



Suite 220, 6 Adelaide Street East
Toronto, ON M5C 1H6
Tel: 1-866-298-9695
www.sheardiamonds.com
info@shearminerals.com
TSXV: SRM

July 11, 2011

Baba Pedersen
Resource Management Officer
Kitikmeot Region
Aboriginal Affairs and Northern Development Canada
PO Box 278
Kugluktuk, Nunavut
X0E 0E0
Canada

Dear Mr. Pedersen:

Re: Response to Inspection of Napaktolik Lake area and TAK Camp, Land Use Permit N2003C0004, July 27, 2010

We have received and reviewed your letter and inspection report for Land Use Permit N2003C0004, Napaktolik Lake area and TAK Camp conducted last year on July 27, 2010. Shear Diamonds (Shear) acquired the Jericho Diamond Mine in late August 2010 and was assigned Water Licence 2AM-JER0410. This licence only permits the use of water and disposal of waste associated with the industrial undertakings at the Jericho Diamond Mine. The 2AM-JER0410 water licence, and all other approvals associated with the Jericho Diamond Mine do not extend to exploration properties which previous owners or overseers of the Mine might have had in the vicinity of the Jericho Diamond Mine. Shear was not assigned or granted any of the approvals associated with either the Takajuak or Rockinghorse properties.

On June 11, 2011, Shear personnel accompanied Ian Rumboldt, Water Resource Officer (AANDC) to the Takajuak property while he conducted an inspection of the site. Because of its close proximity to the Jericho Diamond Mine, Shear offered to backhaul fuel and hazardous wastes from the Takajuak camp to the Jericho mine site for appropriate packaging and preparation for shipment off site and disposal. However, it has recently come to our attention that Shear is not able to conduct this work without a water licence for the Takajuak property.

Please be advised that, at present, Shear will not be making any applications for water licences or land use permits on the Takajuak property or seeking the assignment of any existing or expired water licences and/or land use permits for the Takajuak property and camp.

We trust that you find the information in this letter helpful. Should you require any further clarification, please do not hesitate to contact us.

Sincerely,



Pamela Strand, M.Sc., P. Geol.
President



Julie Lassonde Gray
Executive Chairman & CEO

cc: Bernie MacIsaac, Director of Operations, NU Regional Office, AANDC
Charlie Evalik, President, Kitikmeot Inuit Association
Phyllis Beaulieu, Manager of Licencing, Nunavut Water Board
Ryan Barry, Director - Technical Services, Nunavut Impact Review Board