

Shear Minerals Ltd.
(a development stage company)

Financial Statements
For the years ended November 30, 2009 and 2008

March 25, 2010

Auditors' Report

To the Shareholders of Shear Minerals Ltd.

We have audited the balance sheets of **Shear Minerals Ltd.** as at November 30, 2009 and 2008 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Edmonton, Alberta

Shear Minerals Ltd.

Balance Sheets

As at November 30

Nature of operations and going concern (note 1)

	2009	2008 (Restated – note 2)
Assets		
Current assets		
Cash and cash equivalents	\$ 125,660	\$ 132,645
Restricted cash (note 5)	36,711	36,348
Short-term investments	98,471	4,822
Accounts receivable	46,693	88,144
Operator recoveries	5,099	386,087
Prepaid expenses	21,592	18,897
	<u>334,226</u>	<u>666,943</u>
Equipment (note 6)	62,358	108,569
Mineral properties (note 7)	4,983,602	5,195,817
	<u>\$ 5,380,186</u>	<u>\$ 5,971,329</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 893,423	\$ 1,901,298
Deposits from exploration partners	8,270	17,176
Derivative financial instrument (note 9)	43,375	-
	<u>945,068</u>	<u>1,918,474</u>
Shareholders' equity		
Share capital (note 10(a))	30,209,679	28,956,422
Contributed surplus (note 10(d))	2,954,620	2,734,046
Deficit	<u>(28,729,181)</u>	<u>(27,637,613)</u>
	<u>4,435,118</u>	<u>4,052,855</u>
	<u>\$ 5,380,186</u>	<u>\$ 5,971,329</u>
Commitment (notes 7 and 10(a))		
Subsequent events (notes 7(a), 7(h) and 15)		

Approved by the Board of Directors

Signed "Pamela Strand"

Director

Signed "Donald R. Planche"

Director

Shear Minerals Ltd.
 Statements of Operations and Deficit
 For the years ended November 30

	2009	2008 (Restated – note 2)
Revenue	\$ 44,030	\$ 139,694
Expenses		
Exploration (notes 2, 11 and 14)	1,084,415	5,641,441
General and administrative	221,914	664,214
Professional fees (note 14)	195,784	315,324
Management fees (note 14)	36,655	210,249
Amortization	46,211	42,710
Consulting fees	8,334	67,188
	<u>1,593,313</u>	<u>6,941,126</u>
	(1,549,283)	(6,801,432)
Unrealized gain (loss) on short-term investments	40,159	(53,281)
Unrealized loss on derivative financial instrument (note 9)	(43,375)	-
Write-down of mineral properties (note 7)	<u>(193,496)</u>	<u>(283,781)</u>
Net loss before income tax	(1,745,995)	(7,138,494)
Future income tax recovery (note 8)	<u>(654,427)</u>	<u>(2,051,300)</u>
Net loss and comprehensive loss	(1,091,568)	(5,087,194)
Deficit – beginning of year	<u>(27,637,613)</u>	<u>(22,550,419)</u>
Deficit – end of year	<u>\$ (28,729,181)</u>	<u>\$ (27,637,613)</u>
Basic and diluted net loss per share	<u>\$ (0.01)</u>	<u>\$ (0.06)</u>
Weighted average number of common shares outstanding	<u>110,910,846</u>	<u>84,201,043</u>

Shear Minerals Ltd.

Statements of Cash Flows

For the years ended November 30

	2009	2008
		(Restated – note 2)
Cash provided by (used in)		
Operating activities		
Net loss	\$ (1,091,568)	\$ (5,087,194)
Items not affecting cash		
Write-off of operator recoveries (notes 7(b) and 7(c))	246,444	-
Purchase of exploration data (notes 7(a) and 7(h))	500,000	-
Stock-based compensation	18,332	597,099
Amortization	46,211	42,710
Unrealized (gain) loss on short-term investments	(40,159)	53,281
Unrealized loss on derivative financial instrument	43,375	-
Write-down of mineral properties	193,496	283,781
Future income tax recovery	(654,427)	(2,051,300)
Net change in non-cash working capital (note 12)	(849,774)	1,214,961
	<u>(1,588,070)</u>	<u>(4,946,662)</u>
Financing activities		
Issue of shares	1,688,250	4,512,890
Share issue costs	(131,423)	(342,675)
	<u>1,556,827</u>	<u>4,170,215</u>
Investing activities		
Acquisition of mineral properties	(53,658)	(95,727)
Recovery of mineral property acquisition costs	78,279	-
(Increase) decrease in restricted cash	(363)	6,578
Purchase of equipment	-	(41,794)
	<u>24,258</u>	<u>(130,943)</u>
Decrease in cash and cash equivalents	(6,985)	(907,390)
Cash and cash equivalents – beginning of year	<u>132,645</u>	<u>1,040,035</u>
Cash and cash equivalents – end of year	<u>\$ 125,660</u>	<u>\$ 132,645</u>

