

Shear Minerals Ltd.
(a development stage company)

Interim Financial Statements
For the three and nine months ended August 31, 2009
(Unaudited)

To the Shareholders of Shear Minerals Ltd.:

The interim balance sheet of Shear Minerals Ltd. as at August 31, 2009, and the interim statements of operations and deficit and of cash flows for the periods then ended have been compiled by management.

No audit or review of this information has been performed by the company's auditors.

Shear Minerals Ltd.

Interim Balance Sheets

Nature of operations and going concern (note 1)

	August 31, 2009 (unaudited)	November 30, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 231,480	\$ 132,645
Restricted cash	36,711	36,348
Short-term investments	117,153	4,822
Accounts receivable	101,022	88,144
Operator recoveries	-	386,087
Prepaid expenses	16,206	18,897
	<u>502,572</u>	<u>666,943</u>
Equipment	73,910	108,569
Mineral properties (notes 4 and 8)	<u>27,485,720</u>	<u>28,032,445</u>
	<u>\$ 28,062,202</u>	<u>\$ 28,807,957</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 676,240	\$ 1,901,298
Deposits from exploration partners	17,176	17,176
Derivative financial instrument (note 5)	65,063	-
	<u>758,479</u>	<u>1,918,474</u>
Future income taxes	<u>2,907,299</u>	<u>2,587,659</u>
	<u>3,665,778</u>	<u>4,506,133</u>
Shareholders' equity		
Share capital (note 6(a))	29,778,223	29,040,123
Contributed surplus (note 6(d))	2,945,454	2,734,046
Deficit	<u>(8,327,253)</u>	<u>(7,472,345)</u>
	<u>24,396,424</u>	<u>24,301,824</u>
	<u>\$ 28,062,202</u>	<u>\$ 28,807,957</u>

Subsequent events (note 9)

Approved by the Board of Directors

(Signed) "Pamela Strand"

Director

(Signed) "David Mullen"

Director

Shear Minerals Ltd.

Interim Statements of Operations and Deficit (unaudited)

	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
Revenue	\$ 25,938	\$ 8,048	\$ 27,322	\$ 137,630
Expenses				
General and administrative	33,759	30,730	189,748	581,568
Professional fees (note 8)	23,876	38,170	97,390	232,214
Amortization	11,553	10,704	34,659	31,976
Management fees (note 8)	7,138	9,311	27,282	201,811
Consulting fees	2,678	5,462	17,950	72,447
	79,004	94,377	367,029	1,120,016
	(53,066)	(86,329)	(339,707)	(982,386)
Unrealized gain (loss) on short-term investments	52,635	(12,902)	58,841	(31,181)
Unrealized loss on derivative financial instrument	(65,063)	-	(65,063)	-
Write-down of mineral properties (notes 4(e) and 4(f))	(837,605)	(869,252)	(812,605)	(869,252)
Net loss before income tax	(903,099)	(968,483)	(1,158,534)	(1,882,819)
Future income tax recovery	222,641	304,058	303,626	449,254
Net loss and comprehensive loss	(680,458)	(664,425)	(854,908)	(1,433,565)
Deficit – beginning of period	(7,646,795)	(6,720,321)	(7,472,345)	(5,951,181)
Deficit – end of period	\$ (8,327,253)	\$ (7,384,746)	\$ (8,327,253)	\$ (7,384,746)
Basic and diluted loss per share	\$ (0.006)	\$ (0.008)	\$ (0.008)	\$ (0.017)
Weighted average number of common shares outstanding	112,099,484	84,058,257	110,202,273	82,950,013

Shear Minerals Ltd.
Interim Statements of Cash Flows
(unaudited)

	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
Cash provided by (used in)				
Operating activities				
Net loss for the period	\$ (680,458)	\$ (664,425)	\$ (854,908)	\$ (1,433,565)
Items not affecting cash				
Amortization	11,553	10,704	34,659	31,976
Stock-based compensation (note 6(b))	-	5,868	9,166	589,523
Unrealized (gain) loss on short-term investments	(52,635)	12,902	(58,841)	31,181
Unrealized loss on derivative financial instrument	65,063	-	65,063	-
Write-down of mineral properties	837,605	869,252	812,605	869,252
Future income tax recovery	(222,641)	(304,058)	(303,626)	(449,254)
Net change in non-cash working capital (note 7)	(49,256)	54,396	(34,247)	138,250
	(90,769)	(15,361)	(330,129)	(222,637)
Financing activities				
Issue of shares	-	1,141,500	1,688,250	4,512,890
Share issue costs	-	(63,247)	(124,642)	(323,750)
	-	1,078,253	1,563,608	4,189,140
Investing activities				
Mineral properties	(57,709)	(2,673,446)	(113,381)	(6,191,951)
Operator recoveries received	86,000	164,514	86,000	892,559
Purchase of equipment	-	(608)	-	(41,035)
Increase in restricted cash	-	-	(363)	(422)
Net change in non-cash working capital (note 7)	(8,300)	772,442	(1,106,900)	901,899
	19,991	(1,737,098)	(1,134,644)	(4,438,950)
(Decrease) increase in cash and cash equivalents	(70,778)	(674,206)	98,835	(472,447)
Cash and cash equivalents – beginning of period	302,258	1,241,794	132,645	1,040,035
Cash and cash equivalents – end of period	\$ 231,480	\$ 567,588	\$ 231,480	\$ 567,588

Shear Minerals Ltd.

