

Consolidated Financial Statements

Shear Wind Inc.

August 31, 2010 and 2009

Shear Wind Inc.

Table of Contents

	<u>Page</u>
Management's Report	1
Auditors' Report	2
Consolidated Balance Sheets	3
Consolidated Statements of Operations, Comprehensive Loss and Deficit	4
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6-31

Management's Report

To the Shareholders
Shear Wind Inc.

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to Canadian generally accepted accounting principles and include amounts based on management's best estimates and judgments.

Management has established and maintains accounting and internal control systems that are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting primarily through the audit committee. The financial statements have been reviewed and approved by the board of directors on the recommendation from the audit committee. The audit committee is also responsible for making recommendations with respect to the appointment of independent auditors and for approving their remuneration and terms of engagement. Other responsibilities of the audit committee include meeting periodically with the independent auditors and management to review accounting, auditing, internal controls, litigation, financial reporting and other matters. The shareholders' external auditors have free access to the audit committee both with and without management present.

Our independent auditors, Deloitte & Touche LLP, have audited our financial statements. The accompanying auditors' report outlines the scope of their examination and their opinion.

"Michael Magnus"
Michael Magnus
President and Chief Executive Officer

"Bill Bartlett"
Bill Bartlett
Chief Financial Officer

December 13, 2010



Deloitte & Touche LLP
1969 Upper Water Street
Suite 1500
Purdy's Wharf Tower II
Halifax NS B3J 3R7
Canada

Tel: 902-422-8541
Fax: 902-423-5820
www.deloitte.ca

Auditors' Report

To the Shareholders of Shear Wind Inc.

We have audited the consolidated balance sheets of Shear Wind Inc. as at August 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants
Halifax, Nova Scotia
December 13, 2010

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

	August 31, 2010	(Restated - Note 15) August 31, 2009
	\$	\$
ASSETS		
CURRENT		
Cash and cash equivalents	1,060,573	-
Accounts receivable (note 6)	4,183,544	59,193
	5,244,117	59,193
Prepays and deposits (note 7)	32,930,604	346,676
Project development costs (note 8)	3,995,799	5,030,775
Property, plant and equipment (note 9)	18,484,555	3,631,244
Deferred charges (note 10)	-	98,360
	60,655,075	9,166,248
LIABILITIES		
CURRENT		
Bank indebtedness	-	33,296
Accounts payable and accrued liabilities	7,926,355	811,634
Promissory note payable (note 13)	1,050,000	-
Current portion of capital lease (note 14)	132,015	124,842
	9,108,370	969,772
Asset retirement obligations	38,855	-
Long-term portion of capital lease (note 14)	1,189,155	1,321,170
Future income taxes (note 15)	-	1,110,491
NON-CONTROLLING INTEREST		
Non-controlling interest (note 22)	21,968,939	-
NET LOSS		
Share capital (note 16)	32,250,049	8,900,009
Contributed surplus (note 19)	1,197,169	1,131,763
Warrants (note 17, 20)	1,266,231	380,785
Deficit	(6,363,693)	(4,647,742)
	60,655,075	9,166,248

NATURE OF OPERATIONS **(note 1)**
CONTINUATION OF BUSINESS **(note 2)**
COMMITMENTS AND GUARANTEES **(note 24)**

"Michael J. Wheatley"
Michael J. Wheatley, Director

"Gary F. MacKenzie"
Gary F. MacKenzie, Director

see accompanying notes to the consolidated financial statements

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

	For the year ended August 31, 2010	(Restated - Note 15) For the year ended August 31, 2009
	\$	\$
REVENUE		
Electricity sales	279,220	296,526
Interest income	43,354	13,976
	322,574	310,502
EXPENSES		
Salaries and benefits	586,033	856,666
General and administrative	465,985	321,426
Consulting fees (note 23)	96,000	133,800
Professional fees	232,983	209,629
Amortization of property, plant and equipment (note 9)	209,724	214,105
	1,590,725	1,735,626
OTHER		
Gain on sale of asset (note 8 & 9)	(300)	(1,221,459)
Interest expense	48,605	105,356
Asset write-down (note 7 & 8)	1,821	500,000
Loss on foreign exchange (note 26)	149,787	-
Other	1,211	6,226
	201,124	(609,877)
LOSS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	(1,469,275)	(815,247)
Current income tax expense	(45,338)	(9,182)
Future income tax expense	(57,062)	(114,546)
LOSS BEFORE NON-CONTROLLING INTEREST	(1,571,675)	(938,975)
Non-controlling interest (note 22)	(144,276)	-
NET LOSS	(1,715,951)	(938,975)
Deficit, beginning of year	(4,647,742)	(3,708,767)
Deficit, end of year	(6,363,693)	(4,647,742)
Basic loss per share (note 21)	(0.013)	(0.019)
Diluted loss per share (note 21)	(0.013)	(0.019)

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Restated - Note 15)
	For the year ended
	For the year ended
	August 31,
	August 31,
	2010
	2009
Cash (used in) provided by:	\$ \$
OPERATING ACTIVITIES	
Net loss before income taxes	(1,715,951) (938,975)
Non-controlling interest (note 22)	144,276 -
Adjustments for items not affecting cash:	
Amortization of property, plant and equipment	209,724 214,105
Asset writedown	1,821 500,000
Gain on sale of asset	- (1,221,459)
Accrued interest - income	- (43,160)
Future income tax expense	57,062 114,546
Stock-based compensation (note 19)	81,406 411,327
	(1,221,662) (963,616)
Changes in non-cash working capital balances	
Accounts receivable	(4,124,351) 145,657
Prepaid expenses	(1,228,159) (3,791)
Accounts payable and accrued liabilities	(665,198) 156,502
	(7,239,370) (665,248)
FINANCING ACTIVITIES	
Proceeds from issuance of common shares	26,965,984 1,707,500
Share issue costs	(3,815,642) (175,258)
Proceeds from issuance of limited partnership units	21,824,614 -
Proceeds from shareholder loan	1,050,000 -
Repayment of shareholder loan	- (1,000,000)
Repayment of convertible debenture	- (750,000)
Repayment of sale lease-back	(124,842) (118,058)
Cash advanced for deferred charges	- (98,360)
Accounts payable and accrued liabilities	- (303,477)
	45,900,114 (737,653)
INVESTING ACTIVITIES	
Cash advanced for deposits	(31,455,764) (69,368)
Cash repayment from deposits	100,000 25,000
Proceeds on the sale of assets	- 2,137,500
Purchase of property, plant and equipment	1,422,385 -
Wind power project development costs	(7,633,496) (848,225)
	(37,566,875) 1,244,907
Increase (decrease) in cash and cash equivalents	1,093,869 (157,994)
Cash and cash equivalents (bank indebtedness), beginning of the year	(33,296) 124,698
Cash and cash equivalents (bank indebtedness), end of the year	1,060,573 (33,296)
Cash and cash equivalents consist of the following:	
Cash and cash equivalents (bank indebtedness)	1,060,573 (33,296)

