SHEAR MINERALS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE AND SIX MONTHS ENDED MAY 31, 2010

GENERAL

This management's discussion and analysis ("MD&A") supplements, but does not form part of, the unaudited interim financial statements of Shear Minerals Ltd. ("Shear" or the "Company") for the three and six months ended May 31, 2010. The following information, prepared as of July 21, 2010, should be read in conjunction with those statements and with the Company's audited financial statements for the year ended November 30, 2009, both of which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts have been expressed in Canadian dollars unless otherwise indicated. Additional information related to the Company can be found on SEDAR at www.sedar.com.

The following MD&A is management's assessment of the Company's operations and financial results, together with future prospects. Certain statements contained in the MD&A are considered forward-looking statements. Please refer to "Forward-Looking Information" for a discussion on the risks and uncertainties related to such information.

DESCRIPTION OF BUSINESS

Shear is an exploration stage company focused on diamond exploration. The Company acquires and explores mineral properties located primarily in the Northwest and Nunavut Territories, Alberta, Manitoba and Michigan. The Company is a reporting issuer in Alberta and British Columbia and trades on the TSX Venture Exchange under the symbol SRM.

On July 16, 2010, the Company entered into a Purchase and Sale Agreement with Tahera Diamond Corp. and Benachee Resources Inc. to acquire a 100% interest in the Jericho Diamond Mine and processing facilities and all supporting exploration assets, located in Nunavut. Please see "Significant Events Subsequent to May 31, 2010" for more information.

SUMMARY OF QUARTERLY RESULTS

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

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	$ 11,252	$ -	$ 16,708	$ 25,938	$ 534	$ 850	$ 2,064	$ 8,048
Expenses:								
Exploration[1]	(96,956)	(810,931)	(645,236)	(144,236)	(263,591)	(31,352)	(489,313)	(2,512,962)
G&A and corporate[2]	(109,939)	(92,684)	(158,158)	(75,016)	(97,306)	(160,086)	(178,326)	(88,509)
Stock-based compensation	-	-	(9,166)	-	(9,166)	-	7,702	(10,758)
Gain on disposal of equipment	-	9,805	-	-	-	-	-	-
Gain on disposal of short-term investments	-	7,229	-	-	-	-	-	-
Unrealized (loss) gain on short-term investments	245	(28,502)	(18,682)	52,635	2,964	3,242	(22,100)	(12,902)
Unrealized gain (loss) on derivative financial instrument	-	43,375	21,688	(65,063)	-	-	-	-
Write-down of mineral properties	(98,669)	-	(28,520)	(189,976)	-	25,000	(85,773)	(198,008)
Future income tax recovery	-	209,739	-	-	-	654,427	-	-
Net income (loss)	$ (294,067)	$ (661,969)	$ (821,366)	$ (395,718)	$ (366,565)	$ 492,081	$ (765,746)	$ (2,815,091)
Basic and diluted net income (loss) per share	$ (0.002)	$ (0.005)	$ (0.007)	$ (0.004)	$ (0.003)	$ 0.005	$ (0.009)	$ (0.033)

(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 exploration 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. 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 significantly lower than 2008. The general decline in general and administrative and corporate expenses is the result of decreased corporate activity in response to economic conditions.

The future income tax recoveries in the first quarters of 2009 and 2010 were recorded as a result of renouncement of qualifying expenditures to holders of the Company's flow-through shares.

RESULTS OF OPERATIONS

Three Months Ended May 31, 2010

Shear had a net loss of $294,067 for the three months ended May 31, 2010, compared to net loss of $366,565 for the comparative quarter. A decrease in expenses of $163,168, partially offset by a write-down of mineral properties of $98,669 in the three months ended May 31, 2010 (2009 – nil) accounts for the decrease in net loss.

Exploration expense decreased by $166,635 from the three months ended May 31, 2009, primarily due to a write-off of operator recoveries of $153,492 charged to exploration expense in the comparative quarter. There were no field exploration programs in progress during either of the current or comparative quarters.

General and Administrative Expense

	Three months ended May 31,	
	2010	**2009**
Office expenses	$ 19,796	$ 15,969
Regulatory and transfer fees	5,561	3,562
Shareholder communications and promotion	4,307	1,473
Corporate travel and tradeshows	12,150	2,281
Payroll	7,880	2,198
Other	3,517	15,017
	$ 53,211	$ 40,500

Total general and administrative expense increased by $12,711 from the comparative quarter. Increases in office expenses and payroll were due to an increase in corporate headcount as well as the Company's move to a new corporate office location. Corporate travel and tradeshows expense increased in the current quarter due an increase in corporate activity in the current quarter. The decline in other general and administrative expense is related to a reduction of $11,200 in the expense incurred to Canada Revenue Agency related to flow-through funds renounced to shareholders under the look-back rule.