Notes to the Interim Financial Statements

For the three and nine months ended August 31, 2009

(unaudited)

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 unaudited interim financial statements (the "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 August 31, 2009, the Company has no source of operating cash flow, an accumulated deficit of \$8,327,253 (November 30, 2008 - \$7,472,345), and a working capital deficiency of \$255,907 (November 30, 2008 - \$1,251,531). To date, operations 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 4 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 Interim Financial Statements

For the three and nine months ended August 31, 2009

(unaudited)

2. Basis of presentation

These financial statements are prepared in accordance with generally accepted accounting principles for interim financial statements and do not include all of the disclosures normally contained in the Company's annual financial statements. Since the determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality. Except as disclosed in note 3(a), these financial statements follow the same significant accounting policies as described and used in the most recent annual financial statements of the Company for the year ended November 30, 2008 and should be read in conjunction with those annual financial statements.

Certain amounts from the comparative periods have been reclassified to conform to the current period's presentation.

3. Accounting changes

a) Recently adopted accounting pronouncements

i. Goodwill and intangible assets

On December 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets", which replaced Handbook Section 3062, "Goodwill and Other Intangible Assets", and Handbook Section 3450, "Research and Development Costs". Handbook Section 3064 provides 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 provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions in International Financial Reporting Standards ("IFRS"). The adoption of this standard did not have a material impact on the Company's financial statements.

ii. Mining exploration costs

In March 2009, the CICA Emerging Issues Committee issued Abstract No. 174, "Mining Exploration Costs" which replaces Emerging Issues Committee Abstract No. 126, "Accounting by Mining Enterprises for Exploration Costs" to provide additional guidance for mining exploration enterprises on when an impairment test is required. The adoption of this standard did not have a material impact on the Company's financial statements.

Shear Minerals Ltd.

Notes to the Interim Financial Statements

For the three and nine months ended August 31, 2009

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b) Recent accounting pronouncements not yet adopted

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

4. Mineral properties

August 31, 2009				
	Ownership interest (%)	Acquisition costs	Exploration costs	Net carrying amount
Northwest and Nunavut Territories				
Churchill	58.14	\$ 4,633,674	\$ 19,673,147	\$ 24,306,821
Afridi Lake	58.20	106,495	2,190,455	2,296,950
Sakari	50.00	28,520	382,280	410,800
Aylmer Lake West	62.90	15,830	486	16,316
Chesterfield Inlet	58.14	-	2,387	2,387
Alberta				
Liege	*51.00	98,479	353,967	452,446
		<u>\$ 4,882,998</u>	<u>\$ 22,602,722</u>	<u>\$ 27,485,720</u>
November 30, 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
		<u>\$ 5,195,817</u>	<u>\$ 22,836,628</u>	<u>\$ 28,032,445</u>

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Notes to the Interim Financial Statements

For the three and nine months ended August 31, 2009

(unaudited)

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

a) Afridi Lake

On June 30, 2009, the Company entered into a debt settlement agreement with International Samuel Exploration Corp. ("Samuel") to settle outstanding operator recoveries of \$92,500 receivable from Samuel. Under the agreement, the Company received cash of \$86,000 and 50,000 units of Samuel ("Samuel Units"). Each Samuel Unit consisted of one common share of Samuel and one share purchase warrant ("Samuel Warrant") entitling the holder to acquire an additional Samuel common share at a price of \$0.25 at any time within 24 months of issue, provided that the Samuel Warrants must be exercised within 30 days following written notice from Samuel that the Samuel common shares have traded above \$0.40 for 10 consecutive trading days.

On July 8, 2009, Shear entered into a debt settlement agreement with New World Resource Corp. ("New World") pursuant to which the Company received 361,461 New World common shares as payment for \$46,990 of outstanding operator recoveries.

In addition, operator recoveries of \$185,956 were written-off and charged to the mineral property in the three months ended August 31, 2009. The amounts written-off are deemed to be contributed to the project by Shear and, as a result, Shear's interest in the project will increase to approximately 78%.

b) Chesterfield Inlet Diamond Project

On August 10, 2009, Shear and Stornoway Diamond Corporation ("Stornoway") announced an indicative proposal with Kennecott Canada Exploration Inc. ("Kennecott") to jointly explore certain northern portions of the Churchill Diamond Project. The portion of the Churchill Diamond Project that is subject to this proposal will be referred to as the Chesterfield Inlet Diamond Project (the "Project").

