	Total
<b>Acquisition Costs</b>													
Land tenure	\$ 130,791	\$ 1,853	\$ -	\$ 10,314	\$ -	\$ 74,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,848	\$ 250,134
Option costs - cash	1,250,000	-	-	-	10,000	-	-	-	-	-	25,000	-	1,285,000
Option costs - shares	2,475,000	-	-	-	-	-	-	-	-	-	-	79,000	2,554,000
Expenses recovered from partners	(54,723)	(1,329)	-	-	-	(31,032)	-	-	-	-	(12,250)	-	(99,334)
Write down of mineral property	-	-	-	-	-	-	-	(3,821)	-	-	(155,210)	-	(159,031)
	<u>3,801,068</u>	<u>524</u>	<u>-</u>	<u>10,314</u>	<u>10,000</u>	<u>43,296</u>	<u>-</u>	<u>(3,821)</u>	<u>-</u>	<u>-</u>	<u>(142,460)</u>	<u>111,848</u>	<u>3,830,769</u>
<b>Exploration Costs</b>													
General exploration	2,267,097	42,327	4,410	-	837	91,572	-	-	8,384	22,624	12,300	2,763	2,452,314
Bulk sampling	1,976,342	-	-	-	-	-	-	-	-	-	-	-	1,976,342
Environment	98,220	56	-	-	-	776	-	-	3,242	-	-	-	102,294
Drilling	1,696,750	-	-	-	-	14,865	-	-	-	1,362	-	-	1,712,977
Sampling	536,165	15,969	-	-	-	1,614	-	-	-	-	38,537	-	592,285
Ground geophysics	270,908	1,387	-	-	3,165	173,742	-	-	2,736	25,980	184	26,184	504,286
Airborne geophysics	579,056	79,922	-	-	1,452	565,846	185,940	-	-	114	-	91,648	1,503,978
Prospecting	519,397	25,483	-	-	-	20,520	-	-	-	-	-	-	565,400
Community consultations	61,054	345	-	-	-	-	-	-	1,031	1,144	-	-	63,574
Expenses recovered from partners	(3,258,845)	(118,706)	-	-	-	(363,215)	-	-	-	-	(30,268)	-	(3,771,034)
Write down of mineral property	-	-	-	-	-	-	-	(230,993)	-	-	(25,128)	-	(256,121)
	<u>4,746,144</u>	<u>46,783</u>	<u>4,410</u>	<u>-</u>	<u>5,454</u>	<u>505,720</u>	<u>185,940</u>	<u>(230,993)</u>	<u>15,393</u>	<u>51,224</u>	<u>(4,375)</u>	<u>120,595</u>	<u>5,446,295</u>
	<u>\$ 8,547,212</u>	<u>\$ 47,307</u>	<u>\$ 4,410</u>	<u>\$ 10,314</u>	<u>\$ 15,454</u>	<u>\$ 549,016</u>	<u>\$ 185,940</u>	<u>\$ (234,814)</u>	<u>\$ 15,393</u>	<u>\$ 51,224</u>	<u>\$ (146,835)</u>	<u>\$ 232,443</u>	<u>\$ 9,277,064</u>

## **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.

The Company follows the recommendations in CICA Handbook Section 3063, "Impairment of Long-Lived Assets" and the CICA Emerging Issues Committee Abstract No. 126, "Accounting by Mining Enterprises for Exploration Costs". Handbook Section 3063 requires that the Company review long-lived assets, including mineral properties, for impairment. Long-lived assets are assessed for impairment when events and circumstances warrant an assessment.

Resource property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on results of exploration work, management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded. The recent economic downturn warranted an assessment of the estimated recoverable amount for the Company's mineral properties. Based on management's assessment, it was determined that certain properties should be written down on the basis that no further exploration activity is planned. It is management's opinion that the carrying amount of the remaining properties is supported by positive results from recent exploration work and the Company's near-term exploration plans.

