

Shear Minerals Ltd.
(a development stage company)

Financial Statements
For the years ended November 30, 2008 and 2007

March 26, 2009

Auditors' Report

**To the Shareholders of
Shear Minerals Ltd.**

We have audited the balance sheets of **Shear Minerals Ltd.** as at November 30, 2008 and 2007 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Edmonton, Alberta

Shear Minerals Ltd.

Balance Sheets

As at November 30

Nature of operations and going concern (note 1)

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 132,645	\$ 1,040,035
Restricted cash (note 4)	36,348	42,926
Short-term investments	4,822	58,103
Accounts receivable	88,144	292,186
Operator recoveries	386,087	482,160
Prepaid expenses	18,897	23,253
	666,943	1,938,663
Equipment (note 5)	108,569	109,485
Mineral properties (note 6)	28,032,445	23,371,962
	<u>\$ 28,807,957</u>	<u>\$ 25,420,110</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,901,298	\$ 985,432
Deposits from exploration partners	17,176	22,552
	1,918,474	1,007,984
Future income taxes (note 7)	2,587,659	1,466,853
	4,506,133	2,474,837
Shareholders' equity		
Share capital (note 8(a))	29,040,123	26,748,597
Contributed surplus (note 8(d))	2,734,046	2,147,857
Deficit	(7,472,345)	(5,951,181)
	24,301,824	22,945,273
	<u>\$ 28,807,957</u>	<u>\$ 25,420,110</u>
Commitment (note 12)		
Subsequent events (notes 6 and 13)		

Approved by the Board of Directors

(Signed) "Pamela Strand"
Director

(Signed) "David Mullen"
Director

Shear Minerals Ltd.

Statements of Operations and Deficit
For the years ended November 30

	2008	2007
Revenue		
Interest	\$ 54,784	\$ 92,385
Management fees	46,015	190,389
Other	38,895	23,400
	<u>139,694</u>	<u>306,174</u>
Expenses		
General and administrative (note 8(b))	664,214	475,954
Professional fees (notes 8(b) and 11)	315,324	113,081
Management fees (notes 8(b) and 11)	210,249	127,500
Consulting fees	67,188	136,540
Amortization	42,710	32,081
	<u>1,299,685</u>	<u>885,156</u>
	(1,159,991)	(578,982)
Unrealized (loss) gain on short-term investments	(53,281)	23,886
Write down of mineral properties (note 6)	(1,154,685)	(415,152)
Gain on disposal of short-term investments	-	83,670
Net loss before income tax	(2,367,957)	(886,578)
Future income tax recovery (note 7)	846,793	1,536,689
Net (loss) income and comprehensive (loss) income	(1,521,164)	650,111
Deficit – beginning of year	(5,951,181)	(6,601,292)
Deficit – end of year	<u>\$ (7,472,345)</u>	<u>\$ (5,951,181)</u>
Basic and diluted net (loss) income per share	<u>\$ (0.02)</u>	<u>\$ 0.01</u>
Weighted average number of common shares outstanding	<u>84,201,043</u>	<u>71,475,746</u>

Shear Minerals Ltd.

Statements of Cash Flows

For the years ended November 30

	2008	2007
Cash provided by (used in)		
Operating activities		
Net (loss) income	\$ (1,521,164)	\$ 650,111
Items not affecting cash		
Amortization	42,710	32,081
Stock-based compensation	590,866	29,463
Unrealized loss (gain) on short-term investments	53,281	(23,886)
Write down of mineral properties	1,154,685	415,152
Gain on disposal of short-term investments	-	(83,670)
Future income tax recovery	(846,793)	(1,536,689)
	(526,415)	(517,438)
Net change in non-cash working capital (note 9)	267,502	(347,662)
	(258,913)	(865,100)
Financing activities		
Issue of shares	4,512,890	6,325,399
Share issue costs	(342,675)	(541,631)
	4,170,215	5,783,768
Investing activities		
Mineral properties	(6,668,865)	(11,080,469)
Operator recoveries received	1,028,627	3,459,909
Purchase of equipment	(41,794)	(52,596)
Net proceeds from sale of short-term investments	-	151,080
Increase (decrease) in restricted cash	6,578	(389)
Net change in non-cash working capital (note 9)	856,762	949,392
	(4,818,692)	(6,537,073)
Decrease in cash and cash equivalents	(907,390)	(1,618,405)
Cash and cash equivalents – beginning of year	1,040,035	2,658,440
Cash and cash equivalents – end of year	\$ 132,645	\$ 1,040,035

