Shear Diamonds Ltd.
(an exploration stage company)

Condensed Interim Consolidated Financial Statements
For the three months ended February 29, 2012
Expressed in Canadian Dollars
(Unaudited)

To the Shareholders of Shear Diamonds Ltd.:

The interim consolidated balance sheet of Shear Diamonds Ltd. as at February 29, 2012 and the interim consolidated statements of loss and comprehensive loss, changes in shareholders' equity and of cash flows for the interim three-month period then ended have been compiled by management.

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

Shear Diamonds Ltd.

Interim Consolidated Balance Sheets (unaudited)
Expressed in Canadian Dollars

	February 29, 2012	November 30, 2011 (note 5)	December 1, 2010 (note 5)
Assets			
Current assets			
Cash and cash equivalents	$ 631,623	$ 678,112	$ 8,779,843
Short-term investments	-	-	8,879
Accounts receivable	122,319	169,242	120,467
Operator recoveries	28,158	28,159	184,203
Prepaid expenses	285,317	236,600	228,245
	1,067,417	1,112,113	9,321,637
Equipment (note 6)	233,005	226,415	47,327
Mineral properties (note 7)	15,186,143	14,991,629	12,979,691
Restricted deposits	9,327,852	9,327,852	9,334,189
Other assets	13,533	13,533	-
	$ 25,827,950	**$ 25,671,542**	**$ 31,682,844**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 8)	$ 2,037,933	$ 2,278,723	$ 611,988
Deposits from exploration partners	8,270	8,270	8,270
Current portion of loan payable (note 9)	1,315,467	-	-
Note payable	-	-	466,265
Flow through share tax benefit	-	-	492,813
	3,361,670	2,286,993	1,579,336
Secured notes (note 10)	460,848	452,944	1,647,179
Loan payable (note 9)	657,733	-	-
Provision for environmental rehabilitation (note 11)	12,057,511	11,800,361	9,463,135
	16,537,762	14,540,298	12,689,650
Shareholders' equity			
Share capital (note 12 (a))	43,070,377	43,070,377	42,029,921
Contributed surplus	2,570,204	2,458,278	2,035,090
Contributed surplus - warrants	5,777,669	5,777,669	5,777,669
Deficit	(42,128,062)	(40,175,080)	(30,849,486)
	9,290,188	11,131,244	18,993,194
	$ 25,827,950	**$ 25,671,542**	**$ 31,682,844**

Nature of operations and going concern (note 1)
The accompanying notes are an integral part of the condensed interim consolidated financial statements.

Approved by the Board of Directors

Signed "Pamela Strand" ___________________________ Director

Signed "Julie Lassonde" ___________________________ Director

Shear Diamonds Ltd.

Interim Consolidated Statements of Loss and Comprehensive Loss (unaudited)
For the three months ended February 29, 2012 and February 28, 2011
Expressed in Canadian Dollars

	Three months ended	
	February 29, 2012	**February 28, 2011 (note 5)**
Revenue	$ 24,908	$ 25,743
Expenses		
Exploration (notes 13 (a) & 17)	1,292,300	823,169
General and administrative (notes 13 (b) & 17)	566,782	360,743
	1,859,082	1,183,912
	(1,834,174)	(1,158,169)
Finance expenses (note 14)	(165,802)	(142,965)
Write-down of mineral property	-	-
Other (loss) income	46,994	2,615
Loss before income tax	(1,952,982)	(1,298,519)
Deferred income tax recovery	-	69,781
Net loss and comprehensive loss	**$ (1,952,982)**	**$ (1,228,738)**
Basic and diluted loss per share	**$ (0.04)**	**$ (0.03)**
Weighted average number of common shares outstanding	**45,901,124**	**42,150,338**

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

Shear Diamonds Ltd.

Interim Consolidated Statements of Changes in Shareholders' Equity (unaudited)
For the three months ended February 29, 2012 and February 28, 2011
Expressed in Canadian Dollars

	Share Capital $	Contributed Surplus $	Contributed Surplus – Warrants $	Deficit $	Total Equity $
Balance – December 1, 2011	43,070,377	2,458,278	5,777,669	(40,175,080)	11,131,244
Net loss for the period	-	-	-	(1,952,982)	(1,952,982)
Equity issuance	-	-	-	-	-
Share based compensation	-	111,926	-	-	111,926
Balance – February 29, 2012	43,070,377	2,570,204	5,777,669	(42,128,062)	9,290,188
Balance – December 1, 2010	42,029,921	2,035,090	5,777,669	(30,849,486)	18,993,194
Net loss for the period	-	-	-	(1,228,738)	(1,228,738)
Equity issuance	(3,264)	-	-	-	(3,264)
Balance – February 28, 2011	42,026,657	2,035,090	5,777,669	(32,078,224)	17,761,192

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

Shear Diamonds Ltd.

Interim Consolidated Statements of Cash Flows (unaudited)
For the three months ended February 29, 2012 and February 28, 2011
Expressed in Canadian Dollars

	Three months ended	
	February 29, 2012	February 28, 2011
Cash provided by (used in)		
Operating activities		
Net loss for the period	$ (1,952,982)	$ (1,228,738)
Items not affecting cash		
Accretion of provision for environmental rehabilitation (note 14)	62,636	58,072
Amortization (note 6)	15,326	5,346
Accretion of note payable and secured notes (note 14)	7,904	39,415
Other loss (income)	-	(2,615)
Share based compensation expense (note 12 (b))	111,926	-
Deferred income tax recovery	-	(69,781)
Unrealized foreign exchange gain	(26,800)	-
Net change in non-cash working capital (note 16)	(242,583)	176,016
Cash used in operating activities	(2,024,573)	(1,022,285)
Financing activities		
Share issue costs (note 12 (a))	-	(3,264)
Loan issuance	2,000,000	-
Cash provided by financing activities	2,000,000	(3,264)
Investing activities		
Mineral property acquisition costs	-	(33,526)
Purchase of equipment (note 6)	(21,916)	(505)
Release of restricted deposits	-	6,447
Cash used in investing activities	(21,916)	(27,584)
Decrease in cash and cash equivalents	(46,489)	(1,053,133)
Cash and cash equivalents – beginning of period	678,112	8,779,843
Cash and cash equivalents – end of period	$ 631,623	$ 7,726,710

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

1. Nature of operations and going concern

Shear Diamonds Ltd. (the "Company" or "Shear") is in the business of acquiring and exploring mineral properties located primarily in Canada. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable. The Company is domiciled in Canada and its registered office is 6 Adelaide Street East, Suite 220, Toronto, Ontario, M5C 1H6.