Shear Minerals Ltd.

Notes to the Financial Statements

For the years ended November 30, 2009 and 2008

1. Nature of operations and going concern

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

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern. As set out below, there are several adverse conditions that cast significant doubt on the validity of this assumption. At November 30, 2009, the Company has no source of operating cash flow, an accumulated deficit of \$28,729,181 (2008 (restated – note 2) - \$27,637,613), and a working capital deficiency of \$610,842 (2008 - \$1,251,531). Operations for the year ended November 30, 2009 have been funded primarily from the issue of share capital and the recovery of mineral property acquisition costs. During the year ended November 30, 2009, the Company issued 3,893,826 common shares to creditors for settlement of liabilities totalling \$253,099.

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 intends to advance its plans through additional equity financing, there is no assurance that any funds will ultimately 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 7 represent costs net of recoveries to date for property acquisition (including mineral claims and permits), 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.

2. 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

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For the years ended November 30, 2009 and 2008

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)

3. Significant accounting policies

a) Use of estimates and measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and related notes. Significant areas requiring the use of estimates in the preparation of these financial statements include, among other things, the determination of impairment of mineral properties, the determination of amortization, the determination of the fair value of stock-based compensation and other equity transactions, the determination of the valuation allowance with respect to future income tax assets, and the allocation of

Shear Minerals Ltd.

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For the years ended November 30, 2009 and 2008

proceeds from the issue of units ("Units") consisting of common shares and common share purchase warrants ("Warrants") to the component securities. Actual results could differ from these estimates.

b) Revenue recognition

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

c) Cash and cash equivalents

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

d) Equipment

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

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

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

e) Mineral properties

During the year ended November 30, 2009, the Company changed its accounting policy relating to mineral property exploration expenditures and it now expenses exploration expenditures as incurred (see note 2).

Mineral property acquisition costs are recorded at cost and are capitalized on an area of interest basis. Payments relating to a property acquired under an option or joint venture agreement, where payments are made at the sole discretion of the Company, are recorded in the accounts upon payment. Mineral property exploration costs are expensed until the property reaches the development stage. Once the property reaches the development stage, subsequent exploration costs and the costs to develop a property are capitalized, including costs incurred to increase or extend the life of existing production.

On the commencement of commercial production, net capitalized costs will be charged to operations on a unit-of-production basis, by property, using estimated proven and probable reserves as the depletion base.

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When the Company is the operator of a project and incurs costs on behalf of joint venture partners, these costs are periodically charged back to the partners and are recorded as operator recoveries. Recoveries of acquisition costs are credited to mineral properties and recoveries of exploration costs are credited to income.

Where the Company's exploration commitments for an area of interest are performed under option agreements with a third party, the proceeds of any option payments received under such agreements are recorded as a reduction of acquisition costs to the extent of costs incurred. The excess, if any, is credited to operations.

Mineral properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When it is determined that a project or property will be abandoned the costs are written-off, or if it's carrying value has been impaired, the costs are written down to fair value. The loss on impairment is not reversed even if circumstances change and the estimated net recoverable amount subsequently increases.

The Company follows the recommendations in the 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" ("EIC-174"). 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.

The consensus in EIC-174 is that a mining enterprise in the development stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, a mining enterprise is required to consider the conditions in Handbook Section CICA 3063 for an impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired, capitalized costs are written down to the estimated recoverable amount.

Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on results of exploration work, management's intent and ability to retain title to the property, and determination of the extent to which future exploration programs are warranted and likely to be funded.