Shear Minerals Ltd.

Notes to the Financial Statements

For the years ended November 30, 2008 and 2007

1. Nature of operations and going concern

Shear Minerals Ltd. (the "Company" or "Shear") is in the business of acquiring and exploring mineral properties located primarily in Canada. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable and the Company is not presently carrying on active exploration efforts on certain of its mineral properties.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern. As set out below, there are several adverse conditions that cast significant doubt on the validity of this assumption. At November 30, 2008, the Company has no source of operating cash flow, an accumulated deficit of \$7,472,345 (2007 - \$5,951,181), and a working capital deficiency of \$1,251,531 (2007 - \$930,679 working capital). Operations for the year ended November 30, 2008 have been funded primarily from the issue of share capital.

The Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. 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 including reorganizations, mergers, sales of assets, and settlement of debts by share issuances or other forms of equity financing, there is no assurance that any such activity will generate funds that will be available for operations.

These financial statements do not reflect any adjustments to the carrying values and classification of assets, or the amounts of, and classification of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

The amounts shown in note 6 represent costs net of recoveries to date for property acquisition (including mineral claims and permits) and exploration expenditures, less amounts written off, and do not necessarily reflect fair values. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

Shear Minerals Ltd.

Notes to the Financial Statements

For the years ended November 30, 2008 and 2007

2. Significant accounting policies

a) Use of estimates

Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements in accordance with generally accepted accounting principles for a period necessarily includes the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

b) Revenue recognition

Fees for project management are recorded on an accrual basis as services are provided under the respective operating agreements.

c) Cash and cash equivalents

Cash and cash equivalents are defined as amounts on deposit with banks and readily convertible guaranteed investment certificates with original maturities of less than three months.

d) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method at the following rates:

Field equipment	20% per annum
Computer equipment	30% per annum
Office furniture	20% per annum
Leasehold improvements	33% per annum

Equipment is considered to be impaired when its carrying value exceeds the total cash flows expected from its use and eventual disposition. The amount of impairment is determined as the carrying amount in excess of fair values and is charged to income in the period incurred.

e) Mineral properties

Direct costs relating to the acquisition, exploration and development of mineral properties, including interest on borrowings directly related to a property, are capitalized on an area of interest basis. When the Company is the operator of a project and incurs costs on behalf of joint venture partners, these costs are periodically charged back to the partners and are recorded as operator recoveries. Operator recoveries are credited to exploration costs. Cumulative expenditures will be charged against income, through unit-of-production depletion, when properties are developed to the stage of commercial production. Where the Company's exploration commitments

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Notes to the Financial Statements

For the years ended November 30, 2008 and 2007

for an area of interest are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations. The impairment of mineral properties is assessed whenever changes in circumstances indicate the carrying amount may not be recoverable and, if an impairment is identified, the properties are written down to estimated fair value. Specifically, if the Company's work program on an area of interest has significantly changed so that it no longer has plans for future exploration, previously deferred costs related to the property are charged to operations.

The Company follows the recommendations in the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3063, "Impairment of Long-Lived Assets" ("CICA 3063") and the CICA Emerging Issues Committee Abstract No. 126, "Accounting by Mining Enterprises for Exploration Costs" ("EIC-126"). CICA 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.

