

# **Shear Minerals Ltd.**

(a development stage company)

Interim Financial Statements

For the three months ended February 28, 2010

(Unaudited)

To the Shareholders of Shear Minerals Ltd.:

The interim balance sheet of Shear Minerals Ltd. as at February 28, 2010, and the interim statements of operations and deficit and of cash flows for the period then ended have been compiled by management.

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

# Shear Minerals Ltd.

## Interim Balance Sheets

Nature of operations and going concern (note 1)

	February 28, 2010 (unaudited)	November 30, 2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 301,418	\$ 125,660
Restricted cash	36,711	36,711
Short-term investments	22,979	98,471
Accounts receivable	75,673	46,693
Operator recoveries	19,506	5,099
Prepaid expenses	13,355	21,592
	<u>469,642</u>	<u>334,226</u>
<b>Equipment</b>	39,044	62,358
<b>Mineral properties</b> (note 5)	<u>4,994,314</u>	<u>4,983,602</u>
	<u>\$ 5,503,000</u>	<u>\$ 5,380,186</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 610,080	\$ 893,423
Deposits from exploration partners	8,270	8,270
Derivative financial instrument (note 6)	-	43,375
	<u>618,350</u>	<u>945,068</u>
<b>Shareholders' equity</b>		
<b>Share capital</b> (note 7(a))	31,159,601	30,209,679
<b>Contributed surplus</b> (note 7(d))	3,116,199	2,954,620
<b>Deficit</b>	<u>(29,391,150)</u>	<u>(28,729,181)</u>
	<u>4,884,650</u>	<u>4,435,118</u>
	<u>\$ 5,503,000</u>	<u>\$ 5,380,186</u>

Approved by the Board of Directors

Signed "Pamela Strand"  
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Director

Signed "Donald R. Planche"  
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Director

# Shear Minerals Ltd.

Interim Statements of Operations and Deficit  
For the three months ended February 28  
(unaudited)

	2010	2009
		(Restated – note 2)
<b>Revenue</b>	\$ -	\$ 850
<b>Expenses</b>		
Exploration (notes 2, 8 and 10)	810,931	31,352
General and administrative (note 10)	43,488	106,432
Professional fees (note 10)	26,407	30,279
Management fees (note 10)	14,840	9,910
Amortization	7,949	11,553
Consulting fees	-	1,912
	903,615	191,438
<b>Loss before the following</b>	<b>(903,615)</b>	<b>(190,588)</b>
Gain on disposal of equipment	9,805	-
Gain on disposal of short-term investments	7,229	-
Unrealized (loss) gain on short-term investments	(28,502)	3,242
Unrealized gain on derivative financial instrument	43,375	-
Recovery of mineral property acquisition costs previously written-off	-	25,000
<b>Net loss before income tax</b>	<b>(871,708)</b>	<b>(162,346)</b>
Future income tax recovery (note 7(a))	(209,739)	(654,427)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(661,969)</b>	<b>492,081</b>
Deficit – beginning of period	(28,729,181)	(27,637,613)
<b>Deficit – end of period</b>	<b>\$(29,391,150)</b>	<b>\$(27,145,532)</b>
<b>Basic and diluted income (loss) per share</b>	<b>\$ (0.005)</b>	<b>\$ 0.005</b>
<b>Weighted average number of common shares outstanding</b>	<b>133,716,094</b>	<b>106,323,532</b>

# Shear Minerals Ltd.

## Interim Statements of Cash Flows

For the three months ended February 28

(unaudited)

	2010	2009
		(Restated – note 2)
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	\$ (661,969)	\$ 492,081
Items not affecting cash		
Amortization	7,949	11,553
Gain on disposal of equipment	(9,805)	-
Gain on disposal of short-term investments	(7,229)	-
Unrealized loss (gain) on short-term investments	28,502	(3,242)
Unrealized gain on derivative financial instrument	(43,375)	-
Recovery of mineral property acquisition costs previously written-off	-	(25,000)
Future income tax recovery	(209,739)	(654,427)
Net change in non-cash working capital (note 9(a))	6,677	(1,047,612)
	<u>(888,989)</u>	<u>(1,226,647)</u>
<b>Financing activities</b>		
Issue of shares	1,084,566	1,688,250
Share issue costs	(63,326)	(124,205)
	<u>1,021,240</u>	<u>1,564,045</u>
<b>Investing activities</b>		
Acquisition of mineral properties	(26,234)	(13,277)
Recovery of mineral property acquisition costs	15,522	-
Proceeds on disposal of short-term investments	54,219	-
	<u>43,507</u>	<u>(13,277)</u>
<b>Increase in cash and cash equivalents</b>	175,758	324,121
Cash and cash equivalents – beginning of period	125,660	132,645
<b>Cash and cash equivalents – end of period</b>	<u>\$ 301,418</u>	<u>\$ 456,766</u>
Non-cash financing and investing activities (note 9(b))		

