

SHEAR DIAMONDS LTD. (formerly Shear Minerals Ltd.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED NOVEMBER 30, 2010

GENERAL

This management's discussion and analysis ("MD&A") has been prepared as of March 23, 2011 and should be read in conjunction with the annual consolidated financial statements for the year ended November 30, 2010 of Shear Diamonds Ltd. ("Shear" or "the Company"). Those financial statements are 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 diamond properties located primarily in the Northwest and Nunavut Territories. The Company is a reporting issuer in Alberta and British Columbia and trades on the TSX Venture Exchange under the symbol SRM.

On December 21, 2010 the Company changed its name to Shear Diamonds Ltd. and on December 30, 2010 a 10-for-1 share consolidation of the Company's voting common shares was effected. All information in this MD&A relating to common shares, stock options and warrants has been adjusted retroactively to reflect the impact of the share consolidation.

ACQUISITION

On August 27, 2010, the Company acquired the Jericho Diamond Mine, processing facilities, and supporting exploration assets (collectively, the "Tahera Assets") from Tahera Diamond Corp. and Benachee Resources Inc. The Tahera Assets were acquired through Shear Diamonds (Nunavut) Corp., a new wholly-owned subsidiary of Shear.

As consideration for the acquisition of the Tahera Assets (the "Tahera Acquisition"), Shear made a cash payment of \$1,500,000, issued 8,000,000 common shares (after giving retroactive effect to the 10-for-1 share consolidation effective December 30, 2010) to Caz Petroleum Inc. ("Caz"), the senior secured creditor of Tahera Diamond Corp. and Banachee Resources Inc. The Company also issued a \$500,000 non-interest-bearing unsecured note payable, due August 27, 2011, and Caz retained a 2% royalty on all diamonds and minerals. Shear has a right of first refusal to repurchase the royalty.

The purchase price has been calculated as follows:

Cash	\$ 1,500,000
Common shares	4,000,000
Note payable	454,944
Transaction costs	588,438
	<hr/>
	\$ 6,543,382

The value of the common shares issued was based on the average closing price of Shear shares two trading days before, the day of, and two trading days subsequent to the announcement date of July 19, 2010. The fair value of the note payable was estimated based on the present value of the expected cash flows to maturity.

The Tahera Acquisition has been recorded as an asset purchase as it does not meet the definition of a business under the Canadian Institute of Chartered Accountants' ("CICA") Emerging Issues Committee Abstract No. 124, "Definition of a Business". The costs were allocated as follows:

Net assets acquired:	
Restricted deposits	\$ 9,290,901
Equipment	28,849
Mine and mineral properties	7,377,254
Secured notes	(1,617,684)
Asset retirement obligation	(8,535,938)
	<hr/>
	\$ 6,543,382

Adjustments to the preliminary purchase price allocation, which was included in the Company's August 31, 2010 interim financial statements, were as follows: (i) equipment decreased by \$1,375,807; (ii) mineral properties increased by \$5,100,136; (iii) secured notes decreased by \$167,684; (iv) the asset retirement obligation increased by \$3,395,745; and (v) exploration expense decreased by \$500,000.

The changes to the amounts allocated to the secured notes and the asset retirement obligation were the result of adjustments to the discount rates used in the determination of the fair values of these liabilities at the date of the Tahera Acquisition.

In finalizing the fair value of the capital assets and mineral properties acquired, management determined that the exploration dataset acquired in conjunction with the Tahera Acquisition was an integral component of the assets acquired and should be valued as part of the mineral properties. As a result, the amount allocated to the exploration data was significantly reduced and was included in mineral properties. In addition, the amount assigned to the capital assets and processing facilities at the Jericho Diamond Mine were reallocated to "Mine and mineral properties" in the final purchase price allocation. The final amount allocated to equipment consists of field and computer equipment.

FINANCIAL HIGHLIGHTS

Selected Annual Information

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

	Year Ended November 30,		
	2010	2009	2008
Revenue	\$ 68,697	\$ 44,030	\$ 139,694
Net loss	(2,250,496)	(1,091,568)	(5,087,194)
Basic and diluted loss per share	(0.11)	(0.10)	(0.60)
Total assets	30,840,737	5,380,186	5,971,329
Total long-term financial liabilities	1,647,179	-	-

Quarterly Results

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

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 29,097	\$ 28,348	\$ 11,252	\$ -	\$ 16,708	\$ 25,938	\$ 534	\$ 850
Expenses:								
Exploration ⁽¹⁾	(138,206)	(481,384)	(96,956)	(810,931)	(645,236)	(144,236)	(263,591)	(31,352)
G&A and corporate ⁽²⁾	(352,131)	(113,302)	(106,866)	(88,766)	(146,399)	(66,581)	(82,806)	(100,228)
Accretion of asset retirement obligation	(85,090)	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	(9,166)	-	(9,166)	-
Interest expense ⁽³⁾	(41,566)	(1,041)	(3,073)	(3,918)	(11,759)	(8,435)	(14,500)	(59,858)
Gain on disposal of equipment	-	-	-	9,805	-	-	-	-
(Loss) gain on disposal of short-term investments	(9,409)	(11,400)	-	7,229	-	-	-	-
Unrealized gain (loss) on short-term investments	11,586	10,334	245	(28,502)	(18,682)	52,635	2,964	3,242
Unrealized gain (loss) on derivative financial instrument	-	-	-	43,375	21,688	(65,063)	-	-
Write-down of mineral properties	(140,296)	-	(98,669)	-	(28,520)	(189,976)	-	25,000
Future income tax recovery	-	-	-	209,739	-	-	-	654,427
Net (loss) income	\$ (726,015)	\$ (568,445)	\$ (294,067)	\$ (661,969)	\$ (821,366)	\$ (395,718)	\$ (366,565)	\$ 492,081
Basic and diluted net (loss) income per share ⁽⁴⁾	\$ (0.07)	\$ (0.04)	\$ (0.02)	\$ (0.05)	\$ (0.07)	\$ (0.04)	\$ (0.03)	\$ 0.05

(1) Excludes stock-based compensation.