The consensus in EIC-126 is that a mining enterprise in the development stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, a mining enterprise is required to consider the conditions in CICA 3063 for an impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired, capitalized costs are written down to the estimated recoverable amount.

f) Income taxes

The asset and liability method is used for determining future income taxes. Under this method, future tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

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g) Asset retirement obligations

The Company recognizes a liability for retirement obligations associated with long-lived assets, including the abandonment of mineral properties and returning properties to their original condition. Asset retirement costs must be recognized at fair value in the period incurred, along with a corresponding increase in the carrying value of the related long-lived asset. The liability is subsequently adjusted for the passage of time and recognized as an accretion expense in the statement of operations and deficit. The increase in the carrying value of the asset is amortized on the same basis as the related long-term asset. At this time, the Company does not have any significant asset retirement obligations.

h) Share capital

The Company credits the proceeds of flow-through common shares, which transfer the deductibility of exploration expenses to the investor, to share capital. A future income tax liability is recorded and share capital is reduced by the cost of future income taxes when the Company files the renouncement documents to renounce the tax credits to the holders of these shares, provided there is reasonable assurance that the expenditures will be made.

The proceeds from the issue of units are allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values. The fair value of common shares is based on the market close on the date that the units are issued and the fair value of the common share purchase warrants is determined using the Black-Scholes option pricing model.

i) Stock-based compensation

The Company grants share options to officers, directors and certain consultants pursuant to a share option plan. In addition, from time to time in connection with short form offerings and private placements, the Company issues warrants to agents as commission for services. Awards of share options are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense which is recognized over the vesting period with a corresponding credit to contributed surplus. Awards of warrants to agents are also accounted for using the fair value method and result in share issue costs and a credit to contributed surplus when the warrants are issued. Any consideration paid on exercise of share options or warrants is credited to share capital.

j) Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, deemed proceeds from the exercise of options and warrants whose exercise prices are below the average market price of the shares are considered to be used to reacquire common shares at the average market price during

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For the years ended November 30, 2008 and 2007

the year. In years when a loss is incurred, this calculation is anti-dilutive. For the year ended November 30, 2007, the dilutive effect of options and warrants on loss per share was not significant.

k) Joint interest operations

Certain of the Company's exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

l) Financial instruments

The Company has designated its cash and cash equivalents, restricted cash, and short-term investments as held for trading and, accordingly, they are recognized on the balance sheet at their fair values and changes in fair value are recognized in income in the period in which the change arose. Accounts receivable and operator recoveries have been classified as loans and receivables, and accounts payable and accruals and deposits from exploration partners have been classified as other liabilities, all of which are measured at amortized cost subsequent to initial recognition.

Regular-way purchases and sales of financial assets are accounted for using trade-date accounting, and transaction costs on financial instruments other than those classified as held for trading are recognized in income in the period.

m) Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

3. Accounting changes

a) Changes in accounting policies

On December 1, 2007, the Company adopted the following new CICA Handbook Sections:

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

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

Section 3862 describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the

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nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. These sections replaced Handbook Section 3861, "Financial Instruments – Disclosure and Presentation".

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

The additional disclosures required as a result of the adoption of these standards have been included in note 10.

b) Recent accounting pronouncements not yet adopted

i) Goodwill and intangible assets

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 purpose of this Section is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as intangible assets. The section harmonizes Canadian standards with International Financial Reporting Standards ("IFRS") and is effective for the Company's interim and annual financial statements commencing December 1, 2008. The Company is currently evaluating the impact of this standard and no significant impact is expected.

ii) IFRS

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. The Company is reviewing the impact of adopting IFRS on its financial statements.

4. Restricted cash

The Company has provided guaranteed investment certificates to secure letters of credit in support of the Company's exploration activities.

Shear Minerals Ltd.