Other Corporate Expenses

	Three months ended May 31, 2010	2009
Professional fees	$ 37,688	$ 43,235
Management fees	9,414	10,234
Amortization	8,026	11,553
Consulting fees	1,600	950
	$ 56,728	$ 65,972

There were no significant changes in our other corporate expenses from the three months ended May 31, 2009.

Six Months Ended May 31, 2010

We recorded a net loss of $956,036 in the six months ended May 31, 2010, compared to a net income of $125,516 in the comparative period. The decrease in net income of $1,081,552 is due primarily to an increase in expenses of $549,009, an increase of $123,669 in the write-down of mineral properties, a decrease of $444,688 in the future income tax recovery, and a decrease of $34,463 in the unrealized gain on short-term investments. These decreases in net income were partially offset by an unrealized gain on derivative financial instrument of $43,375 and gains on disposal of equipment and short-term investments of $9,805 and $7,229, respectively.

Excluding the write-off of operator recoveries of $153,492 that was recorded in the comparative period, exploration expense has increased by $766,436 from the six months ended May 31, 2009. We conducted field exploration work on the Liege and Miskamowin properties in the six months ended May 31, 2010, while no such activity was performed in the comparative period due to challenging economic conditions and our need to conserve cash during the economic downturn.

General and administrative expense has decreased by $50,233 from the six months ended May 31, 2009, due mainly to a reduction of $68,564 in amounts incurred to Canada Revenue Agency related to unspent flow-through fund renounced to shareholders under the look-back rule. Increased payroll and corporate travel and tradeshows expense during the current period account for the balance of the change in general and administrative expense.

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 May 31, 2010, 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 Napajut Lake, and Miskamowin properties (see "Mineral Properties" for details). The payments and expenditures are at the sole discretion of the Company.

At May 31, 2010, qualifying expenditures of approximately $389,000 remain to be incurred by December 31, 2010 in order to satisfy the commitment related to flow-through shares issued in December 2009.

At May 31, 2010, the Company had cash and cash equivalents of $244,012 (November 30, 2009 - $125,660) and a working capital deficiency of $349,227 (November 30, 2009 – $610,842). 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 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. Of this commitment, $351,957 has been fulfilled as of February 28, 2010. 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 July 23, 2010, the Company announced that it has engaged RBC Capital Markets as lead agent and Macquarie Capital Canada Ltd. to raise approximately $15 million of equity by way of a marketed private placement. Please see “Significant Events Subsequent to May 31, 2010” for more information.

RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

- During the six months ended May 31, 2010, the Company incurred fees of $42,000 (2009 – $41,000) to Encore Resources Inc., of which $24,254 (2009 - $20,144) was recorded as management fees and $17,746 (2009 - $20,856) was recorded as exploration expense. Encore Resources Inc. is a company in which a director of Shear has significant influence. The fees were paid for management and geological consulting services received by the Company

- Shear incurred professional fees of $38,555 during the six months ended May 31, 2010 to a proprietorship controlled by an officer of Shear (2009 – $41,870) for management and professional services received.

- During the six months ended May 31, 2010, the Company recorded general and administrative expense of $10,800 (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.

- During the six months ended May 31, 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.

- On December 24, 2009, the Company entered into an option agreement with Takara Resources Inc. to acquire an interest in the Miskamowin Project in Manitoba (see “Mineral Properties – Miskamowin Project”). Takara is a related party to Shear by virtue of common directors.

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:

		May 31, 2010		November 30, 2009
Amounts due from related parties included in accounts receivable:				
Takara Resources Inc.	$	3,705	$	-
Amounts due to related parties included in accounts payable and accrued liabilities:				
Encore Resources Inc.	$	53,893	$	28,846
Proprietorship controlled by an officer		40,483		24,728
Lyncorp Drilling Services Inc.		12,459		-
Firestone Ventures Inc.		7,668		-
	$	114,503	$	53,574

DISCLOSURE OF OUTSTANDING SHARE DATA

As at July 21, 2010, Shear had 139,752,020 common shares outstanding. The following table provides a summary of Shear's share options and Warrants outstanding at July 21, 2010:

Security	Number	Exercise Price ($)	Expiry Date
Stock options	275,000	0.60	April 12, 2011
Stock options	1,700,000	0.65	April 24, 2013
Stock options	785,000	0.50	April 24, 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	0.10	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

The Company's active mineral properties are listed below. The following discussion includes a summary of exploration activities during the current fiscal year to the date of this MD&A and an update to disclosure in documentation filed with regulatory authorities and available for viewing under the Company's profile on SEDAR. Please refer to our most recent annual MD&A for the year ended November 30, 2009 for additional information on our 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 diamond rights to 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 Company owns 100% of the non-diamond rights to the property.