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

(3) Includes accretion of the note payable and secured notes.

(4) Has been retroactively adjusted to reflect the Company's 10-to-1 share consolidation effected on December 30, 2010.

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 quarter of 2009 as a result of increased rental of the Company's equipment by third parties. Revenue in the 2010 fiscal year consists mainly of management fees.

The variations in the net loss from quarter to quarter are primarily due to fluctuations in expenses, mineral property write-downs, stock-based compensation, and changes in the fair value of the Company's investments and derivative financial instrument. Exploration expense, as well as write-down of mineral properties, varies from quarter to quarter depending on the scale and timing of exploration programs. In 2009, general and administrative expenses were generally lower due to the prevailing economic conditions and the need for the Company to preserve cash. In 2010, the level of general and administrative expenses increased due to additional activity in support of exploration programs and the Tahera Acquisition. We expect the Tahera Acquisition will result in a trend of increasing expenses in future quarters.

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

Year Ended November 30, 2010

Shear had a net loss of \$2,250,496 for the year ended November 30, 2010 (2009 – \$1,091,568). Increases of \$774,871 in expenses, \$46,496 in unrealized loss on short-term investments, \$45,469 in the write-down of mineral properties and a decrease of \$444,688 in the future income tax recovery contributed to the increase in net loss. These increases in net loss were partially offset by an increase in revenue of \$24,667, a decrease in interest expense of \$44,954 and a change in the unrealized gain on derivative financial instrument of \$86,750.

Exploration expense increased by \$443,062 to \$1,527,477 for the year ended November 30, 2010. There was an increase in gross exploration expenses of \$1,428,147, which was partially offset by an increase in expense recoveries of \$741,892. The increase is primarily due to exploration work conducted on the Chesterfield Inlet, Jericho, Liege and Miskamowin properties in the current year. The majority of the expenditures on the Chesterfield Inlet project were recovered from Rio Tinto Exploration Canada Inc. ("Rio Tinto"), the Company's exploration partner on this project. Exploration activity was modest in the prior year due to challenging economic conditions and our need to conserve cash during the economic downturn.

General and Administrative Expense

	2010	2009
Office and insurance	\$ 149,740	\$ 63,669
Payroll	39,247	4,470
Shareholder communications and promotion	49,328	18,057
Corporate travel and tradeshows	67,350	10,375
Other	24,420	30,791
	\$ 330,085	\$ 127,362

General and administrative expense increased by \$202,723 from the prior year. The office and insurance expense increase is primarily due to the additional insurance required as a result of the acquisition of the Tahera Assets in 2010. The increase in payroll expense was due to an increase in the corporate headcount from the comparative year. The increases in shareholder communications and promotion, and in corporate travel and tradeshows, are primarily due to additional corporate activity in the current year, including an increased emphasis on investor relations and corporate marketing following the Tahera Acquisition. Overall, general and administrative expenses were modest in the prior year due to our need to curtail operations in order to conserve cash during the global economic downturn.

Other Corporate Expenses

	<u>2010</u>	<u>2009</u>
Professional fees	\$ 188,554	\$ 204,118
Management fees	112,408	36,655
Accretion of asset retirement obligation	85,090	-
Amortization	30,018	46,211
	<u>\$ 416,070</u>	<u>\$ 286,984</u>

The decrease in professional fees is primarily due to a decrease of \$18,332 in stock-based compensation expense recorded in the prior year. The increase in management fees from the prior year is the result of additional fees paid to a director for management services provided to the Company (see “Related Party Transactions” for more information on management fees paid in the year). The asset retirement obligation associated with the Jericho Diamond Mine is being accreted to the estimated future cash outflow that will be required to retire the asset, resulting in a non-cash charge to net loss each reporting period.

Three Months Ended November 30, 2010

Shear had a net loss of \$726,015 for the three months ended November 30, 2010 (2009 – \$821,366). The decrease in net loss of \$95,351 is primarily due to a decrease in exploration expenses of \$507,030, which was offset by an increase in general and administrative and corporate expenses of \$290,822, an increase in interest expense of \$29,807, an \$111,776 increase in the write-down of mineral properties, and an increase of \$30,268 in the unrealized gain on short-term investments.

The Company’s expenses were \$575,427 for the three months ended November 30, 2010 (2009 - \$800,801). Exploration expense for the 2010 fourth quarter was \$138,206 (2009 - \$645,236). The decrease is due to \$500,000 of datasets purchased in 2009 in conjunction with the purchase of the non-diamond rights to the Churchill Diamond Project and the Napajut Lake option agreement (see “Mineral Properties” for more information). Excluding these transactions, exploration expense for the fourth quarter of 2010 was \$138,206 compared to \$145,236 in the comparative quarter.

General and administrative expenses totalled \$195,145 for the three months ended November 30, 2010, an increase of \$161,453 from the comparative quarter. The increase is due to an increase of \$72,401 in insurance expense as a result of the acquisition of the Tahera Assets, a \$47,245 increase in tradeshow and travel expenses, and a \$17,772 increase in shareholder communication and promotion. These increases reflect the rise in corporate activity from the comparative period. There were no other

significant changes in our general and administrative expenses from the three months ended November 30, 2010.

In the three months ended November 30, 2010, the Company also incurred management fees of \$44,200 (2009 - \$9,373), professional fees of \$104,435 (2009 - \$100,677), and amortization of \$8,351 (2009 - \$11,552). The increase in management fees from the comparative quarter is a result of management fees being paid to an additional director in the current quarter for services provided to the Company. There were no other significant changes in our other corporate expenses for the three months ended November 30, 2010.

FINANCIAL CONDITION

Liquidity and Going Concern

The Company has not yet determined whether its properties contain precious mineral reserves that are economically recoverable. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral properties are entirely dependent on the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its mineral properties, and on future profitable production or proceeds from the disposition of mineral properties.