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

1. NATURE OF OPERATIONS

Shear Wind Inc. (the "Company" or "Shear Wind") was incorporated as EW Power Services Ltd. under the Business Corporations Act of the Province of Alberta on December 17, 2004. The Company changed its name to Shear Wind Inc. on October 4, 2005. The Company was continued under the Canada Business Corporations Act on March 1, 2010. The Company is engaged in the business of developing wind power generation. The Company is considered to be in the development stage as it has yet to earn significant commercial revenues and it is devoting substantially all of its efforts and equity funds toward the development of these projects.

On November 3, 2009, the Company closed a private placement and subsequently received approval from the TSX Venture Exchange ("TSX-V") on November 4, 2009. The private placement ("Private Placement") was with Genera Avante Holdings Canada Inc. ("GAHC"), an indirectly owned subsidiary of Inveravante Inversiones Universales, S.L. ("Inveravante"). Proceeds were in the amount of \$26,925,935 based on the issuance of 96,439,595 common shares of Shear Wind to GAHC at a price of \$0.2792 per common share. This transaction resulted in GAHC holding approximately 62% of the common shares of Shear Wind, on a fully-diluted basis.

On April 22, 2010, Glen Dhu Wind Energy Inc. ("GDWE Inc.") was incorporated under the Canada Business Corporations Act to be the General Partner for Glen Dhu Wind Energy Limited Partnership.

On June 18, 2010, the Company announced that it intended to establish a limited partnership with Genera Avante Holdings Canada Inc. under the laws of Manitoba to be known as Glen Dhu Wind Energy Limited Partnership ("GDWE LP"). Subject to receipt of all required shareholder, third party and regulatory approvals and consents, including the approval of the TSX-V, the Company indicated that it intended to transfer all of the assets related to the Company's 62.1 megawatt Glen Dhu wind power project in Nova Scotia (the "Glen Dhu North Project") to GDWE LP under an Asset Transfer Agreement ("Asset Transfer").

On June 25, 2010, the Company announced that the Independent Committee of the Board of Directors of the Company agreed that the purchase price for the transfer of the Assets would be \$22,865,580 to be paid through the issuance of units of GDWE LP to the Company. The closing of the Asset Transfer would occur upon receipt of all required third party consents and assignments and final approval from the TSX-V.

On June 28, 2010, the Company established a limited partnership, between the Company and Genera Avante Holdings Canada, under the laws of Manitoba to be known as Glen Dhu Wind Energy Limited Partnership.

On July 21, 2010, the Company announced that it had obtained the conditional approval of the TSX-V and the requisite shareholder approval for the transfer of the all of the assets (the "Assets") related to the Company's Glen Dhu North Project to GDWE LP. The shareholder approval, obtained via written consent, included the approval of the majority of minority shareholders (i.e., excluding GAHC or its affiliates). Shear Wind also announced that, as previously agreed, GAHC had subscribed for \$21,968,890 in LP Units. Upon the completion of the Asset Transfer, Shear Wind owned 51% and GAHC owned 49% of the total issued and outstanding LP Units.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

2. CONTINUATION OF BUSINESS

The Company's ability to continue as a going concern depends on the continued support of shareholders and its ability to demonstrate that its wind development projects will generate enough wind energy to be economically viable and its ability to obtain financing to complete the research and development of projects.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles as applicable to going concern. While the financial statements have been prepared on the basis of going concern, several adverse conditions still exist to cast doubt on the assumptions, based on the fact that the Company has incurred significant losses over the past four fiscal years (\$1,715,951 in the current year) and has a working capital deficit of \$3,864,253 as at August 31, 2010.

If the going concern assumption was not appropriate for these financial statements, then adjustments would have been necessary to the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These consolidated financial statements are denominated in Canadian dollars.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Vindt Resources Inc. and Fitzpatrick Mountain Wind Energy Inc. as well as its 51% ownership position in Glen Dhu Wind Energy Inc. and 51% ownership position in Glen Dhu Wind Energy Limited Partnership. All inter-company transactions and balances have been eliminated upon consolidation, and the ownership of the other non-controlling interest holders of consolidated subsidiaries is reflected as non-controlling interest.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates. Significant areas requiring the use of management estimates relate to the determination of impairment of its long-lived assets, asset retirement obligations, deferred project development costs, amortization, future income tax valuation allowance and the determination of stock-based compensation.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and highly liquid short-term deposits with original maturities of 90 days or less.

Project Development Costs – Wind Power

All direct costs relating to wind power projects which meet generally accepted criteria for deferral are capitalized as incurred. These criteria include having a clearly defined process with identifiable associated costs, establishment of technical feasibility, an intention to process and sell the wind power to a clearly defined market, and adequate resources exist or are expected to be available to complete the project to commercial production.

Property, Plant and Equipment and Related Amortization

Office equipment is recorded at cost. Amortization is recorded on a straight-line basis over five years.

Computer equipment is recorded at cost. Amortization is recorded on a straight-line basis over three years.

Vehicles are recorded at cost. Amortization is recorded on a straight-line basis over three years.

Leasehold improvements are recorded at cost. Amortization is recorded on a straight-line basis over the five year term of the lease.

Wind turbine equipment is recorded at cost. Amortization is recorded on a straight-line basis over twenty years.