The Company has no source of operating cash flow and operations to date have been funded primarily from the issue of share capital, loan arrangements and the recovery of mineral property acquisition costs by joint venture partners. The Company's ability to continue as a going concern is contingent on the development of its mineral properties which will require obtaining additional financing. During March 2012, the Company closed equity financing of $2.85 million (Note 20). Whether the Company will be successful in the development of its mineral properties or with any future financing ventures is uncertain. As at February 29, 2012, the Company's current liabilities exceeded its current assets by $2,294,253, and reported a loss of $1,952,982 for the three months ended February 29, 2012, and an accumulated deficit of $42,128,062 at that date. These circumstances may lend significant doubt in the Company's ability to continue as a going concern and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to 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.

The amounts shown in note 7 represent costs net of recoveries to date for property acquisition (including mineral claims and permits), less amounts written-off, and do not necessarily reflect fair values. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

These condensed consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. These condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of preparation and first time adoption of IFRS

The Company prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS as issued by the International Accounting Standards Board ("IASB"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on an IFRS basis in these condensed interim consolidated financial statements which represent part of the period covered by the Company's first IFRS annual audited financial statements to be issued for the financial year to end November 30, 2012. In the financial statements, the term Canadian GAAP refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting, and IFRS 1 First-time Adoption of International Financial Reporting Standard. Subject to certain transition elections disclosed in note 5, the Company has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at December 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended November 30, 2011.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 29, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending November 30, 2012 could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian Generally Accepted Accounting Policies ("Canadian GAAP") annual consolidated financial statements for the year ended November 30, 2011.

3. Significant accounting policies, judgments and estimation uncertainty

The significant accounting policies used in the preparation of the consolidated financial statements dated November 30, 2011 have not changed as a result of adopting IFRS, with the exception of those listed below which have been used to prepare these condensed interim consolidated financial statements.

Basis of measurement:

The consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments.

Consolidation:

These consolidated financial statements include the accounts of Shear and its wholly-owned subsidiary, Shear Diamonds (Nunavut) Corp. (together referred to as the

“Company”). All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Cash and cash equivalents

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

Financial instruments

The Company classifies all financial instruments into one of the following categories: held-to-maturity, available-for-sale, held for trading, loans and receivables, or other financial liabilities. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost using the effective interest rate method. Available for sale instruments are typically measured at fair value with unrealized gains and losses recognized in other comprehensive income, net of income tax, until sold or impaired. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in consolidated statement of loss and comprehensive loss.

The Company has designated its cash and cash equivalents, restricted deposits, accounts receivable and operator recoveries as loans and receivables, short-short term investments as held for trading and accounts payable and accruals, note payable and secured notes have been classified as other liabilities, all of which are measured at amortized cost subsequent to initial recognition.

The Company uses a three level hierarchy to categorize the significance of the inputs used in measuring the fair value of financial instruments. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument’s fair value. Level 3 instruments may include items based on pricing services or broker quotes where we are unable to verify the observability of inputs into their prices. Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value which primarily includes extrapolation of observable future prices to similar location, similar instruments or later time periods.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to their fair value measurement.

Income taxes

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax payable involves judgment and certain assumptions about the future performance of the Company. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Changes in economic conditions, diamond prices, foreign exchange rates and other factors could result in revisions to the estimates of the benefits to be realized or the timing of the utilization of the losses.

Flow-through share accounting

In accordance with current tax legislation, the Company renounces the tax deductions relating to qualified resource expenditures that are financed by the issuance of flow-through shares to the benefit of the flow-through shareholders. Common shares issued on a flow-through basis typically include a premium over the market price of the Company's common shares that is associated with the tax benefits of the flow-through share. The Company estimates the proportion of proceeds attributable to the flow-through premium as the excess of the subscription price over the market value of the shares and records this value as a liability at issuance.

When qualifying flow through expenditures are incurred the flow through share tax benefit liability is reduced and a corresponding deferred income tax recovery is recognized.

Foreign Currency Translation

i) Functional and presentation currency

Items included in the financial statements of each consolidated entity within the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of both Shear Diamonds Ltd. and its 100% consolidated subsidiary Shear Diamonds (Nunavut) Corp. is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

ii) Transactions and balances

Foreign currency transactions are translated into an entity’s functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity’s functional currency are recognized in the statement of loss and comprehensive loss.

Mineral Properties

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

Inventory produced during the pre-production stage is added to the mineral property balance. Upon selling of that inventory during the pre-production stage, the revenue is then subsequently recorded as a credit to the mineral property.

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

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

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

Mining properties are assessed for impairment in accordance with the policy for impairment of non-financial assets as described below.

Equipment

Equipment is recorded at cost less accumulated amortization and accumulated impairment losses. The cost of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged against earnings during the period in which they are incurred.

Amortization is calculated using the straight-line method at the following rates for the major classes of equipment:

Field equipment	20% per annum
Computer equipment	30% per annum
Office furniture	20% per annum

Amortization methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate. Equipment is considered impaired when its carrying value exceeds the total cash flows expected from its use and eventual disposition. The amount of impairment is determined as the carrying amount in excess of fair value and is charged to earnings in the period incurred. See further details of the Company's accounting policy for impairment of non-financial assets below.

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets (including equipment and mineral properties) are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If indicators exist, the recoverable amount is estimated and compared to the carrying to determine the extent of the impairment loss.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels of which there are separately identifiable cash flows (cash-generating units or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount the carrying value exceeds its recoverable amount with any impairment losses being recognized against earnings. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset or CGU is increased to its newly determined recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset or CGU in prior years.

The assessment of impairment requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future operating and capital costs to mine and process the Company's mineral reserves. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its CGU as being an individual mining or processing site, which is the lowest level for which cash inflows are largely independent of those other assets.

Share-based compensation

The Company grants stock options to officers, directors and employees pursuant to a stock option plan which is described in note 12 (b). Awards of stock options are accounted for in accordance with the fair value based method of accounting using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of options granted is recognized as an expense with a corresponding increase in contributed surplus using the graded vesting approach with each tranche considered a separate grant with a different vesting date and fair value.