The Company has no source of operating cash flow and operations to date have been funded primarily from the issue of share capital and the recovery of mineral property acquisition costs. The Company's ability to continue as a going concern is contingent on obtaining additional financing. Whether the Company will be successful with any future financing ventures is uncertain, and this uncertainty casts significant doubt upon the Company's ability to continue as a going concern. 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. At November 30, 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 November 30, 2010, qualifying expenditures of \$3,208,454 remain to be incurred by December 31, 2011 in order to satisfy the commitment related to flow-through shares issued on August 27, 2010 (see "Recent Financings"). The Company is also committed to incur \$22,850 in the year ended November 30, 2011 for the rental of a warehouse facility.

At November 30, 2010, the Company had cash and cash equivalents of \$8,779,843 (2009 - \$125,660) and working capital of \$8,235,114 (2009 - working capital deficiency of \$647,553). We estimate that available working capital will be sufficient to complete our current exploration plans, including the recently announced Jericho Phase 1 work plan (see "Mineral Properties - Jericho Diamond Project"), and sustain operations through 2011. Actual funding requirements may vary from those planned due to a number of factors, including the progress of our exploration activities.

The \$500,000 note payable is due on August 27, 2011. In addition, the Company has issued secured notes with an aggregate principal amount of \$2,289,124. The Company issued a debenture to the holder of the secured notes granting a security interest in certain of the Tahera Assets, including the plant and equipment located at the Jericho Diamond Mine. The secured notes will become payable on

the earlier of: (i) August 27, 2016; (ii) the 90th day following the date on which the Jericho Diamond Mine has operated for a period of 30 consecutive production days at an average rate of not less than 50% of design capacity; and (iii) upon written demand for payment as a result of there being an event of default under the debenture. We do not anticipate that the note payable or secured notes will be retired using our current working capital and, as a result, additional funds may be required to fulfill these obligations.

The Company has posted cash bonds in support of its closure and reclamation obligations related to the Jericho Diamond Mine, which will be refunded to the Company when the closure and reclamation activities have been completed. The cash bonds are not available for current working capital purposes. In 2011, we will be obtaining a revised mine closure cost estimate for Jericho Diamond Mine from which we will be able to evaluate the adequacy of the cash collateral posted for these obligations.

Recent Financings

In December 2009, the Company issued 465,000 units ("Units") consisting of common shares and common share purchase warrants ("Warrants") at a price of \$0.50 per Unit and 1,310,871 flow-through units ("FT Units") at a price of \$0.65 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 \$1.00 at any time within 12 months of issue. Each FT Unit consisted of one flow-through share and one-half of one Warrant. Each whole Warrant entitles the holder to acquire an additional common share at a price of \$1.20 at any time within 12 months of issue. The Company was required to incur \$838,957 of qualifying expenditures which were renounced to the holders of the flow-through shares effective December 31, 2009, and this commitment has been fulfilled as at August 31, 2010. In addition, agents received 64,561 "Agent Warrants" from the Company as commission. Each Agent Warrant entitles the holder to acquire one common share at an exercise price of \$1.00 any time within 12 months of issue.

On August 27, 2010, the Company issued 13,945,100 Units, each consisting of one common share and one Warrant, and 6,230,035 FT Units, each consisting of one flow-through share and one-half of one Warrant. The gross proceeds of the offering were \$13,113,838. The Conventional Units and Flow-Through Units were priced at \$0.65 each. Each Unit Warrant entitles the holder to acquire one common share at a price of \$0.75 for a period of 48 months following the date of issue. Each FT Unit Warrant entitles the holder to acquire one common share at a price of \$0.80 at any time within 24 months of issue. The Company is required to incur \$3,987,222 of qualifying expenditures by December 31, 2011, which were renounced to subscribers of the flow-through shares effective December 31, 2010. In addition, agents received 1,210,508 Agent Warrants from the Company as commission. Each Agent Warrant entitles the holder to acquire one common share at an exercise price of \$0.75 any time within 48 months of issue.

RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

- During the year ended November 30, 2010, the Company incurred fees of \$102,000 (2009 – \$83,000) to Encore Resources Inc., of which \$59,908 (2009 - \$36,655) was recorded as management fees and \$42,092 (2009 - \$46,345) 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 in the normal course of operations.
- Fees of \$60,000 were incurred in the year ended November 30, 2010 (2009 – \$nil) for consulting services provided by a director of Shear, of which was \$52,500 was recorded as management fees and \$7,500 was recorded as exploration expense. The fees were paid for management services received by the Company in the normal course of operations.
- Shear incurred professional fees of \$82,651 during the year ended November 30, 2010 (2009 - \$73,965) to a proprietorship controlled by an officer of the Company for management and professional services received.
- During the year ended November 30, 2010, the Company recorded general and administrative expense of \$19,800 (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 year ended November 30, 2010, the Company incurred exploration expense of \$146,609 (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. (“Takara”) to acquire an interest in the Miskamowin Project in Manitoba. Takara is a related party to Shear by virtue of common directors.

These transactions are recorded in the financial statements at the exchange amount.

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

	<u>2010</u>	<u>2009</u>
Amounts due from related parties included in accounts receivable:		
Takara	\$ 1,050	\$ -
Amounts due to related parties included in accounts payable and accrued liabilities:		
Encore Resources Inc.	\$ 43,579	\$ 28,846
Proprietorship controlled by an officer	11,152	24,728
Directors of Shear	35,232	-
Lyncorp Drilling Services Inc.	4,830	-
Firestone Ventures Inc.	2,410	-
	<u>\$ 97,203</u>	<u>\$ 53,574</u>

DISCLOSURE OF OUTSTANDING SHARE DATA

As at March 23, 2011, Shear had 42,150,338 common shares outstanding. The following table provides a summary of Shear's share options and Warrants outstanding at March 23, 2011:

Security	Number	Exercise Price (\$)	Expiry Date
Stock options	27,500	6.00	April 12, 2011
Stock options	170,000	6.50	April 24, 2013
Stock options	78,500	5.00	April 24, 2013
Warrants	13,945,100	0.75	August 27, 2014
Warrants	3,115,017	0.80	August 27, 2012
Warrants	1,210,508	0.75	August 27, 2014

MINERAL PROPERTIES

1. JERICO DIAMOND MINE AND CARAT PROJECT, NUNAVUT

The Jericho Diamond Mine is Nunavut's first and only diamond mine. It is located 420 km northeast of Yellowknife and was acquired in the Tahera Acquisition. The project includes 100% ownership of the past producing Jericho Diamond Mine which produced 780,000 carats of diamonds from 1.2 million tonnes of kimberlite mined from 2006 to 2008 from the open pit operation. In excess of \$200 Million in past investment includes a 2,000 tonne-per-day diamond recovery plant, maintenance plant, fuel farm, offices and accommodation for 225 staff.

