

SHEAR MINERALS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED NOVEMBER 30, 2009

GENERAL

This management's discussion and analysis ("MD&A") supplements, but does not form part of, the annual financial statements for the year ended November 30, 2009 of Shear Minerals Ltd. ("Shear" or the "Company"). The following information, prepared as of March 25, 2010, should be read in conjunction with those statements, which have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. 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.

FINANCIAL HIGHLIGHTS

Due to a change in accounting policy relating to exploration expenditures, comparative results presented for prior periods have been restated in our financial statements and this MD&A. Refer to "Change in Accounting Policy" or note 2 to our financial statements for more information.

Selected Annual Information

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

	Year Ended November 30,		
	2009	2008	2007
		(Restated)	(Restated)
Revenue	\$ 44,030	\$ 139,694	\$ 306,174
Net loss	(1,091,568)	(5,087,194)	(5,708,953)
Basic and diluted loss per share	(0.01)	(0.06)	(0.08)
Total assets	5,380,186	5,971,329	7,354,019

Quarterly Results

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

	2009				2008 (Restated)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 16,708	\$ 25,938	\$ 534	\$ 850	\$ 2,064	\$ 8,048	\$ 70,837	\$ 58,745
Expenses:								
Exploration ⁽¹⁾	(645,236)	(297,728)	(110,099)	(31,352)	(489,313)	(2,512,962)	(2,207,541)	(425,392)
G&A and corporate ⁽²⁾	(158,158)	(75,016)	(97,306)	(160,086)	(178,326)	(88,509)	(218,288)	(223,696)
Stock-based compensation	(9,166)	-	(9,166)	-	7,702	(10,758)	(594,043)	-
Unrealized (loss) gain on short-term investments	(18,682)	52,635	2,964	3,242	(22,100)	(12,902)	(25,166)	6,887
Unrealized gain (loss) on derivative financial instrument	21,688	(65,063)	-	-	-	-	-	-
Write-down of mineral properties	(28,520)	(189,976)	-	25,000	(85,773)	(198,008)	-	-
Future income tax recovery	-	-	-	654,427	-	-	-	2,051,300
Net income (loss)	\$ (821,366)	\$ (549,210)	\$ (213,073)	\$ 492,081	\$ (765,746)	\$ (2,815,091)	\$ (2,974,201)	\$ 1,467,844
Basic and diluted net income (loss) per share	\$ (0.007)	\$ (0.005)	\$ (0.002)	\$ 0.005	\$ (0.009)	\$ (0.033)	\$ (0.034)	\$ 0.018

⁽¹⁾ Excludes stock-based compensation.

⁽²⁾ Consists of general and administrative expense, professional fees, management fees, amortization, and consulting fees from our financial statements.

The Company is in the exploration stage and has no revenue from mining operations. The Company's revenues are derived mainly from interest on deposits and short-term investments, management fees charged to joint venture partners, and incidental equipment rentals. 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 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. Revenue increased in the third and fourth quarters of 2009 as a result of increased rental of the Company's equipment by third parties.

The variations in the net loss from quarter to quarter are primarily due to fluctuations in exploration expense, mineral property write-downs, stock-based compensation, and changes in the fair value of the Company's investments and derivative financial instrument. Exploration expense varies from quarter to quarter depending on the scale and timing of exploration programs. There was no major field program conducted in 2009 and, as a result, exploration expenses are significant lower than 2008. The general decline in general and administrative and corporate expenses is the result of decreased corporate activity as a result of economic conditions.

The future income tax recoveries in the first quarters of 2008 and 2009 were recorded as a result of renouncement of qualifying expenditures to holders of the Company's flow-through shares.

RESULTS OF OPERATIONS

Year Ended November 30, 2009

Shear had a net loss of \$1,091,568 for the year ended November 30, 2009 (2008 – \$5,087,194). Decreases of \$5,347,813 in expenses, \$93,440 in the unrealized loss on short-term investments, and \$90,285 in the write-down of mineral properties were partially offset by a decrease in revenue of \$95,664, the unrealized loss on derivative financial instrument of \$43,375, and a decrease of \$1,396,873 in the future income tax recovery.

Exploration expense decreased by \$4,557,026 to \$1,084,415 for the year ended November 30, 2009. In 2008, the Company and its partners conducted field programs on a number of properties, including drill programs at the Churchill Diamond and Afridi Lake projects. Due to the economic environment and the Company's financial condition, exploration programs were limited in 2009 and field work was limited to a three-day prospecting program on the Chesterfield Inlet Diamond Project.

