

SHEAR MINERALS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE AND SIX MONTHS ENDED MAY 31, 2009

GENERAL

This management's discussion and analysis ("MD&A") supplements, but does not form part of, the unaudited interim financial statements of Shear Minerals Ltd. ("Shear" or the "Company") for the three and six months ended May 31, 2009. The following information, prepared as of July 22, 2009, should be read in conjunction with those statements and with the Company's audited financial statements for the year ended November 30, 2008, both of which have been prepared in accordance with Canadian generally accepted accounting principles. 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.

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.

PRIOR PERIOD COMPARISONS

In preparing the financial statements for the three and six months ended May 31, 2009, we determined that the future income tax recovery reported in our previously issued interim financial statements for the three months ended February 29, 2008 was understated by \$60,458, and that the future income tax recovery in our interim financial statements for the three months ended May 31, 2009 was overstated by \$60,458.

As a result, the comparative figures in our financial statements for the three months ended May 31, 2008 have been restated. The impact of the restatement on the interim statement of operations and deficit for the three months ended May 31, 2008 is a change to the future income tax recovery, and net loss and comprehensive loss. Additional details on the restatement are available in note 4 to our financial statements. Comparative information in this MD&A has been updated to reflect this restatement.

SUMMARY OF QUARTERLY RESULTS

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

	2009		2008				2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Mineral property expenditures	\$ (15,417)	\$ (40,255)	\$ (506,825)	\$ (2,626,735)	\$ (2,236,039)	\$ (445,569)	\$ (370,531)	\$ (3,621,858)
Revenue	534	850	2,064	8,048	70,837	58,745	60,883	124,641
Expenses excluding stock-based compensation	(114,399)	(164,460)	(178,326)	(88,509)	(218,288)	(223,696)	(250,579)	(211,164)
Stock-based compensation expense	(9,166)	-	(1,343)	(5,868)	(583,655)	-	(29,463)	-
Unrealized gain (loss) on short-term investments	2,964	3,242	(22,100)	(12,902)	(25,166)	6,887	(12,408)	(15,140)
Recovery (write down) of mineral properties	-	25,000	(285,433)	(869,252)	-	-	(180,338)	-
Future income tax recovery	33,100	47,885	397,539	304,058	84,738	60,458	1,468,589	-
Net (loss) income	(89,967)	(87,483)	(87,599)	(664,425)	(671,534)	(97,606)	411,905	(101,663)
Basic and diluted (loss) income per share	(0.001)	(0.001)	(0.001)	(0.008)	(0.007)	(0.001)	0.014	(0.001)

The Company's revenues are derived mainly from interest on deposits and short-term investments and from management fees charged to joint venture partners. These items fluctuate from quarter to quarter 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 changes in the level of corporate activity as well as 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 beginning in 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 2008 exploration 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

Three Months Ended May 31, 2009

Shear had a net loss of \$86,967 for the three months ended May 31, 2009 (three months ended May 31, 2008 – \$671,534). The Company's expenses were \$123,565 for the three months ended May 31, 2009 compared to \$801,943 for the three months ended May 31, 2008, a decrease of \$678,378 from the comparative quarter. The decrease in expenses and an unrealized gain on short-term investments of \$2,964 (2008 - unrealized loss of \$25,166) were partially offset by decreases of \$70,303 in revenue and \$51,638 in the future income tax recovery.

General and Administrative Expense

Significant components of general and administrative expense were as follows:

	Three months ended May 31,	
	2009	2008
Office expenses	\$ 20,190	\$ 27,050
Other	15,017	659
Corporate travel and tradeshows	4,717	23,031
Regulatory and transfer fees	3,562	4,021
Payroll	2,198	41,514
Shareholder communications and promotion	1,473	1,650
Stock-based compensation	-	312,000
	\$ 47,157	\$ 409,925

General and administrative expense decreased by \$362,768 from the comparative quarter, primarily due to a decrease in stock-based compensation and an overall decline in corporate activity. No stock options were granted by the Company in the quarter ended May 31, 2009, while 2,920,000 stock options were granted in the comparative quarter.

Other general and administrative expense for the current quarter includes \$13,655 payable to Canada Revenue Agency related to unspent flow-through funds renounced to shareholders under the look-back rule. The decreases of \$18,314 in corporate travel and tradeshows and \$39,316 in payroll are due to an emphasis on reducing corporate costs in the latter part of fiscal 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, and we also reduced our attendance at investment shows and conferences which resulted in lower fees and travel expenses in the current quarter.