The Jericho Mine hosts a National Instrument 43-101 diamond resource as follows:

**Mineral Resource Statement⁽¹⁾, Jericho Kimberlite, Nunavut, Canada
SRK Consulting (Canada) Inc, July 21, 2010**

Indicated				
Kimberlite Domain	Constrained By	Tonnes	Carats	Grade
North Lobe	Open Pit	720,000	490,000	0.68
Central Lobe, NW, domain 131	Open Pit	673,000	996,000	1.48
	Underground	224,000	332,000	1.48
Mine Stockpiles		156,000	65,000	0.42
Inferred				
Kimberlite Domain	Constrained By	Tonnes	Carats	Grade
F1N Lobe	Open Pit	445,000	155,000	0.34
Central Lobe, SE, domain 132	Open Pit	564,000	649,000	1.15
	Underground	34,000	39,000	1.15
South Lobe	Open Pit	671,000	282,000	0.42
	Total Indicated	1,773,000	1,883,000	1.06
	Total Inferred	1,724,000	1,125,000	0.65

⁽¹⁾ The mineral resource was developed at a cut-off of C\$34 per tonne at a diamond value of US\$78 for North lobe, US\$88 for F1N lobe, US\$112 for Central domain 131, US\$106 for Central domain 132 and US\$90 for South lobe, at a currency exchange rate of C\$0.87 per US\$. Mineralized material with an estimated value of less than C\$100 was limited within a Whittle pit shell using costs of C\$5 per tonne mining and C\$34 per tonne processing. Material was evaluated for underground mining at a cut-off of C\$100 per tonne. All mineral resources were cut-off at the 190m level. Diamond recovery is assumed at a bottom size cut-off of 1mm.

⁽²⁾ These results are preliminary in nature and include inferred mineral resources that are considered to speculative geologically to have the economic consideration applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized.

The Company also acquired a 100% interest in the Carat property in the Tahera Acquisition, which encompasses 68,000 acres surrounding and contiguous to the Jericho Diamond Mine. The area has five known kimberlites within 10 km trucking distance to the mine, two unresolved high-interest kimberlite float occurrences, five unresolved kimberlite indicator dispersion trains, and a number of untested geophysical targets.

Jericho Tailing Audits

An internal audit conducted by Shear has confirmed a sample grade of 11.3 carats per tonne (“cpt”) from 308.8 kg of kimberlite concentrate from the recovery reject tailings at the Jericho Diamond Mine. A total of 52 macro diamonds representing 3.5 carats were recovered from a small sample collected across surface of the recovery rejects stockpile at the mine site, resulting in the sample grade of 11.3 cpt with the largest stone being a 0.54 carat diamond.

The results of the internal audit are summarized in the following table:

Jericho Kimberlite Complex	Weight of Tails audited (kg)	Weight of Diamonds recovered (carats) (+0.85mm)	Number of total stones +0.85 mm	0.85 mm Sieve	1.18 mm Sieve	1.70 mm Sieve	2.36 mm Sieve	3.35 mm Sieve	4.75 mm Sieve	Sample Grade cpt
Recovery										
Rejects – SRC	308.8	3.50	52	5	24	21	1	1	0	11.3

For the purposes of the 2010-2011 audit, the sample, processed at the Saskatchewan Research Council’s Geoanalytical Laboratories Diamond Services (“SRC”), was fed into a High Pressure Grinding Roll (“HPGR”) and crushed with a 4mm gap setting. The crushed concentrate was then run through a diamond recovery circuit consisting of an X-Ray Flowsort and Grease Table audit using a bottom cutoff size of 0.85mm. By reprocessing a small sample of recovery reject tailings through an HPGR crush and recovery circuit, Shear was aiming to establish the presence of possible locked diamonds (those that were not liberated by the original crushing circuit and remain trapped in kimberlite).

The purpose of Shear’s mini-audit was to confirm the results of a 4,048.5 kg sample from the recovery reject stockpile collected by Tahera Diamond Corp. in late 2007, which yielded 1,345 stones weighing 58.8 carats for a sample grade of 14.5 cpt. The largest recovered stone weighed 0.94 carats. This sample was treated at SGS Lakefield Research Limited (“SGS”) using a similar recovery circuit with a re-crush down to 4mm, and a 2-pass X-Ray Sortex and 2-pass grease table audit. Screened material +1mm to -4mm was run through a magnetic separator and diamonds from the non-magnetic material were recovered by caustic fusion due to the large volumes of concentrates.

Tahera Diamond Corp. had also submitted a 1,345 kg sample of coarse processed kimberlite (“CPK”) tails to SGS for audit purposes in 2007. The sample was run through a Dense Media Separation (“DMS”) circuit with an HPGR re-crush at a 4mm gap setting, and a bottom screen size of 0.85mm. The sized concentrate underwent HIMS (magnetic separation) processing and the non-magnetic fractions were then hand sorted for diamonds. A total of 45 stones weighing 1.14 carats were recovered for a sample grade of 0.84 cpt. The largest recovered stone weighed 0.22 carats.

Tahera Diamond Corp. conducted a much larger on-site audit of the CPK (approximately 11,000 tonnes) which was suggestive of similar results as outlined below. Estimates from the historic mine records of process plant by-products for the recovery rejects and CPK are 25,000 tonnes and 900,000 tonnes respectively. A portion of the CPK was used for construction purposes and is no longer accessible for re-processing and recovery of diamonds.