Under the terms of the proposal, Shear and Stornoway jointly granted Kennecott the right and option to acquire, subject to existing underlying royalties, up to a 70% interest in the diamond rights to the Project. Kennecott has a first option to acquire a 51% interest in the Project by incurring \$100,000 before December 31, 2010 and an additional \$1,900,000 before December 31, 2012. If the first option is satisfied, Kennecott has a second option to earn into an additional 19% interest in the Project by incurring an additional \$4,500,000 in exploration expenditures before December 31, 2016. Shear will be the operator of the Project during the first option. Negotiation on the definitive agreements is currently underway between Shear, Stornoway and Kennecott.

Shear Minerals Ltd.

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c) Sakari

On June 30, 2009, acquisition cost recoveries of \$69,098 were assigned to Diamonds North Resources Ltd. as partial payment for outstanding accounts payable and accrued liabilities related to the Sakari project.

d) Liege

On April 7, 2009, 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 May 31, 2010. There was no consideration paid by the Company under the Amending Agreement.

e) Rattlesnake North

On February 17, 2009, the Company relinquished all rights in the Rattlesnake North property to Grizzly Diamonds Ltd. The carrying amount of the property had previously been written off by the Company at November 30, 2008. During the nine months ended August 31, 2009, the Company recovered expenditures of \$25,000 that were included in the November 30, 2008 write-down.

f) Write-down of mineral properties

During the three months ended August 31, 2009, the Company wrote-off the carrying amounts of \$435,707 and \$401,898 related to the Churchill West and Crystal properties, respectively, as the Company has no exploration activity planned for the properties for the foreseeable future.

5. Derivative financial instrument

On August 18, 2009, Company issued a non-transferable option which allows the holder to acquire 361,461 shares of New World from the Company at a price of \$0.15 per share. The option was issued to a third party and is exercisable from November 28, 2009 to the earlier of: (a) 14 days after the closing price of the New World shares exceeds \$0.25 for 5 consecutive trading days; and (b) May 28, 2010. The fair value of the option was \$79,521 at inception of the contract.

The derivative financial instrument is classified as held-for-trading and is not designated as a hedge for accounting purposes. The option is recorded at fair value, estimated using the Black-Scholes option pricing model, with changes in fair value recognized in the statement of operations and deficit.

The fair value of the option is subject to market risk associated with the trading price of the underlying New World shares. In the opinion of management, at August 31, 2009, the impact of this risk on the Company's net loss and comprehensive loss is not significant.

Shear Minerals Ltd.

Notes to the Interim Financial Statements

For the three and nine months ended August 31, 2009

(unaudited)

6. Share capital and contributed surplus

a) Common shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Common shares issued and outstanding:

	Number of shares	Amount
Balance – November 30, 2008	87,981,627	\$ 29,040,123
Issued in private placement	24,117,857	1,688,250
Value allocated to warrants issued in private placement	-	(160,175)
Share issue costs (net of future income tax recovery of \$31,161)	-	(135,548)
Future income taxes on renouncement of qualifying expenditures	-	(654,427)
Balance – August 31, 2009	<u>112,099,484</u>	<u>\$ 29,778,223</u>

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 ("Warrant"). Each FT Unit consisted of one flow-through share and one-half of a 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 December 31, 2008. At August 31, 2009, qualifying expenditures of approximately \$974,000 remain to be incurred to fulfill the commitment. The fair values attributable to the common shares and Warrants issued were \$1,528,075 and \$160,175, respectively. 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 to this, the Company recorded stock-based compensation of \$42,067 as a share issue cost with such amount being credited to contributed surplus.

In the nine months ended August 31, 2009, the Company renounced \$2,617,707 (2008 - \$7,197,490) of qualifying expenditures to holders of flow-through shares, resulting in a future income tax liability of \$654,427 (2008 - \$2,051,300) and a corresponding reduction of share capital.

Shear Minerals Ltd.

Notes to the Interim Financial Statements

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(unaudited)

b) Share options

The Company has a stock 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.