Other Expenses

	Three months ended May 31,	
	2009	2008
Professional fees	\$ 43,235	\$ 156,761
Amortization	11,553	11,004
Consulting fees	11,386	61,753
Management fees	10,234	162,500
	<hr/>	<hr/>
	\$ 76,408	\$ 392,018

Professional fees for the three months ended May 31, 2009 include stock-based compensation of \$9,166 (2008 - \$89,222) related to stock options vested during the quarter. Excluding stock-based compensation, professional fees decreased by \$33,470 from the comparative quarter. The decrease is primarily due to a decline in corporate activity as well as timing of fees incurred for annual corporate tax compliance.

For the three months ended May 31, 2008, management fees include stock-based compensation of \$130,000 related to the stock options grant in the second quarter of 2008. Excluding stock-based compensation, management fees declined \$22,266 from the three months ended May 31, 2008. The decrease is partly due to fees of \$10,766 that were charged to the Company's mineral properties in the quarter ended May 31, 2009 (2008 - \$nil) as well as an overall reduction in management fees of \$11,500 from the comparative quarter in response to the current economic environment and financial condition of the Company.

Consulting fees for the three months ended May 31, 2008 include stock-based compensation of \$51,700 related to the stock options grant in the second quarter of 2008. Excluding stock-based compensation, consulting fees increased \$1,333 from the three months ended May 31, 2008.

Six Months Ended May 31, 2009

Shear had a net loss of \$174,450 for the six months ended May 31, 2009 (six months ended May 31, 2008 - \$769,140). The Company's expenses were \$288,025 for the period compared to \$1,025,639 for the six months ended May 31, 2008, a decrease of \$737,614. The decrease in expenses, an unrealized gain on short-term investments of \$6,206 (2008 - unrealized loss of \$18,279) and a \$25,000 recovery of mineral property expenditures previously written off were partially offset by decreases of \$128,198 in revenue and \$64,211 in the future income tax recovery.

General and Administrative Expense

Significant components of general and administrative expense were as follows:

	Six months ended May 31,	
	2009	2008
Other	\$ 76,063	\$ 1,168
Office expenses	41,888	65,457
Regulatory and transfer fees	17,898	14,838
Corporate travel and tradeshows	11,181	71,658
Shareholder communications and promotion	5,564	15,339
Payroll	3,395	70,378
Stock-based compensation	-	312,000
	<u>\$ 155,989</u>	<u>\$ 550,838</u>

General and administrative expense decreased by \$394,849 from the comparative period, primarily due to a decrease in stock-based compensation and an overall decline corporate activity.

Other general and administrative expense for the six months ended May 31, 2009 includes \$73,217 incurred to Canada Revenue Agency related to unspent flow-through funds renounced to shareholders under the look-back rule. The decreases of \$23,569 in office expenses, \$60,477 in corporate travel and tradeshows and \$66,983 in payroll are due to the continuing emphasis on reducing corporate costs that began in the latter part of fiscal 2008.

Other Expenses

	Six months ended May 31,	
	2009	2008
Professional fees	\$ 73,514	\$ 194,044
Amortization	23,106	21,272
Consulting fees	15,272	66,985
Management fees	20,144	192,500
	<u>\$ 132,036</u>	<u>\$ 474,801</u>

Professional fees for the six months ended May 31, 2009 include stock-based compensation of \$9,166 (2008 - \$89,222) related to stock options vested during the period. Excluding stock-based compensation, professional fees decreased by \$40,474 from the comparative period primarily due to a decline in corporate activity as well as timing of fees incurred for annual corporate tax compliance.

For the six months ended May 31, 2008, management fees include stock-based compensation of \$130,000 related to the stock options grant in the second quarter of 2008. Excluding stock-based compensation, management fees declined \$42,356 from the six months ended May 31, 2008. The decrease is partly due to fees of \$20,856 that were charged to the Company's mineral properties in the six months ended May 31, 2009 (2008 - \$) as well as an overall reduction in management fees of \$21,500 from the comparative period in response to the current economic environment and financial condition of the Company.

Consulting fees for the six months ended May 31, 2008 include stock-based compensation of \$51,700 related to the stock options grant in the second quarter of 2008. Excluding stock-based compensation, consulting fees decreased by \$13 from the six months ended May 31, 2008.

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 recent 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. To earn an initial 51% interest in the Liege Diamond Project, the Company will be required to incur additional exploration expenditures of \$646,103 on the project by May 31, 2010.