Notes to the Financial Statements

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5. Equipment

	2008		
	Cost	Accumulated Amortization	Net
Field equipment	\$ 129,778	\$ 87,335	\$ 42,443
Computer equipment	80,481	42,536	37,945
Office furniture	25,106	5,560	19,546
Leasehold improvements	17,099	8,464	8,635
	<hr/> 252,464	<hr/> 143,895	<hr/> 108,569

	2007		
	Cost	Accumulated Amortization	Net
Field equipment	\$ 129,778	\$ 67,259	\$ 62,519
Computer equipment	48,546	29,580	18,966
Office furniture	15,247	1,525	13,722
Leasehold improvements	17,099	2,821	14,278
	<hr/> \$ 210,670	<hr/> \$ 101,185	<hr/> \$ 109,485

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Notes to the Financial Statements

For the years ended November 30, 2008 and 2007

6. Mineral properties

				2008
	Ownership interest (%)	Acquisition costs	Exploration costs	Net carrying amount
Northwest and Nunavut Territories				
Churchill	58.14	\$ 4,629,610	\$ 19,523,229	\$ 24,152,839
Afridi Lake	58.20	176,767	1,984,562	2,161,329
Churchill West	26.45	66,116	308,419	374,535
Sakari	50.00	97,618	390,235	487,853
Aylmer Lake West	62.90	10,673	245	10,918
Alberta				
Liege	*51.00	96,435	351,542	447,977
Michigan				
Crystal	100.00	118,598	278,396	396,994
		\$ 5,195,817	\$ 22,836,628	\$ 28,032,445

				2007
	Ownership interest (%)	Acquisition costs	Exploration Costs	Net carrying amount
Northwest and Nunavut Territories				
Churchill	58.14	\$ 4,598,435	\$ 15,360,749	\$ 19,959,184
Afridi Lake	58.20	168,332	942,925	1,111,257
XYZ	80.00	180,956	473,937	654,893
Churchill West	26.45	57,785	261,719	319,504
Sakari	50.00	97,618	185,940	283,558
Hecla	100.00	17,102	195,509	212,611
Aylmer Lake West	62.90	10,314	-	10,314
Alberta				
Piche	*51.00	9,973	169,147	179,120
Liege	*51.00	51,492	229,792	281,284
Michigan				
Crystal	100.00	113,864	246,373	360,237
		\$ 5,305,871	\$ 18,066,091	\$ 23,371,962

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

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

Shear Minerals Ltd.

Notes to the Financial Statements

For the years ended November 30, 2008 and 2007

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 note 1).

Contractual options and commitments

a) Churchill

During 2007, the Company and Stornoway Diamond Corp. ("Stornoway") each acquired one-half of BHP Billiton Diamonds Inc.'s ("BHPB") 12.5% share in the Churchill Diamond Project. The Company acquired its additional 6.25% interest in the Project by paying \$1,250,000 in cash and issuing 3,928,571 common shares to BHPB. The Company now holds a 58.14% interest and Stornoway has a 41.86% interest in the diamond rights to the property.

Stornoway elected not to participate in the 2008 exploration program at the Churchill Diamond Project. As a result, the Company's interest in the project will increase, and Stornoway's interest will dilute, based on the amount of the program expenditures that are borne solely by the Company. The Company anticipates that its interest will increase from 58.14% 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.

b) Afridi Lake

This project operates under a joint venture agreement with International Samuel Exploration Corporation ("Samuel"), New World Resource Corp. ("New World") and Mantle Resources Inc. ("Mantle"). Shear currently holds a 58.2% interest in the property, Samuel holds 25.4%, and New World and Mantle each hold 8.2%.

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. No qualifying kimberlites have been discovered as of November 30, 2008. The Company is also obligated to pay a 5% gross overriding royalty and net smelter fee on production of the property.

Shear Minerals Ltd.