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

Share-based payments to individuals other than those considered employees are measured at the fair value of goods or serviced received. If the fair value of the goods or services cannot be reliably determined, the fair value of the equity issued is used.

Agent warrants are occasionally issued in connection with private placements. The fair value of the warrants is recognized in the consolidated financial statements as a share issue cost and credited against the proceeds of share capital received. The fair value of the warrants is estimated through the use of the Black-Scholes option pricing model at the time that the services are provided.

Any consideration received upon exercise of stock options and agent warrants is credited to share capital and the associated amounts originally recorded as contributed surplus are transferred to share capital. The total stock option expense is adjusted to reflect the number of awards that will ultimately vest based on management's best estimate.

Provision for environmental rehabilitation

The Company recognizes a liability for retirement obligations associated with long-lived assets, including the abandonment of mineral properties and returning properties to their original condition. Provisions for environmental rehabilitation are recorded in the period when the Company has a legal and/or constructive obligation, to remediate, as a result of a past event, and is recognized with a corresponding increase in the carrying value of the related long-lived asset.

The estimated value is determined using the present value of the estimated future cash outflows to rehabilitate the asset, at the pre-tax nominal risk-free rate. The liability is subsequently accreted for the passage of time through finance expenses in the statement of loss and comprehensive loss. The liability is also reviewed at each period end and adjusted for changes in the estimated timings and/or amounts of future cash flows and changes in the discount rate at each balance sheet date, with such adjustments recognized against the carrying amount of the related non-financial assets.

Critical estimates and judgements

The preparation of interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The interim consolidated financial statements have, in management's opinion, been properly prepared using careful judgment. The following are the estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Critical estimates

i. Fair value of share-based compensation

The amount expensed for share-based compensation is based on the application of the Black-Scholes option pricing model, which is highly dependent on the expected volatility of the Company's share price, forfeiter rates and the expected life of the options. The Company used an expected volatility rate for its shares based on historical stock trading data adjusted for future expectations, and actual volatility may be significantly different. While the estimate of share-based compensation can have a material impact on the operating results reported by the Company, it is a non-cash charge and as such has no impact on the Company's cash position or future cash flows.

ii. Provision for environmental rehabilitation

The provision for environmental rehabilitation recorded is based on the present value of future cash flows required to restore the Jericho Diamond Mine in its original condition. Assumptions are made on both the amount and timing of those cash flows at a future date and with respect to the estimated pre-tax discount rate to be applied to present value such amounts. Both the amount and timing of the cash flows may be significantly different in the future based on the life of mine and increases or decreases of future costs.

b) Critical Judgments

i. Valuation of mineral properties

Mineral properties are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Common indicators of impairment of a mineral property include, but are not limited to: (i) the right to explore in a specific area has expired, or will soon expire, and is not expected to be renewed; (ii) substantive expenditure on further exploration in a specific area is neither budgeted nor planned; (iii) exploration in an area has not led to the discovery of commercially viable quantities of mineral resources, or the results are not compelling enough to warrant further exploration, and the Company has decided to discontinue activities in the area; or (iv) sufficient data exist to indicate that, although exploration or development in an area is likely to proceed, the carrying amount of the mineral property is unlikely to be recovered in full from successful development or by sale.

As at February 29, 2012 the Company determined that there were no indicators of impairment in carrying values of its mineral properties.

ii. Provision for environmental rehabilitation

The provision for environmental rehabilitation recorded is based on the present value of future cash flows required to restore the Jericho Diamond Mine in its original condition. Judgments are made on the choice of discount rate used as it must be reflective of the risks specific to the liability.

4. Standards issued but not yet effective:

The following new standards and issued amendments to standards and interpretations are not yet effective for the three months ended February 29, 2012, and have not been applied when preparing these consolidated financial statements.

IFRS 9, *Financial Instruments*, issued in November 2009

This standard is the first step in the process to replace IAS 39, Financial Instruments: Recognition & Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. IFRS 9 establishes two primary measurement categories for financial assets: (i) amortized cost, and (ii) fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held for trading, held to maturity, available for sale, loans and receivable categories. IFRS 9 has an effective date of January 1, 2015, with early adoption permitted.

In May 2011, the International Accounting Standards Board ("IASB") published and amended standards addressing the accounting for consolidation, joint arrangements and disclosure related to involvement with other entities, each of which is highlighted below:

IFRS 10, *Consolidated Financial Statements*

IFRS 10 replaces the consolidation guidance in IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretations Committee ("SIC") Interpretation 12, Consolidation - Special Purpose Entities, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has: 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 11, *Joint Arrangement*

IFRS 11 replaces IAS 31, Interests in Joint Ventures. IFRS 11 focuses on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). It addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for all joint arrangements. This new standard principally addresses two aspects of IAS 31: first, that the structure of the arrangement was the only determinant of the accounting and, second, that an entity had a choice of accounting treatment for joint arrangements. Accordingly, IFRS 11 removes the option to apply the proportional consolidation method and classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is where the parties have joint control of the arrangement (i.e. joint operators) and have rights to the assets and obligations relating to the arrangement. A joint operation is accounted for proportionately. A joint venture is where the parties have joint control of the arrangement (i.e. joint venturers) and have rights to the net assets of the arrangement. A joint venture is accounted for under the equity method.

IFRS 12, *Disclosures of Involvement with Other Entities*

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

IAS 28, *Investments in Associates and Joint Ventures*

IAS 28 is amended to conform to changes resulting from the issuance of IFRS 10, IFRS 11 and IFRS 12.

Each of the above standards has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted, provided each of the other standards is also early applied. The early adoption of IFRS 12 is not subject to adopting the other standards. The Company is currently assessing the impact of these standards.

IFRS 13, *Fair Value Measurement*, issued in May 2011

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is currently assessing the impact of this standard.

