Shear Wind Inc.

Consolidated Financial Statements

(Unaudited)

For the six months ended

February 28, 2011 and 2010

Shear Wind Inc.

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February 28, 2011

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

	February 28, 2011	August 31, 2010
	$	$
ASSETS		
CURRENT		
Cash and cash equivalents	8,622,155	1,060,573
Accounts receivable **(note 5)**	4,443,629	4,183,544
	13,065,784	5,244,117
Interest rate swap asset **(note 22)**	1,141,000	-
Prepaids and deposits **(note 6)**	98,884,328	32,930,604
Project development costs **(note 7)**	4,382,861	3,995,799
Property, plant and equipment **(note 8)**	38,052,592	18,484,555
	155,526,565	60,655,075
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	25,886,116	7,926,355
Subordinated shareholder loan **(note 9)**	1,956,646	-
Promissory note payable **(note 10)**	-	1,050,000
Current portion of long-term debt **(note 11)**	2,239,200	-
Current portion of capital lease **(note 12)**	135,755	132,015
	30,217,717	9,108,370
Asset retirement obligations	301,045	38,855
Long-term shareholder loan **(note 9)**	2,942,113	-
Long-term debt **(note 11)**	69,760,800	-
Long-term portion of capital lease **(note 12)**	1,120,330	1,189,155
	104,342,005	10,336,380
NON-CONTROLLING INTEREST		
Non-controlling interest **(note 18)**	22,490,927	21,824,663
SHAREHOLDERS' EQUITY		
Share capital **(note 13)**	32,593,801	32,250,049
Contributed surplus **(note 16)**	1,510,812	1,197,169
Warrants **(note 14)**	885,446	1,266,231
Deficit	(6,296,427)	(6,219,417)
	28,693,632	28,494,032
	155,526,565	60,655,075

NATURE OF OPERATIONS **(note 1)**
CONTINUATION OF BUSINESS **(note 2)**
COMMITMENTS AND GUARANTEES **(note 20)**

"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 3 months ended February 28, 2011	For the 3 months ended February 28, 2010	**For the 6 months ended February 28, 2011**	For the 6 months ended February 28, 2010
	$	$	**$**	$
REVENUE				
Electricity sales	**65,004**	69,443	**151,375**	149,244
Interest income	**172,736**	38,630	**223,247**	43,476
	237,740	108,073	**374,622**	192,720
EXPENSES				
Salaries and benefits	**165,806**	124,483	**297,181**	322,409
General and administrative	**123,704**	124,449	**214,690**	255,355
Consulting fees **(note 19)**	**24,000**	24,000	**48,000**	48,000
Professional fees	**153,280**	29,345	**191,707**	75,168
Amortization of property, plant and equipment **(note 8)**	**52,621**	51,989	**105,182**	104,811
	519,411	354,266	**856,760**	805,743
OTHER				
Interest expense	**56,468**	14,051	**66,787**	25,391
Accretion expense	**4,744**	-	**15,328**	-
Loss (gain) on foreign exchange **(note 22)**	**409,528**	-	**(50,248)**	-
Unrealized gain on interest rate swap **(note 22)**	**(1,141,000)**	-	**(1,141,000)**	-
Other	**8,053**	(3,020)	**9,298**	(26)
	(662,207)	11,031	**(1,099,835)**	25,365
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	**380,536**	(257,224)	**617,697**	(638,388)
Current income tax expense	**(18,843)**	(17,681)	**(28,443)**	(17,681)
Future income tax recovery	**-**	68,416	**-**	92,297
	(18,843)	50,735	**(28,443)**	74,616
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	**361,693**	(206,489)	**589,254**	(563,772)
Non-controlling interest **(note 18)**	**(422,527)**	-	**(666,264)**	-
NET LOSS AND COMPREHENSIVE LOSS	**(60,834)**	(206,489)	**(77,010)**	(563,772)
Deficit, beginning of period	**(6,235,593)**	(4,694,234)	**(6,219,417)**	(4,336,951)
Deficit, end of period	**(6,296,427)**	(4,900,723)	**(6,296,427)**	(4,900,723)
Basic loss per share (note 17)	**(0.0004)**	(0.001)	**(0.0005)**	(0.004)
Diluted loss per share (note 17)	**(0.0004)**	(0.001)	**(0.0005)**	(0.004)