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For the years ended November 30, 2008 and 2007

c) Churchill West

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

d) Sakari

During 2007, the Company earned into a 50% interest in the Sakari project. Diamonds North Resources Ltd. retains the other 50% interest and is the operator of the project. The property is subject to a 2% gross overriding royalty on all diamonds and a 2% net smelter royalty on other minerals payable to BHPB.

e) Hecla

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, of which 1% can be purchased by Shear for \$1,500,000.

During 2008, the Company wrote off the total carrying amount of \$213,816 related to the Hecla property as the Company has no further exploration plans for the property.

f) Aylmer Lake West

This project operates under a joint venture agreement with Diamondex Resources Ltd. Shear is obligated to pay a 3.5% gross underlying royalty on production from the property.

g) Piche

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. In addition, Shear had the ability to earn an additional 24% in the property by spending an additional \$1,000,000 in exploration expenditures over two years after earning 51%. The optionee had agreed to give Shear until May 14, 2008 to complete its \$500,000 in property expenditures.

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The carrying amount of the Piche property of \$209,111 was written off during 2008 as the Company did not complete the required expenditures under the terms of the option agreement on the property.

h) XYZ

This project operates under a joint venture agreement with Hunter. Hunter retains a 2% net smelter royalty on non-diamond production as well as a 2% gross overriding royalty on diamond production from the property. Shear is required to pay Hunter a \$25,000 annual advance royalty payment.

During 2008, the Company wrote off the total carrying amount of \$655,620 related to the XYZ property as the Company has no future exploration plans for the property.

i) Liege

On November 30, 2005, the Company acquired a farm-out agreement on a significant land position in north central Alberta for diamond exploration. The property, known as the Liege Diamond project, was acquired from a Canadian oil and natural gas exploration, development and production company. Under the terms of the agreement, Shear could 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 April 30, 2008.

On May 1, 2008, the Company entered into an Amending Agreement to extend the option to acquire a 51% interest in the Liege Diamond project by incurring aggregate expenditures of \$1,000,000 by November 30, 2009. The Company issued 100,000 common shares with a fair value of \$28,000 as consideration. Subsequent to year end, the expenditure period was extended to May 31, 2010 for no consideration.

j) Stella Polaris

In 2006, the Company acquired the Stella Polaris Diamond project (the "Property") in southern Saskatchewan by paying \$25,000 and issuing 200,000 common shares of Shear to the vendors of the project.

In 2007, pursuant to an agreement between Shear and the vendors, Shear paid an additional \$25,000.

Shear entered into an agreement with Lyncorp International Ltd. ("Lyncorp"), a private Alberta company owned by a director of Shear, whereby Lyncorp earned an undivided 49% interest in the property by funding \$250,000 in exploration expenditures or acquisition costs.

The carrying amount of \$180,338 related to the Stella Polaris property was written off in 2007 and on January 30, 2008, Shear relinquished all rights in the property to the vendors.

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k) Crystal Project

On May 7, 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. No qualifying kimberlites have been discovered as of November 30, 2008. 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 \$US1,000,000 for each whole percentage, and if any fraction of a percentage is purchased, by an amount pro-rated in accordance with the percentage purchased.

l) Rattlesnake North

On June 26, 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 prospective for potash exploration.

During 2008, the Company wrote off the total carrying amount of \$76,138 related to the Rattlesnake North property as the Company has no future exploration plans for the property. Subsequent to year end, the Company relinquished its interest in the property and the option agreement was terminated.

Under the terms of the agreement, the Company 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.

The Company could also elect to increase its interest in the property to an undivided 70% interest by completing and delivering a pre-feasibility study to Grizzly Diamonds Ltd. on or before September 1, 2011.

Pursuant to the agreement, the Company issued 200,000 common shares with a fair value of \$50,000 during 2008. Subsequent to year end, 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 at November 30, 2008.

m) Shulin Lake

In 2007, the total carrying amount of \$234,814 related to the Shulin Lake property was written off as the Company had no future exploration plans for the property.