Expressed in Canadian Dollars

5. Transition to IFRS

a) Reconciliation of the Company's Consolidated IFRS Balance Sheets as previously reported in accordance with Canadian GAAP:

		November 30, 2011			February 28, 2011			December 1, 2010		
	Note	CGAAP	Adj	IFRS	CGAAP	Adj	IFRS	CGAAP	Adj	IFRS
Assets										
Current assets										
Cash and cash equivalents		678,112		678,112	7,726,710		7,726,710	8,779,843		8,779,843
Short-term investments					11,494		11,494	8,879		8,879
Accounts receivable		169,242		169,242	197,697		197,697	120,467		120,467
Operator recoveries		28,159		28,159	-			184,203		184,203
Prepaid expenses		236,600		236,600	161,481		161,481	228,245		228,245
		1,112,113		**1,112,113**	8,097,382		8,097,382	9,321,637		9,321,637
Equipment		226,415		226,415	42,486		42,486	47,327		47,327
Mineral properties	i	12,647,987	2,343,642	14,991,629	12,209,190	653,669	12,862,859	12,137,584	842,107	12,979,691
Restricted deposits		9,327,852		9,327,852	9,327,742		9,327,742	9,334,189		9,334,189
Other Assets		13,533		13,533						
		23,327,900	**2,343,642**	**25,671,542**	**29,676,800**	**653,669**	**30,330,469**	**30,840,737**	**842,107**	**31,682,844**
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities		2,278,723		2,278,723	652,346		652,346	611,988		611,988
Deposits from exploration partners		8,270		8,270	8,270		8,270	8,270		8,270
Flow through share tax benefit	iii					423,032	423,032		492,813	492,813
Note payable					477,249		477,249	466,265		466,265
		2,286,993		**2,286,993**	**1,137,865**	**423,032**	**1,560,897**	**1,086,523**	**492,813**	**1,579,336**
Secured notes		452,944		452,944	1,675,610		1,675,610	1,647,179		1,647,179
Provision for environmental rehabilitation	i	9,631,637	2,168,724	11,800,361	8,701,106	631,664	9,332,770	8,621,028	842,107	9,463,135
		12,371,574	**2,168,724**	**14,540,298**	**11,514,581**	**1,054,695**	**12,569,277**	**11,354,730**	**1,334,920**	**12,689,650**
Shareholders' equity										
Share capital	iii, iv	43,693,380	(623,003)	43,070,377	41,652,855	373,802	42,026,657	42,652,925	(623,004)	42,029,921
Contributed surplus	ii	2,376,263	82,015	2,458,278	2,035,090		2,035,090	2,035,090		2,035,090
Contributed surplus - warrants		5,777,669		5,777,669	5,777,669		5,777,669	5,777,669		5,777,669
Deficit		(40,890,986)	715,906	(40,175,080)	(31,303,395)	(774,829)	(32,078,224)	(30,979,677)	130,191	(30,849,486)
		10,956,326	**174,918**	**11,131,244**	**18,162,219**	**(401,027)**	**17,761,192**	**19,486,007**	**(492,813)**	**18,993,194**
		23,327,900	**2,343,642**	**25,671,542**	**29,676,800**	**653,669**	**30,330,469**	**30,840,737**	**842,107**	**31,682,844**

Expressed in Canadian Dollars

b) Reconciliation of Consolidated Statement of Loss and Comprehensive Loss:

	Note	Year ended November 30, 2011 CGAAP	Adj	IFRS	Three months ended February 28, 2011 CGAAP	Adj	IFRS
Revenue		$ 116,913		$ 116,913	$ 25,743		$ 25,743
Expenses							
Exploration	ii, iv	6,960,069	14,062	6,974,131	823,169		823,169
General and administrative	ii	2,507,573	67,954	2,575,527	360,743		360,743
		9,467,642	82,016	9,549,658	1,183,912		1,183,912
		(9,350,729)	**(82,016)**	**(9,432,745)**	**(1,158,169)**		**(1,158,169)**
Finance expenses	i	(575,390)	174,918	(400,472)	(164,970)	22,005	(142,965)
Write-down of mineral property		(4,993)		(4,993)			
Other (loss) income		(5,477)		(5,477)	2,615		2,615
Loss before income tax		**(9,936,589)**	**92,902**	**(9,843,687)**	**(1,320,524)**	**22,005**	**(1,298,519)**
Deferred income tax recovery	iii, iv	25,280	492,813	518,093	996,806	(927,025)	69,781
Net loss and comprehensive loss		**(9,911,309)**	**585,715**	**(9,325,594)**	**(323,718)**	**(905,020)**	**(1,228,738)**
Basic and diluted loss per share		**$ (0.23)**		**$ (0.22)**	**$ (0.01)**		**$ (0.03)**
Weighted average number of common shares outstanding		**43,229,331**		**43,229,331**	**42,150,338**		**42,150,338**

i. IFRS requires that the pre-tax nominal risk-free rate be used in determining the net present value of the estimated future remediation costs for the provision of environmental rehabilitation, as opposed to the Company's credit-adjusted, risk-free interest rate, as required by Canadian GAAP. IFRS also requires the re-measurement of the provision for environmental rehabilitation at each reporting period end. As well, IFRS requires a provision for environmental rehabilitation to be recognized where there is a legal or constructive obligation, whereas Canadian GAAP limits the definition to legal obligations.

The differences between Canadian GAAP and IFRS has resulted in changes to the Company's accounting policies and required adjustments to the consolidated financial statements. These differences resulted in increases to the mineral property balance at December 1, 2010, February 28, 2011 and November 30, 2011 by $842,107, $653,669 and $2,343,642 respectively. The company also adjusted the provision for environmental rehabilitation balance at December 1, 2010, February 28, 2011 and November 30, 2011 by $842,107, $631,664 and $2,168,724 respectively. This difference in accounting policy resulted in a change of accretion to the provision of $(22,005) for the three months ended February 28, 2011. Changes to the accretion expense for the year ended November 30, 2011 resulted in a decrease to the accumulated deficit of $(174,918) for the same amount.

ii. IFRS requires that when a share-based payment award vests in instalments over the vesting period (graded vesting), each instalment be treated as a separate share option grant, which was not mandatory under Canadian GAAP. As well, IFRS requires a forfeiture rate assumption for stock options to be estimated at the grant date and incorporated into the fair value estimate of the share-based payments, whereas Canadian GAAP allows companies to recognize adjustments to share-based payment expense as forfeitures occur.

The differences between Canadian GAAP and IFRS has resulted in changes to the Company's accounting policies and required adjustments to the consolidated financial statements. These differences resulted in an increase to expenses, contributed surplus and accumulated deficit balances at November 30, 2011 by $82,015.

iii. Under IFRS, when flow through shares are issued a liability is recognized for the premium received for the flow through component of the share compared to the market price on the announcement date. Canadian GAAP does not require a liability to be recorded on issuance of flow through shares.