The results of the past audits are summarized in the following table:

Jericho Kimberlite Complex	Weight of Tails audited (kg)	Weight of Diamonds recovered (carats) (+0.85mm)	Number of total stones +0.85 mm	0.85 mm Sieve	1.18 mm Sieve	1.70 mm Sieve	2.36 mm Sieve	3.35 mm Sieve	4.75 mm Sieve	Sample Grade cpt
Recovery										
Rejects –										
SRC (2007)	4,048.5	58.77	1,345	271	861	182	25	6	0	14.5
CPK Tails –										
SGS (2007)	1,345.5	1.14	45	30	12	3	0	0	0	0.8

Future Plans

The Company has designed the 2011 work plan, with a budget of \$4.6 million (“Phase 1”), to accomplish the following exploration and development priorities:

- To prove-up and expand the current resource at the Jericho kimberlite complex,
- To explore for new diamondiferous kimberlites proximal to the Jericho mine, and
- To begin work on determining if Jericho is economically feasible with a new National Instrument 43-101 resource for Jericho and any additional nearby kimberlites.

In addition, we are focusing on the renewal of our water licence and other permits, leases and regulatory instruments (on March 8, 2011, the Company was granted a 12 month amendment to the term (to March 1, 2012) of its Type A Water Licence).

As a result of a comprehensive ongoing data compilation and interpretation of the historic data from Jericho and the surrounding area, experienced crews will integrate all aspects of the Jericho dataset to assist in determining prospective targets.

Details of the Phase 1 approved exploration program include:

- Ground magnetic and electromagnetic surveys with selected ground gravity surveys over priority geophysical targets, many with indicator mineral anomalies,
- Approximately 5,000 m of core drilling to test,
 - Up to five new exploration targets suggestive of new kimberlites,
 - 12 angled exploration holes within the Jericho kimberlite complex to test for additional tonnage and to firm up the volume model, and
 - 2,500m of vertical pilot holes within the Jericho kimberlite for geological modeling,
- Till sampling, prospecting and structural interpretation targeting high interest areas,
- Ongoing care & maintenance of the site, and,
- Ongoing evaluation of the Jericho resource, as detailed below.

Jericho Resource Study Update

The Company has engaged the services of Mineral Services Canada Inc. of North Vancouver, BC (“MSC”) to assist in the development of a new geological model for Jericho.

The Jericho resource estimate, provided in the July 2010 National Instrument 43-101 technical report authored by SRK Consulting (Canada) Inc. (the “SRK Report”) (see Shear’s press release on July 22, 2010) provided an indication of the potential for a viable mining project at Jericho. The Jericho kimberlite is internally complex with a degree of geological and associated grade variability. As a result, the SRK Report recommended that further drilling and investigation into all data, including sampling, geology and processing/metallurgical characteristics, be done in order to allow for a future production decision.

Shear’s work plan is intended to establish the full tonnage potential and recoverable diamond grade of the Jericho complex at a level of confidence sufficient to provide a basis for an economic assessment of project viability. Shear’s work plan will focus firstly on firming up the geological model to better constrain the extent of the resource and the degree of continuity within different portions of it; secondly on representative sampling of the Jericho resource; and thirdly on evaluating mineral processing options for improving diamond recovery.

The resource work will encompass the following:

- Geological review: re-logging available historic drill core supported by systematic petrographic analysis for a preliminary assessment of the internal geology. This will be undertaken as part of Phase 1.
- In-pit delineation core drilling (12 holes, 2,000m) to better understand and define areas below the current pit floor that lack definitive constraints on the kimberlite/country rock contacts. This drilling will provide the required confidence for kimberlite tonnage modelling, as well as advance the internal geological modelling. All of these holes are approved for Phase 1.
- Large diameter reverse circulation drilling (~22 holes) and sampling (total sample size of approximately 1,000 tonnes) to provide spatially representative grade data for the major resource domains. Prior to the large diameter drilling, pilot core holes will be completed for detailed geological and geotechnical information. Eleven pilot holes totalling 2,500m of drilling are approved for Phase 1.
- Geological interpretation, geology and diamond grade modelling and updated resource estimation.
- Ore dressing studies on stockpiled kimberlite material to determine the optimal processing strategy for diamond recovery.

Preliminary results of diamond size-frequency analysis by MSC of available microdiamond and bulk sampling / production data for Jericho provides support for the results of recent tailings audit work (see Shear's press release on Feb 8, 2011) indicating a significant loss of diamonds during historical production. To the extent that recovery efficiency can be improved, this represents significant upside on potential recoverable grade. Further work will be undertaken to better quantify the nature and extent of diamond loss as well as the potential for mitigating this in a future production plant.

Once results from the Phase 1 program have been received and interpreted, Shear will be able to finalize the scope and budgets for the next phase.

2. CHURCHILL DIAMOND PROJECT, NUNAVUT

The Churchill Diamond Project is comprised of mineral rights to approximately 600,000 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 62% and 38% interests, respectively, in the diamond rights to the project. 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 ("Hunter") and 1% in favour of Royal Gold Inc. with respect to the commercial production of diamonds.

On October 14, 2009, the Company acquired 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. On December 10, 2009, Shear issued 300,000 common shares (after giving retroactive effect to the 10-for-1 share consolidation effective December 30, 2010) to Kaminak in satisfaction of the aggregate purchase price. Kaminak retained a 20% back-in right to the non-diamond mineral rights, exercisable at any time up to the completion of a “feasibility study” (as defined in National Instrument 43-101). To exercise the back-in right, Kaminak will be required to repay all of the non-diamond expenditures incurred by Shear, with such expenditures to be repaid within 90 days of the exercise of the back-in right.

The property hosts 11 high interest diamond bearing kimberlites, including the Kahuna (1.04 cpt estimated diamond grade from 356 tonnes processed), Notch (0.862 cpt estimated grade from 17 tonnes processed), PST, and Jigsaw kimberlites dykes.