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7. Income taxes

The income tax provision differs from the amount computed by applying the statutory rates to pre-tax income as a result of the following:

	<u>2008</u>	<u>2007</u>
Income tax recovery expected based on a combined federal and provincial (territorial) tax rate of 29.72% (2007 – 32.29%)	\$ 703,757	\$ 286,276
Increase (decrease) in recovery resulting from		
Taxable portion of investment gains	-	13,509
Impact of tax rate changes	266,287	17,078
Share-based compensation and other non-deductible items	(178,491)	(4,090)
Recognition of non-capital losses and deductible finance fees	-	110,608
Change in valuation allowance	55,240	1,113,308
	<u>\$ 846,793</u>	<u>\$ 1,536,689</u>

The future income tax assets and liabilities comprise the following temporary differences:

	<u>2008</u>	<u>2007</u>
Non-capital losses	\$ 1,244,350	\$ 1,196,552
Deductible finance fees	225,555	279,813
Equipment	41,547	34,946
Short-term investments	10,781	-
Valuation allowance	(84,342)	(139,582)
Future income tax assets	1,437,891	1,371,729
Mineral properties	(4,025,550)	(2,838,582)
Future income tax liabilities	<u>\$ (2,587,659)</u>	<u>\$ (1,466,853)</u>

The future income tax recovery for the year ended November 30, 2008 includes a recovery of \$55,240 (2007 - \$1,113,308) resulting from a reduction in the valuation allowance. Management considers the scheduled reversals of future income tax liabilities, the character of income tax assets and available tax planning strategies of the Company when evaluating the expected realization of future income tax assets. Based on management's estimate of the expected realization of future income tax assets during the current period, the Company reduced the valuation allowance recorded against future income tax assets to reflect that it is more likely than not that the future income tax assets will be realized.

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Notes to the Financial Statements

For the years ended November 30, 2008 and 2007

At November 30, 2008, the Company has non-capital losses for income tax purposes of approximately \$4,951,652 which expire as follows:

	Non-capital Losses	Expiry Date
November 30, 2002	\$ 292,721	2009
2003	656,381	2010
2004	774,737	2014
2005	487,351	2015
2006	838,976	2026
2007	951,218	2027
2008	950,268	2028
	<hr/>	
	\$ 4,951,652	

The loss expiring in 2009 has not been recognized as a future income tax asset.

Shear Minerals Ltd.

Notes to the Financial Statements

For the years ended November 30, 2008 and 2007

8. Share capital and contributed surplus

a) Common shares

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Common shares issued and outstanding:

	2008		2007	
	Number of shares	Amount	Number of shares	Amount
Balance – beginning of year	78,183,361	\$ 26,748,597	66,115,353	\$ 19,446,611
Issued in private placements	8,829,266	4,328,883	7,212,000	5,676,582
Issued upon exercise of stock options	669,000	263,586	501,000	157,745
Issued upon exercise of warrants	-	-	326,437	235,710
Issued for other consideration (notes 6(a), 6(i), 6(k) and 6(l))	300,000	78,000	4,028,571	2,554,000
Share issue costs (net of future income tax recovery of \$83,701 (2007 – \$nil))	-	(327,643)	-	(698,131)
Future income taxes on renouncement of qualifying expenditures	-	(2,051,300)	-	(623,920)
Balance – end of year	87,981,627	\$ 29,040,123	78,183,361	\$ 26,748,597

In June of 2007, the Company issued 4,545,500 flow-through shares at a price of \$0.88 per share and 2,666,500 units at a price of \$0.75 per unit for gross proceeds of \$5,999,915. The Company was required to incur \$4,000,040 of qualifying expenditures, which were renounced to the holders of the flow-through shares on December 31, 2007. Each unit consisted of one non-flow-through 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 \$0.95 at any time within 18 months of issuance. The fair values attributable to the non-flow-through common shares and warrants were \$1,676,542 and \$323,333 respectively. In addition, agents received 504,840 warrants as commission at an exercise price of \$0.75 per common share, which expire in December 2008. Related to this, the Company recorded stock-based compensation in the amount of \$156,500 as a share issue cost in 2007.