The differences between Canadian GAAP and IFRS has resulted in changes to the Company's accounting policies and required adjustments to the consolidated financial statements. These differences resulted in the creation of a flow through share tax liability for the periods ended December 1, 2010 and February 28, 2011 of $492,813 and $423,032 respectively. The difference was reflected during the same periods ended with a decrease to share capital by $623,003. During the three months ended February 28, 2011 and the year ended November 30, 2011, this difference in accounting policy represented an increase to income tax recovery of $69,781 and $492,813 respectively.

iv. Previously reported under Canadian GAAP – The statement of operations and deficit for the three months ended February 28, 2011 prepared under Canadian GAAP included a future income tax recovery of $996,806 and a decrease to share capital for the same amount. These amounts have been reversed within the transition to IFRS.

c) Adjustments to the consolidated statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

d) Exemptions from full retrospective applications

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

Expressed in Canadian Dollars

i. Share-based compensation transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, Share-based Payment, to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to December 1, 2010.

6. Equipment

	Office Furniture	Computer Equipment	Field Equipment	Total
At December 1, 2010				
Cost	$ 11,294	$ 76,612	$ 137,228	**$ 225,134**
Accumulated amortization	(4,886)	(67,281)	(105,640)	**(177,807)**
Net book value	6,408	9,331	31,588	**47,327**
Year ended November 30, 2011				
Opening net book value	6,408	9,331	31,588	**47,327**
Additions	15,495	10,037	197,395	**222,927**
Disposals	-	-	-	**-**
Amortization for the period	(3,809)	(9,261)	(30,769)	**(43,839)**
Impairments	-	-	-	**-**
Closing net book value	18,094	10,107	198,214	**226,415**
At December 1, 2011				
Cost	26,789	86,649	334,623	**448,061**
Accumulated amortization	(8,695)	(76,542)	(136,409)	**(221,646)**
Net book value	18,094	10,107	198,214	**226,415**
Period ended February 29, 2012				
Opening net book value	18,094	10,107	198,214	**226,415**
Additions	-	6,916	15,000	**21,916**
Disposals	-	-	-	**-**
Amortization for the period	(1,340)	(1,209)	(12,777)	**(15,326)**
Impairments	-	-	-	**-**
Closing net book value	16,754	15,814	200,437	**233,005**
At February 29, 2012				
Cost	26,789	93,565	349,623	**469,977**
Accumulated amortization	(10,035)	(77,751)	(149,186)	**(236,972)**
Net book value	$ 16,754	$ 15,814	$ 200,437	**$ 233,005**

Expressed in Canadian Dollars

7. Mineral properties

	Northwest and Nunavut Territories			Manitoba,	
	Churchill	Jericho and North Slave	Other	Miskamowin	Total
Balance as at December 1, 2010	$ 4,731,004	$ 8,219,361	$ 25,094	$ 4,232	**$ 12,979,691**
Additions	3,130	1,071,184	14,522	58,077	**1,146,913**
Change in estimate for environmental rehabilitation	-	870,018	-	-	**870,018**
Write-downs	-	-	(4,993)	-	**(4,993)**
Balance as at November 30, 2011	4,734,134	10,160,563	34,623	62,309	**14,991,629**
Additions	-	-	-	-	**-**
Change in estimate for environmental rehabilitation	-	194,514	-	-	**194,514**
Write-downs	-	-	-	-	**-**
Balance as at February 29, 2012	$ 4,734,134	$ 10,355,077	$ 34,623	$ 62,309	**$ 15,186,143**

8. Accounts payable and accrued liabilities

	February 29, 2012	November 30, 2011	December 1, 2010
Trade accounts payable	$ 814,923	$ 737,272	$ 306,337
Accrued liabilities	130,434	448,875	305,651
Property taxes payable	1,092,576	1,092,576	-
	$ 2,037,933	$ 2,278,723	$ 611,988

The property tax balance is related to outstanding property taxes primarily assumed in the Tahera Acquisition. Of the balance at February 29, 2012, $976,707 is related to unpaid property taxes incurred prior to Shear's acquisition and this amount increased the carrying value of mineral properties acquired through the Tahera Acquisition during the year ended November 30, 2011. The remaining $115,869 is related to property taxes incurred during 2011. The Company is currently in discussions with the governing authority in order to provide an alternative form of compensation other than cash to satisfy these current obligations. Based on the negotiations to date, the timing and form of payment of these outstanding taxes is currently unknown.

9. Loan payable

On December 14, 2011, the Company closed agreements with Taché Company N.V. ("Taché") securing debt financing and forming a strategic alliance under which Taché will purchase the diamond production from Shear's Jericho Mine. Shear will participate in a profit sharing arrangement on the final net profits from Taché's sales of the Jericho diamonds either as rough or polished stones. The debt financing provided includes a US$2 million term loan repayable in 12 equal monthly installments beginning at the earlier of:

Expressed in Canadian Dollars

i) When Shear begins to receive proceeds of sales of diamonds from the existing recovery concentrate stockpiles at Jericho; and

ii) June 30, 2012.

In addition to the debt financing, Taché has provided Shear with a US$3 million revolving credit facility which can be drawn against once Shear has shipped $0.5 million worth of diamonds from the existing recovery stockpiles. Once the revolving credit facility has resumed, it will remain available until the earlier of i) one year from the commencement of facility; and ii) June 30, 2013.

Both the term loan and the credit facility are subject to an annual interest rate of 9.5% with monthly interest payments required on the outstanding balance at the end of each month. The debt financing grants Taché with a priority secured interest on a specified list of equipment located at the Jericho Diamond Mine as well as a general security of assets at the Jericho Diamond Mine.

10. Secured notes

Balance as at December 1, 2010	$	1,647,179
Reclassification of accretion to the provision of environmental rehabilitation (note 11)		(87,999)
Reclassification of principle to the provision of environmental rehabilitation (note 11)		(1,224,601)
Accretion		118,365
Balance as at November 30, 2011		452,944
Accretion (note 14)		7,904
Balance as at February 29, 2012	$	460,848

Secured notes having an aggregate principal amount of $2,289,124 were issued on August 27, 2010 in satisfaction of certain liabilities of Tahera and Benachee that were assumed by the Company as part of the Tahera Acquisition. The Company issued a debenture to the note holder granting a security interest in the plant and equipment located at the Jericho Diamond Mine and certain of the other properties acquired in the Tahera Acquisition.