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f) Income taxes

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

g) Asset retirement obligations

The Company recognizes a liability for retirement obligations associated with long-lived assets, including the abandonment of mineral properties and returning properties to their original condition. Asset retirement obligations are recorded at fair value in the period incurred, along with a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's risk-free interest rate. The liability is subsequently adjusted for the passage of time and recognized as an accretion expense in the statement of operations and deficit. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized on the same basis as the related long-term asset. At this time, the Company does not have any significant asset retirement obligations.

h) Share capital

The proceeds of flow-through shares issued pursuant to certain provisions of the *Income Tax Act (Canada)* (the "Act") are included in share capital. The Act provides that, where the share issue proceeds are used for qualifying exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Company. Share capital is reduced and a future income tax liability is recorded equal to the amount of future income taxes payable by the Company when the expenditures are renounced to the holders of these shares, provided there is reasonable assurance that the expenditures will be made. Where at the time of renouncement the Company has unrecorded net future income tax assets exceeding the income tax effect of the deduction renounced, a corresponding future income tax recovery will be recognized through the statement of operations and deficit. The amount of the net future income tax asset recognized is limited to the amount that is more likely than not to be realized.

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

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i) Stock-based compensation

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

The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility in the price of the underlying stock, and expected life of the stock options or Warrants.

j) Loss per share

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

k) Joint interest operations

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

l) Financial instruments

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

Shear Minerals Ltd.

Notes to the Financial Statements

For the years ended November 30, 2009 and 2008

4. Accounting changes

a) Recently adopted accounting pronouncements

i. Goodwill and intangible assets

On December 1, 2008, the Company adopted 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, EIC-174 was issued, which replaced CICA 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.

iii. Financial instruments disclosures

In June 2009, CICA Handbook Section 3862, "Financial Instruments – Disclosures" was amended to enhance the disclosure requirements regarding fair value measurements and the liquidity risk of financial instruments. These amendments require disclosures about inputs to fair value measurement, including their classification within a hierarchy of priority. The prioritization is based on the lowest-level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The amendments were adopted by the Company for the fiscal year ended November 30, 2009 and the required disclosures are included in note 13.

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For the years ended November 30, 2009 and 2008

b) Recent accounting pronouncements not yet adopted

The CICA published the exposure drafts entitled "Adopting IFRSs in Canada" in April 2008, March 2009 and October 2009. IFRS will be incorporated 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 currently reviewing the standards to determine the potential impact on its financial statements.

5. Restricted cash

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

6. Equipment

	2009		
	Cost	Accumulated Amortization	Net
Field equipment	\$ 129,778	\$ 107,410	\$ 22,368
Computer equipment	80,481	58,008	22,473
Office furniture	25,106	10,581	14,525
Leasehold improvements	17,099	14,107	2,992
	<u>\$ 252,464</u>	<u>\$ 190,106</u>	<u>\$ 62,358</u>

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

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Notes to the Financial Statements

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7. Mineral properties

The following is a continuity of acquisition costs for mineral properties:

						2009
	%	Opening balance	Additions	Recoveries	Write- downs	Closing balance
Northwest and Nunavut Territories						
Churchill	58.14	\$ 4,629,610	\$ 107,228	\$ -	\$ -	\$ 4,736,838
Afridi Lake	58.20	176,767	8,007	(78,279)	-	106,495
Churchill West	29.11	66,116	462	-	(66,578)	-
Sakari	50.00	97,618	-	(69,098)	(28,520)	-
Other properties		10,673	31,117	-	-	41,790
Alberta						
Liege	*51.00	96,435	2,044	-	-	98,479
Rattlesnake North	-	-	-	(25,000)	25,000	-
Michigan						
Crystal	100.00	118,598	4,800	-	(123,398)	-
		<u>\$ 5,195,817</u>	<u>\$ 153,658</u>	<u>\$ (172,377)</u>	<u>\$ (193,496)</u>	<u>\$ 4,983,602</u>