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 also 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

Future plans for Churchill are currently being developed, but are expected to include diamond valuations for the Kahuna and Notch kimberlites as well as a field prospecting program in the summer of 2011 planned in conjunction with ongoing camp maintenance.

3. CHESTERFIELD INLET DIAMOND PROJECT, NUNAVUT

On December 22, 2009, Shear and Stornoway entered into an option 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 63% by Shear and 38% 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 having high count probe-confirmed kimberlitic indicator minerals including pyrope garnet, eclogitic garnet, chrome diopside, ilmenite and chromite.

Under the terms of the 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 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 (completed) 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 is the operator of the project during the first option.

A field exploration program was completed during the summer of 2010. Crews focused on ground follow-up of 33 priority geophysical targets that were interpreted from a 2,346 line-kilometre ultra-high resolution airborne magnetic geophysical survey completed in May 2010. Ground magnetic surveying, prospecting and sampling was completed on more than 35 targets, and resulted in the discovery of four new kimberlite float occurrences including the confirmed diamond-bearing SAZ kimberlite float. Ten geophysical targets were tested with 11 holes using a light-weight reverse circulation drill. All 10 targets were explained by a non-kimberlitic magnetic source.

Three of the kimberlite float discoveries were clustered within a 600m area and are referred to as the SAZ kimberlite float (see news August 12, 2010). During 2010, a 37.9 kg sample of weathered kimberlite fragments was collected from frost boils for testing with a caustic dissolution with recovery of 17 diamonds as follows:

Kimberlite	Sample Weight (Dry – kg)	0.106mm Sieve	0.15mm Sieve	0.212mm Sieve	0.3mm Sieve	Total Diamond Count
SAZ Float ^{1,2}	37.9	12	2	2	1	17

¹ The largest diamond measured 0.6mm x 0.4mm x 0.2mm.

² Samples were submitted to Rio Tinto's Mineral Processing Laboratory in Thunder Bay, Ontario accredited by the ISO 9001:2008 Certified Quality Management System as a testing laboratory for diamond analysis using caustic fusion, diamond observation and classification.

Future Plans

Once full results have been received and interpreted for the 2010 program, the Company will determine the 2011 plans for the property.

4. 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. ("Samuel"), 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 10,000 of its common shares (after giving retro-active effect to the 10-for-1 share consolidation effective December 30, 2010) to Canada Zinc for each diamondiferous kimberlite discovered on the property, to a maximum of three kimberlites. No qualifying kimberlites have been discovered as of November 30, 2010. 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 the year ended November 30, 2009. The amounts written-off are deemed to be contributed to the project by Shear and, as a result, Shear's interest in the project increased to approximately 78%.

During 2010, the Company wrote-off the total carrying amount of \$114,152 related to the Afridi project as the Company has no further exploration plans for the property for the foreseeable future.

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. The Company is currently negotiating an extension to this initial earn-in period. If the initial option is exercised, Shear will then have a second option to earn an additional 40% interest in the diamond rights to the project by incurring additional exploration expenditures of \$2,000,000 before August 31, 2016. If the second option is completed, the vendor will retain a 10% carried interest in the diamond rights to the property until Shear completes a feasibility study or incurs additional exploration expenditures of \$12,500,000 on the property. The property is subject to a 2.5% net smelter royalty in favour of an underlying vendor.

As part of the property option agreement, Shear purchased an exploration dataset related to the project. The Company issued 300,000 common shares (after giving retro-active effect to the 10-for-1 share consolidation effective December 30, 2010) with a fair value of \$300,000 as consideration purchase of the data, which was recorded in exploration expense for the year ended November 30, 2009.

Future Plans

From Shear's review of the historical geophysical data, 26 kimberlite targets have been selected for follow-up. In 2010, Shear completed the legal surveying of five Napajut mineral claims. Plans are being finalized for 2011.

6. MISKAMOWIN PROJECT, MANITOBA

On December 24, 2009, the Company entered into an option agreement with Takara 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 comprised of 12 Mineral Exploration Licences prospective for nickel sulphides, covering an area in excess of 265,000 hectares located west of Thompson, Manitoba. Shear is the operator of the project.

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, 2010 and issuing 300,000 common shares (after giving retro-active effect to the 10-for-1 share consolidation effective December 30, 2010) 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. High priority Ni-Cu targets have been selected for follow up drill testing. Shear and Takara are currently evaluating the results of the airborne survey in order to determine future plans for the property which may include joint venturing. Land use permits for drill testing are currently being applied for in order to complete future drill testing of targets.

7. GREAT BEAR PROJECT, NORTHWEST TERRITORIES

The Great Bear Project, obtained in the Tahera Acquisition, includes a 112,000 acre project area approximately 400 km northwest of Yellowknife. The project consists of five sub-projects with 20 known kimberlites, including: (i) a participating 50% interest in the Polar property in partnership with DeBeers Canada Inc.; (ii) a 75% interest in the TAK property (formerly known as Rockinghorse) in partnership with Rio Tinto; and (iii) a 100% interest in the Ranch Lake Kimberlite.

Four kimberlites have been discovered on the Polar property, including MuskoX (928t bulk sample completed with a grade of 0.51 cpt) and Voyageur (17.1t bulk sample completed with a grade of 0.04 cpt). The TAK property hosts the Anuri kimberlite, from which 3.09 carats were previously recovered from a 3.98t sample.

Exploration Update

Processing of the mini bulk sample from the Anuri kimberlite at the TAK project produced an overall sample grade of 0.35 cpt, which was recovered from 25.6 dry tonnes of Anuri kimberlite using a 0.85mm bottom cut-off. These diamond results are from 17 HQ core holes drilled at the Anuri kimberlite in 2007 by previous operators. Shear staff, in conjunction with MSC, completed a geological review of the drill core prior to sampling, and split the sample into three samples representing different geologic domains. Historic results suggesting a recoverable diamond grade between 0.24 cpt and 0.44 cpt, based on modeled diamond size/frequency distributions of much smaller samples treated by caustic fusion have been confirmed.