Capitalized costs as reported on the balance sheet represent costs incurred to date and may not reflect actual present or future values. Recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the resource interests. It is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amounts (see "Financial Condition – Liquidity and Going Concern").

Another significant accounting estimate used by the Company relates to the accounting for stock-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**

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Handbook Section 3062, "Goodwill and Other Intangible Assets", and Handbook Section 3450, "Research and Development Costs". The new Section harmonizes Canadian standards with International Financial Reporting Standards ("IFRS") and was adopted by the company on December 1, 2008 and is not expected to have a material impact on our financial statements.

In April 2008, the CICA published the exposure draft "Adopting IFRSs 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 3(b) to our interim financial statements.

### **FINANCIAL INSTRUMENTS**

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.

The Company is also exposed to credit risk with respect to its cash and cash equivalents. To minimize this risk, cash has been placed with a major financial institution. The total amount of cash is available on demand and is not invested in commercial paper or asset-backed security programs.

At November 30, 2008, the maximum exposure to credit risk was the carrying value of the Company's cash and cash equivalents, accounts receivable, and operator recoveries.

#### **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. At March 30, 2009, the Company does not have sufficient cash on hand to complete its planned exploration activities and will need to raise additional capital to continue its operations.

## **Market risk**

The Company is in the exploration stage and commodity prices are not reflected in operating financial results. However, fluctuations in commodity prices may influence financial markets and may indirectly affect the Company's ability to raise capital to fund exploration

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

## **FORWARD-LOOKING INFORMATION**

This document contains forward-looking information that is based on expectations, assumptions and estimates as of the date of this document. Our forward-looking information is information that is subject to known and unknown risks and other factors that may cause future actions, conditions or events to differ materially from the anticipated actions, conditions or events expressed or implied by such forward looking information. Forward-looking information is information that does not relate strictly to historical or current facts, and can be identified by the use of the future tense or other forward-looking words such as "believe", "expect", "anticipate", "intend", "plan", "estimate", "should", "may", "could", "would", "target", "objective", "projection", "forecast", "continue", "strategy", or the negative of those terms or other variations of them or comparable terminology.

Examples of such forward-looking information in this document include, but are not limited to, statements with respect to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions which may prove to be incorrect:

- Our intention to raise additional capital through private placements (see "Financial Condition – Liquidity and going concern").
- The interpretation that portions of the Kahuna kimberlite are associated with wider zones of brecciation and alteration, that a series of kimberlite stringers encountered within the brecciated zone indicate a more explosive emplacement for Kahuna than elsewhere on the property, and that an outcrop 135m south of drill target RC58 is the same kimberlite body (see "Mineral Properties – Churchill – Exploration update").
- The interpretation of ground magnetic surveys at Killiq could represent a possible blow where Killiq intersects a "Star" structural feature (see "Mineral Properties – Churchill – Exploration update").

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including the impact of financial equity market and general economic conditions, fluctuations in demand for diamonds and volatility in prices, volatility of the Company's share price, and the reliability and accuracy of geological interpretations.

In formulating the forward-looking information above, the Company has made assumptions regarding general financial market conditions, the availability of financing, and the reliability and accuracy of interpretations of results from the Company's exploration programs..

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this document and such information should not be relied upon as representing our views as of

any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. These factors are not intended to represent a complete list of the factors that could affect us. See also "Risks and Uncertainties" below for a discussion of other risks that affect our business.

## **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.

### ***Availability of financing***

There is no assurance that additional funding will be available to the Company for additional exploration or for the substantial capital that is typically required in order to bring a mineral project to the production decision or to place a property into commercial production. There can be no assurance that Shear will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.

### ***Title matters***

While Shear has performed its diligence with respect to title of its properties, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements of transfer or other adverse land claims, and title may be affected by undetected defects.

### ***Management***

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the Company.

### ***Economics of developing mineral properties***

Mineral exploration and development involves a high degree of risk and few properties which are explored are ultimately developed into producing mines.