At May 31, 2009, the Company had cash and cash equivalents of \$302,258 (November 30, 2008 - \$132,645) and a working capital deficiency of \$120,250 (November 30, 2008 - \$1,251,531). 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 our annual MD&A for the year ended November 30, 2008).

Management intends to raise additional capital in the upcoming year to finance 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 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 is required to incur \$1,627,207 of qualifying expenditures which were renounced to the holders of the flow-through shares effective on December 31, 2008. In addition, agents received 1,353,349 warrants as commission at an exercise price of \$0.10 per common share, which expire in December 2010.

RELATED PARTY TRANSACTIONS

During the three months ended May 31, 2009, the Company incurred fees of \$21,000 (2008 – \$32,500) to Encore Resources Inc., a company in which a director and officer of Shear has significant influence, and \$19,405 (2008 – \$30,561) to a proprietorship controlled by an officer of Shear.

During the six months ended May 31, 2009, the Company incurred fees of \$41,000 (2008 – \$62,500) to Encore Resources Inc., and \$41,615 (2008 – \$60,526) to a proprietorship controlled by an officer of Shear.

These transactions were in the normal course of operations and were for management, professional, and geological 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:

	Three months ended May 31, 2009		Six months ended May 31, 2009	
Management fees	\$ 10,234	\$ 32,500	\$ 20,144	\$ 62,500
Professional fees	19,405	30,561	41,615	60,526
Mineral properties	10,766	-	20,856	-
	<u>\$ 40,405</u>	<u>\$ 63,061</u>	<u>\$ 82,615</u>	<u>\$ 123,026</u>

There was \$25,789 related to these fees recorded in accounts payable and accrued liabilities at May 31, 2009 (November 30, 2008 - \$42,204). In the opinion of management, these fees are considered to be at fair value and are recorded at the exchange amount.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at July 22, 2009, Shear had 112,099,484 common shares outstanding. The following table provides a summary of Shear's share options and warrants outstanding at July 22, 2009:

Security	Number	Exercise Price (\$)	Expiry Date
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	785,000	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	0.10	December 31, 2010

MINERAL PROPERTIES

During the six months ended May 31, 2009, expenditures on exploration and acquisition of the Company's mineral properties totalled \$55,672 compared to \$2,681,608 in the six months ended May 31, 2008.

The Company's active mineral properties are listed below. The following discussion includes a summary of exploration activities during the six months ended May 31, 2009 and an update to disclosure in documentation filed with regulatory authorities and available for viewing under the Company's profile on SEDAR. Please refer to our most recent annual MD&A for the year ended November 30, 2008 for additional information on our mineral properties.

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 vertical kimberlite dyke with widths of between 0.5m and 4.7m and that averaged 2.6m in true width from wide spaced drilling. Kahuna 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 the Meeka kimberlite located southeast of Jigsaw and four narrow unnamed dykes within the Sedna Corridor. In 2008, two new high-interest kimberlites, Killiq and the Kahuna Breccia, were discovered.

Churchill High Interest Kimberlites : Dimensions Implied by Current Drilling							
Kimberlite Name	Body Type	Grade (Carats Per Tonne) for stones >0.85mm	Tonnes processed to date	Width (m)	Length (m)	Deepest Drill Intersection (metres below surface)	Dip (degrees)
Kahuna	Dyke	0.95 ⁽¹⁾	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	Vertically-emplaced

⁽¹⁾ 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.

2008 Exploration Program – Pending Results

Results pending from the 2008 program include microdiamond analyses from other drilling and prospecting discoveries, indicator mineral results from priority till samples and macrodiamond results from the total of 26.1 wet tonnes collected from the Notch bulk samples.

Future Plans

The Notch bulk sample is currently in Rankin Inlet and will shortly be shipped south by barge for diamond processing. After the results from the priority till samples have been received and interpreted, the Company will develop an exploration plan for late summer 2009. In addition, a full re-interpretation of geophysical and other data sets is currently underway. A 2009 program may include an intensive prospecting program to follow up high interest mineral chemistry in all three corridors.

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

At the present time there are no plans for the Aylmer Lake West project. Future work 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") and Canada Zinc Metals Corp. ("Canada Zinc" - formerly Mantle Resources Inc.). Shear currently holds a 58.2% interest in the property and Samuel, New World and Canada Zinc have 25.4%, 8.2% and 8.2%, respectively.