The property is subject to a 1% gross overriding royalty and net smelter royalty in favour of the Hunter Exploration Group and 1% in favour of International Royalty Corp. with respect to the commercial production of diamonds.

Exploration Update

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

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

Shear and Stornoway entered into an Option and Joint Venture Agreement with Rio Tinto Exploration Canada Inc. ("Rio Tinto") to jointly explore certain northern portions of the Churchill Diamond Project, which are 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.

Future Plans

A $550,000 exploration program will be completed during the summer of 2010. An ultra-resolution 2,177 line-kilometre airborne magnetic geophysical survey was completed in May 2010 to provide detailed data to select drill collar locations. The balance of the program includes till sampling, prospecting and structural interpretation over high priority geochemical areas, lightweight drill testing of up to 10 targets, select ground magnetic surveys over new areas, and ongoing environmental baseline data collection and water sampling.

3. 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 International Samuel Exploration Corp., New World Resource Corp. ("New World") and Canada Zinc Metals Corp. ("Canada Zinc"). Shear currently holds a 78.6% interest in the property and Samuel, New World and Canada Zinc have 5%, 8.2% and 8.2%, respectively.

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 to date. 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.

4. 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. 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.

In January 2010, drilling was completed on three targets and the Company determined that the results were not compelling enough to warrant further expenditures to complete the earn-in on the property. As a result, the carrying amount of $98,669 related to the property was written-off in the three months ended May 31, 2010.

5. 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.

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.

6. MISKAMOWIN PROJECT, MANITOBA

On December 24, 2009, the Company entered into an option agreement with Takara Resources Inc. to acquire an interest in the Miskamowin Project in Manitoba. Takara is a related party to Shear by virtue of common directors. 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.

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.

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. Shear and Takara are currently evaluating the results of the airborne survey in order to determine future plans for the property.

ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

During the six months ended May 31, 2010, net expenses for exploration of the Company's mineral properties were $907,887 (2009 - $294,943). Please refer to note 8 of our financial statements for a breakdown of these expenses.

Details of the changes in capitalized acquisition cost balances are as follows:

	Six Months Ended May 31, 2010				
	Northwest and Nunavut Territories				
	Churchill	Other Properties	Liege, Alberta	Miskamowin, Manitoba	Total
Expenditures:					
Land tenure	$ -	$ 15,422	$ 190	$ 560	$ 16,172
Legal fees	732	7,299	-	3,672	11,703
Total expenditures	732	22,721	190	4,232	27,875
Less:					
Recoveries	-	(15,522)	-	-	(15,522)
Write-down	-	-	(98,669)	-	(98,669)
Net additions	732	7,199	(98,479)	4,232	(86,316)
Balance - beginning of period	4,736,838	148,285	98,479	-	4,983,602
Balance - end of period	$ 4,737,570	$ 155,484	$ -	$ 4,232	$ 4,897,286

	Six Months Ended May 31, 2009				
	Northwest and Nunavut Territories				
	Churchill	Other Properties	Alberta Properties	Crystal, Michigan	Total
Expenditures:					
Land tenure	$ 1,966	$ 5,157	$ 2,044	$ 4,800	$ 13,967
Less: Recoveries	-	(78,279)	(25,000)	-	(103,279)
Net additions	1,966	(73,122)	(22,956)	4,800	(89,312)
Recovery of previous write-down	-	-	25,000	-	25,000
Balance - beginning of period	4,629,610	351,174	96,435	118,598	5,195,817
Balance - end of period	$ 4,631,576	$ 278,052	$ 98,479	$ 123,398	$ 5,131,505

ACCOUNTING POLICIES

The Company's significant accounting policies are described in note 3 to our most recent annual financial statements for the year ended November 30, 2009.