Complete diamond recoveries were as follows:

Sample Number	Sample Weight Dry (tonnes)	Total Diamond Count	Total Carat Weight (+0.85 mm)	0.85 mm Sieve	1.18 mm Sieve	1.70 mm Sieve	2.36 mm Sieve	3.35 mm Sieve	Calculated Grade (cpt)
ANR-B1	15.5	81	5.34	9	40	28	3	1	0.34
ANR-B2	8.1	24	2.19	2	9	9	4	0	0.27
ANR-B3	2.3	15	1.42	2	6	5	1	1	0.62
Total	25.9	120	8.95	13	55	42	8	2	0.35

¹ The five largest diamonds weighed 0.54 ct, 0.54 ct, 0.29 ct, 0.28 ct and 0.26 ct.

Samples were submitted to SRC and run through their 5 tonne per hour DMS plant using a 0.85mm cut-off. A heavy mineral concentrate was generated and then passed through a two-stage X-ray sorter with a grease table audit of the X-ray rejects. Resulting concentrates were hand sorted and weighed in a secure glove box facility.

An audit of the DMS concentrate was completed using caustic fusion methods at SRC. A total of 30 stones were recovered from the 101.75 kg concentrate sample, yielding a total diamond weight of 0.74 carats. The audit confirms poor liberation of smaller diamonds in the 0.85 – 1.70mm sieve classes that were not recovered in the first pass of processing. Audit results do not significantly change the overall grade of the Anuri kimberlite and are not included in the above table of results.

Future Plans

Future plans for the Great Bear Project are currently being finalized and will include a compilation study and prospecting program. Future plans for the Anuri kimberlite will be assessed after the diamonds are examined by Rio Tinto.

8. LIEGE, ALBERTA

On November 30, 2005, the Company acquired a farm-out agreement on a significant land position in north central Alberta known as the Liege Diamond Project. A \$10,000 cash finder's fee was paid by Shear under the terms of the agreement. In 2008, the Company issued 10,000 common shares (after giving retro-active effect to the 10-for-1 share consolidation effective December 30, 2010) with a fair value of \$28,000 as consideration for an extension to the earn-in period under the agreement.

To earn an initial 51% interest, the Company was required to incur a total of \$1,000,000 of exploration expenditures over three years, inclusive of \$325,000 by May 31, 2010. 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 2010.

9. CHURCHILL WEST, NUNAVUT

The Company is a partner in the Churchill West project with Samuel, Stornoway and BHP Billiton Diamonds Inc. ("BHPB") where the Company holds a 30.61% interest, and Samuel, Stornoway and BHPB have interests of 47.61%, 15.85% and 5.92%, respectively, in the diamond rights to the

property. The property is subject to a 2% gross overriding royalty and net smelter royalty in favour of Hunter with respect to the commercial production of diamonds. Kaminak currently holds the non-diamond rights to the property although Shear and Stornoway have a joint right of refusal on these rights.

The Churchill West project encompasses 397,705 acres located near the community of Rankin Inlet in the Kivalliq region of Nunavut, contiguous to the Churchill Diamond Project. Two kimberlites have been discovered on the Churchill West property, one of which was diamondiferous.

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

10. SAKARI, NUNAVUT

During 2007, the Company earned into a 50% interest in approximately 42,000 acres of claims located within the southwest portion of Diamonds North Resources Ltd.'s Amaruk project in the Franklin Kimberlite District of Nunavut. Diamonds North Resources Ltd. Retains the other 50% interest in the property and is the operator. The Sakari property is located adjacent to the Darby project where nine kimberlites have been discovered to date. In 2008, a total of 18 targets were ground surveyed and three of the targets were tested using a percussion drill. No kimberlite was intersected.

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

11. CRYSTAL, MICHIGAN, USA

In 2007, the Company issued 10,000 shares (after giving retroactive effect to the 10-for-1 share consolidation effective December 30, 2010) to acquire the Crystal Diamond Project in Michigan, USA. The Company is obligated to issue 2,000 of its common shares (after giving retro-active effect to the 10-for-1 share consolidation effective December 30, 2010) to the vendors of the project for each diamondiferous kimberlite discovered on the property, to a maximum of 10,000 shares (after giving retroactive effect to the 10-for-1 share consolidation effective December 30, 2010). The Company is also obligated to pay a 3% gross overriding royalty on production from the property, of which 1.5% can be purchased by Shear for US\$ 1,000,000 for each whole percentage, and if any fraction of a percentage is purchased, by an amount pro-rated in accordance with the percentage purchased.

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

12. OTHER PROPERTY INTERESTS

The Company continues to hold a number of property interests in Canada, either as 100% ownership or as part of joint venture agreements. No acquisition cash payments or shares were issued pursuant to the Company's other property interests during 2010.

ANALYSIS OF ACQUISITION AND EXPLORATION COSTS

During the year ended November 30, 2010, net expenses for exploration of the Company's mineral properties were \$1,527,447 (2009 - \$1,084,415). Please refer to note 15 of our financial statements for a breakdown of these expenses.

Acquisition costs of \$7,425,176 were capitalized in the year ended November 30, 2010 (2009 - \$153,658). During 2010, expenditure recoveries of \$32,229 (2009 - \$172,377) were recorded along with write-downs of \$238,965 (2009 - \$193,496). Details of the changes in capitalized cost balances are as follows:

Year Ended November 30, 2010						
Northwest and Nunavut Territories						
	Churchill	Jericho	Other Properties	Liege, Alberta	Miskamowin, Manitoba	Total
Expenditures:						
Tahera Acquisition	\$ -	\$ 5,735,708	\$ 1,641,546	\$ -	\$ -	\$ 7,377,254
Land tenure	2,614	-	33,587	190	560	36,951
Legal fees	-	-	7,299	-	3,672	10,971
Total expenditures	2,614	5,735,708	1,682,432	190	4,232	7,425,176
Less: Recoveries	(8,448)	-	(23,781)	-	-	(32,229)
Net additions	(5,834)	5,735,708	1,658,651	190	4,232	7,392,947
Write-down	-	-	(140,296)	(98,669)	-	(238,965)
Balance - beginning of year	4,736,838	-	148,285	98,479	-	4,983,602
Balance - end of year	\$ 4,731,004	\$ 5,735,708	\$ 1,666,640	\$ -	\$ 4,232	\$ 12,137,584