Subsequent to May 31, 2009, the Company entered into agreements with Samuel and New World to settle outstanding amounts owed to Shear from the 2008 exploration program. To settle outstanding debt of \$92,500, Samuel agreed to pay \$86,000 cash, issue 50,000 common shares and issue 50,000 warrants to the Company. Each warrant will entitle Shear

to acquire one additional Samuel common share for \$0.25 at anytime within 24 months of issue. New World agreed to issue 361,461 common shares to Shear to settle \$46,990 of outstanding debt to the Company. Under the agreements, the \$99,070 balance of the outstanding debts will be contributed to the 2008 program by the Company, such that Shear's interest in the project will increase to approximately 78.6% and the Samuel and New World interests will dilute accordingly.

The Company is obligated to issue 100,000 of its common shares to Canada Zinc 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 22 mineral claims and three mineral leases (64,000 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.

Future Plans

A remaining 6 priority targets have been identified and designated for drill testing from the 2008 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 has applied with the Mackenzie Land and Water Board for a land-use permit and is currently in the process of ongoing consultations with stakeholders in anticipation of continued exploration in 2010-2011, subject to budget approvals by joint venture partners.

5. 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 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 November 30, 2009. The Company issued 100,000 common shares as consideration for this first amendment. On April 7, 2009, the expenditure period was extended to May 31, 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.

Future Plans

Seven priority targets suggestive of kimberlite 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.

6. RATTLESNAKE NORTH, ALBERTA

On February 17, 2009, the Company relinquished all rights in the Rattlesnake North property to Grizzly Diamonds Ltd. The carrying amount of the property of \$76,138 was written off in 2008. During the six months ended May 31, 2009, the Company recorded a \$25,000 recovery of the amount that was written off in 2008.

7. 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 Amaruk project in the Franklin Kimberlite District of Nunavut. Diamonds North Resources Ltd. retains the other 50% interest in the property and is the operator. The Sakari property is located adjacent to the Darby project where nine kimberlites, including an 11-hectare pipe, have been discovered to date. An airborne geophysical survey has been completed and high priority targets have been identified. In 2008 the partners approved a \$310,000 budget to evaluate the property. A total of 18 targets were ground surveyed, and 3 of the targets were tested using a percussion drill. No kimberlite was intersected.

Future Plans

At the present time, there are no immediate plans for the Sakari project.

8. 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.

Future Plans

At the present time there are no immediate plans for the Crystal project. With additional data review, the Company is working towards developing a program for 2010 that will likely include additional ground checking and geophysics with follow-up drill testing. At present, five priority targets suggestive of kimberlite have been identified for drill testing.

ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

Six Months Ended May 31, 2009

	Churchill	Churchill West	Aylmer Lake West	Afridi Lake	Liege	Sakari	Crystal	Total
Acquisition Costs								
Expenditures:								
Land tenure	\$ 1,966	\$ -	\$ 5,157	\$ (78,279)	\$ 2,044	\$ -	\$ 4,800	\$ (64,312)
Option costs - cash	-	-	-	-	-	-	-	-
	1,966	-	5,157	(78,279)	2,044	-	4,800	(64,312)
Less:								
Recovery of amounts previously written off	-	-	-	-	-	-	-	-
Net additions	1,966	-	5,157	(78,279)	2,044	-	4,800	(64,312)
Balance - beginning of year	4,629,610	66,116	10,673	176,767	96,435	97,618	118,598	5,195,817
Balance - end of period	4,631,576	66,116	15,830	98,488	98,479	97,618	123,398	5,131,505
Exploration Costs								
Expenditures:								
General exploration	62,504	1,959	103	10,171	2,355	(8,999)	103	68,196
Bulk sampling	21,141	-	-	-	-	-	-	21,141
Environment	-	-	-	-	-	-	-	-
Drilling	4,554	-	-	2,780	-	-	-	7,334
Sampling	5,538	-	-	-	-	-	-	5,538
Ground geophysics	5,250	-	-	1,500	-	-	-	6,750
Airborne geophysics	-	-	-	-	-	-	-	-
Prospecting	11,025	-	-	-	-	-	-	11,025
Community consultations	-	-	-	-	-	-	-	-
	110,012	1,959	103	14,451	2,355	(8,999)	103	119,984
Add:								
Write off of recoveries from partners	-	-	-	153,492	-	-	-	153,492
Net additions	110,012	1,959	103	167,943	2,355	(8,999)	103	273,476
Balance - beginning of year	19,523,229	308,419	245	1,984,562	351,542	390,235	278,396	22,836,628
Balance - end of period	19,633,241	310,378	348	2,152,505	353,897	381,236	278,499	23,110,104
Total - end of period	\$ 24,264,817	\$ 376,494	\$ 16,178	\$ 2,250,993	\$ 452,376	\$ 478,854	\$ 401,897	\$ 28,241,609

