

# **Shear Diamonds Ltd.**

(formerly Shear Minerals Ltd.)  
(an exploration stage company)

Consolidated Financial Statements  
For the years ended November 30, 2010 and 2009

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Notes to the Consolidated Financial Statements

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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

### 3. Significant accounting policies

#### a) Use of estimates and measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and related notes. Significant areas requiring the use of estimates in the preparation of these financial statements include, among other things: the determination of impairment of mineral properties; the determination of amortization; the determination of asset retirement obligations; the determination of the fair value of stock-based compensation and other equity transactions; the determination of the valuation allowance with respect to future income tax assets; the allocation of proceeds from the issue of units ("Units") consisting of common shares and common share purchase warrants ("Warrants") to the component securities; and the calculation and allocation of the purchase price for the acquisition of the Jericho Diamond Mine, processing facilities, and supporting exploration assets (collectively, the "Tahera Assets") (note 5). Actual results could differ from these estimates.

#### b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Shear Diamonds (Nunavut) Corp. All intercompany balances and transactions have been eliminated upon consolidation.

#### c) Revenue recognition

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

#### d) Cash and cash equivalents

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