# Shear Minerals Ltd.

Notes to the Interim Financial Statements  
For the three months ended February 28, 2010  
(unaudited)

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## 1. Nature of operations and going concern

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

These unaudited interim financial statements (the "financial statements") have been prepared using Canadian generally accepted accounting principles applicable to a going concern. As set out below, there are several adverse conditions that cast significant doubt on the validity of this assumption. The Company has no source of operating cash flow and reported a net loss before income tax of \$871,708 for the three months ended February 28, 2010 (2009 (restated – note 2) - \$162,346). At February 28, 2010, the Company has an accumulated deficit of \$29,391,150 (November 30, 2009 - \$28,729,181), and a working capital deficiency of \$148,708 (November 30, 2009 - \$610,842). To date, operations have been funded primarily from the issue of share capital.

The Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. The current financial equity market conditions, the challenging funding environment and the low price of the Company's common shares make it difficult to raise funds by private placements of shares. The junior resource industry has been severely impacted by the world economic situation as it is considered to be a high-risk investment. There is no assurance that the Company will be successful with any financing ventures. The Company is dependent upon the continuing financial support of shareholders and obtaining financing to continue exploration of its mineral property interests. While the Company intends to advance its plans through additional equity financing, there is no assurance that any funds that 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 5 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.

# Shear Minerals Ltd.

Notes to the Interim Financial Statements  
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## 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 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 the 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 February 28, 2009 interim financial statements is as follows:

	<b>As previously reported</b>	<b>Adjustments</b>	<b>As restated</b>
Statement of operations and deficit for the three months ended February 28, 2009:			
Exploration of mineral properties	-	31,352	31,352
General and administrative expense	108,832	(2,400)	106,432
Consulting fees	3,886	(1,974)	1,912
Future income tax recovery	(47,885)	(606,542)	(654,427)
Net income (loss) and comprehensive income (loss)	(87,483)	579,564	492,081
Deficit as at November 30, 2008	(7,472,345)	(20,165,268)	(27,637,613)
Deficit as at February 28, 2009	(7,559,828)	(19,585,704)	(27,145,532)
Basic and diluted net loss per share	(0.001)	0.006	0.005
Statement of cash flows for the three months ended February 28, 2009:			
Cash used in operating activities	(102,182)	(1,124,465)	(1,226,647)
Cash used in investing activities	(1,137,742)	1,124,465	(13,277)

## 3. Basis of presentation

These financial statements are prepared in accordance with generally accepted accounting principles for interim financial statements and do not include all of the disclosures normally contained in the Company's annual financial statements. Since the determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of management, these financial statements have been prepared within reasonable limits of

# Shear Minerals Ltd.

Notes to the Interim Financial Statements  
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materiality. These financial statements follow the same significant accounting policies as described and used in the most recent annual financial statements of the Company for the year ended November 30, 2009 and should be read in conjunction with those annual financial statements.

#### 4. Recent accounting pronouncements not yet adopted

The Canadian Institute of Chartered Accountants published the exposure drafts entitled "Adopting IFRSs in Canada" in April 2008, March 2009, and October 2009. International Financial Reporting Standards will be incorporated into the Canadian Institute of Chartered Accountants' 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 International Financial Reporting Standards. The Company is reviewing the impact on its financial statements of adopting International Financial Reporting Standards.

#### 5. Mineral properties

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

	<b>Three months ended February 28, 2010</b>			
	<b>Opening balance</b>	<b>Additions</b>	<b>Recoveries</b>	<b>Closing balance</b>
Northwest and Nunavut Territories				
Churchill	\$ 4,736,838	\$ 732	\$ -	\$ 4,737,570
Other properties	148,285	22,613	(15,522)	155,376
Alberta				
Liege	98,479	190	-	98,669
Manitoba				
Miskamowin	-	2,699	-	2,699
	<u>\$ 4,983,602</u>	<u>\$ 26,234</u>	<u>\$ (15,522)</u>	<u>\$ 4,994,314</u>

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 earned an initial 25% interest in the mineral rights to the project by incurring exploration expenditures of \$340,000 before January 31, 2010. Shear has 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.