General and Administrative Expense

	<u>2009</u>	<u>2008</u>
Office expenses	\$ 63,669	\$ 99,644
Regulatory and transfer fees	25,786	23,527
Shareholder communications and promotion	18,057	57,509
Corporate travel and tradeshows	10,375	81,850
Payroll	4,470	80,850
Other	99,557	7,001
Stock-based compensation	-	313,833
	<u>\$ 221,914</u>	<u>\$ 664,214</u>

Total general and administrative expense decreased by \$442,300 in 2009, primarily due to a decrease in stock-based compensation of \$313,833 and an overall decline in corporate activity. Excluding stock-based compensation, general and administrative expense decreased by \$128,467 from the prior year.

The decreases of \$35,975 in office expenses, \$39,452 in shareholder communications and promotion, \$71,475 in corporate travel and tradeshows, and \$76,380 in payroll are due primarily to an emphasis on reducing corporate costs beginning in the latter part of 2008. In response to

economic conditions, we implemented a number of initiatives to reduce our corporate costs, including reductions in headcount and corporate storage and office facilities. In addition, we reduced our attendance at investment shows and conferences which resulted in lower fees and travel expenses in the current year. Other general and administrative expense for 2009 includes \$87,195 (2008 - \$nil) incurred to Canada Revenue Agency related to flow-through funds renounced to shareholders under the look-back rule.

Other Corporate Expenses

	<u>2009</u>	<u>2008</u>
Professional fees:		
Stock-based compensation	\$ 18,332	\$ 95,333
Other	177,452	219,991
Total	<u>195,784</u>	<u>315,324</u>
Management fees:		
Stock-based compensation	-	130,000
Other	36,655	80,249
Total	<u>36,655</u>	<u>210,249</u>
Consulting fees:		
Stock-based compensation	-	51,700
Other	8,334	15,488
Total	<u>8,334</u>	<u>67,188</u>
Amortization	<u>46,211</u>	<u>42,710</u>
	<u>\$ 286,984</u>	<u>\$ 635,471</u>

Excluding stock-based compensation, the decreases of \$42,539 in professional fees and \$7,154 in consulting fees are due to the reduction in corporate activity during the year. Excluding stock-based compensation, the decrease in management fees expense of \$43,594 is due to an increase of \$14,594 in the fees that were allocated to exploration expense, as well as an overall decrease in fees of \$29,000 in response to the financial condition of the Company.

Stock-based compensation reflects the recognition of expense related to stock options granted in 2008. The compensation cost was recognized over the vesting period of the options.

Three Months Ended November 30, 2009

Shear had a net loss of \$821,366 for the three months ended November 30, 2009 (2008 – \$765,746). The increase in net loss of \$55,620 is primarily due to an increase in expenses of \$152,623, partially offset by a decrease of \$57,523 in the write down of mineral properties and an unrealized gain on the derivative financial instrument of \$21,688.

The Company's expenses were \$812,560 for the three months ended November 30, 2009 compared to \$659,937 for the three months ended November 30, 2008. Exploration expense for the quarter was \$645,236, which includes a total of \$500,000 paid for datasets in conjunction with the purchase of the non-diamond rights to the Churchill Diamond Project and the Napajut Lake option agreement (see "Mineral Properties" for more information). Excluding these transactions,

exploration expense for the fourth quarter of 2009 was \$145,236 compared to \$480,268 in the comparative quarter. The decrease is attributable to the limited exploration work that was conducted in 2009.

General and administrative expenses totalled \$45,722 for the three months ended November 30, 2009, a decrease of \$36,924 from the comparative quarter. The decrease in general and administrative expense is from lower corporate travel, promotion and shareholder communication resulting from decreased corporate activity. In addition, expenses associated with the Company's annual general meeting were considerably lower than expenses associated with the annual general meeting that was held in the fourth quarter of 2008.

In the three months ended November 30, 2009, the Company also incurred management fees of \$9,373 (2008 - \$8,438), professional fees of \$98,393 (2008 - \$83,110), consulting fees of \$2,284 (2008 – recovery of \$5,259), and amortization of \$11,552 (2008 - \$10,734). The increase in professional fees from the comparative quarter is due to legal consultations regarding various corporate transactions and debt settlements with the Company's vendors.