Stock-Based Transactions

The Company grants share options to executive officers, directors and certain consultants pursuant to a share option plan. In addition, from time to time in connection with short form offerings and private placements, the Company issues warrants to agents as commission for services. The compensation cost for options granted is determined based on the estimated fair value of the stock options at the time of the grant using the Black-Scholes option pricing model and is amortized over the vesting period with an offset to contributed surplus. Awards of warrants to agents are also accounted for using the fair value method and result in share issue costs and a credit to contributed surplus when the warrants are issued. When options or warrants are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited to share capital. When options or warrants are forfeited, the corresponding contributed surplus is credited to share capital.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share Issue Costs

Costs associated with the issuance of share capital are charged directly to share capital.

Asset Retirement Obligation

The fair value of the liability for retirement costs related to site reclamation and abandonment is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. At August 31, 2010, the Company has recorded a provision of \$38,855 for estimated asset retirement obligations related to the development of its wind generating projects (2009 - \$0).

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are determined based on differences between the carrying amount and tax basis of assets and liabilities and on unclaimed losses carried forward and are measured using substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

Flow-through Class A Common Shares

Qualifying expenditure deductions for income tax purposes related to wind generation development activities funded by flow-through common share arrangements are renounced to investors in accordance with income tax legislation. The future income tax liability is recognized, and share capital is reduced by the estimated tax benefits transferred on the date the Company files the prescribed form renouncing the tax credits associated with the flow-through expenditures, provided that there is reasonable assurance that the expenditures will be made.

Loss Per Common Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

Long-lived assets and intangibles are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, undiscounted future cash flows expected to result from the use of the asset and its disposition must be estimated and compared with the carrying values of the asset. Where the undiscounted future cash flows are less than the carrying amount of the asset, the asset is written down to its estimated fair value. During the year ended August 31, 2010, there was no impairment recorded (August 31, 2009 - \$nil).

Revenue Recognition

The Company recognizes electricity sales revenue at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system.

Non-Controlling Interests

The non-controlling interest in the Company reflect GAHC's 49% holding of GDWE LP and GDWE Inc. which are consolidated in these financial statements.

Non-controlling interest in subsidiaries is identified separately from the Company's. The interest of non-controlling shareholders is measured at the non-controlling interests' proportionate share of the subsidiaries identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. (*See Note 22 - Non-Controlling Interest*)

Leases

Leases are classified as capital or operating leases. A lease that transfers substantially the entire benefits and risks incident to ownership is classified as a capital lease. Obligations under capital lease are measured at the present value of minimum lease payments. Leases where the benefits and risks incident to ownership are not substantially transferred are classified as operating leases. Rental payments on operating leases are recognized on a straight-line basis over the term of the lease including free rent periods.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

The Company classifies its financial instruments into one of the following categories: held-for trading (assets and liabilities), available-for-sale (assets), loans and receivables, held-to maturity (assets) and other financial liabilities. All financial instruments are measured at fair value on initial recognition.

The Company has designated its cash and restricted cash as held-for-trading, which are measured at fair value. Accounts receivable and deposits are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and loans payable are classified as other liabilities, which are measured at amortized cost.

4. ADOPTION OF NEW ACCOUNTING POLICIES

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Sections are applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company has adopted the new standards for the current fiscal year beginning September 1, 2009. It establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The impact of the adoption of this standard is not considered material to the Company.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee (“EIC”) concluded that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable retrospectively without restatements of prior periods to all financial assets and liabilities measured at fair value in financial statements for periods ending on or after the date of the issue of the Abstract (January 20, 2009). Retrospective application with restatement of prior periods is permitted but not required. The application of incorporating credit risk into the fair value results in entities re-measuring those financial assets and financial liabilities which are measured at fair value as at the beginning of the period of adoption with any resulting difference recorded in retained earnings except when derivatives in a fair value hedging relationship are accounted for by the short cut method (difference is adjusted to the hedged item) and for derivatives in cash flow hedging relationships (differences are recorded in accumulated other comprehensive income). The impact of the adoption of this standard is not considered material to the Company.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

4. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

Financial Statement Concepts

Effective for financial statements relating to fiscal years beginning on or after October 1, 2008, CICA Handbook Section 1000 “Financial Statement Concepts” was revised to remove material that permitted the recognition of assets that might not otherwise meet the definition of an asset and to add guidance from the International Accounting Standards Board’s (“IASB”) “Framework for the Preparation and Presentation of Financial Statements” that helps distinguish assets from expenses. The impact of the adoption of this standard is not considered material to the Company.

5. FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (“AcSB”) recently confirmed the convergence of Canadian GAAP with IFRS for publicly-listed companies to use IFRS, effective for the Company for interim and annual financial statements beginning on September 1, 2011. The change date will require the restatement for comparative purposes of amounts reported by the Company for interim periods and for the year ended August 31, 2011.

Business Combinations

In January 2009, the CICA issued Section 1582, “Business Combinations”, replacing Section 1581 of the same name. The new section will apply prospectively to business combinations for which the acquisition date is on or after September 1, 2011. Section 1582, which provides the Canadian equivalent to International Financial Reporting Standard 3, Business Combinations (January 2008), establishes standards for the accounting for a business combination. Section 1582 requires business acquisitions (including non-controlling interests and contingent consideration) to be measured at fair value on the acquisition date, generally requires acquisition-related costs to be expensed, requires gains from bargain purchases to be recorded in net earnings, and expands the definition of a business. As Section 1582 will apply only to future business combinations, it will not have a significant effect on the Company’s financial statements prior to such acquisitions.

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests”, which together replace the existing Section 1600, “Consolidated Financial Statements”, and provide the Canadian equivalent to International Accounting Standard 27, “Consolidated and Separate Financial Statements (January 2008)”. The new sections will be applicable to the Company for the year ending August 31, 2012. Section 1601 establishes standards for the preparation of consolidated

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

5. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

financial statements, and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is assessing the impact, if any, of the adoption of these new sections on its financial statements.