						2008
						(Restated – note 2)
	%	Opening balance	Additions	Write- downs	Closing balance	
Northwest and Nunavut Territories						
Churchill	58.14	\$ 4,598,435	\$ 31,175	\$ -	\$ 4,629,610	
Afridi Lake	58.20	168,332	8,435	-	176,767	
XYZ	80.00	180,956	(50)	(180,906)	-	
Churchill West	26.45	57,785	8,331	-	66,116	
Sakari	50.00	97,618	-	-	97,618	
Other properties		27,416	359	(17,102)	10,673	
Alberta						
Piche	*51.00	9,973	-	(9,973)	-	
Liege	*51.00	51,492	44,943	-	96,435	
Rattlesnake North	-	-	75,800	(75,800)	-	
Michigan						
Crystal	100.00	113,864	4,734	-	118,598	
		<u>\$ 5,305,871</u>	<u>\$ 173,727</u>	<u>\$ (283,781)</u>	<u>\$ 5,195,817</u>	

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

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Contractual options and commitments

a) Churchill

i. Churchill Diamond Project

At November 30, 2009, the Company holds a 58.14% interest and Stornoway Diamond Corporation ("Stornoway") has a 41.86% interest in the diamond rights to the Churchill Diamond Project. Stornoway elected not to participate in the 2008 exploration program at the project. As a result, the Company's interest in the project will increase, and Stornoway's interest will dilute, based on the amount of the program expenditures that are borne solely by the Company.

The 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.

ii. Non-diamond rights

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 will retain 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.

The purchase of the non-diamond rights has been recorded in mineral properties and the purchase of the exploration data has been recorded as an exploration expense for the year ended November 30, 2009. Regulatory approval of the transaction was pending at year end and, therefore, the aggregate purchase price of \$300,000 is included in accounts payable and accrued liabilities at November 30, 2009.

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.

b) Afridi Lake

This project operates under a joint venture agreement with International Samuel Exploration Corporation ("Samuel"), New World Resource Corp. ("New World") and

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Mantle Resources Inc. ("Mantle"). Shear currently holds a 58.2% interest in the property, Samuel holds 25.4%, and New World and Mantle each hold 8.2%.

The Company is obligated to issue 100,000 of its common shares to Mantle for each diamondiferous kimberlite discovered on the property, to a maximum of three kimberlites. No qualifying kimberlites have been discovered as of November 30, 2009. The Company is also obligated to pay a 5% gross overriding royalty and net smelter fee on production of the property.

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 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%.

c) Churchill West

The Company is currently exploring the Churchill West project with 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 first refusal on these rights.

Operator recoveries of \$60,488 were written-off during 2009, of which \$57,237 was charged to exploration expense and \$3,251 was charged to general and administrative expense. 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 by 2.66%. In addition, the Company wrote off the total carrying amount of \$66,578 related to the Churchill West property as the Company has no further exploration plans for the property.

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For the years ended November 30, 2009 and 2008

d) Sakari

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

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.

During 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.

e) Liege

On November 30, 2005, the Company acquired a farm-out agreement on a significant land position in north central Alberta for diamond exploration. The property, known as the Liege Diamond project, was acquired from a Canadian oil and natural gas exploration, development and production company. Under the terms of the agreement, Shear could earn into an initial 51% interest by incurring a total of \$1,000,000 of exploration expenditures over three years inclusive of \$325,000 in exploration by April 30, 2008.

On May 1, 2008, the Company entered into an Amending Agreement to extend the option to acquire a 51% interest in the Liege Diamond project by incurring aggregate expenditures of \$1,000,000 by November 30, 2009. The Company issued 100,000 common shares with a fair value of \$28,000 as consideration. On April 7, 2009, the expenditure period was further extended to May 31, 2010 for no consideration.

f) Rattlesnake North

On June 26, 2008, the Company entered into an option agreement with Grizzly Diamonds Ltd. to acquire an interest in the Rattlesnake North property, a land position in east central Alberta prospective for potash exploration. 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 Rattlesnake North property as the Company had no future exploration plans for 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.

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g) Crystal

On May 7, 2007 the Company issued 100,000 shares to acquire the Crystal Project in Michigan, USA.

The Company is obligated to issue 20,000 of its common shares to the vendors of the project for each diamondiferous kimberlite discovered on the property, to a maximum of 100,000 shares. No qualifying kimberlites have been discovered as of November 30, 2009. The Company is also obligated to pay a 3% gross overriding royalty on production from the property, of which 1.5% can be purchased by Shear for \$US1,000,000 for each whole percentage, and if any fraction of a percentage is purchased, by an amount pro-rated in accordance with the percentage purchased.