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 interim financial statements for the three months ended May 31, 2009 is as follows:

	As previously reported	**Adjustments**	**As restated**
Statement of operations and deficit:			
Exploration of mineral properties	$ -	263,591	$ 263,591
General and administrative expense	47,157	(6,657)	40,500
Consulting fees	11,386	(10,436)	950
Future income tax recovery	(33,100)	33,100	-
Net loss and comprehensive loss	(86,967)	(279,598)	(366,565)
Deficit as at February 28, 2009	(7,559,828)	(19,585,704)	(27,145,532)
Deficit as at May 31, 2009	(7,646,795)	(19,865,302)	(27,512,097)
Basic and diluted net loss per share	(0.001)	(0.002)	(0.003)
Statement of cash flows:			
Cash used in operating activities	(137,178)	(94,119)	(231,297)
Cash used in investing activities	(16,893)	94,119	77,226

The impact of this change on the previously reported interim financial statements for the six months ended May 31, 2009 is as follows:

	As previously reported	Adjustments	As restated
Statement of operations and deficit:			
Exploration of mineral properties	$ -	294,943	$ 294,943
General and administrative expense	155,989	(9,057)	146,932
Consulting fees	15,272	(12,410)	2,862
Future income tax recovery	(80,985)	(573,442)	(654,427)
Net income (loss) and comprehensive income (loss)	(174,450)	299,966	125,516
Deficit as at November 30, 2008	(7,472,345)	(20,165,268)	(27,637,613)
Deficit as at May 31, 2009	(7,646,795)	(19,865,302)	(27,512,097)
Basic and diluted net income (loss) per share	(0.002)	0.003	0.001
Statement of cash flows:			
Cash used in operating activities	(239,360)	(1,218,584)	(1,457,944)
Cash used in investing activities	(1,154,635)	1,218,584	63,949

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 the third quarter of 2010.

FINANCIAL INSTRUMENTS

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.

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 May 31, 2010, 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 July 21, 2010, 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.

It is management's opinion that the Company is not exposed to significant currency or interest rate risks arising from its financial instruments.

SIGNIFICANT EVENTS SUBSEQUENT TO MAY 31, 2010

Acquisition of Jericho Diamond Mine

On July 16, 2010, the Company entered into a Purchase and Sale Agreement with (collectively the "Vendors") to acquire a 100% interest in the Jericho Diamond Mine and processing facilities and all supporting exploration assets, located in Nunavut (the "Acquisition"). Please see our news release dated July 19, 2010 for more information on the Jericho Diamond Mine.

Pursuant to the Purchase and Sale Agreement, Shear has agreed to purchase: (i) the Jericho Diamond Mine and surface assets; (ii) the Carat Property consisting of mineral leases within 10 kilometres of the Jericho Diamond Mine; (iii) a 50% participating interest in the Polar Property in partnership with DeBeers Canada; (iv) a 75% interest in the Rockinghorse Property in partnership with RioTinto Canada Exploration Inc., and; (v) selected other mineral claims and leases in Nunavut and the Northwest Territories.

In consideration for the Acquisition, Shear will issue an aggregate of 80,000,000 common shares of Shear ("Purchase Shares"), of which 72,000,000 will be issued to CAZ Petroleum Inc. ("CAZ"), the Debtor-In-Possession and secured creditor of the Vendors. Shear will also make cash payments to CAZ totalling $2,000,000 with $1,500,000 to be paid on closing and the balance of $500,000 to be paid on the first anniversary of closing. Shear will grant a 2% royalty on all diamonds and minerals in favour of CAZ, which Shear will have a right of first refusal to repurchase, and CAZ will have the right to nominate one representative to the Board of Directors of Shear. The Purchase Shares will be subject an escrow pursuant to applicable securities laws and requirements of the TSX Venture Exchange.

Completion of the Acquisition is subject to a number of customary conditions, including successful completion by Shear of a minimum $10,000,000 equity financing, related development work, approval of the TSX Venture Exchange and other applicable regulatory approvals.

Equity Financing

On July 23, 2010, the Company announced that it has engaged RBC Capital Markets as lead agent and Macquarie Capital Canada Ltd. to raise approximately $15 million of equity by way of a marketed private placement of Units and flow-through shares. Each Unit will consist of one common share and one Warrant.

The net proceeds received from the Unit offering will be used to fund the Acquisition. The gross proceeds received from the flow-through share offering will be used to incur qualifying Canadian Exploration Expenditures prior to December 31, 2011. The Company will be required to renounce the qualifying expenditures to subscribers of flow-through shares effective on or before December 31, 2010. The offering is subject to certain conditions including, but not limited to, successful completion of the Acquisition and the receipt of all necessary regulatory approvals, including the approval of the TSX Venture Exchange.

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” and “Significant Events Subsequent to May 31, 2010”).

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

There has been no significant change to our risk factors from those described in the MD&A for the year ended November 30, 2009. For a detailed discussion of these risk factors see “Risks and Uncertainties” in our annual MD&A dated March 25, 2010.