6. ACCOUNTS RECEIVABLE

	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Net harmonized sales tax receivable	\$ 4,084,584	\$ 34,507
Other receivables	98,960	24,686
	<u>\$ 4,183,544</u>	<u>\$ 59,193</u>

7. PREPAIDS AND DEPOSITS

Prepaid expenses and deposits are comprised of the following:

	<u>August 31, 2010</u>	<u>August 31, 2009</u>
NSPI PSD	\$ 1,552,500	\$ 500,000
NSPI PSD writedown provision	-	(500,000)
NSPI GIA	4,696,375	-
Enercon TSA	24,206,894	-
Interconnection and system impact studies	1,180,000	280,000
Prepaid expenses	1,294,835	66,676
Closing balance	\$ 32,930,604	\$ 346,676

At August 31, 2010, the Company had a balance in Prepaids and Deposits of \$32,930,604 (August 31, 2009 - \$346,676). At August 31, 2010, the Company had made deposits in the amount of \$24,206,894 (August 31, 2009 - \$nil) for milestone payments as required under the terms of its Turbine Supply Agreement (“TSA”) with Enercon Canada Inc. At August 31, 2010, the Company provided to Nova Scotia Power Inc. (“NSPI”), as a condition of its Power Purchase Agreement (“PPA”), a Performance Security Deposit (“PSD”) in the form of two letters of credit in the amount of \$500,000 and \$1,000,000. The Company has also received

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

7. PREPAIDS AND DEPOSITS (continued)

approval from NSPI to amend the total nameplate capacity of the PPA to 62.1 megawatts (“MW”) and as a result the PSD’s were increased and the total net value of these two PSD’s at August 31, 2010 was \$1,552,500 (August 31, 2009 - \$nil on a net basis). These letters of credit are secured by redeemable short term investments renewing annually for a three year term and bearing interest at an annual compound equivalent rate of 1.0% per year. A write-down was also recorded in the amount of \$500,000 during the year ended August 31, 2009. This write-down was in relation to the full amount of the PSD held by NSPI that the Company forfeited on November 30, 2009 as a result of not having the first 20 megawatts of generation at Glen Dhu, Nova Scotia in service by November 30, 2009. This \$500,000 forfeiture has been replaced in the current period in accordance with the Company’s PPA with NSPI. During the year the Company also made milestone deposits with respect to its Generation Interconnection Agreement (“GIA”) with NSPI in the total amount of \$4,696,375. Subsequent to these payments being made, the Company has received confirmation that a significant portion of these costs will be refundable. As the timing and amount of the refund has not currently been determined, the Company has not reclassified these deposits to Accounts Receivable during the year ended August 31, 2010.

During the year ended August 31, 2010, the Company also had deposits in the amount of \$1,180,000 (August 31, 2009 - \$280,000) for interconnection and system impact studies. These deposits include \$990,000 (*see Note 13 – Promissory Note Payable*) and \$50,000 for the future development of the Company’s Willow Ridge project in Alberta, \$70,000 for current feasibility, system impact and facilities studies for the Company’s Glen Dhu North project as well as \$70,000 for future feasibility, system impact and facilities studies for the Company’s Glen Dhu South project. In addition, the Company had prepaid expenses in the amount of \$1,294,835 (August 31, 2009 - \$66,676) related to land leases, insurance, rent, turbine maintenance and flight passes.

8. PROJECT DEVELOPMENT COSTS

Project development costs are comprised of the following:

	August 31, 2010	August 31, 2009
Opening balance	\$ 5,030,775	\$ 5,098,591
Additions	7,669,025	848,225
Transfers (note 9)	(8,702,180)	-
Disposals	-	(916,041)
Write-downs	(1,821)	-
Closing balance	\$ 3,995,799	\$ 5,030,775

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

8. PROJECT DEVELOPMENT COSTS (continued)

During the year ended August 31, 2010, the Company made project development expenditures of \$7,669,025 (August 31, 2009 - \$848,225). In addition, costs of \$8,702,180 were transferred to construction in progress with respect to the Company's Glen Dhu project in Nova Scotia. The Company also recorded a write-down of \$1,821 for preliminary costs incurred on two projects that are not going to proceed. There was an increase in Accounts Payable relative to project development expenditures of \$35,529 (August 31, 2009 - \$303,477).

During the year ended August 31, 2009, the Company sold its Glen Ridge project for total proceeds of \$2,137,500 in an arm's length transaction and had a net gain of \$1,221,459. Disposals of \$916,041 relate to costs incurred on the Company's Glen Ridge asset prior to the sale of this asset.

9. PROPERTY, PLANT AND EQUIPMENT

Costs incurred relating to Property, Plant and Equipment are as follows:

	September 1, 2009 Net Book Value	Additions	Transfers	Amortization	August 31, 2010 Net Book Value
Turbines under capital lease	\$ 1,383,590	-	-	\$ (76,585)	\$ 1,307,005
Turbine related infrastructure	2,229,743	-	-	(123,415)	2,106,328
Office equipment	5,622	\$ 2,724	-	(2,268)	6,078
Computer equipment	1,114	1,319	-	(1,187)	1,246
Vehicles	1,377	12,789	-	(3,402)	10,764
Leaseholds	9,798	-	-	(2,867)	6,931
Construction in progress	-	6,344,023	\$ 8,702,180	-	15,046,203
Total	\$ 3,631,244	\$ 6,360,855	\$ 8,702,180	\$ (209,724)	\$ 18,484,555

During the year ended August 31, 2010, the Company transferred \$8,702,180 from project development costs to construction in progress. All costs in construction in progress relate to the Company's Glen Dhu project in Nova Scotia. The Company recorded amortization expense in the amount of \$209,724 during the year ended August 31, 2010 (August 31, 2009 - \$214,105). There was an increase in Accounts Payable relative to property, plant and equipment expenditures of \$7,783,240 (August 31, 2009 - \$nil) and a provision for asset retirement obligations estimated at \$38,855 (August 31, 2009 - \$nil).