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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. Related to this, the Company has recorded stock-based compensation of \$60,269 as a share issue cost.

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 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. The fair values attributable to the non-flow-through common shares and warrants were \$140,933 and \$10,067, respectively. In addition, agents received 210,000 warrants as commission at an exercise price of \$0.30 per common share, which expire in February 2010. Related to this, the Company has recorded stock-based compensation of \$8,400 as a share issue cost.

During 2008, the Company issued 300,000 common shares (2007 – 100,000) at a value of \$78,000 (2007 – \$79,000) to acquire and satisfy contractual obligations under certain mineral property agreements. In 2007, the Company also issued 3,928,571 shares at a value of \$2,475,000 to acquire an additional 6.25% of the Churchill Diamond project, as described in note 6(a).

In the year ended November 30, 2008, the Company renounced \$7,197,490 (2007 - \$2,151,450) of qualifying expenditures to holders of flow-through shares, resulting in a future income tax liability of \$2,051,300 (2007 - \$623,920) and a corresponding reduction of share capital.

b) Share options

The Company has a share option plan for the benefit of directors, management and certain consultants of the Company. Under the plan, the Company may grant options to eligible recipients, provided that at the time of the grant the total number of common shares reserved for issuance under the plan does not exceed 10% of the Company's issued and outstanding common shares at that time. The exercise price of each option may be discounted up to 25% from the market price of the Company's common shares on the date of grant and an option's maximum term is five years.

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For the years ended November 30, 2008 and 2007

The following table summarizes activity related to share options:

	2008		2007	
	Number of options outstanding	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
Balance – beginning of year	4,399,000	\$ 0.60	4,900,000	\$ 0.57
Granted	2,920,000	0.59	-	-
Exercised	(669,000)	0.26	(501,000)	0.26
Cancelled	(431,666)	0.50	-	-
Expired	(1,575,000)	0.83	-	-
Balance – end of year	4,643,334	\$ 0.57	4,399,000	\$ 0.60
Exercisable – end of year	4,560,002	\$ 0.57	4,399,000	\$ 0.60

The following table summarizes information about the Company's share options outstanding as at November 30, 2008:

	Options outstanding			Options exercisable	
	Number	Weighted average remaining life (years)	Weighted average exercise price	Number	Weighted average exercise price
	530,000	0.2	\$ 0.83	530,000	\$ 0.83
	50,000	0.8	0.75	50,000	0.75
	1,300,000	1.2	0.40	1,300,000	0.75
	275,000	2.4	0.60	275,000	0.60
	1,700,000	4.4	0.65	1,700,000	0.65
	788,334	4.4	0.50	705,002	0.50
	4,643,334	2.9	\$ 0.57	4,560,002	\$ 0.57

At November 30, 2008, the weighted average remaining contractual life of outstanding options is 2.9 years (2007 – 1.4 years). The Company recorded \$597,099 of stock-based compensation related to stock options in the year ended November 30, 2008 (2007 - \$nil) with such amount being credited to contributed surplus. The stock-based compensation was charged to general and administrative expense - \$313,833; consulting fees - \$51,700; professional fees - \$95,333; management fees - \$130,000; the Churchill mineral property - \$733; and the Crystal mineral property - \$5,500. The Company expects to record a further \$18,332 of stock-based compensation in future periods as options vest.