Year Ended November 30, 2009					
Northwest and Nunavut Territories					
	Churchill	Other Properties	Alberta Properties	Crystal, USA	Total
Expenditures:					
Acquisition costs - shares	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Land tenure	4,064	18,783	2,044	4,800	29,691
Legal fees	3,164	20,803	-	-	23,967
Total expenditures	107,228	39,586	2,044	4,800	153,658
Less: Recoveries	-	(147,377)	(25,000)	-	(172,377)
Net additions	107,228	(107,791)	(22,956)	4,800	(18,719)
Write-downs	-	(95,098)	25,000	(123,398)	(193,496)
Balance - beginning of year	4,629,610	351,174	96,435	118,598	5,195,817
Balance - end of year	\$ 4,736,838	\$ 148,285	\$ 98,479	\$ -	\$ 4,983,602

ACCOUNTING POLICIES

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

Recent Accounting Pronouncements Not Yet Adopted

The following new accounting pronouncements have not yet been adopted by the Company:

- CICA Handbook Section 1582, "Business Combinations";
- CICA Handbook Section 1601, "Consolidated Financial Statements"; and
- CICA Handbook Section 1602, "Non-Controlling Interests".

Please refer to note 4 in our financial statements for more information on these standards.

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 for the Company is December 1, 2010 and will require the restatement for comparative purposes of amounts reported by the Company for the year ending November 30, 2011.

The Company's IFRS implementation project consists 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.

We are planning on completing the scoping and diagnostic and impact analysis, evaluation and design phases of the project by the end of Q3 2011.

FINANCIAL INSTRUMENTS

Fair value

The Company's financial instruments as at November 30, 2010 include cash and cash equivalents, short-term investments, certain accounts receivable, operator recoveries, restricted deposits, certain accounts payable and accrued liabilities, note payable and secured notes. Cash and cash equivalents, restricted deposits, and short-term investments 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. In 2010, the unrealized loss on short-term investments of \$6,337 (2009 – unrealized gain of \$40,159) was recorded in the statement of operations and deficit.

The fair values of accounts receivable, operator recoveries, accounts payable and accrued liabilities and note payable approximate their carrying amounts due to their short terms to maturity. The Company has no unrecognized financial instruments. The fair value of the secured notes approximate the carrying amounts due to the market rates of interest at the balance sheet date for similar instruments not being significantly different from the rate used to estimate the fair value of the secure notes at inception.

Derivative Financial Instrument

On August 18, 2009, the Company issued a non-transferable covered call option which allowed the holder to acquire 361,461 shares of New World 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. The Company does not use derivative financial instruments to manage risks associated with its financial instruments.

Credit Risk

The Company has exposure to credit risk from its use of financial instruments. Certain accounts receivable and operator recoveries are due from companies which operate in the mineral 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 and restricted deposits. To minimize this risk, cash has been placed with a major financial institution. The total amount of cash and cash equivalents is available on demand and is not invested in commercial paper or asset-backed security programs. At November 30, 2010, the maximum exposure to credit risk was the carrying value of the Company's cash and cash equivalents, restricted deposits, certain accounts receivable, and operator recoveries.

Liquidity Risk

Shear is also exposed to liquidity risk from its use of financial instruments. Liquidity risk is the risk that the Company will not be able to meet its current obligations as they are due. The majority of the Company's accounts payable and accrued liabilities are payable in less than 90 days. 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.

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.

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 expectation that general and administrative and corporate expenses will increase as a result of the Tahera Acquisition (see "Results of Operations");
- Our estimate that available working capital will be sufficient to complete our current exploration plans and sustain operations to the end of 2011 (see "Financial Condition – Liquidity and going concern");
- Our assessment that financing may be necessary in order to retire the note payable and secured notes (see "Financial Condition – Liquidity and Going Concern"); and
- The discussion of future plans for all of our exploration properties (see "Mineral Properties").

This forward-looking statement is subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including the impact of general economic conditions, volatility in the price levels for supplies and services, successful execution of planned exploration programs, and the availability of personnel.

In formulating the forward-looking information above, the Company has made assumptions regarding general financial market conditions, the availability of personnel and the price levels for supplies and services.

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this document and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. These factors are not intended to represent a complete list of the factors that could affect us.

RISKS AND UNCERTAINTIES

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

Availability of financing

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

Title matters

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

Management

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

Economics of developing mineral properties

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

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

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

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

Uninsurable risks

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

Environmental risks and other regulatory requirements

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

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

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

Competition

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

Potential profitability depends upon factors beyond the control of Shear

The potential profitability of mineral properties is dependent upon many factors beyond Shear's control. For instance, world prices of and markets for diamonds are unpredictable, highly volatile, potentially subject to governmental fixing, pegging and/or controls and respond to changes in domestic,

international, political, social and economic environments. Another factor is that rates of recovery of diamonds from mined deposits (assuming that such deposits are known to exist) may vary from the rate experienced in tests and a reduction in the recovery rate will adversely affect profitability and, possibly, the economic viability of a property. Profitability also depends on the costs of operations, including costs of labour, equipment, electricity, environmental compliance or other production inputs. Such costs will fluctuate in ways Shear cannot predict and are beyond Shear's control, and such fluctuations will impact on profitability and may eliminate profitability altogether. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for development and other costs have become increasingly difficult, if not impossible, to project. These changes and events may materially affect the financial performance of Shear.

Aboriginal title claims

The risk of unforeseen aboriginal title claims exists and could affect existing operations as well as development projects and future acquisitions. The need for governments to consult with aboriginal peoples with respect to grants of mineral rights in the issuance or amendment of project authorizations may affect Shear's ability to expand or transfer existing operations or to develop new projects.