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	September 1, 2008 Net Book Value	Amortization	August 31, 2009 Net Book Value
Turbines under capital lease	\$ 1,459,590	\$ (76,000)	\$ 1,383,590
Turbine related infrastructure	2,353,743	(124,000)	2,229,743
Office equipment	7,751	(2,129)	5,622
Computer equipment	8,385	(7,271)	1,114
Vehicles	3,214	(1,837)	1,377
Leaseholds	12,666	(2,868)	9,798
Total	\$ 3,845,349	\$ (214,105)	\$ 3,631,244

There were no additions to property, plant and equipment during the year ended August 31, 2009. The Company recorded amortization expense in the amount of \$214,105 during the year ended August 31, 2009 (August 31, 2008 - \$197,847).

10. DEFERRED CHARGES

During the year ended August 31, 2010, the Company reclassified costs related to the private placement which were incurred prior to the year ended August 31, 2009. The Company had reasonable certainty that the transaction would close and recorded these costs as deferred charges at August 31, 2009 pending completion of the transaction. Upon closing, these share issue costs were presented as a reduction to share capital.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

11. SHAREHOLDER LOANS

	August 31, 2010	August 31, 2009
Opening balance	\$ -	\$ 1,024,657
Accrued interest	-	36,081
Repayment	-	(1,060,738)
Closing balance	\$ -	\$ -

The Company had two loans from a shareholder and a shareholder and director which were amended on September 1, 2008. The principal balance of each was \$512,400. The loans had an interest rate of 10% per year and matured on December 31, 2008. The Company repaid the loans and accrued interest of \$36,081 on January 7, 2009.

12. CONVERTIBLE DEBENTURE

	August 31, 2010	August 31, 2009
Opening balance	\$ -	\$ 768,493
Accrued interest	-	1,028
Repayment	-	(769,521)
Closing balance	\$ -	\$ -

The Company issued a 5% secured convertible debenture to a shareholder in the amount of \$750,000 in the year ended August 31, 2007 which matured on September 1, 2008.

13. PROMISSORY NOTE PAYABLE

On August 27, 2010, the Company announced that its wholly-owned subsidiary, Vindt Resources Inc. ("Vindt") was moving forward in the development of its 100 megawatt Willow Ridge wind project in Alberta. Vindt was due to meet a security deposit requirement of \$990,000 plus GST, by August 31, 2010 to AltaLink for the Alberta Electric System Operator's ("AESO")' Connection Process Stage 3 costs and execute the required Construction Commitment Agreement. GAHC, which holds approximately 62% of the common shares of Shear Wind ("Common Shares") on a fully-diluted basis, has agreed, and has received regulatory approval, to provide the necessary bridge financing to Vindt to make the required payment to AltaLink. As a condition of the bridge financing, Vindt has issued an unsecured promissory note ("Note") to GAHC, guaranteed by Shear Wind, in the principal amount of \$1,050,000 for a 10 month term bearing interest at 12% per annum. The amounts due and owing under the Note at the maturity date may be converted, in whole or in part, at the option of GAHC into Common Shares at a conversion price of \$0.20.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

14. OBLIGATION UNDER CAPITAL LEASE

The Company's wholly owned subsidiary Fitzpatrick Mountain Wind Energy Inc. sold its two turbines to a commercial bank in June 2008 for \$1,600,000 and entered into a capital lease for a period of five years. At the end of the lease term Fitzpatrick Mountain Wind Energy Inc. may: (a) exercise an option to purchase the equipment (b) cause a third party to purchase the equipment or (c) renew the lease for another term. Fitzpatrick Mountain Wind Energy Inc. has provided security to the commercial bank by the assignment of its Power Purchase Agreement with Nova Scotia Power, the assignment of its maintenance agreement with the turbine manufacturer and the assignment of its land leases. The lease had an outstanding balance of \$1,321,170 as of August 31, 2010. This site is currently operational with positive cash flow. The lease contract is repayable in monthly installments of \$16,887. The payments include principal plus a floating interest rate which is based on the Canadian Deposit Offering Rate ("CDOR") plus a spread of 2.44%. Interest is calculated monthly and adjusted quarterly. The lease has a purchase option of \$944,000 on June 30, 2013.

	August 31, 2010	August 31, 2009
Total amount of future minimum lease payments	\$ 1,501,278	\$ 1,703,924
Interest included in installments	(180,108)	(257,912)
Obligation under capital lease	\$ 1,321,170	\$ 1,446,012
Current portion	132,015	124,842
Long-term portion	\$ 1,189,155	\$ 1,321,170

Future minimum lease payments under the capital lease (including the purchase option) in each of the next three years are as follows:

September 1, 2010 – August 31, 2011	202,646
September 1, 2011 – August 31, 2012	202,646
September 1, 2012 – August 31, 2013	<u>1,095,986</u>
	\$ 1,501,278

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

15. INCOME TAXES

The provision for income taxes differs from the results which would be obtained by applying the Company's combined Federal and Provincial statutory tax rate of 34.33% (2009 – 35.17%) to the loss before income taxes. This difference results from the following items:

	August 31, 2010	Restated August 31, 2009
Income tax recovery at combined statutory rate of 34.33%	\$ (504,451)	\$ (287,500)
Increase (decrease) resulting from:		
Stock-based compensation	-	144,600
Amounts not deductible for tax and other	13,610	322,928
Rate change	30,704	(36,300)
Share issue costs	-	(20,000)
Valuation allowance	562,537	-
Income tax expense	\$ 102,400	\$ 123,728

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

15. INCOME TAXES (continued)

The tax effect of items which give rise to future income tax assets and liabilities at August 31, 2010 are as follows:

	August 31, 2010	Restated August 31, 2009
Future income tax asset – long term		
Tax loss carry forwards	\$ 1,564,841	\$ 680,702
Financing costs and other	1,449,760	62,100
Valuation allowance	(991,410)	-
	<u>2,023,191</u>	<u>742,802</u>
Future income tax liabilities – long term		
Project development costs	(883,446)	(1,459,693)
Property, plant and equipment	(1,139,745)	(393,600)
	<u>(2,023,191)</u>	<u>(1,853,293)</u>
Future income tax liability	\$ -	\$ (1,110,491)

The financial statements for the year ended August 31, 2009 have been restated to adjust for future income tax liabilities as a result of the requirement to incur Canadian renewable and conservation expenses in fiscal 2010 related to the issuance of flow-through shares. This error resulted in a restatement to increase the future income tax liability by \$310,791, with a corresponding increase to the future income tax expense. The resulting restatement caused the August, 31 2009 future income tax liability to increase from \$799,700 to \$1,110,491 and the future income tax recovery of \$196,245 to move to an expense of \$114,546. This resulted in the closing net loss for the year ended August, 31, 2009 to increase from \$628,184 to \$938,975 and basic and diluted loss per share to increase from \$0.013 to \$0.019.