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS	**For the 3 months ended February 28, 2011**	For the 3 months ended February 28, 2010	**For the 6 months ended February 28, 2011**	For the 6 months ended February 28, 2010
Cash (used in) provided by:	**$**	$	**$**	$
OPERATING ACTIVITIES				
Net loss and comprehensive loss	**(60,833)**	(206,489)	**(77,010)**	(563,772)
Non-controlling interest **(note 18)**	**422,526**	-	**666,264**	-
Adjustments for items not affecting cash:				
Amortization of property, plant and equipment	**52,621**	51,989	**105,182**	104,811
Unrealized gain on interest rate swap **(note 22)**	**(1,141,000)**	-	**(1,141,000)**	-
Accrued interest expense (income)	**56,713**	(34,554)	**56,713**	(39,400)
Accretion expense	**4,744**	-	**15,328**	-
Future income tax recovery	**-**	(68,416)	**-**	(92,297)
Non-cash settlement of interest	**(11,233)**	-	**(11,233)**	-
Stock-based compensation	**28,740**	-	**28,740**	81,406
	(647,722)	(257,470)	**(357,016)**	(509,252)
Changes in non-cash working capital balances				
Accounts receivable	**(338,741)**	(770,668)	**2,419,631**	(1,043,129)
Prepaid expenses and deposits	**(1,441,018)**	330,325	**301,973**	(676,578)
Accounts payable and accrued liabilities	**1,401,014**	(79,867)	**1,472,045**	(418,055)
	(1,026,467)	(777,680)	**3,836,633**	(2,647,014)
FINANCING ACTIVITIES				
Proceeds from issuance of common shares	**-**	20,000	**-**	26,945,935
Share issue costs	**-**	(3,775)	**-**	(3,793,161)
Proceeds from shareholder loan **(note 9)**	**2,973,534**	-	**5,100,000**	-
Repayment of shareholder loan	**(1,050,000)**	-	**(1,050,000)**	-
Proceeds from long-term debt **(note 11)**	**45,000,000**	-	**72,000,000**	-
Repayment of capital lease **(note 12)**	**(32,770)**	(30,989)	**(65,085)**	(61,549)
Accounts payable and accrued liabilities	**-**	(935,425)	**-**	381,383
	46,890,764	(950,189)	**75,984,915**	23,472,608
INVESTING ACTIVITIES				
Cash advanced for prepaids and deposits	**(14,872,514)**	(5,206,374)	**(49,284,694)**	(6,206,374)
Cash repayment from deposits	**-**	-	**1,552,500**	-
Purchase of property, plant and equipment	**(24,774,583)**	(9,540)	**(23,894,961)**	(9,540)
Wind power project development costs	**(482,509)**	(1,634,137)	**(632,811)**	(1,856,895)
	(40,129,607)	(6,850,051)	**(72,259,966)**	(8,072,809)
Increase in cash and cash equivalents	**5,734,690**	(8,577,920)	**7,561,582**	12,752,785
Cash and cash equivalents (bank indebtedness), beginning of the period	**2,887,465**	21,297,409	**1,060,573**	(33,296)
Cash and cash equivalents, end of the period	**8,622,155**	12,719,489	**8,622,155**	12,719,489
Cash and cash equivalents consist of the following:				
Cash and cash equivalents	**8,622,155**	1,019,489	**8,622,155**	1,019,489
Short-term deposits	**-**	11,700,000	**-**	11,700,000
	8,622,155	12,719,489	**8,622,155**	12,719,489

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. 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 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. Upon the completion of the Asset Transfer, Shear Wind owned 51% and GAHC owned 49% of the total issued and outstanding LP Units.

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.