The secured notes are payable upon the earlier of: (i) August 27, 2015; (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 and there being an event of default under the debenture. On the date that the secured notes become payable, interest will begin accruing at 5% per annum. Until that time, the secured notes are interest free.

The secured notes were originally recorded at their fair values at the date of the Tahera Acquisition, which was estimated to be $1,617,684 based on the present value of the expected cash flows using the estimated prevailing interest rate for similar financial instruments. During the three months ended February 29, 2012, accretion expense of $7,904 (2011 - $7,294) was recorded.

Expressed in Canadian Dollars

During the year ended November 30, 2011, Shear reclassified the carrying amount of one secured note, the corresponding accumulated accretion and accretion expense to the provision of environmental rehabilitation (note 11) as that secured note is a reclamation bond and relates specifically to the Company's provision of environmental rehabilitation.

11. Provision for environmental rehabilitation

Balance as at December 1, 2010	$	9,463,135
Reclassification of accretion from the provision of environmental rehabilitation (note 10)		87,999
Reclassification of principle from the provision of environmental rehabilitation (note 10)		1,224,601
Accretion		242,607
Change in estimate of the provision of environmental rehabilitation		782,019
Balance as at November 30, 2011		11,800,361
Change in estimate of the provision of environmental rehabilitation		194,514
Accretion (note 14)		62,636
Balance as at February 29, 2012	$	12,057,511

The provision for environmental rehabilitation relates to the Company's closure and reclamation obligations for the Jericho Diamond Mine, and was initially recognized at the best estimate of the obligation at the date of the Tahera Acquisition. The determination of the fair value of the liability assumes undiscounted future cash flows needed to settle the liability of approximately $14,597,517 which is expected to be incurred in 2021 and beyond. Rehabilitation costs are discounted using the nominal, risk-free pre-tax discount rate.

The measurement of the provision for environmental rehabilitation requires management to make significant estimates and assumptions regarding the timing and valuation of future site restoration costs, as well as the nominal, risk-free pre-tax discount rate. Actual values could differ significantly from these estimates. The estimates used within the calculation of the provision of environmental rehabilitation are:

	February 29, 2012	**November 30, 2011**	**December 1, 2010**
Discount rate	1.98%	2.15%	2.63%
Expected timing of cash flow	2021	2021	2018
Expected cash outflow	14,597,517	14,597,517	11,647,418
Inflation rate	2.05%	2.05%	2.05%

During the year ended November 30, 2011, Shear reclassified a secured note, the corresponding accumulated accretion and accretion expense to the provision for environmental rehabilitation as that secured note is a reclamation bond and relates specifically to the Company's rehabilitation costs. The carrying amount of this bond was $1,224,601 at November 30, 2011 and is in relation to an obligation assumed through the Tahera Acquisition. At February 29, 2012, the Company has an obligation to post reclamation bonds in relation to rehabilitation costs in a future amount of $1,701,858 and this amount is due on the earlier of: (i) August 27, 2015; (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 and there being an event of default under the debenture noted in note 11.

At February 29, 2012, the Company is obligated to post two additional reclamation bonds or other acceptable security in the amount of $1,350,000 and $1,189,000, respectively.

During the year ended November 30, 2011, Shear reached an agreement with a land owner to provide a secured promissory note as security for the additional amount of $1,350,000. As a result, an additional bond or letter of credit will not be required until commercial production commences and therefore there are no cash requirements expected during the next twelve months. The final secured promissory note and debenture were signed subsequent to February 29, 2012 (see note 20).

The Company is currently in negotiations with another land owner and to-date the form of security to be provided for the additional obligation of $1,189,000 has not been finalized. There is currently $800,000 held in restricted deposits and $68,000 held with the land owner which the Company intends to use to satisfy this obligation. For the remaining balance of $321,000, the Company is in discussions seeking to satisfy its obligations initially through the issue of a secured promissory note similar to the secured notes previously provided to the Crown, in which case, an additional bond or letter of credit would not be required until commercial production commences.

Expressed in Canadian Dollars

12. Share capital

a) Common shares

Authorized:
Unlimited number of common shares
Unlimited number of preferred shares

Common shares issued and outstanding:

	Number of shares	Amount
Balance as at December 1, 2010	42,150,338	$ 42,029,921
Issued in private placements	3,750,786	1,050,220
Share issue costs	-	(9,764)
Balance as at November 30, 2011	45,901,124	43,070,377
Issued in private placements	-	-
Share issue costs	-	-
Balance as at February 29, 2012	45,901,124	$ 43,070,377

On August 19, 2011, the Company closed a non-brokered private placement for gross proceeds of $1,050,220 with the sale of 3,750,786 common shares at a price of $0.28 per share. The proceeds from the sale of the Common Shares will be utilized for working capital and operations at Shear's Jericho Diamond Mine, Nunavut. No finder's fees were payable in connection with this private placement and a total of $6,501 costs were incurred in relation to this issuance.

During the year ended November 30, 2011, the Company renounced $3,987,222 (2010 - $838,957) of qualifying expenditures to holders of flow-through shares. At February 29, 2012, all qualifying expenditures have been incurred in order to satisfy the commitment related to the flow-through shares issued on August 27, 2010.

b) Stock options

The Company has a stock option plan for the benefit of directors, management, employees and certain consultants of the Company. Under the plan, the Company may grant options to eligible recipients, provided that at the time of the grant the total number of common shares reserved for issuance under the plan does not exceed 10% of the Company's issued and outstanding common shares at that time. The exercise price of each option may be discounted up to 25% from the market price of the Company's common shares on the date of grant and an option's maximum term is five years.

On August 19, 2011, a total of 3,525,000 options were granted to directors, officers, consultants and employees of the Company.

Expressed in Canadian Dollars

The following table summarizes activity related to stock options:

	Number of options outstanding[(1)]	Weighted average exercise price[(1)]
Balance as at December 1, 2010	276,000	$ 6.02
Granted	3,525,000	0.30
Exercised	-	-
Forfeited	(237,500)	1.54
Expired	(27,500)	6.00
Balance as at November 30, 2011	3,536,000	0.62
Granted	-	-
Exercised	-	-
Forfeited	(162,500)	0.30
Expired	-	-
Balance as at February 29, 2012	3,373,500	$ 0.66

(1) The issued and outstanding common shares, as well as information below on per-share amounts and Warrants issued, have been retroactively adjusted to reflect the Company's 10-for-1 share consolidation effected on December 30, 2010.