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## 6. Derivative financial instrument

On August 18, 2009, Company issued a non-transferable covered call option which allowed the holder to acquire 361,461 shares of New World Resource Corp. from the Company at a price of \$0.15 per share. On January 25, 2010, the holder exercised the option and the liability was extinguished.

## 7. Share capital and contributed surplus

### a) Common shares

Authorized:

Unlimited number of common shares  
Unlimited number of preferred shares

Common shares issued and outstanding:

	<b>Number of shares</b>	<b>Amount</b>
Balance – November 30, 2009	118,993,310	\$ 30,209,679
Issued in private placement	17,758,710	1,084,566
Value allocated to warrants issued in private placement	-	(148,667)
Issued in acquisition of mineral rights and related dataset	3,000,000	300,000
Share issue costs	-	(76,238)
Future income taxes on renouncement of qualifying expenditures	-	(209,739)
	<hr/>	<hr/>
Balance – February 28, 2010	139,752,020	\$ 31,159,601

In December 2009, the Company issued 4,650,000 units ("Units") at a price of \$0.05 per Unit and 13,108,710 flow-through units ("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 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 common share purchase warrant ("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 \$838,957 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 \$935,899, \$99,720, and \$48,947, respectively.

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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 within 12 months of issue.

On December 10, 2009, the Company issued 3,000,000 common shares to Kaminak Gold Corporation to complete the purchase of the non-diamond rights to the Churchill Diamond Project and a related exploration dataset. The total purchase price of \$300,000, consisting of \$100,000 for the non-diamond rights and \$200,000 for the exploration dataset, was included in accounts payable and accrued liabilities at November 30, 2009.

In the three months ended February 28, 2010, the Company renounced \$838,957 (2009 - \$2,617,707) of qualifying expenditures to holders of flow-through shares, resulting in a future income tax liability of \$209,739 (2009 - \$654,427) and a corresponding reduction of share capital. The Company has also recognized deductible temporary differences of \$209,739 in the three months ended February 28, 2010 (2009 - \$654,427) which have been credited to income. At February 28, 2010, qualifying expenditures of approximately \$487,000 remain to be incurred by December 31, 2010 in order to satisfy the commitment related to the flow-through shares issued in December 2009.

## b) Stock options

The following table summarizes activity related to stock options:

	<b>Number of options outstanding</b>	<b>Weighted average exercise price</b>
Balance – November 30, 2009	4,060,000	\$ 0.54
Expired	(1,300,000)	0.40
Balance – February 28, 2010	<u>2,760,000</u>	<u>\$ 0.60</u>

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## c) Warrants

The following table summarizes activity related to warrants:

	<b>Number of Warrants</b>	<b>Weighted average exercise price</b>
Balance – November 30, 2009	15,929,523	\$ 0.27
Issued	11,849,968	0.11
Expired	(2,132,245)	0.78
Balance – February 28, 2010	<u>25,647,246</u>	<u>\$ 0.15</u>

During the three months ended February 28, 2010, the Company recorded share issue costs of \$12,912 relating to warrants issued to agents in connection with the December 2009 private placement (note 7(a)). The warrants vested four months from the issue dates, and the fair value was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Number of warrants issued	645,614
Weighted average fair value per warrant issued	\$ 0.02
Weighted average assumptions:	
Risk-free rate	1.42%
Expected volatility	95.80%
Dividend yield	0.00%
Expected life	1 year

## d) Contributed surplus

The following table summarizes activity related to contributed surplus:

Balance – November 30, 2009	\$ 2,954,620
Value allocated to Warrants and FT Warrants issued in private placement (note 7(a))	148,667
Value of Agent Warrants issued (note 7(c))	<u>12,912</u>
Balance – February 28, 2010	<u>\$ 3,116,199</u>

# Shear Minerals Ltd.

Notes to the Interim Financial Statements  
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## 8. Exploration expense