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 ("GAAP") 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 (a net loss of $1,571,675 in the year ended August 31, 2010 and a net loss of $77,010 for the six month period ended February 28, 2011) and has a working capital deficit of $17,151,933 as at February 28, 2011. This working capital deficit is a function of the ongoing construction of the Company's Glen Dhu North Project and is covered by future draws to be made on the Company's debt facility for the project *(see Note 11 – Long-Term Debt).*

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 disclosures in these interim unaudited consolidated financial statements do not conform in all material respects to the requirements of GAAP for annual financial statements. Accordingly, these interim unaudited consolidated financial statements should be read in conjunction with the August 31, 2010 annual audited consolidated financial statements. These interim unaudited consolidated financial statements are denominated in Canadian dollars and have been prepared following the accounting policies set out in the 2010 annual audited consolidated financial statements.

4. 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 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.

5. ACCOUNTS RECEIVABLE

	February 28, 2011	August 31, 2010
Net harmonized sales tax receivable	$ 2,727,889	$ 4,084,584
Equipment receivable	1,207,195	-
Other receivables	508,545	98,960
	$ 4,443,629	**$ 4,183,544**

At February 28, 2011, the Company had a balance in Accounts Receivable of $4,443,629 (August 31, 2010 - $4,183,544). The Company had a net harmonized sales tax receivable of $2,727,889 (August 31, 2010 - $4,084,584). The Company incurred a turbine loss from a fire that occurred on January 31, 2011. As a result, an asset writedown and equipment receivable with respect to estimated equipment replacement costs of $1,207,195 was recorded (August 31, 2010 - $nil). Once the turbine has been repaired and put back into service the receivable will be reversed and the replacement cost recorded to property, plant & equipment. Other receivables were $508,545 (August 31, 2010 $98,960) primarily as a result of increased volume at the Company's Glen Dhu, Nova Scotia site.

6. PREPAIDS AND DEPOSITS

Prepaid expenses and deposits are comprised of the following**:**

	February 28, 2011	August 31, 2010
NSPI - PSD	$ -	$ 1,552,500
NSPI – GIA	4,696,375	4,696,375
SaskPower - RFP	25,000	-
Enercon - TSA	92,018,352	24,206,894
Interconnection and system impact studies	1,145,000	1,180,000
Prepaid expenses	999,601	1,294,835
Closing balance	**$ 98,884,328**	**$ 32,930,604**

At February 28, 2011, the Company had a balance in Prepaids and Deposits of $99,884,328 (August 31, 2010 - $32,930,604). At February 28, 2011, the Company continues to provide security to Nova Scotia Power Inc. ("NSPI"), as a condition of its Power Purchase Agreement ("PPA"), a Performance Security Deposit ("PSD") in the form of a letter of credit in the amount of $1,552,500. This security is now provided by Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") and Instituto de Crédito Oficial ("ICO"), under the terms of the credit agreement which closed on October 14, 2010 *(see Note 11 – Long-Term Debt*). As such the Company

6. PREPAIDS AND DEPOSITS (continued)

has been able to recover its cash security that was previously required and the balance as at February 28, 2011 is $ nil (August 31, 2010 - $1,552,500).

The Company has made milestone deposits with respect to its Generation Interconnection Agreement (“GIA”) with NSPI in the amount of $4,696,375 as at February 28, 2011 (August 31, 2010 - $4,696,375). Subsequent to these payments being made, the Company has received confirmation that a significant portion of these costs will be refundable. Any amounts that are not not refunded will be capitalized to project costs. As the amount of the refund has not currently been determined, the Company has not reclassified these deposits to Accounts Receivable as at February 28, 2011.

At February 28, 2011, the Company had made a deposit in the amount of $25,000 (August 31, 2010 - $nil) as required under the terms of the SaskPower - Request for Proposals (“RFP”).

At February 28, 2011, the Company had made deposits in the amount of $92,018,352 (August 31, 2010 - $24,206,894) for milestone payments as required under the terms of its Turbine Supply Agreement (“TSA”) with Enercon Canada Inc. There was an increase in Accounts Payable relative to Enercon deposits of $21,876,347 (August 31, 2010 – increase of $809,525).