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. At November 30, 2009, the Company has no commitments for the purchase of capital assets.

Under the terms of property option agreements, the Company is required to incur exploration expenditures in order to earn interests in the Liege and Napajut Lake properties (see "Mineral Properties" for details). The payments and expenditures are at the sole discretion of the Company and a portion of the requisite expenditures have already been incurred (see note 7 to our financial statements).

At November 30, 2009, qualifying expenditures of \$415,130 remain to be incurred by December 31, 2009 in order to satisfy the commitment related to flow-through shares issued in December 2008. The required expenditures were subsequently incurred prior to December 31, 2009.

At November 30, 2009, the Company had cash and cash equivalents of \$125,660 (2008 - \$132,645) and a working capital deficiency of \$610,842 (2008 – \$1,251,531). Although funds were raised in a private placement subsequent to November 30, 2009, the Company will need to raise additional capital to finance exploration expenditures, sustain operations, and continue as a going concern.

Although management intends to raise additional capital, the current financial equity market conditions, the challenging funding environment and the low price of the Company's common shares make it difficult to raise funds by private placements of shares. The junior resource industry has been severely impacted by the world economic situation as it is considered to be a high-risk investment. There is no assurance that the Company will be successful with any financing ventures. The Company is dependent upon the continuing financial support of shareholders and obtaining financing to continue exploration of its mineral property interests. While the Company is expending its best efforts to achieve its plans by examining various

financing alternatives, there is no assurance that any such activity will generate funds that will be available for operations.

Recent Financings

In December of 2007, the Company issued 4,263,266 flow-through shares at a price of \$0.75 per share for gross proceeds of \$3,197,450. The Company was required to incur \$3,197,450 of qualifying expenditures which were renounced to the holders of the flow-through shares effective December 31, 2007. In addition, agents received 286,995 warrants as commission at an exercise price of \$0.75 per common share, which expired in December 2009.

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

In December 2008, the Company issued 770,000 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 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 was 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.

In December 2009, the Company issued 4,650,000 Units at a price of \$0.05 per Unit and 13,108,710 FT Units at a price of \$0.065 per FT Unit for total gross proceeds of \$1,084,566. Each Unit consisted of one common share and one flow-through share purchase warrant ("FT Warrant"). Each FT Warrant entitles the holder to acquire a flow-through common share at a price of \$0.10 at any time within 12 months of issue. 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 \$0.12 at any time within 12 months of issue. The Company is required to incur \$838,937 of qualifying expenditures which were renounced to the holders of the flow-through shares effective December 31, 2009. In addition, agents received 645,614 "Agent Warrants" from the Company as commission. Each Agent Warrant entitles the holder to acquire one common share at an exercise price of \$0.10 any time before December 31, 2010.

RELATED PARTY TRANSACTIONS

During the year ended November 30, 2009, the Company incurred fees of \$83,000 (2008 – \$112,000) to Encore Resources Inc., a company in which a director and officer of Shear has significant influence, and \$73,965 (2008 – \$101,526) 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 consulting services received, including fees paid to officers in their capacity as executives of the Company.

These fees are recorded in the financial statements as follows:

	<u>2009</u>	<u>2008</u>
Management fees	36,655	80,249
Professional fees	73,965	101,526
Mineral properties	46,345	31,751
	<u>\$ 156,965</u>	<u>\$ 213,526</u>

There was \$53,574 related to these fees recorded in accounts payable and accrued liabilities at November 30, 2009 (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 March 25, 2010, Shear had 139,752,020 common shares outstanding. The following table provides a summary of Shear's share options and Warrants outstanding at March 25, 2010:

<u>Security</u>	<u>Number</u>	<u>Exercise Price (\$)</u>	<u>Expiry Date</u>
Stock options	275,000	0.60	April 12, 2011
Stock options	1,700,000	0.65	April 15, 2013
Stock options	785,000	0.50	April 15, 2013
Warrants	8,872,500	0.20	December 19, 2010
Warrants	853,350	0.10	December 19, 2010
Warrants	3,571,429	0.20	December 31, 2010
Warrants	499,999	0.30	December 31, 2010
Warrants	5,209,461	0.10	December 30, 2010
Warrants	5,938,970	0.12	December 30, 2010
Warrants	615,384	0.12	December 31, 2010
Warrants	86,153	0.10	December 31, 2010

MINERAL PROPERTIES

1. CHURCHILL DIAMOND, NUNAVUT

The Churchill Diamond Project 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. Shear and Stornoway Diamond Corp. ("Stornoway") own 58.14% and 41.86% interests, respectively, in the project. Stornoway did not participate in the 2008 exploration program and, as a result, Shear's interest in the project will 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.