The following table summarizes information about the Company's stock options outstanding and exercisable as at February 29, 2012:

Expiry date	Number Outstanding[(1)]	Number Vested[(1)]	Weighted average remaining life (years)	Weighted average exercise price[(1)]
April 24, 2013	130,000	130,000	0.04	$ 6.50
April 24, 2013	68,500	68,500	0.04	5.00
August 19, 2013	500,000	166,662	0.20	0.30
August 19, 2016	2,675,000	945,829	3.50	0.30
	3,373,500	1,310,991	3.78	$ 0.66

(1) The issued and outstanding common shares, as well as information below on per-share amounts and Warrants issued, have been retroactively adjusted to reflect the Company's 10-for-1 share consolidation effected on December 30, 2010.

During the three months ended February 29, 2012 the Company recorded share-based compensation expense and an increase to contributed surplus of $111,926 (2011 – nil), related to the options granted on August 19, 2011. The share-based compensation for three months ended February 29, 2012 and February 28, 2011 was recorded as follows:

Expressed in Canadian Dollars

	Three months ended February 29, 2012	Three months ended February 28, 2011
General and administrative expense	$ 101,067	-
Exploration expense:		
Jericho	10,859	-
	$ 111,926	-

The Company will record a further $79,430 of share-based compensation in future periods as the options vest.

The fair value of each share options granted on August 19, 2011 was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions for the two expiration periods:

Expected life of options	2 years	5 years
Risk-free rate	0.87%	1.42%
Expected volatility	92.58%	92.58%
Annual dividend yield	0.00%	0.00%
Forfeitures	5%	1%

c) Warrants

	Number of warrants outstanding[1]	Weighted average exercise price[1]
Balance as at December 1, 2010	20,835,350	$ 0.85
Issued	-	-
Expired	(2,564,725)	1.54
Balance as at November 30, 2011	18,270,625	0.76
Issued	-	-
Expired	-	-
Balance as at February 29, 2012	18,270,625	$ 0.76

[1] The issued and outstanding common shares, as well as information below on per-share amounts and Warrants issued, have been retroactively adjusted to reflect the Company's 10-for-1 share consolidation effected on December 30, 2010.

The expired warrants in the year ended November 30, 2011 resulted in the recognition of a future income tax recovery of $25,280 and a corresponding reduction to contributed surplus.

Expressed in Canadian Dollars

The following table summarizes information about the Company's warrants outstanding and exercisable as at February 29, 2012:

Expiry date	Number(1)	Weighted average exercise price(1)
August 27, 2012	3,115,017	$ 0.80
August 27, 2014	15,155,608	0.75
	18,270,625	$ 0.76

13. Expenses by nature

a) Exploration expenses:

	Three months ended February 29, 2012			
	Jericho and North Slave Properties	Churchill	Other	Total
Exploration site operations	$ 1,012,833	$ 17,398	$ 3,239	$ 1,033,470
Environment	240,401	-	-	240,401
Community consultations	6,417	-	-	6,417
Amortization	12,012	-	-	12,012
Other	-	-	-	-
	1,271,663	17,398	3,239	1,292,300
Recovery of expenditures	-	-	-	-
Exploration Expenses	$ 1,271,663	$ 17,398	$ 3,239	$ 1,292,300

Expressed in Canadian Dollars

	Three months ended February 28, 2011			
	Jericho and North Slave Properties	Churchill	Other	Total
General exploration	$ 384,518	$ 27,928	$ 3,209	$ 415,655
Environment	263,472	4,239	1,249	268,960
Bulk sampling	70,543	-	2,140	72,683
Sampling	7,965	2,205	15,793	25,963
Drilling	17,234	-	-	17,234
Magnetometer Surveys	-	-	-	-
Prospecting	2,046	8,317	-	10,363
Geophysics	250	-	-	250
Community consultations	9,440	225	300	9,965
Amortization	1,520	-	-	1,520
Other	-	576	-	576
	756,988	43,490	22,691	823,169
Recovery of expenditures	-	-	-	-
Exploration Expenses	$ 756,988	$ 43,490	$ 22,691	$ 823,169

b) General and Administrative:

	Three months ended	
	February 29, 2012	February 28, 2011
Staff costs	$ 157,215	$ 72,035
Office expenses	65,579	33,618
Regulatory	9,066	24,104
Stock option expense	101,067	-
Travel and Tradeshows	48,954	75,570
Insurance expenses	74,227	70,792
Amortization	3,314	3,826
Professional fees	107,360	80,798
	$ 566,782	$ 360,743

Expressed in Canadian Dollars

14. Finance expense

	Three months ended February 29, 2012	Three months ended February 28, 2011
Letter of credit service fees	$ 52,408	$ 31,611
Accretion of secured notes	7,904	28,431
Accretion of note payable	-	10,984
Interest on loan payable	42,854	-
Accretion expense of provision for environmental rehabilitation	62,636	58,072
Other interest	-	13,866
	$ 165,802	$ 142,964

15. Capital and Financial Risk Management

a) Capital management

The Company manages its capital structure, which is substantially represented by its cash resources and share capital, and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may, from time to time, issue shares, raise debt and/or adjust its capital spending to manage its ability to continue as a going concern.

To facilitate the management of its capital, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment.

b) 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 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 and restricted deposits. To minimize this risk, cash and restricted cash has been placed with major Canadian chartered banks. The Company limits its counterparty credit risk on its cash, cash equivalents and restricted deposits by dealing only with financial institutions with AA or above credit ratings. Also, the total amount of cash is available on demand and is not invested in commercial paper or asset-backed security programs. Restricted cash is cash pledged against letters of credit in relation to the provision for environmental rehabilitation based on external restrictions imposed. At February 29, 2012, 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.

c) Fair Value Risk

The Company's financial instruments as at February 29, 2012 include certain accounts receivable, restricted deposits, certain accounts payable and accrued liabilities, loan payable and secured notes. Cash and cash equivalents and restricted deposits are recognized on the balance sheet at their fair values.