With respect to Shear's properties, should any mineral resource exist, substantial expenditures will be required to confirm that mineral reserves which are sufficient to commercially mine exist on its current properties, and to obtain the required environmental approvals and permits required to commence commercial operations. Should any resource be defined on such properties, there can be no assurance that the mineral resources on such properties can be commercially mined or that the processing will produce economically viable, merchantable products. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend upon the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and/or geologists, all of which involves significant

expense. This decision will involve consideration and evaluation of several significant factors including, but not limited to: (i) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies and construction of production facilities; (ii) availability and costs of financing; (iii) ongoing costs of production; (iv) market prices for the minerals to be produced; (v) environmental compliance regulations and restraints (including potential environmental liabilities associated with historical exploration activities); and (vi) political climate and/or governmental regulation and control.

The ability of Shear to sell and profit from the sale of any eventual mineral production from any of Shear's properties will be subject to the prevailing conditions in the global minerals marketplace at the time of sale. The global minerals marketplace is subject to global economic activity and changing attitudes of consumers and other end-users' demand for mineral products. Many of these factors are beyond the control of Shear and therefore represent a market risk which could impact the long term viability of Shear and its operations.

### ***Uninsurable risks***

In the course of exploration and development of mineral properties, several risks such as rock bursts, cave-ins, fires, flooding, earthquakes and unexpected or unusual geological or operating conditions, may occur. It is not always possible to fully insure against such risks, and Shear may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise they could reduce or eliminate any future profitability and result in an increase in costs.

Shear is not insured against most environmental risks. Insurance against environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) has not been generally available to companies within the industry. Shear periodically evaluates the cost and coverage of the insurance against certain environmental risks that is available to determine if it would be appropriate to obtain such insurance. Without such insurance, and if Shear becomes subject to environmental liabilities, the payment of such liabilities would reduce or eliminate its available funds or could exceed the funds Shear has to pay such liabilities and result in bankruptcy. Should Shear be unable to fund fully the remedial cost of an environmental problem, it might be required to enter into interim compliance measures pending completion of the required remedy.

### ***Environmental risks and other regulatory requirements***

The current or future operations of Shear, including development activities and commencement of production on its properties, require permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which Shear may require for the construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which Shear might undertake.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the

mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Shear and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties.

### ***Competition***

Significant and increasing competition exists for mining opportunities internationally. There are a number of large established mining companies with substantial capabilities and far greater financial and technical resources than Shear. Shear may be unable to acquire additional attractive mining properties on terms it considers acceptable and there can be no assurance that Shear's exploration and acquisition programs will yield any reserves or result in any commercial mining operation.

### ***Potential profitability depends upon factors beyond the control of Shear***

The potential profitability of mineral properties is dependent upon many factors beyond Shear's control. For instance, world prices of and markets for diamonds are unpredictable, highly volatile, potentially subject to governmental fixing, pegging and/or controls and respond to changes in domestic, international, political, social and economic environments. Another factor is that rates of recovery of diamonds from mined deposits (assuming that such deposits are known to exist) may vary from the rate experienced in tests and a reduction in the recovery rate will adversely affect profitability and, possibly, the economic viability of a property. Profitability also depends on the costs of operations, including costs of labour, equipment, electricity, environmental compliance or other production inputs. Such costs will fluctuate in ways Shear cannot predict and are beyond Shear's control, and such fluctuations will impact on profitability and may eliminate profitability altogether. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for development and other costs have become increasingly difficult, if not impossible, to project. These changes and events may materially affect the financial performance of Shear.

### ***Aboriginal title claims***

Recent Canadian jurisprudence puts in doubt the ability of mining companies to acquire, within a reasonable timeframe, effective mineral titles in some parts of Canada in which aboriginal title is claimed. The risk of unforeseen aboriginal title claims also exists and also could affect existing operations as well as development projects and future acquisitions. The need for governments to consult with aboriginal peoples with respect to grants of mineral rights in the issuance or amendment of project authorizations may affect Shear's ability to expand or transfer existing operations or to develop new projects.