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"), for a purchase price of \$100,000. As part of the agreement, the Company also purchased an exploration dataset related to the property for \$200,000. Subject to regulatory approval, Shear agreed to issue 3,000,000 common shares to Kaminak in satisfaction of the aggregate purchase price, and Kaminak retained a 20% back-in right to the non-diamond mineral rights, exercisable at any time up to the completion of a "feasibility study" (as defined in the Canadian Securities Administrators' National Instrument 43-101, "Standards of Disclosure for Mineral Projects"). 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. Subsequent to year end, on December 10, 2009, regulatory approval of the transaction was received and the Company issued 3,000,000 common shares to Kaminak.

The property hosts 11 high interest diamond bearing kimberlites, including:

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 carats per tonne ("cpt").

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. 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.

Exploration Update

Notch Bulk Sample

Processing of the mini-bulk sample from the Notch kimberlite was completed with an overall diamond recovery of 0.862 cpt. A total of 129 diamonds greater than 1.18mm were recovered from 17.26 dry tonnes of kimberlite. The five largest recovered stones weigh 0.92, 0.81, 0.77, 0.63, and 0.63 carats.

The results are from two separate surface samples collected by hand trenching along the Notch kimberlite dyke in October 2008. Sample grades are based on diamonds recovered on a 1.18mm square mesh sieve size or larger. A smaller 3.9 tonne sample (see February 11, 2007 news release) returned a +0.85mm sample grade of 0.69 cpt and the 1.18mm sample grade for this 3.9 tonne sample was 0.51 cpt. Complete diamond recoveries were as follows:

Sample Number	Sample Weight Dry (Tonnes)	Diamond Recovery Carats per Tonne (+1.18mm)	Weight of Diamonds Recovered Carats (+0.85mm)	Number of Stones Recovered (+1.18mm)
Notch Bulk Sample	17.26	0.862	14.87	129

Kimberlite	Sample Weight (Dry – kg)	1.18mm Sieve	1.70mm Sieve	2.36mm Sieve	3.35mm Sieve	4.75mm Sieve	6.70mm Sieve	Total Diamond Count
Notch Bulk Sample	17,260	67	36	18	8	0	0	129

Till Samples

Results have been received for 150 priority till samples that were collected in 2008. The samples targeted the heads of previously identified indicator mineral trains to further define the source area. Of the 150 samples, 149 returned kimberlite indicator minerals. The highest count sample was 1,069 kimberlite indicator minerals of which 960 are pyrope garnets in sample 08C460 (all counts are normalized). A total of 41 samples returned pyrope counts in excess of 15 pyrope garnets. These sample results have assisted in further refining the heads of six unsourced indicator mineral trains in both the Sedna and Josephine River corridors. Microprobe results are pending.

Future Plans

The Company is currently developing plans for a summer 2010 prospecting and drill program.

2. CHESTERFIELD INLET DIAMOND PROJECT, NUNAVUT

On August 10, 2009, Shear and Stornoway announced an indicative proposal with Rio Tinto Exploration Canada Inc. ("Rio Tinto") to jointly explore certain northern portions of the Churchill Diamond Project. A final Option and Joint Venture Agreement was signed subsequent to year end. The portion of the Churchill Diamond Project that is subject to this proposal is referred to as the Chesterfield Inlet Diamond Project.

The Chesterfield Inlet Diamond Project is owned approximately 62.78% by Shear and 37.22% by Stornoway. The project comprises a group of 35 mineral claims (70,000 acres) located within and near the North Corridor of the larger Churchill Diamond Project. The project area is located approximately 15 km north of the Josephine River Corridor and portions can be accessed by gravel road from the community of Chesterfield Inlet. The project has been outlined based on more than 25 priority geophysical targets suggestive of kimberlites with potential for larger kimberlites. This area covers the North Corridor, an indicator mineral dispersion area based on till samples from 2003-2006 having high count probe-confirmed kimberlitic indicator minerals including pyrope garnet, eclogitic garnet, chrome diopside, ilmenite and chromite.