During the period ended February 28, 2011, the Company also had deposits in the amount of $1,145,000 (August 31, 2010 - $1,180,000) for interconnection and system impact studies. The net reduction of $35,000 was a result of a $70,000 reduction for deposits applied to feasibility, system impact and facilities studies in relation to the Company’s Glen Dhu North project plus a $35,000 deposit for a new interconnection position with NSPI. Deposits as at February 28, 2011 include $990,000 *(see Note 10 – Promissory Note Payable*) and $50,000 for the future development of the Company’s Willow Ridge project in Alberta and $105,000 for future feasibility, system impact and facilities studies for the Company’s Nova Scotia projects. In addition, the Company had prepaid expenses in the amount of $999,601 (August 31, 2010 - $1,294,835) related to land leases, insurance, rent, investor relations, turbine maintenance and flight passes.

7. PROJECT DEVELOPMENT COSTS

Project development costs are comprised of the following**:**

	February 28, 2011	August 31, 2010
Opening balance	$ 3,995,799	$ 5,030,775
Additions	387,062	7,669,025
Transfers	-	(8,702,180)
Write-downs	-	(1,821)
Closing balance	**$ 4,382,861**	**$ 3,995,799**

7. PROJECT DEVELOPMENT COSTS (continued)

During the period ended February 28, 2011, the Company made project development expenditures of $387,062 including $39,008 of capitalized interest (August 31, 2010 - $7,669,025). There was a decrease in Accounts Payable relative to project development expenditures of $245,749 (August 31, 2010 – increase of $35,529).

During the year ended August 31, 2010, 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 were not going to proceed.

8. PROPERTY, PLANT AND EQUIPMENT

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

	September 1, 2010 Net Book Value	**Additions**	**Writedown**	**Amortization**	**February 28, 2011 Net Book Value**
Turbines under capital lease	**$ 1,307,005**	$ -	$ -	$ (38,292)	**$ 1,268,713**
Turbine related infrastructure	**2,106,328**	36,296	(1,207,125)	(61,708)	**873,791,**
Office equipment	**6,078**	-	-	(1,337)	**4,741**
Computer equipment	**1,246**	-	-	(220)	**1,026**
Vehicles	**10,764**	711	-	(2,191)	**9,284**
Leaseholds	**6,931**	-	-	(1,434)	**5,497**
Construction in progress	**15,046,203**	20,843,337	-	-	**35,889,540**
Total	**$ 18,484,555**	**$ 20,880,344**	**$ (1,207,125)**	**$ (105,182)**	**$ 38,052,592**

During the period ended February 28, 2011, the Company had additions of $20,843,337 in construction in progress relating to the Company’s Glen Dhu project in Nova Scotia which included a provision for asset retirement obligations of $210,566 (August 31, 2010 - $38,855) , capitalized interest and fees of $1,521,515 (August 31, 2010 - $nil) and pre-operating revenue net of expenses of $712,913 (August 31, 2010 - $nil). The Company has also recorded an asset retirement obligation for its Fitzpatrick Mountain site of $36,296

8. PROPERTY, PLANT AND EQUIPMENT (continued)

(August 31, 2010 - $nil) which was recorded as an addition in turbine related infrastructure (August 31, 2010 - $nil) and additions to vehicles of $711 (August 31, 2010 - $12,789). The Company incurred a turbine loss from a fire that occurred on January 31, 2011. As a result, an asset writedown and equipment receivable with respect to estimated equipment replacement costs of $1,207,195 was recorded (August 31, 2010 - $nil) *(see Note 5 – Accounts Receivable)*

The Company recorded amortization expense in the amount of $105,182 during the period ended February 28, 2011 (February 28, 2010 - $104,811). There was an decrease in Accounts Payable relative to property, plant and equipment expenditures of $4,084,191 (August 31, 2010 – increase of $7,783,240).

	September 1, 2009				**August 31, 2010**
	Net Book Value	**Additions**	**Transfers**	**Amortization**	**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 progess. 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).