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

h) Other properties

i. Chesterfield Inlet Diamond Project

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. The portion of the Churchill Diamond Project that is subject to this proposal is referred to as the Chesterfield Inlet Diamond Project.

Under the terms of the proposal, 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 Project. Rio Tinto 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, 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.

At November 30, 2009, the parties were negotiating the terms of the definitive agreements and subsequent to year end, on December 22, 2009, the Chesterfield Inlet Project Option Agreement was signed.

ii. Napajut Lake Gold–Diamond Project

On November 18, 2009, the Company entered into an option agreement to acquire an interest in the Napajut Lake Gold-Diamond Project in Nunavut. 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

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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.

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.

iii. **Aylmer Lake West**

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

iv. **Hecla**

Shear has agreed to issue an aggregate of 200,000 common shares as a finder's fee upon the following milestones being achieved: 25,000 shares upon the successful acquisition of the land (completed); 75,000 shares upon the discovery of a kimberlite; and 100,000 shares upon the discovery of one or more diamonds per kilogram in any 25 kilogram sample of kimberlite. In addition, Shear has granted a 2% gross overriding royalty, of which 1% can be purchased by Shear for \$1,500,000.

During 2008, the Company wrote off the total carrying amount of \$17,102 (restated – note 2) related to the Hecla property as the Company has no further exploration plans for the property.

v. **Piche**

On November 16, 2005, the Company acquired an option on the Piche Lake Property in north central Alberta. The optionee had agreed to give Shear until May 14, 2008 to complete its \$500,000 in property expenditures in order to earn an initial 51% interest in the property.

The carrying amount of the Piche property of \$9,973 (restated – note 2) was written off during 2008 as the Company did not incur the required expenditures under the terms of the option agreement on the property.

vi. **XYZ**

This project operates under a joint venture agreement with Hunter. Hunter retains a 2% net smelter royalty on non-diamond production as well as a 2% gross

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overriding royalty on diamond production from the property. Shear is required to pay Hunter a \$25,000 annual advance royalty payment.

During 2008, the Company wrote off the total carrying amount of \$180,906 (restated – note 2) related to the XYZ property as the Company has no future exploration plans for the property.

8. Income taxes

The income tax provision differs from the amount that would have resulted from applying the statutory income tax rates to the Company's net loss as follows:

	<u>2009</u>	<u>2008</u>
		(Restated – note 2)
Net loss before income tax	\$ (1,745,995)	\$ (7,138,494)
Statutory income tax rate	29.05%	29.72%
Expected recovery at statutory tax rate	(507,212)	(2,121,560)
Decrease (increase) in recovery related to:		
Impact of tax rate changes	83,901	512,033
Expiry of non-capital losses	73,180	49,517
Non-taxable portion of capital gain	22,732	-
Stock-based compensation and other non-deductible items	3,239	178,489
Change in valuation allowance	(330,267)	(669,779)
Income tax recovery	<u>\$ (654,427)</u>	<u>\$ (2,051,300)</u>

The income tax effects of temporary differences that give rise to future income tax assets are as follows:

	<u>2009</u>	<u>2008</u>
		(Restated – note 2)
Future income tax assets:		
Non-capital losses	\$ 1,358,778	\$ 1,244,350
Deductible finance fees	170,471	225,555
Equipment	31,916	41,547
Short-term investments and derivative financial instrument	11,123	10,781
Mineral properties	1,365,829	1,713,295
Total future income tax assets	2,938,117	3,235,528
Valuation allowance	<u>(2,938,117)</u>	<u>(3,235,528)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

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For the year ended November 30, 2009, future income tax assets of \$32,856 (2008 - \$83,701) arising on share issue costs (note 10(a)) were not recognized as the amounts were considered more likely than not to be unrealized. As a result, valuation allowances were recorded against the full amounts of these future income tax assets at the time of the transactions.