Under the terms of the Option and Joint Venture Agreement, Shear and Stornoway jointly granted Rio Tinto the right and option to acquire, subject to existing underlying royalties, up to a 70% interest in the diamond rights to the Chesterfield Inlet Diamond Project. Rio Tinto has a first option to acquire a 51% interest in the project by incurring exploration expenditures of \$100,000 before December 31, 2010 and an additional \$1,900,000 in exploration expenditures before December 31, 2012. If the first option is satisfied, Rio Tinto 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.

In October 2009 a three day prospecting program was completed at the project in order to prioritize targets of interest for further drilling. A total of 27 geophysical targets were prospected suggestive of larger tonnage kimberlites based on magnetics or targets that had a distinct electromagnetic association. In addition, five new kimberlite float occurrences were discovered from prospecting and are being interpreted. Preliminary visual kimberlitic indicator minerals counts have been received from 12 till samples collected in 2009 and results include pyrope garnet, eclogitic garnet, chrome diopside, ilmenite and chromite.

Future Plans

A budget is currently being finalized for a summer 2010 field program.

3. CHURCHILL WEST, NUNAVUT

The Company is a partner in the Churchill West project with International Samuel Exploration Corp. ("Samuel"), Stornoway and BHP Billiton Diamonds Inc. ("BHPB") where the Company holds a 29.11% interest, and Samuel, Stornoway and BHPB have interests of 48.65%, 16.2%

and 6.05%, 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 currently holds the non-diamond rights to the property although Shear and Stornoway have a joint right of refusal on these rights.

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.

During 2009, the total carrying amount of \$66,578 related to the Churchill West property was written-off as the Company has no further exploration plans for the property at this time.

4. 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.

5. AFRIDI LAKE, NORTHWEST TERRITORIES

The Afridi Lake Property is comprised of 22 mineral claims and three mineral leases (64,000 acres) located approximately 40 km 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 project (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.

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.

On June 30, 2009, the Company entered into a debt settlement agreement with 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 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 exploration expense in the year ended November 30, 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 increased to approximately 78%.

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. No qualifying kimberlites have been discovered as of November 30, 2009. The Company is also obligated to pay a 5% gross overriding royalty and net smelter fee on production of the property.

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 in anticipation of a 2011 exploration project, subject to budget approvals by joint venture partners. The joint venture is awaiting final land use permits from the Mackenzie Land and Water Board since completing consultations with stakeholders.

6. LIEGE, ALBERTA

On November 30, 2005, the Company acquired a farm-out agreement on a significant land position in north central Alberta for diamond exploration. The property, known as the Liege Diamond Project, was acquired from a Canadian oil and natural gas exploration, development and production company. A \$10,000 cash finder's fee was paid by Shear under the terms of the agreement. The terms of the agreement were amended on May 1, 2008, such that Shear 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 with a fair value of \$28,000 as consideration for this first amendment. On April 7, 2009, the expenditure period was further 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 360 km north of Edmonton, Alberta. The project area lies 80 km immediately east of the Buffalo Head Hills kimberlite cluster and is located along the projected trend of the Peace River Arch, a crustal structure potentially favourable for kimberlite emplacement.

In December 2009, Shear mobilized field crews to initiate access routes into three drill targets on the property. Drilling was completed in January 2010 and results are pending.

Future Plans

Once results from the drill program are received and interpreted, the Company will determine future plans for the project.

7. RATTLESNAKE NORTH, ALBERTA

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. Pursuant to the agreement, the Company issued 200,000 common shares with a fair value of \$50,000.

During 2008, the Company wrote-off the total carrying amount of \$75,800 related to the property. On February 17, 2009, the Company relinquished its interest in the property and the option agreement was terminated. During 2009, the Company recovered expenditures of \$25,000 that were included in the 2008 write-down.

8. SAKARI, NUNAVUT

During 2007, the Company earned into a 50% interest in approximately 42,000 acres of claims located within the southwest portion of Diamonds North Resources Inc.'s 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 have been discovered to date. In 2008, a total of 18 targets were ground surveyed and three of the targets were tested using a percussion drill. No kimberlite was intersected.

In 2009, the Company wrote-off the total carrying amount of \$28,520 related to the Sakari property as the Company has no further exploration plans for the property.