Six Months Ended May 31, 2008

	Churchill	Churchill West	Aylmer Lake West	XYZ	Afridi Lake	Piche	Liege	Hecla	Sakari	Crystal	Total
Acquisition Costs											
Expenditures:											
Land tenure	\$ 19,820	\$ 500	\$ -	\$ -	\$ 1,165	\$ -	\$ 12,553	\$ -	\$ -	\$ 10,234	\$ 44,272
Less:											
Expenses recovered from partners	-	-	-	-	(487)	-	-	-	-	-	(487)
Net additions	19,820	500	-	-	678	-	12,553	-	-	10,234	43,785
Balance - beginning of period	4,598,435	57,785	10,314	180,956	168,332	9,973	51,492	17,102	97,618	113,864	5,305,871
Balance - end of period	4,618,255	58,285	10,314	180,956	169,010	9,973	64,045	17,102	97,618	124,098	5,349,656
Exploration Costs											
Expenditures:											
General exploration	1,052,842	5,257	34	137	577,566	1,634	8,412	700	16,824	85	1,663,491
Bulk sampling	(1,132)	-	-	-	-	-	-	-	-	-	(1,132)
Environment	31,817	-	69	-	646	-	34	505	-	-	33,071
Drilling	99,491	-	-	-	827,294	-	6,919	-	20,853	-	954,557
Sampling	257,624	17,169	-	-	-	-	-	-	-	-	274,793
Ground geophysics	172,830	300	-	-	205,012	24,618	87,481	-	1,412	250	491,903
Airborne geophysics	-	14,450	-	-	3,000	-	-	-	(2,766)	2,000	16,684
Prospecting	8,991	11,200	-	-	-	-	-	-	1,647	14,951	36,789
Community consultations	8,014	-	-	-	4,200	375	1,875	-	-	-	14,464
	1,630,477	48,376	103	137	1,617,718	26,627	104,721	1,205	37,970	17,286	3,484,620
Less:											
Expenses recovered from partners	(170,591)	-	-	-	(676,206)	-	-	-	-	-	(846,797)
Net additions	1,459,886	48,376	103	137	941,512	26,627	104,721	1,205	37,970	17,286	2,637,823
Balance - beginning of period	15,360,749	261,719	-	473,937	942,925	169,147	229,792	195,509	185,940	246,373	18,066,091
Balance - end of period	16,820,635	310,095	103	474,074	1,884,437	195,774	334,513	196,714	223,910	263,659	20,703,914
Total - end of period	\$ 21,438,890	\$ 368,380	\$ 10,417	\$ 655,030	\$ 2,053,447	\$ 205,747	\$ 398,558	\$ 213,816	\$ 321,528	\$ 387,757	\$ 26,053,570

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 Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3063, "Impairment of Long-Lived Assets" and the CICA Emerging Issues Committee Abstract No. 174, "Mining 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. 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 property 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.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The following new accounting pronouncements were adopted by the Company in the six months ended May 31, 2009:

- CICA Handbook Section 3064, "Goodwill and Intangible Assets";
- CICA Emerging Issues Committee Abstract No. 174, "Mining Exploration Costs"

Additional information on these standards is available in Note 3(a) to our financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The CICA published exposure drafts entitled "Adopting IFRSs in Canada" in April 2008 and March 2009. The exposure drafts propose 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 transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. The Company is reviewing the impact of IFRS on its financial statements and has begun developing the key elements and timing of an implementation plan. The financial reporting impact of the transition to IFRS cannot be reasonably determined at this time.

FINANCIAL INSTRUMENTS

The Company has exposure to credit risk from its use of financial instruments. 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 May 31, 2009, the maximum exposure to credit risk was the carrying value of the Company's cash and cash equivalents, accounts receivable, and operator recoveries.

Shear is also exposed to liquidity risk from its use of financial instruments. The Company prepares 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 July 22, 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.

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 (see “Financial Condition – Liquidity and going concern”).

This forward-looking statement is 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, and volatility of the Company’s share price.

In formulating the forward-looking information above, the Company has made assumptions regarding general financial market conditions and the availability of financing.

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” in our most recent annual MD&A for a discussion of other risks that affect our business.

RISKS AND UNCERTAINTIES

There has been no significant change to our risk factors from those described in the MD&A for the year ended November 30, 2008. For a detailed discussion of these risk factors see “Risks and Uncertainties” in our annual MD&A dated March 30, 2009.