9. SHAREHOLDER LOAN

Inveravante Inversiones Universales, S.L., which is the parent company to Shear Wind Inc.'s major shareholder, Genera Avante Holdings Canada Inc. "GAHC", has provided a $2,100,000 subordinated loan (the "Subordinated Loan") to GDWE LP as at October 15, 2010. The Subordinated Loan is unsecured and subordinate to the Debt Financing *(see Note 11 – Long-Term Debt)* 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. Interest on the loan is at a rate of 10% annually. Capitalized interest and fees of $168,246 and re-payment of interest and fees of $167,096 was recorded as at February 28, 2011.

The Company expects to repay the loan in full by the June 30, 2011 planned repayment date. The amounts due and owing at the planned repayment date may be converted, in whole or in part, at the option of GAHC into Units of GDWE LP at a conversion price of $10.00. As the shareholder can convert all or any portion of the loan into units of the Company, the loan obligations were classified partially as a liability and partially as shareholders' equity. The liability component was calculated in the amount of $1,956,646 which includes capitalized interest and fees of $1,150. This amount represented the present value of the required contractual payments of principal and interest discounted at an interest rate of 13% approximating that which would have been applicable to non-convertible subordinated debt at the time the loan was issued. The difference between the original principal amount of the debenture and the amount recorded as a liability was $144,504 and represented the value of the conversion option which was recorded as contributed surplus. Principal and interest owing as of February 28, 2011 was $2,101,150 (August 31, 2010 - $nil)

On December 23, 2010, GAHC, which holds approximately 62% of the common shares of Shear Wind ("Common Shares") on a fully-diluted basis, agreed to loan up to $5,000,000 to Shear Wind for required project development expenditures, operating expenses, as well as , to advance funds to Shear Wind's wholly owned subsidiary, Vindt Resources Inc ("Vindt"). Vindt used the funds provided from Shear Wind for required project development expenditures in Alberta as well as repayment of Vindt's promissory note with GAHC provided in August 2010 (*see Note 10 – Promissory Note Payable*).

Shear Wind issued an unsecured promissory note ("Note") to GAHC, in the principal amount of $5,000,000 with an initial draw down of $3,000,000 (the "Initial Draw"). The Note bears interest at 10% per annum. Fifty percent of the principal drawn on the Note, together with interest, is due on December 31, 2012 with the remainder due on December 31, 2013. If the amounts due and owing at each repayment date are not paid in full, the amounts due and owing under the Note at the maturity dates may be converted, in whole or in part, at the option of GAHC into Common Shares at a conversion price of $0.20. As the shareholder can convert all or any portion of the loan into shares of the Company, the loan obligations were classified partially as a liability and partially as shareholders' equity. The liability component was calculated in the amount of $2,942,113 which includes capitalized interest of $56,712. This amount represented the present value of the required contractual payments of principal and interest discounted at an interest rate of 11% approximating that which would have been applicable to non-convertible subordinated debt at the time the loan was issued. The difference between the original principal amount of the debenture and the amount recorded as a liability was $114,599 and represented the value of the conversion option which was recorded as contributed surplus.

9. SHAREHOLDER LOAN (continued)

Principal and interest owing as of February 28, 2011 was $3,056,712 (August 31, 2010 - $nil)

10. 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, agreed, and 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 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 could be converted, in whole or in part, at the option of GAHC into Common Shares at a conversion price of $0.20. Interest in the amount of $31,759 was accrued as of February 28, 2011 and included in the project development costs of the Willow Ridge, Alberta project. Vindt Resources Inc. received an advance from Shear Wind on December 23, 2010 and used $1,089,008 of these funds to repay in full the principal amount of $1,050,000 plus accrued interest of $39,008 (*see Note 9 – Shareholder Loan*).