At November 30, 2009, the Company has non-capital losses for income tax purposes of \$5,435,113 which expire as follows:

	Non-capital Losses	Expiry Date
November 30, 2003	\$ 656,381	2010
2004	774,737	2014
2005	487,351	2015
2006	838,976	2026
2007	951,218	2027
2008	952,187	2028
2009	774,263	2029
	<u>\$ 5,435,113</u>	

9. 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.

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10. Share capital and contributed surplus

a) Common shares

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Common shares issued and outstanding:

	2009		2008	
	Number of shares	Amount	Number of shares	Amount
				(Restated – note 2)
Balance – beginning of year	87,981,627	\$ 28,956,422	78,183,361	\$ 26,748,597
Issued in private placements	24,117,857	1,688,250	8,829,266	4,338,950
Value allocated to warrants issued in private placements	-	(160,175)	-	(10,067)
Issued upon exercise of stock options	-	-	669,000	173,940
Transferred from contributed surplus on exercise of stock options	-	-	-	89,646
Issued upon settlement of debt (note 1)	3,893,826	253,099	-	-
Issued for other consideration (notes 7(e), 7(f), and 7(h))	3,000,000	300,000	300,000	78,000
Share issue costs	-	(173,490)	-	(411,344)
Future income taxes on renouncement of qualifying expenditures	-	(654,427)	-	(2,051,300)
Balance – end of year	118,993,310	\$ 30,209,679	87,981,627	\$ 28,956,422

In December of 2007, the Company issued 4,263,266 flow-through shares at a price of \$0.75 per share for gross proceeds of \$3,197,450. The Company was required to incur \$3,197,450 of qualifying expenditures, which were renounced to the holders of the flow-through shares effective December 31, 2007. In addition, agents received 286,995 Warrants as commission at an exercise price of \$0.75 per common share, which expire in December 2009. Related to this, the Company recorded stock-based compensation of \$60,269 as a share issue cost in 2008.

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In August of 2008, the Company issued 3,962,000 flow-through shares at a price of \$0.25 per share and 604,000 Units at a price of \$0.25 per Unit for total gross proceeds of \$1,141,500. The Company was required to incur \$990,500 of qualifying expenditures which were renounced to the holders of the flow-through shares effective December 31, 2008. Each Unit consisted of one common share and one-half of one Warrant. Each whole Warrant entitles the holder to acquire one additional common share at a price of \$0.40 at any time within 18 months of issue. The fair values attributable to the non-flow-through common shares and Warrants were \$140,933 and \$10,067, respectively. In addition, agents received 210,000 Warrants as commission at an exercise price of \$0.30 per common share, which expire in February 2010. Related to this, the Company recorded stock-based compensation of \$8,400 as a share issue cost in 2008.

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 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. 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.

During 2009, the Company issued 3,000,000 common shares (2008 – 300,000) at a value of \$300,000 (2008 – \$78,000) to acquire and satisfy contractual obligations under certain mineral property agreements.

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

b) Stock 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.

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The following table summarizes activity related to stock options:

	2009		2008	
	Number of options outstanding	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
Balance – beginning of year	4,643,334	\$ 0.57	4,399,000	\$ 0.60
Granted	-	-	2,920,000	0.59
Exercised	-	-	(669,000)	0.26
Cancelled	-	-	(431,666)	0.50
Expired	(583,334)	0.82	(1,575,000)	0.83
Balance – end of year	4,060,000	\$ 0.54	4,643,334	\$ 0.57
Exercisable – end of year	4,060,000	\$ 0.54	4,560,002	\$ 0.57

The following table summarizes information about the Company's stock options outstanding and exercisable as at November 30, 2009:

Expiry date	Number	Weighted average remaining life (years)	Weighted average exercise price
February 22, 2010	1,300,000	0.2	0.40
April 12, 2011	275,000	1.4	0.60
April 15, 2013	1,700,000	3.4	0.65
April 15, 2013	785,000	3.4	0.50
	4,060,000	2.2	\$ 0.54

At November 30, 2009, the weighted average remaining contractual life of outstanding options is 2.2 years (2008 – 2.9 years).