	<b>Three months ended February 28, 2010</b>				
	<b>Northwest and Nunavut Territories</b>		<b>Liege, Alberta</b>	<b>Miskamowin, Manitoba</b>	<b>Total</b>
	<b>Churchill</b>	<b>Other</b>			
Airborne geophysics	\$ -	\$ -	\$ -	\$ 403,228	\$ 403,228
Drilling	-	-	238,138	-	238,138
General exploration	16,599	15,261	39,675	34,512	106,047
Bulk sampling	58,396	-	-	-	58,396
Other	2,584	1,819	500	219	5,122
<b>Exploration expense</b>	<b>\$ 77,579</b>	<b>\$ 17,080</b>	<b>\$ 278,313</b>	<b>\$ 437,959</b>	<b>\$ 810,931</b>
Cumulative costs expensed (active properties)	<b>\$ 20,062,904</b>	<b>\$ 2,519,715</b>	<b>\$ 647,011</b>	<b>\$ 437,959</b>	<b>\$ 23,667,589</b>

	<b>Three months ended February 28, 2009</b>			
	<b>Northwest and Nunavut Territories</b>		<b>Liege, Alberta</b>	<b>Total</b>
	<b>Churchill</b>	<b>Other</b>		
General exploration	\$ 16,768	\$ 1,112	\$ 1,369	\$ 19,249
Drilling	4,554	2,780	-	7,334
Other	4,769	-	-	4,769
<b>Exploration expense</b>	<b>\$ 26,091</b>	<b>\$ 3,892</b>	<b>\$ 1,369</b>	<b>\$ 31,352</b>
Cumulative costs expensed (active properties)	<b>\$ 19,549,320</b>	<b>\$ 2,683,009</b>	<b>\$ 352,808</b>	<b>\$ 22,585,137</b>

# Shear Minerals Ltd.

Notes to the Interim Financial Statements  
For the three months ended February 28, 2010  
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## 9. Supplemental cash flow information

### a) Net change in non-cash working capital

	Three months ended February 28,	
	2010	2009
Accounts receivable	\$ (28,980)	\$ 63,838
Operator recoveries	(14,407)	-
Prepaid expenses	8,237	5,667
Accounts payable and accrued liabilities	41,827	(1,117,117)
	<u>\$ 6,677</u>	<u>\$ (1,047,612)</u>

### b) Non-cash investing and financing activities

	Three months ended February 28,	
	2010	2009
Fair value of Agent Warrants included in share issue costs (note 7(c))	\$ 12,912	\$ 42,067
Shares issued for acquisition mineral rights and related dataset (note 7(a))	300,000	-
Disposal of equipment to third party as settlement for outstanding accounts payable	25,170	-

# Shear Minerals Ltd.

Notes to the Interim Financial Statements  
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## 10. Related party transactions

Related party transactions not disclosed elsewhere in these financial statements are as follows:

- a) During the three months ended February 28, 2010, the Company incurred fees of \$21,000 (2009 – \$20,000) to Encore Resources Inc., of which \$14,840 (2009 - \$9,910) was recorded as management fees and \$6,160 (2009 - \$10,090) was recorded as exploration expense. Encore Resources Inc. is a company in which a director of Shear has significant influence.
- b) Professional fees of \$19,490 were incurred to a proprietorship controlled by an officer of Shear in the three months ended February 28, 2010 (2009 – \$22,210).
- c) The Company recorded general and administrative expense of \$3,600 for the three months ended February 28, 2010 (2009 - nil) for use of the office facilities of Firestone Ventures Inc., a company in which a director and an officer of Shear have significant influence.
- d) During the three months ended February 28, 2010, the Company incurred exploration expense of \$153,875 (2009 - nil) for services received from Lyncorp Drilling Services Inc., a company in which a director of Shear has significant influence.

In the opinion of management, these fees are considered to be at fair value and are recorded at the exchange amount.

The following balances with related parties are included in the financial statements:

	<b>February 28, 2010</b>	<b>November 30, 2009</b>
Amounts due from related parties included in accounts receivable:		
Takara	\$ 1,477	\$ -
Amounts due to related parties included in accounts payable and accrued liabilities:		
Encore Resources Inc.	\$ 44,301	\$ 28,846
Proprietorship controlled by an officer	37,112	24,728
Lyncorp Drilling Services Inc.	56,569	-
Firestone Ventures Inc.	3,780	-
	<b>\$ 141,762</b>	<b>\$ 53,574</b>