11. LONG-TERM DEBT

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. All 27 ENERCON E-82 2.3 MW wind turbines were fully operational by March, 2011. 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 Canadian Deposit Offering Rate ("CDOR"), and an interest rate swap for hedging purposes (*see Note 22 – Financial Instruments*). The credit facilities forming the Debt Financing will be secured by a first priority lien on substantially all of the assets of Glen Dhu LP, including all of the limited partnership units owned by the Company and Genera Avante Holdings Canada Inc. ("GAHC") in Glen Dhu LP and all of the outstanding shares owned by the Company and GAHC in Glen Dhu Wind Energy Inc., the general partner of Glen Dhu LP. The lenders under the Debt Financing are the Spanish Bank Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), Banco Espanol de Crédito S.A. ("Banesto") and Instituto de Crédito Oficial ("ICO"), a state-owned corporate entity attached to the Ministry of Economy and Finance of the Spanish Government. On October 19, 2010, the Company announced that, further to its announcement on October 14, 2010, GDWE LP had met all conditions precedent pursuant to the credit agreement executed on October 14, 2010. As at February 28, 2011, $72,000,000 of the construction

12. OBLIGATION UNDER CAPITAL LEASE

financing had been drawn down of which $2,239,200 is classified as short-term and the remaining $69,760,800 is classified as long-term.

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 $1,256,085 as of February 28, 2011. 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 CDOR and 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.

	February 28, 2011	**August 31, 2010**
Total amount of future minimum lease payments	$ 1,399,955	$ 1,501,278
Interest included in installments	(143,870)	(180,108)
Obligation under capital lease	**$ 1,256,085**	**$ 1,321,170**
Current portion	135,755	132,015
Long-term portion	$ 1,120,330	$ 1,189,155

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

March 1, 2011 - August 31, 2011	$ 101,323
September 1, 2011 - August 31, 2012	202,646
September 1, 2012 - August 31, 2013	1,095,986
	$ 1,399,955

13. SHARE CAPITAL

Authorized:

Class of shares	Number of shares authorized
Class A - voting common shares	Unlimited
Preferred Shares	Unlimited

Issued and outstanding:	**Class A Common Shares**	**Amount ($)**
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	266,666	40,000
Fair value transfer on exercise of options	-	16,000
Balance, August 31, 2010	**145,889,116**	**32,250,049**
Fair value of warrants expired	-	380,785
Fair value of options issued	-	(37,033)
Balance, February 28, 2011	**145,889,116**	**32,593,801**

Share capital transactions during the period ended February 28, 2011.

On September 30, 2010, 1,768,618 warrants expired with a related fair value adjustment to share capital of $380,785 (*see Note 14 – Common Share Purchase Warrants).* On December 15, 2010, 750,000 options were issued to a consultant with a fair value of $37,033 using the Black-Scholes pricing model under the following assumptions: volatility of 124 %, risk-free interest rate of 1.69 % and a term of two years. (*see Note 15 – Stock Option Plan and Note 16 – Contributed Surplus).*

13. SHARE CAPITAL (continued)

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 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.

14. COMMON SHARE PURCHASE WARRANTS

The following table reflects the continuity of the number of warrants exercised and outstanding and fair value closing balance :

Expiry Date	Exercise Price ($)	September 1, 2010 Opening Balance	Issued	Expired	February 28, 2011 Closing Units	February 28, 2011 Closing Balance $
Warrants:						
September 30, 2010	0.5500	1,768,618	-	(1,768,618)	-	$ -
November 3, 2011	0.2792	4,500,000	-	-	4,500,000	885,446
Total		**6,268,618**	**-**	**(1,768,618)**	**4,500,000**	**$ 885,446**

Expiry Date	Exercise Price ($)	September 1, 2009 Opening Balance	Issued	Expired	August 31, 2010 Closing Units	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**

15. 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.