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The Company recorded \$18,332 of stock-based compensation expense related to stock options in the year ended November 30, 2009 (2008 - \$597,099 (restated – note 2)) with such amount being credited to contributed surplus. The expense is reflected in the Statement of Operations and Deficit as follows:

	2009	2008
		(Restated – note 2)
Professional fees	\$ 18,332	\$ 95,333
General and administrative expense	-	313,833
Management fees	-	130,000
Consulting fees	-	51,700
Exploration expense	-	6,233
	\$ 18,332	\$ 597,099

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

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

c) Warrants

The following table summarizes activity related to warrants:

	2009		2008	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Balance – beginning of year	2,637,085	\$ 0.78	2,427,340	\$ 0.87
Issued	13,797,278	0.19	798,995	0.50
Expired	(504,840)	0.75	(589,250)	0.80
Balance – end of year	15,929,523	\$ 0.27	2,637,085	\$ 0.78

During the year ended November 30, 2009, the Company recorded share issue costs of \$42,067 (2008 - \$68,669) relating to Warrants issued to agents in connection with

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private placements. The Warrants vested four months from the issue date, and the fair values were calculated using the Black-Scholes option-pricing model with the following assumptions:

	2009	2008
Number of Warrants issued	1,353,349	496,995
Weighted average fair value per Warrant issued	\$ 0.03	\$ 0.14
Weighted average assumptions:		
Risk-free rate	1.16%	3.54%
Expected volatility	93.44%	81.32%
Dividend yield	0.00%	0.00%
Expected life	2.0 years	1.8 years

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

d) Contributed surplus

	2009	2008
Balance – beginning of year	\$ 2,734,046	\$ 2,147,857
Stock-based compensation (note 10(b))	18,332	597,099
Reclassified to common shares on exercise of stock options	-	(89,646)
Value allocated to Warrants issued in private placements	160,175	10,067
Value of agent Warrants issued	42,067	68,669
Balance – end of year	<u>\$ 2,954,620</u>	<u>\$ 2,734,046</u>

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11. Exploration expense

	2009					
	Northwest and Nunavut Territories					
	Churchill	Afridi Lake	Napajut Lake	Other	Alberta properties	Total
General exploration	\$ 332,693	\$ 18,860	\$ 60,400	\$ 43,102	\$ 8,407	\$ 463,462
Airborne geophysics	2,750	-	240,000	2,000	-	244,750
Sampling	61,752	-	-	3,945	-	65,697
Bulk sampling	36,540	-	-	-	-	36,540
Prospecting	11,025	-	-	10,994	-	22,019
Environment	10,443	4,766	-	193	1,613	17,015
Drilling	1,693	2,781	-	-	8,336	12,810
Ground geophysics	5,200	1,500	-	-	-	6,700
	<u>462,096</u>	<u>27,907</u>	<u>300,400</u>	<u>60,234</u>	<u>18,356</u>	<u>868,993</u>
Write-off of operator recoveries	-	185,956	-	57,237	-	243,193
Expenses recovered from exploration partners	-	-	-	(27,771)	-	(27,771)
Exploration expense	<u>\$ 462,096</u>	<u>\$ 213,863</u>	<u>\$ 300,400</u>	<u>\$ 89,700</u>	<u>\$ 18,356</u>	<u>\$ 1,084,415</u>
Cumulative costs expended (active properties)	<u>\$ 19,985,325</u>	<u>\$ 2,198,425</u>	<u>\$ 300,400</u>	<u>\$ 5,943</u>	<u>\$ 368,698</u>	<u>\$ 22,858,791</u>

	2008					
	Northwest and Nunavut Territories					
	Churchill	Afridi Lake	Other	Alberta properties	Crystal, Michigan	Total
General exploration	\$ 2,300,284	\$ 575,877	\$ 40,427	\$ 17,050	\$ 9,192	\$ 2,942,830
Drilling	1,119,921	824,973	88,352	9,618	-	2,042,864
Ground geophysics	307,899	292,009	68,023	113,917	250	782,098
Sampling	355,378	-	39,399	508	-	395,285
Prospecting	177,634	-	12,847	-	20,581	211,062
Environment	78,029	15,502	574	7,486	-	101,591
Bulk sampling	61,297	-	-	-	-	61,297
Community consultations	13,041	6,482	305	3,500	-	23,328
Airborne geophysics	(91,579)	3,000	104,749	-	2,000	18,170
	<u>4,321,904</u>	<u>1,717,843</u>	<u>354,676</u>	<u>152,079</u>	<u>32,023</u>	<u>6,578,525</u>
Expenses recovered from exploration partners	(159,424)	(676,206)	(101,454)	-	-	(937,084)
Exploration expense	<u>\$ 4,162,480</u>	<u>\$ 1,041,637</u>	<u>\$ 253,222</u>	<u>\$ 152,079</u>	<u>\$ 32,023</u>	<u>\$ 5,641,441</u>
Cumulative costs expended (active properties)	<u>\$ 19,523,229</u>	<u>\$ 1,984,562</u>	<u>\$ 698,899</u>	<u>\$ 351,542</u>	<u>\$ 278,396</u>	<u>\$ 22,836,628</u>