Tax Losses

The Company has non-capital losses for income tax purposes which can be used to reduce taxable income in future years, expiring as follows:

2025	\$ 10,878
2026	24,803
2027	634,917
2028	1,522,826
2029	873,495
2030	1,981,775
	<u>\$ 5,048,694</u>

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

16. SHARE CAPITAL

Authorized:

<u>Class of shares</u>	<u>Number of shares authorized</u>
Class A - voting common shares	Unlimited
Preferred Shares	Unlimited

Issued and outstanding:	Class A Common Shares	Amount (\$)
Balance, August 31, 2008	45,495,621	8,106,782
Issued on exercise of options	150,000	45,000
Fair value transfer on exercise of options	-	36,261
Fair value transfer on expiry of warrants	-	54,153
Private Placement:		
Flow-through shares issued for cash	3,452,128	1,622,500
Shares issued for cash	85,106	40,000
Tax benefits renounced to shareholders	-	(502,975)
Share issue costs	-	(120,927)
Fair value of warrants issued	-	(380,785)
Balance, August 31, 2009	49,182,855	8,900,009
Private Placement:		
Shares issued for cash	96,439,595	26,925,935
Share issue costs		(2,746,449)
Fair value of warrants issued	-	(885,446)
Issued on exercise of options (note 17)	266,666	40,000
Fair value transfer on exercise of options	-	16,000
Balance, August 31, 2010	145,889,116	32,250,049

Share capital transactions during the year ended August 31, 2010.

On November 3, 2009, the Company closed a private placement and subsequently received approval from the TSX Venture Exchange on November 4, 2009. The Private Placement was with GAHC, an indirectly owned subsidiary of Inveravante. Proceeds were in the amount of \$26,925,935 based on the issuance of

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

16. SHARE CAPITAL (continued)

96,439,595 common shares of Shear Wind to GAHC at a price of \$0.2792 per common share. Share issue costs were \$2,746,449. GAHC now holds approximately 62% of the common shares of Shear Wind, on a fully-diluted basis. All securities of Shear Wind issued in connection with the Private Placement are subject to a hold period of four months plus one day from the date of issue pursuant to applicable securities laws in Canada. Concurrent with the closing of the Private Placement, Shear Wind paid STS Capital Partners International Inc. (“STS”) a finder’s fee of \$1,750,000 and issued 4,500,000 warrants (the “STS Warrants”) with each STS Warrant exercisable for one newly issued common share of Shear Wind at the Subscription Price per share of \$0.2792 for two years following the closing. The fair value of warrants issued was calculated at \$885,446 using the Black-Scholes pricing model under the following assumptions: volatility of 151 %, risk-free interest rate of 1.38 % and a term of two years. STS is at arms’ length to Shear Wind and GAHC. Additionally, a director of the Company exercised 133,333 options at \$0.15 and a shareholder of the Company exercised 133,333 options at \$0.15 for total proceeds of \$40,000 and the fair value transfer on the exercise of these 266,666 options was \$16,000.

17. COMMON SHARE PURCHASE WARRANTS

The following table reflects the continuity of the number of warrants exercised and outstanding:

Expiry Date	Exercise Price (\$)	September 1, 2009 Opening Balance	Issued	Expired	August 31, 2010 Closing Balance	August 31, 2010 Closing Balance \$
Warrants:						
September 30, 2010	0.5500	1,768,618	-	-	1,768,618	\$ 380,785
November 3, 2011	0.2792	-	4,500,000	-	4,500,000	885,446
Total		1,768,618	4,500,000	-	6,268,618	\$ 1,266,231

Expiry Date	Exercise Price (\$)	September 1, 2008 Opening Balance	Issued	Expired	August 31, 2009 Closing Balance	August 31, 2009 Closing Balance \$
Warrants:						
June 20, 2009	0.2500	250,713	-	250,713	-	-
September 30, 2010	0.5500	-	1,768,618	-	1,768,618	\$ 380,785
Total		250,713	1,768,618	250,713	1,768,618	\$ 380,785

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

17. COMMON SHARE PURCHASE WARRANTS (continued)

The Company closed a private placement offering on November 3, 2009. The offering included 4,500,000 warrants exercisable for one newly issued common share of Shear Wind at the subscription price per share of \$0.2792 for two years following the closing.

18. STOCK OPTION PLAN

The Company has a stock option plan (the “Plan”) which is restricted to directors, officers, key employees and consultants of the Company. The number of common shares subject to options granted under the Plan (and under all other management options and employee stock purchase plans) is limited to 10 % of the issued and outstanding Class A common shares of the Company and, with respect to any one optionee, to 5% of the number of issued and outstanding Class A common shares of the Company at the date of the grant of the option. Options expire after a five year period following the date of grant. Notwithstanding the length of grant, the time or times at which Options are exercisable and vesting dates shall be the dates so fixed by the Board of Directors of the Company or such other committee of directors as the Board of Directors may designate at the time of the award of the Options, however, these dates are subject to provisions which provide for automatic vesting of all Options upon the occurrence of certain specified events. In any event Options issued to Consultants performing Investor Relations Activities must vest in stages over 12 months with no more than one quarter of such Options vesting in any three month period.

The following table reflects the continuity of stock options granted under the Plan.