15. STOCK OPTION PLAN (continued)

On December 15, 2010, 750,000 options were issued to a consultant with a fair value of $37,033 using the Black-Scholes pricing model (*see Note 13 – Share Capital and Note 16 – Contributed Surplus).*

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

	Number of Stock Options		Weighted Average Exercise Price ($)	
	February 28, 2011	**August 31, 2010**	**February 28, 2011**	**August 31, 2010**
Opening balance	3,390,000	4,186,666	0.33	0.37
Granted	1,750,000	-	0.56	-
Exercised	-	(266,666)	-	(0.15)
Expired/cancelled	(1,000,000)	(530,000)	(0.30)	(0.75)
Ending balance	**4,140,000**	**3,390,000**	**0.43**	**0.33**

As at February 28, 2011, there were 4,140,000 stock options outstanding under the Plan (August 31, 2010 – 3,390.000). The following table reflects the weighted average exercise price as at February 28, 2011:

Expiry Date	**Weighted Average Exercise Price ($)**	**Options Outstanding**	**Options Outstanding and Exercisable**
June 26, 2011	0.30	250,000	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
June 26, 2012	0.30	1,000,000	1,000,000
December 15, 2012	0.92	750,000	-
September 26, 2013	0.40	940,000	940,000
Total	**0.43**	**4,140,000**	**3,390,000**

16. CONTRIBUTED SURPLUS

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

Contributed Surplus		**February 28, 2011**		**August 31, 2010**
Opening balance	$	1,197,169	$	1,131,763
Stock-based compensation expense		28,740		81,406
Equity component of shareholder loans		247,870		-
Fair value of options issued		37,033		-
Fair value of options exercised		-		(16,000)
Ending balance	**$**	**1,510,812**	**$**	**1,197,169**

On December 15, 2010, 750,000 options were issued to a consultant with a fair value of $37,033 using the Black-Scholes pricing model (*see Note 13 – Share Capital and Note 15 – Stock Option Plan).* Options are expensed in the statement of operations, comprehensive loss and deficit as they vest.

On January 11, 2011, the President and Chief Executive Officer of the Company was issued 1,000,000 options. Each option is exercisable for one common share of Shear Wind until June 26, 2012 at an exercise price of $0.30 and vested immediately. 1,000,000 options previously held with an expiry on June 26, 2011 were cancelled. The impact on stock based compensation was based on a fair value calculation of $148,740 and a reversal of of a previous fair value calculation of $120,000 using the Black Scholes pricing model.

As at February 28, 2011 an equity component of $144,504 and $114,599 with respect to two shareholder loans was recorded (*see Note 9 – Shareholder Loan*). Additionally an equity component in the amount of $11,233 with respect to a shareholder loan, that had been previously repaid, was reversed to interest expense.

During the year ended August 31, 2010, $81,406 was recorded as stock-based compensation and credited to contributed surplus. Additionally 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.

17. BASIC AND DILUTED LOSS PER SHARE

The basic loss per share is computed by dividing the net loss for the period by the weighted average number of shares outstanding during the period. 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 six month period ended February 28, 2011	For the six month period ended February 28, 2010
Numerator:		
Net loss	**$ (77,010)**	**$ (563,772)**
Denominator:		
Weighted average number of shares	**145,889,116**	**145,625,413**

18. NON-CONTROLLING INTEREST

	February 28, 2011	August 31, 2010
Balance at beginning of period	$ 21,824,663	$ -
Share of income (loss) for the period	666,264	(144,276)
Non-controlling interests arising on the acquisition of GDWE LP	-	21,968,890
Non-controlling interests arising on the acquisition of GDWE Inc.	-	49
Balance at end of period	**$ 22,490,927**	**$ 21,824,663**

19. 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 six month period ended February 28, 2011:

- A company owned 100% by a former director of the Company charged the Company $nil for legal fees (February 28, 2010 - $6,746).
- A company owned 100% by a shareholder of the Company charged the Company $48,000 for consulting fees (February 28, 2010 - $48,000).
- A shareholder of the Company provided a loan to the Company for $2,100,000 (February 28, 2010 - $nil). *(Note 9 – Shareholder Loan)*
- A shareholder of the Company provided a loan to the Company for $3,000,000 (February 28, 2010 - $nil). *(Note 9 – Shareholder Loan)*

20. COMMITMENTS AND GUARANTEES

As at February 28, 2011, 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 8.9 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 provided a $1,552,500 performance security deposit in the form of a letter of credit. *(See Note 6 – Prepaids 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 February 28, 2011 was $1,256,085. (*See Note 12 – 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.