d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its current obligations as they are due. The Company prepares annual exploration and administration budgets and monitors expenditures to manage short-term liquidity. Due to the nature of the Company's activities, funding for liquidity needs are dependent on the Company's ability to obtain additional financing through various means, including debt and equity financing. There can be no assurance that the Company will be able to obtain adequate financing in the future or that terms of such financing will be favourable. All of the Company's current financial liabilities, except the loan payable, have contractual maturities of less than 30 days and are subject to normal trade terms. The Company's loan payable is due in equal monthly installments over a 12 month period starting at the earlier of i) when Shear begins to receive proceeds of sales of diamonds from production from the existing recovery stockpiles; and ii) June 30, 2012. The Company's secured notes are due between three and five years or upon commercial production targets being met (note 10).

e) 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.

f) Interest Rate Risk

The Company currently has a loan payable that is subject to a fixed annual interest rate of 9.5%. The Company is not exposed to fluctuations in market interest rates given the fixed nature of the rate and therefore interest rate risk is currently nil.

g) Foreign Currency Risk

The Company's loan payable balance is denominated in US dollars and therefore exposes the Company to foreign currency risk. The Company closely monitors the movement in the foreign exchange rates between the US dollar and the Canadian dollar and holds certain cash and cash equivalents denominated in US Dollars in order to reduce the foreign currency risk. As at February 29, 2012, the Company has an accrual for interest payable of $US15,096 and a loan principal balance outstanding of $US2,000,000. Based on the net exposure at February 29, 2012, a 5% depreciation or appreciation of the US Dollar against the Canadian dollar would result in a $126,407 increase or $99,405 decrease respectively in the Company's Statement of Loss and Comprehensive Loss.

16. Net Change in non-cash working capital

	Three months ended	
	February 29, 2012	February 28, 2011
Accounts receivable	$ 46,923	$ (77,230)
Operator recoveries	-	184,203
Prepaid expenses and other assets	(48,717)	66,764
Accounts payable and accrued liabilities	(240,789)	2,279
	$ (242,583)	$ 176,016

17. Related party transactions

a) Key management compensation

The Company's related parties include its key management. Key management includes directors (executive and non-executive), the Chief Executive Officer ("CEO") and the Executive and Vice Presidents reporting directly to the CEO.

The remuneration of key management of the Company, as defined above, for the three months ended February 29, 2012 and February 28, 2011 was as follows:

	Three months ended	
	February 29, 2012	February 28, 2011
Salaries and short-term employee benefits	$ 155,216	$ 100,801
Consulting fees for services provided by directors/officers	30,000	9,006
Management fees for services provided by directors/officers	56,250	60,000
Stock-based compensation expense	109,243	-
	$ 350,709	$ 169,807

Expressed in Canadian Dollars

b) Related party transactions

Related party transactions in these consolidated financial statements are as follows:

i. During the three months ended February 29, 2012, the Company incurred fees of $30,000 (2011 – $30,000) to Encore Resources Inc., of which $nil (2011 - $30,000) was recorded as management fees and $39,209 (2011 - $nil) was recorded as an exploration expense for consulting services provided. Encore Resources Inc. is a company controlled by a director and former President of Shear.

ii. Management fees of $56,250 were incurred in the three months ended February 29, 2012 (2011 - $30,000) for consulting and management services provided by the Chief Executive Officer and Executive Chairman of Shear.

iii. Consulting fees of $nil (2011 - $9,006) were incurred in the three months ended February 29, 2012 for consulting services provided by directors of Shear.

iv. The Company recorded general and administrative expense of $nil for the three months ended February 29, 2012 (2011 – $5,530) for use of the office facilities of Firestone Ventures Inc., a company in which a director of Shear is also a director.

These transactions are recorded at the exchange amount.

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

	February 29, 2012	February 28, 2011
Amounts due to (from) related parties included in accounts payable and accrued liabilities:		
Encore Resources Inc.	$ 22,858	$ 11,239
CEO and Executive Chair	21,262	27,672
External Directors of Shear	22,150	9,006
Takara Resources Inc.	58,077	(1,050)
Firestone Ventures Inc.	18,900	-
	$ 143,247	$ 46,867

18. Segmented information

The Company has one operating segment, being the exploration of mineral properties in Canada.

Expressed in Canadian Dollars

19. Commitments

Under the terms of operating leases, the Company is committed to the following minimum lease payments over the course of the leases:

	2012	2013	2014
Rental of warehouse facility	$ 18,280	$ -	$ -
Lease of Corporate office	$ 58,777	79,934	47,074
	$ 77,057	$ 79,934	$ 47,074

Under a purchase and sale agreement entered into, the company is committed to the payment of $142,000 for the purchase of capital equipment within 2012.

20. Subsequent events

On May 1, 2012 the Company announced that it has begun processing its high grade concentrate (“Recovery Reject”) stockpiles at the Jericho Diamond Mine. A total of approximately 3,500 carats had been recovered from 358 tonnes after the first 10 full days of processing. Following the required diamond valuation process by a Canadian government valuator, which is next scheduled for late May 2012, these and all future diamonds produced from Jericho, other than diamonds subject to a royalty if the holder has elected to take the royalty in kind, are to be delivered to Taché, Shear’s diamond marketing partner, for sale into end markets.

On April 27, 2012, Shear signed a secured promissory note and debenture agreement with the Kittikmeot Inuit Association (“KIA”) for $1,350,000 in relation to an obligation to post bonds, letters of credit or equivalent acceptable security in relation to the additional environmental rehabilitation costing noted in note 11. The debenture provided to the note holder granted a security interest in the plant & equipment located at the Jericho Diamond Mine. The obligation to post the reclamation security is due 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.

On March 21, 2012, the Company closed a private placement equity financing of 2,787,446 conventional common share units (“Conventional Units”) at $0.36 per unit and 4,640,600 flow-through common share units (“Flow-Through Units”) at $0.40 per unit for gross proceeds of approximately $2.85 million. Each Conventional Unit consists of one common share of the Company (a “Common Share”) and one-half of one Common Share purchase warrant (a “Conventional Unit Warrant”). Each whole Conventional Unit Warrant entitles the holder to acquire one Common Share at a price of $0.55 until September 21, 2013. Each Flow-Through Unit consists of one flow-through Common Share and one-half of one Common Share purchase warrant (a “FT Unit Warrant”). Each whole FT Unit Warrant entitles the holder to acquire one Common Share at a price of $0.60 until September 21, 2013. In connection with the Offering, M Partners Inc. received a cash fee of $171,583 and

445,683 broker warrants ("Broker Warrants"). Each Broker Warrant is exercisable to purchase one Common Shares at a price of $0.36 until September 21, 2013.