	Number of Stock Options		Weighted Average Exercise Price (\$)	
	August 31, 2010	August 31, 2009	August 31, 2010	August 31, 2009
Opening balance	4,186,666	3,546,666	0.37	0.36
Granted	-	940,000	-	0.40
Exercised	(266,666)	(150,000)	0.15	0.30
Expired	(530,000)	(150,000)	-	0.30
Ending balance	3,390,000	4,186,666	0.33	0.37

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

18. STOCK OPTION PLAN (continued)

As at August 31, 2010, there were 3,390,000 stock options outstanding under the Plan (August 31, 2009 - 4,186,666). The following table reflects the weighted average exercise price as at August 31, 2010:

Expiry Date	Weighted Average Exercise Price (\$)	Options Outstanding	Options Outstanding and Exercisable
June 26, 2011	0.30	1,250,000	1,250,000
June 21, 2011	0.30	150,000	150,000
April 12, 2012	0.30	1,000,000	1,000,000
June 19, 2012	0.29	50,000	50,000
September 26, 2013	0.40	940,000	940,000
Total	0.33	3,390,000	3,390,000

19. CONTRIBUTED SURPLUS

The following table reflects the continuity of contributed surplus relating to stock options:

Contributed Surplus	August 31, 2010	August 31, 2009
Opening balance	\$ 1,131,763	\$ 756,697
Stock-based compensation expense	81,406	411,327
Fair value of options exercised	(16,000)	(36,261)
Ending balance	\$ 1,197,169	\$ 1,131,763

Options are expensed in the statement of operations, comprehensive loss and deficit as they vest and accordingly \$81,406 (August 31, 2009 - \$411,327) has been recorded as stock-based compensation and credited to contributed surplus. A director and a shareholder of the Company exercised 266,666 options at \$0.15 and the fair value transfer on the exercise of these options was \$16,000.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

20. WARRANTS

The following table reflects the continuity of warrants issued:

Warrants	August 31, 2010	August 31, 2009
Opening balance	\$ 380,785	\$ 54,153
Fair value of warrants issued for private placement	885,446	380,785
Fair value of warrants expired	-	(54,153)
Ending balance	\$ 1,266,231	\$ 380,785

The Company closed a private placement offering on November 3, 2009. The offering included 4,500,000 warrants exercisable for one newly issued common share of Shear Wind at the subscription price per share for two years following the closing. The fair value of warrants issued was calculated at \$885,446 using the Black-Scholes pricing model under the following assumptions: volatility of 151 %, risk-free interest rate of 1.38 % and a term of two years.

21. BASIC AND DILUTED LOSS PER SHARE

The basic loss per share is computed by dividing the net loss for the year by the weighted average number of shares outstanding during the year. The effect of the options and warrants on the net loss is anti-dilutive and therefore, diluted loss per share is equal to basic loss per share.

	For the year ended August 31, 2010	Restated For the year ended August 31, 2009
Numerator:		
Net loss	\$ (1,715,951)	\$ (938,975)
Denominator:		
Weighted average number of shares	128,784,457	49,182,855

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

22. NON-CONTROLLING INTEREST

	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Balance at beginning of year	\$ -	\$ -
Share of loss for the year	144,276	-
Non-controlling interests arising on the acquisition of GDWE LP	21,824,703	-
Non-controlling interests arising on the acquisition of GDWE Inc.	<u>(40)</u>	<u>-</u>
Balance at end of year	<u>\$ 21,968,939</u>	<u>\$ -</u>

23. RELATED PARTY TRANSACTIONS

Transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and which is similar to that negotiable with third parties. Transactions not in the normal course of operations, supported by independent evidence, are recorded at fair market value.

The Company was involved in the following related party transactions during the year ended August 31, 2010:

- A company owned 100% by a director of the Company charged the Company \$nil for consulting fees (August 31, 2009 - \$35,000).
- A company owned 100% by a former director of the Company charged the Company \$2,654 for legal fees (August 31, 2009 - \$60,380).
- A company owned 100% by a shareholder of the Company charged the Company \$96,000 for consulting fees (August 31, 2009 - \$96,000).
- A shareholder of the Company provided a loan to the Company for \$1,050,000 (August 31, 2009 - \$nil). *(See Note 13 – Promissory Note Payable)*
- A director of the Company exercised 133,333 options at \$0.15 and the fair value transfer on the exercise of these options was \$8,000 (August 31, 2009 - \$nil).
- A shareholder of the Company exercised 133,333 options at \$0.15 and the fair value transfer on the exercise of these options was \$8,000 (August 31, 2009 - \$nil).

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

23. RELATED PARTY TRANSACTIONS (continued)

The Company was involved in the following related party transactions during the year ended August 31, 2009:

- A shareholder was repaid during the year for a convertible debenture provided during the year ended August 31, 2008. Repayment was for the principal balance of \$750,000 plus accrued interest of \$19,521 and was made on September 10, 2008 (August 31, 2008 - \$768,493).
- A director purchased 900,000 units of the private placement offering which closed on September 29, 2008 for total proceeds of \$423,000 (August 31, 2008 - \$0).
- A shareholder and director was repaid during the year for a loan provided during the year ended August 31, 2008 and amended on September 1, 2008. Repayment was for the principal balance of \$512,400 plus accrued interest of \$30,369 and was made on January 7, 2009 (August 31, 2008 - \$512,328).
- A shareholder was repaid during the year for a loan provided during the year ended August 31, 2008 and amended on September 1, 2008. Repayment was for the principal balance of \$512,400 plus accrued interest of \$30,369 and was made on January 7, 2009 (August 31, 2008 - \$512,329).

24. COMMITMENTS AND GUARANTEES

As at August 31, 2010, the Company was engaged in the following commitments and guarantees:

- The Company is contractually obligated, through a 1.6 megawatt PPA with NSPI to provide the net electrical output of the Fitzpatrick Mountain wind generation site for the next 9.5 years. This site is currently operational with positive cash flow.
- The Company is contractually obligated, through a 62.1 megawatt PPA with NSPI to provide the net electrical output of the Glen Dhu - North wind generation site. The agreement is for a period of 20 years from the Commercial Operation Date ("COD"). As part of the agreement the Company has posted a \$1,552,500 performance security deposit. *(See Note 7 – Prepays and Deposits)*
- The Company has secured office premises through lease until February, 2013. Annual rent, including operating costs, is estimated at \$36,000.
- The Company has a turbine lease contract in the amount of \$1,600,000 repayable in monthly installments of \$16,887 including an effective interest rate of 5.6% per annum with a purchase option of \$944,000 on June 30, 2013. Principal balance outstanding as at August 31, 2010 was \$1,353,038. *(See Note 14 – Obligation under Capital Lease)*
- The Company signed a 20 year lease agreement with a renewal option for land required for its Glen Dhu, Nova Scotia project. As a condition of the lease agreement the Company is obligated to create a de-commissioning fund within five years of the commencement date.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