9. CRYSTAL, MICHIGAN, USA

In 2007, the Company issued 100,000 shares to acquire the Crystal Diamond project in Michigan, USA. The Company is obligated to issue 20,000 of its common shares to the vendors of the project for each diamondiferous kimberlite discovered on the property, to a maximum of 100,000 shares. The Company is also obligated to pay a 3% gross overriding royalty on production from the property, of which 1.5% can be purchased by Shear for US\$ 1,000,000 for each whole percentage, and if any fraction of a percentage is purchased, by an amount pro-rated in accordance with the percentage purchased.

During 2009, the Company wrote-off the total carrying amount of \$123,398 related to the Crystal property as the Company currently has no exploration plans for the property.

10. NAPAJUT LAKE GOLD-DIAMOND PROJECT, NUNAVUT

On November 18, 2009, the Company entered into an option agreement to acquire an interest in the Napajut Lake Gold-Diamond Project. The project is located 75 km west-northwest west from the community of Arviat and also 250 km southwest of Shear's Churchill Diamond Project.

Under the terms of the agreement, Shear has an initial option to acquire a 50% interest in the project by incurring exploration expenditures of \$1,500,000 before August 31, 2013, including \$100,000 by August 31, 2010. If the initial option is exercised, Shear will then have a second option to earn an additional 40% interest in the diamond rights to the project by incurring additional exploration expenditures of \$2,000,000 before August 31, 2016. If the second option is completed, the vendor will retain a 10% carried interest in the diamond rights to the property until Shear completes a feasibility study or incurs additional exploration expenditures of \$12,500,000 on the property. The property is subject to a 2.5% net smelter royalty in favour of an underlying vendor.

As part of the property option agreement, Shear purchased an exploration dataset related to the project. The Company issued 3,000,000 common shares with a fair value of \$300,000 as consideration purchase of the data, which has been recorded in exploration expense for the year ended November 30, 2009.

The bulk of the past exploration has focused on the gold potential of the project. The main showings are the Cliffside and North Showings with potential from several unsourced gold-bearing boulder trains on the project where assays have been up to 36 g Au/t. Gold mineralization is consistently hosted within sheared mafic volcanic rocks associated with sericite-silica-pyrite-pyrrhotite-arsenopyrite. The most recent exploration work done on the property was in 2007 and 2008 when a 2,541 line km helicopter-borne magnetic-electromagnetic airborne geophysical survey was completed. In 2008 a follow up mapping, sampling and prospecting field program was completed. In Shear's review of the geophysical data, in excess of 26 kimberlite targets have been selected for follow-up.

Future Plans

Shear will complete a thorough in-house desktop compilation of all available data including geology, geophysics, known showings and all sample results, to be followed by a 2010 prospecting program to follow-up priority anomalies for both gold and diamond potential. Shear will be applying to all relevant regulatory authorities for land use permits for drill testing of targets in 2011.

11. MISKAMOWIN PROJECT, MANITOBA

Subsequent to year end, on December 24, 2009, the Company entered into an option agreement with Takara Resources Inc. ("Takara") to acquire an interest in the Miskamowin Project in Manitoba. Takara is a related party to Shear by virtue of a common director and officer.

Under the terms of the agreement, Shear has an initial option to acquire a 25% interest in the mineral rights to the project by incurring exploration expenditures of \$340,000 before January 31, 2010 (completed). If the initial option is exercised, Shear will then have a second option to earn an additional 24% interest in the mineral rights to the project by incurring additional exploration expenditures of \$500,000 before December 31, 2011 and issuing 1,000,000 common shares to Takara. The Company also has the option to earn a 70% interest in the diamond rights to specific "targets" on the project by completing drill testing and confirming the presence of kimberlite in the targets.

The Property is composed of twelve Mineral Exploration Licences prospective for nickel sulphides, covering an area in excess of 265,000 hectares located west of Thompson, Manitoba. Past exploration in the 1990's confirmed the presence of serpentinized dunite and peridotite with anomalous nickel values in glacial boulders and in six shallow drill holes.

Future Plans

An airborne survey covering the property was completed in December 2009 to confirm geology and identify prospective electromagnetic conductors for future follow up ground work followed by drill testing. Upon receiving final results from the airborne survey, Shear and Takara will decide the next steps that could include future drill testing of targets or, at their discretion, elect to create a new company focused on developing under-explored nickel projects or other partnering opportunities.

ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

During the year ended November 30, 2009, net expenses for exploration of the Company's mineral properties were \$1,084,415 (2008 - \$5,641,441). Please refer to note 11 of our financial statements for a breakdown of these expenses.

Acquisition costs of \$153,658 were capitalized in the year ended November 30, 2009 (2008 - \$173,727). During 2009, expenditure recoveries of \$172,377 (2008 - \$nil) were recorded along with write-downs of \$193,496 (2008 - \$283,781). Details of the changes in capitalized cost balances are as follows:

	Year Ended November 30, 2009								
	Northwest and Nunavut Territories					Alberta			Total
	Churchill	Afridi Lake	Churchill West	Sakari	Other Properties	Liege	Rattlesnake North	Crystal, USA	
Expenditures:									
Land tenure	\$ 4,064	\$ 8,007	\$ 462	\$ -	\$ 10,314	\$ 2,044	\$ -	\$ 4,800	\$ 29,691
Acquisition costs - shares	100,000	-	-	-	-	-	-	-	100,000
Legal fees	3,164	-	-	-	20,803	-	-	-	23,967
Total expenditures	107,228	8,007	462	-	31,117	2,044	-	4,800	153,658
Less: Recoveries	-	(78,279)	-	(69,098)	-	-	(25,000)	-	(172,377)
Net additions	107,228	(70,272)	462	(69,098)	31,117	2,044	(25,000)	4,800	(18,719)
Write-down of mineral properties	-	-	(66,578)	(28,520)	-	-	25,000	(123,398)	(193,496)
Balance - beginning of year	4,629,610	176,767	66,116	97,618	10,673	96,435	-	118,598	5,195,817
Balance - end of year	\$ 4,736,838	\$ 106,495	\$ -	\$ -	\$ 41,790	\$ 98,479	\$ -	\$ -	\$ 4,983,602

Year Ended November 30, 2008

	Northwest and Nunavut Territories						Alberta			Crystal, USA	Total
	Churchill	Afridi Lake	XYZ	Churchill West	Sakari	Other Properties	Piche	Liege	Rattlesnake North		
Expenditures:											
Land tenure	\$ 31,175	\$ 8,435	\$ (50)	\$ 8,331	\$ -	\$ 359	\$ -	\$ 16,943	\$ 800	\$ 4,734	\$ 70,727
Option costs - cash	-	-	-	-	-	-	-	-	25,000	-	25,000
Option costs - shares	-	-	-	-	-	-	-	28,000	50,000	-	78,000
Net additions	31,175	8,435	(50)	8,331	-	359	-	44,943	75,800	4,734	173,727
Write-down of mineral properties	-	-	(180,906)	-	-	(17,102)	(9,973)	-	(75,800)	-	(283,781)
Balance - beginning of year	4,598,435	168,332	180,956	57,785	97,618	27,416	9,973	51,492	-	113,864	5,305,871
Balance - end of year	\$ 4,629,610	\$ 176,767	\$ -	\$ 66,116	\$ 97,618	\$ 10,673	\$ -	\$ 96,435	\$ -	\$ 118,598	\$ 5,195,817

ACCOUNTING POLICIES

The Company's significant accounting policies are described in note 3 to our financial statements.

Change in Accounting Policy

During the year ended November 30, 2009, the Company changed its accounting policy for exploration expenditures to align itself with policies adopted by other exploration stage mining companies. The Company's previous policy was to capitalize all such costs to mineral properties and only write-down capitalized costs when the property was abandoned or if the capitalized costs were not considered to be economically recoverable.

Exploration expenditures are now charged to earnings as they are incurred until the property reaches development stage. All direct costs related to the acquisition of mineral property interests will continue to be capitalized. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

The Company has accounted for this change in accounting policy on a retroactive basis. The impact of this change on the previously reported November 30, 2008 financial statements is as follows:

	As previously reported	Adjustments	As restated
Balance sheet as at November 30, 2008:			
Mineral properties	\$ 28,032,445	\$(22,836,628)	\$ 5,195,817
Future income tax liability	(2,587,659)	2,587,659	-
Share capital	29,040,123	(83,701)	28,956,422
Deficit	(7,472,345)	(20,165,268)	(27,637,613)
Statement of operations and deficit for the year ended November 30, 2008:			
Exploration of mineral properties	-	5,641,441	5,641,441
Write-down of mineral properties	(1,154,685)	870,904	(283,781)
Future income tax recovery	(846,793)	(1,204,507)	(2,051,300)
Net loss and comprehensive loss	(1,521,164)	(3,566,030)	(5,087,194)
Deficit as at November 30, 2007	(5,951,181)	(16,599,238)	(22,550,419)
Basic and diluted net loss per share	(0.02)	(0.04)	(0.06)
Statement of cash flows for the year ended November 30, 2008:			
Cash used in operating activities	(258,913)	(4,687,749)	(4,946,662)
Cash used in investing activities	(4,818,692)	4,687,749	(130,943)

Recently Adopted Accounting Pronouncements

The following new accounting pronouncements were adopted by the Company in the year ended November 30, 2009:

- Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets";
- CICA Emerging Issues Committee Abstract No. 174, "Mining Exploration Costs"
- Amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures"

Additional information on these standards is available in Note 4(a) to our financial statements.

International Financial Reporting Standards

In October 2009, the CICA published the third and final exposure draft of International Financial Reporting Standards ("IFRS") entitled "Adopting IFRSs in Canada, III". This exposure draft completes the process of exposing existing IFRS for public comment before they are incorporated into the CICA Handbook. Publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. 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.

The Company's IFRS implementation project will consist of three primary phases as follows:

- Scoping and diagnostic phase – This phase involves performing a high-level impact assessment to identify key areas that may be affected by the transition to IFRS.
- Impact analysis, evaluation and design phase – This phase includes a detailed comparison of accounting and disclosure differences between Canadian generally accepted accounting principles and IFRS, including an analysis of accounting policy alternatives allowed under IFRS and specification of changes required to existing policies and business processes.
- Implementation and review phase – This phase will include final policy selection with the culmination of the necessary data required to prepare IFRS-compliant financial statements and disclosures and any necessary adjustments to other business processes that may be impacted.

The Company will commence the scoping and diagnostic phase in 2010.

FINANCIAL INSTRUMENTS

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. Shear received the New World shares under a debt settlement agreement with New World on July 8, 2009 (see "Mineral Properties – Afridi Lake"). 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 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.

Credit Risk

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 November 30, 2009, the maximum exposure to credit risk was the carrying value of the Company's cash and cash equivalents, accounts receivable, and operator recoveries.

Liquidity Risk

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 March 25, 2009, the Company does not have sufficient cash on hand to complete its planned exploration activities and will need to raise additional capital to continue its operations.

Market Risk

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

The fair value of the derivative financial instrument is subject to market risk associated with the trading price of the underlying New World shares. In the opinion of management, At November 30, 2009, the impact of this risk on the Company's financial condition and future cash flows is not significant.

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.

RISKS AND UNCERTAINTIES

The success of Shear's business is subject to a number of factors including, but not limited to, those risks normally encountered by junior resource exploration companies.

Availability of financing

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

Title matters

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

Management

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

Economics of developing mineral properties

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

With respect to Shear's properties, should any mineral resource exist, substantial expenditures will be required to confirm that mineral reserves which are sufficient to commercially mine exist on its current properties, and to obtain the required environmental approvals and permits required to commence commercial operations. Should any resource be defined on such properties, there can be no assurance that the mineral resources on such properties can be commercially mined or that the processing will produce economically viable, merchantable products. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend upon the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and/or geologists, all of which involves significant expense. This decision will involve consideration and evaluation of several significant factors including, but not limited to: (i) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies and construction of production facilities; (ii) availability and costs of financing; (iii) ongoing costs of production; (iv) market prices for the minerals to be produced; (v) environmental compliance regulations and restraints (including potential environmental liabilities associated with historical exploration activities); and (vi) political climate and/or governmental regulation and control.

The ability of Shear to sell and profit from the sale of any eventual mineral production from any of Shear's properties will be subject to the prevailing conditions in the global minerals marketplace at the time of sale. The global minerals marketplace is subject to global economic activity and changing attitudes of consumers and other end-users' demand for mineral products. Many of

these factors are beyond the control of Shear and therefore represent a market risk which could impact the long term viability of Shear and its operations.

Uninsurable risks

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

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

Environmental risks and other regulatory requirements

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

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

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

Competition

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

Potential profitability depends upon factors beyond the control of Shear

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

Aboriginal title claims

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