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For the years ended November 30, 2008 and 2007

The fair value of each share option granted by the Company was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	<u>2008</u>
Number of options granted	2,920,000
Weighted average fair value per option granted	\$ 0.24
Weighted average assumptions:	
Risk-free rate	3.12%
Expected volatility	88.00%
Dividend yield	0.00%
Expected life	4.2 years

c) Warrants

The following table summarizes activity related to warrants:

	<u>2008</u>		<u>2007</u>	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Balance – beginning of year	2,427,340	\$ 0.87	965,099	\$ 0.72
Issued	798,995	0.50	1,838,090	0.90
Exercised	-	-	(326,437)	0.59
Expired	(589,250)	0.80	(49,412)	0.65
Balance – end of year	<u>2,637,085</u>	<u>\$ 0.78</u>	<u>2,427,340</u>	<u>\$ 0.87</u>

During the year ended November 30, 2008, the Company recorded share issue costs of \$68,669 (2007 - \$156,500) relating to warrants issued to agents in connection with private placements. The warrants vested four months from the issue date, and the fair values were calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>2008</u>	<u>2007</u>
Number of warrants issued	496,995	504,840
Weighted average fair value per warrant issued	\$ 0.14	\$ 0.31
Weighted average assumptions:		
Risk-free rate	3.54%	4.79%
Expected volatility	81.32%	97.00%
Dividend yield	0.00%	0.00%
Expected life	1.8 years	1.5 years

During 2007, warrants to acquire an aggregate of 589,250 common shares were modified to extend the expiry date to May 19, 2008. Stock-based compensation

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expense of \$29,463 related to this modification was recorded as general and administrative expense.

d) Contributed surplus

	<u>2008</u>	<u>2007</u>
Balance – beginning of year	\$ 2,147,857	\$ 1,706,532
Stock-based compensation (notes 8(b) and 8(c))	597,099	29,463
Value of share options exercised	(89,646)	(25,035)
Value allocated to warrants issued in private placement	10,067	323,333
Value of agent warrants issued	68,669	156,500
Value of agent warrants exercised	-	(42,936)
	<u>\$ 2,734,046</u>	<u>\$ 2,147,857</u>

9. Net change in non-cash working capital

	<u>2008</u>	<u>2007</u>
Accounts receivable	\$ 204,042	\$ (116,515)
Prepaid expenses	4,356	3,667
Accounts payable and accrued liabilities	915,866	714,578
	<u>1,124,264</u>	<u>601,730</u>
Relating to:		
Operating activities	267,502	(347,662)
Investing activities	856,762	949,392
	<u>\$ 1,124,264</u>	<u>\$ 601,730</u>

10. Financial instruments and risk management

a) Fair value of financial instruments

The Company's financial instruments as at November 30, 2008 include cash and cash equivalents, restricted cash, short-term investments, certain accounts receivable, operator recoveries and certain accounts payable and accrued liabilities. Cash and cash equivalents, restricted cash and short-term investments are recognized on the balance sheet at their fair values. The fair value of short-term investments is determined by the bid price of the shares at the balance sheet date. The fair values of accounts receivable, operator recoveries and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. The Company has no unrecognized financial instruments or derivative financial instruments.

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For the years ended November 30, 2008 and 2007

b) Risk management

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

Credit risk

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

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 is 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 November 30, 2008, the Company does not have sufficient cash on hand to meet its current obligations. The Company 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.

c) Capital management

The Company considers its capital structure to include shareholders' equity and working capital. The Company's capital management objective is to ensure that there

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For the years ended November 30, 2008 and 2007

are adequate capital resources to fund planned exploration, sustain operations, and continue as a going concern.

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

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

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

11. 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 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 a company and to a proprietorship controlled by a director and officers:		
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 (see note 6(j)).

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12. Commitment

Under the terms of an operating lease, the Company is committed to incur \$19,000 for the rent of a warehouse facility in the year ended November 30, 2009.

13. Subsequent events

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 to this, the Company recorded stock-based compensation of \$17,067 as a share issue cost.

In December 2008, warrants to acquire an aggregate of 1,333,250 common shares were modified to extend the expiry date by one year to December 12, 2009. Stock-based compensation expense related to this modification was not significant.