24. COMMITMENTS AND GUARANTEES (continued)

- The Company has signed a turbine supply agreement for 27 Enercon E-82 wind turbine generators and a 12 year renewable turbine maintenance agreement for the Company's Glen Dhu, Nova Scotia project. Delivery and commissioning will be in late 2010 and early 2011.
- The Company has engaged Mortensen Canada Corporation as general contractor for the Company's Glen Dhu, Nova Scotia project for construction during 2010 and early 2011.
- A wholly owned subsidiary of the Company has issued a Note to GAHC, guaranteed by Shear Wind, in the principal amount of \$1,050,000 for a 10 month term bearing interest at 12% per annum. The amounts due and owing under the Note at the maturity date may be converted, in whole or in part, at the option of GAHC into Common Shares at a conversion price of \$0.20.

25. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its wind projects and to maintain a flexible capital structure for its projects for the benefit of its shareholders. As the Company is in the development stage, its principal source of funds is from the issuance of common shares. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents, receivables and investment balances. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

	August 31, 2010	August 31, 2009
Total loans including current portion	\$ 2,371,170	\$ 1,446,012
Shareholders' equity	28,349,756	5,764,815
Total debt and equity	30,720,926	7,210,827
Debt to equity ratio	0.08	.25

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

26. FINANCIAL INSTRUMENTS

Financial Instruments and Risk Management

The fair value of the Company's financial assets and financial liabilities: cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity. These financial assets and financial liabilities are exposed to various risk factors that may affect the fair value presentation or the amount ultimately received or paid on settlement of its assets and liabilities. The Company manages these risks through prudent investment and business decisions. The Company does not utilize derivative financial instruments for trading or speculative purposes.

A summary of the major financial instrument risks and the Company's approach to the management of these risks are highlighted below:

Market value risk

The Company manages market risk with respect to any short-term investments it holds by investing in guaranteed investment certificates with a Canadian chartered bank. The Company has no investments as at August 31, 2010 and had no investments as at August 31, 2009.

Foreign currency risk

The Company has exposure to foreign currency fluctuations within its turbine supply agreement for the Glen Dhu project which was executed on May 28, 2010. The Company plans to hedge this exposure in the future and will consider entering into derivative contracts to minimize potential exposure to these fluctuations. As at August 31, 2010, the Company had contractual obligations under its Turbine Supply Agreement for payments of 21,154,620 Euro and had a realized loss on foreign exchange transactions of \$149,787 (August 31, 2009 - \$nil).

Interest rate risk

The Company is exposed to interest rate fluctuations as its capital lease has a floating interest rate. As at August 31, 2010, the Company has assessed that a one percentage point increase in interest rates would have caused an annual increase in net loss of approximately \$16,000 and a one percentage point decrease in interest rates would have caused a annual decrease in net loss of approximately \$16,000.

Liquidity risk

The Company may be unable to sell its entire interest in an asset quickly without having an adverse effect on the fair value of the asset. The Company continuously monitors its forecast and actual cash flows to assess and further reduce liquidity risk.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

26. FINANCIAL INSTRUMENTS (continued)

Credit risk

The Company has minimal credit risk with respect to accounts receivable balances owing. Credit risk is also managed with respect to any short-term investments it holds by investing in guaranteed investment certificates with a Canadian chartered bank.

27. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

	August 31, 2010	August 31, 2009
Interest paid	\$ 48,605	\$ 94,172

28. SUBSEQUENT EVENTS

On October 14, 2010, the Company announced that GDWE LP signed a credit agreement in connection with the debt financing (the "Debt Financing") for its Glen Dhu North Project. The Glen Dhu North Project is presently on track to begin commissioning turbines in December 2010 and to be fully operational by March, 2011. The Glen Dhu Project will consist of 27 ENERCON E-82 2.3 MW wind turbines. The total amount of the Debt Financing is approximately \$114,522,510, and the closing of the Debt Financing was subject to meeting certain conditions precedent. The Debt Financing includes approximately \$107,000,000 in construction financing for the Glen Dhu Project, which converts to a term loan with an 18 year term, subject to the provisions of the credit agreement. This loan has a floating interest rate based on the CDOR rate, and an interest rate swap for hedging purposes. The lenders under the Debt Financing are the Spanish Bank Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") and Instituto de Crédito Oficial ("ICO"), a state-owned corporate entity attached to the Ministry of Economy and Finance of the Spanish Government.

In addition, as part of the Debt Financing, BBVA and ICO are providing a \$1,552,500 letter of credit for security pursuant to Glen Dhu LP's power purchase agreement with Nova Scotia Power Inc. BBVA is also providing a letter of credit in the amount of approximately \$5,970,010 for debt reserve. The credit facilities forming the Debt Financing will be secured by a first priority lien on substantially all of the assets of GDWE LP, including all of the limited partnership units owned by the Company and GAHC in GDWE LP and all of the outstanding shares owned by the Company and GAHC in Glen Dhu Wind Energy Inc., the general partner of GDWE LP. In addition to the Debt Financing, Inveravante will be providing a \$2,100,000

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2010 and 2009

28. SUBSEQUENT EVENTS (continued)

subordinated loan (the "Subordinated Loan") to GDWE LP. The Subordinated Loan will be unsecured, postponed and subordinate to the Debt Financing, subject to certain permitted payments that will be paid in priority to any distributions by GDWE LP to Shear Wind or GAHC as limited partners, as set out in a Subordinated Loan agreement. The Company has agreed with Inveravante to use reasonable efforts to put forward to its shareholders a resolution, which, if approved by the shareholders, would allow Shear Wind to become a party to the contingent equity commitment agreement among Inveravante, BBVA and ICO for the Glen Dhu North Project.

On October 19, 2010, the Company announced that further to its announcement on October 14, 2010, that GDWE LP had met all conditions precedent pursuant to the credit agreement executed on October 14, 2010.