The following table summarizes activity related to share options:

	Number of options outstanding	Weighted average exercise price
Balance – November 30, 2008	4,643,334	\$ 0.57
Expired	(533,334)	0.83
Balance – August 31, 2009	4,110,000	\$ 0.54
Exercisable – August 31, 2009	4,068,334	\$ 0.54

The Company recorded \$9,166 of stock-based compensation related to stock options vested during the nine months ended August 31, 2009 (2008 - \$604,801) with such amount being credited to contributed surplus. Stock-based compensation of \$10,758 was recorded in the three months ended August 31, 2008. The stock-based compensation was recorded as follows:

	Three months ended August 31, 2009		Nine months ended August 31, 2008	
Professional fees	\$ -	\$ 3,667	\$ 9,166	\$ 92,889
General and administrative expense	-	2,201	-	314,934
Management fees	-	-	-	130,000
Consulting fees	-	-	-	51,700
	-	5,868	9,166	589,523
Mineral properties:				
Crystal	-	-	-	5,500
Churchill	-	4,890	-	9,778
	\$ -	\$ 10,758	\$ 9,166	\$ 604,801

Shear Minerals Ltd.

Notes to the Interim Financial Statements

For the three and nine months ended August 31, 2009

(unaudited)

c) Warrants

The following table summarizes activity related to warrants:

	Number of Warrants	Weighted average exercise price
Balance – November 30, 2008	2,637,085	\$ 0.78
Issued	13,797,278	0.19
Expired	(504,840)	0.75
Balance – August 31, 2009	<u>15,929,523</u>	<u>\$ 0.27</u>

During the nine months ended August 31, 2009, the Company recorded share issue costs of \$42,067 (2008 – \$nil) relating to warrants issued to agents in connection with the December 2008 private placement (note 6(a)). 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:

Number of warrants issued	1,353,349
Weighted average fair value per warrant issued	\$ 0.03
Weighted average assumptions:	
Risk-free rate	1.16%
Expected volatility	93.44%
Dividend yield	0.00%
Expected life	2 years

d) Contributed surplus

The following table summarizes activity related to contributed surplus:

Balance – November 30, 2008	\$ 2,734,046
Value allocated to warrants issued in private placement (note 6(a))	160,175
Value of agent warrants issued (notes 6(a) and 6(c))	42,067
Stock-based compensation (note 6(b))	<u>9,166</u>
Balance – August 31, 2009	<u>\$ 2,945,454</u>

Shear Minerals Ltd.

Notes to the Interim Financial Statements

For the three and nine months ended August 31, 2009

(unaudited)

7. Net change in non-cash working capital

	Three months ended August 31, 2009		Nine months ended August 31, 2008	
Accounts receivable	\$ (80,051)	\$ 125,709	\$ (12,878)	\$ 173,273
Prepaid expenses	(8,769)	12,340	2,691	19,213
Accounts payable and accrued liabilities	31,264	688,789	(1,130,960)	847,663
	(57,556)	826,838	(1,141,147)	1,040,149
Relating to:				
Operating activities	(49,256)	54,396	(34,247)	138,250
Investing activities	(8,300)	772,442	(1,106,900)	901,899
	\$ (57,556)	\$ 826,838	\$ (1,141,147)	\$ 1,040,149

8. Related party transactions

During the three months ended August 31, 2009, the Company incurred fees of \$21,000 (2008 – \$31,500) to Encore Resources Inc., a company in which a director and officer of Shear has significant influence, and \$11,245 (2008 – \$19,214) to a proprietorship controlled by an officer of Shear.

During the nine months ended August 31, 2009, the Company incurred fees of \$62,000 (2008 – \$94,000) to Encore Resources Inc., and \$52,860 (2008 – \$79,741) to a proprietorship controlled by an officer of Shear.

These fees are recorded in the financial statements as follows:

	Three months ended August 31, 2009		Nine months ended August 31, 2008	
Management fees	\$ 7,131	\$ 9,311	\$ 27,275	\$ 71,811
Professional fees	11,245	19,214	52,860	79,741
Mineral properties	13,869	22,189	34,725	22,189
	\$ 32,245	\$ 50,714	\$ 114,860	\$ 173,741

There was \$41,562 related to these fees recorded in accounts payable and accrued liabilities at August 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.

Shear Minerals Ltd.

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(unaudited)

9. Subsequent events

- a) On October 14, 2009, the Company agreed to acquire all of the non-diamond rights to the Churchill Diamond Project from Kaminak Gold Corporation ("Kaminak"), together with related datasets. Under the terms of the agreement, Shear will issue 3,000,000 common shares to Kaminak, and Kaminak will retain a 20% back-in right to the non-diamond mineral rights, exercisable at any time up to the completion of an independent bankable feasibility study in accordance with National Instrument 43-101. To exercise the back-in right, Kaminak will be required to repay all of the non-diamond expenditures incurred by Shear, with such expenditures to be repaid within 90 days of the exercise of the back-in right.

The transaction is subject to regulatory approval and a 30 day right of first refusal in favour of Stornoway to acquire its pro-rata share (approximately 38%) of the non-diamond rights.

- b) In October 2009, the Company entered into debt settlement agreements for the issue of 2,000,275 common shares to arm's length parties in consideration for the settlement of \$130,018 of related trade accounts payable. The issue of the shares is subject to regulatory approval.