(Restated – note 2)

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12. Supplemental cash flow information

a) Net change in non-cash working capital

	2009	2008
		(Restated – note 2)
Accounts receivable	\$ 41,451	\$ 204,042
Operator recoveries	81,054	96,073
Prepaid expenses	(2,695)	4,356
Accounts payable and accrued liabilities	(960,678)	915,866
Deposits from exploration partners	(8,906)	(5,376)
	\$ (849,774)	\$ 1,214,961

b) Non-cash financing and investing activities

	2009	2008
Marketable securities received as payment for operator recoveries (note 7(b))	\$ 53,490	\$ -
Acquisition of mineral property recorded in accounts payable and accrued liabilities (note 7(a))	100,000	-
Acquisition cost recoveries assigned to third party as payment for outstanding accounts payable (note 7(d))	69,098	-
Issue of shares for acquisition of mineral properties (notes 7(e) and 7(f))	-	78,000
Shares issued for settlement of accounts payable and accrued liabilities (note 1)	253,099	-
Fair value of agent warrants included in share issue costs (note 10(c))	42,067	68,669

13. Financial instruments and risk management

a) Fair value of financial instruments

The Company's financial instruments as at November 30, 2009 include cash and cash equivalents, restricted cash, short-term investments, certain accounts receivable, operator recoveries, certain accounts payable and accrued liabilities, and the derivative financial instrument. Cash and cash equivalents, restricted cash, short-term investments and the derivative financial instrument are recognized on the balance sheet at their fair values. The fair value of short-term investments is determined by the bid price of the shares at the balance sheet date. The derivative financial instrument has not been designated as a hedge for accounting purposes and the fair value is estimated using the Black-Scholes option pricing model. The fair values of accounts receivable, operator recoveries and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. The Company has no unrecognized financial instruments.

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On December 1, 2008, the Company adopted the fair value hierarchy that classifies financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value. The financial instruments measured at fair values that are classified as Level 1 – Quoted prices in active markets are: cash and cash equivalents, restricted cash and short-term investments. The derivative financial instrument is classified as Level 3 – Significant unobservable inputs.

b) Risk management

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

Credit risk

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

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

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its current obligations as they are due. The Company prepares annual exploration and administration budgets and monitors expenditures to manage short-term liquidity. Due to the nature of the Company's activities, funding for long-term liquidity needs are dependent on the Company's ability to obtain additional financing through various means, including equity financing. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. At November 30, 2009, the Company does not have sufficient cash on hand to meet its current obligations. The Company will need to raise additional capital to continue its operations.

Market risk

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

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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 net loss and comprehensive loss 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.

c) Capital management

The Company considers its capital structure to include shareholders' equity and working capital. The Company's capital management objective is to ensure that there are adequate capital resources to fund planned exploration, sustain operations, and continue as a going concern.

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

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

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

14. 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 fees are recorded in the financial statements as follows:

	<u>2009</u>	<u>2008</u>
		(Restated – note 2)
Management fees	\$ 36,655	\$ 80,249
Professional fees	73,965	101,526
Exploration expense	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.

Shear Minerals Ltd.

Notes to the Financial Statements

For the years ended November 30, 2009 and 2008

15. Subsequent events

a) Private placement

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. The fair values attributable to the common shares, Warrants, and FT Warrants issued were \$943,392, \$94,674, and \$46,500, respectively.

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 to this, the Company recorded stock-based compensation of \$12,912 as a share issue cost.

b) Option agreement

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.

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.

Takara is a related party to Shear by virtue of a common director and officer.