20. 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 was completed in late 2010 and early 2011.
- The Company has engaged Mortenson Canada Corporation as general contractor for the Company's Glen Dhu, Nova Scotia project for construction during 2010 and early 2011.
- Glen Dhu LP, a majority owned subsidiary of the Company, has received a $2,100,000 subordinated loan (the "Subordinated Loan"). The Subordinated Loan is unsecured, postponed and subordinate to the Debt Financing *(see Note 9 – Shareholder Loan)*, subject to certain permitted payments that will be paid in priority to any distributions by Glen Dhu LP to Shear Wind or GAHC as limited partners. Interest is at an annual rate of 10%. The amounts due and owing under the Subordinated Loan at the maturity date may be converted, in whole or in part, at the option of GAHC into Units of GDWE LP at a conversion price of $10.00.
- On December 23, 2010, GAHC, which holds approximately 62% of the common shares of Shear Wind ("Common Shares") on a fully-diluted basis, agreed to loan up to $5,000,000 to Shear Wind for required project development expenditures, operating expenses, as well as , to advance funds to Shear Wind's wholly owned subsidiary, Vindt Resources Inc. (*see Note 9 – Shareholder Loan and Note 10 – Promissory Note Payable*). Shear Wind issued an unsecured promissory note ("Note") to GAHC, in the principal amount of $5,000,000 with an initial draw down of $3,000,000 (the "Initial Draw"). The Note bears interest at 10% per annum. Fifty percent of the principal drawn on the Note, together with interest, is due on December 31, 2012 with the remainder due on December 31, 2013. If the amounts due and owing at each repayment date are not paid in full, the amounts due and owing under the Note at the maturity dates may be converted, in whole or in part, at the option of GAHC into Common Shares at a conversion price of $0.20. Principal and interest owing as of February 28, 2011 was $3,056,712 (August 31, 2010 - $nil)
- The Company has signed a lease agreement for office equipment in an amount of $7,056. Payments will be in 12 equal quarterly amounts of $588 plus HST over a 3 year period and started in December 2010.

21. 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

21. CAPITAL MANAGEMENT (continued)

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.

	February 28, 2011	August 31, 2010
Total loans including current portion	$ 78,154,844	$ 2,371,170
Shareholders' equity	28,693,632	28,494,032
Total debt and equity	**106,848,476**	**30,865,202**
Debt to equity ratio	**2.72**	**.08**

22. FINANCIAL INSTRUMENTS

Financial Instruments and Risk Management

The fair value of the Company's financial assets and financial liabilities: cash and cash equivalents, 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 February 28, 2011 and had no investments as at August 31, 2010.

22. FINANCIAL INSTRUMENTS (continued)

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 does not plan to hedge this exposure in the future. As at February 28, 2011, the Company had contractual obligations under its Turbine Supply Agreement for payments of 5,636,274 Euro and had a realized gain on foreign exchange of $50,248 (February 28, 2010 - $nil).

Interest rate risk

The Company is exposed to interest rate fluctuations as its capital lease has a floating interest rate based on CDOR and a spread of 2.44% (*see Note 12 – Obligations under Capital Lease).* As at February 28, 2011, 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 an annual decrease in net loss of approximately $16,000.

The Company has also entered into an interest rate swap agreement ("SWAP") on October 19, 2010 terminating April 15, 2029 with BBVA ("SWAP Counterparty") to mitigate the interest rate risk associated with the credit agreement disclosed in *Note 11 – Long-Term Debt.* The notional amount of the SWAP, at its inception, was $12,780,927. The Company is obligated to pay the SWAP Counterparty an amount based upon a fixed interest rate of 3.462% plus a specified percentage in excess of this rate. The SWAP Counterparty is obligated to pay the floating interest rate which is based on CDOR. The Company pays the credit spread from the draw downs from the credit agreement.

The Company's SWAP was not designated an effective hedging relationship for accounting purposes as outlined in Section 3865. As at February 28, 2011 the fair value of the SWAP was $1,141,000 (February 28, 2010 - $nil). This has been recorded as an asset on the balance sheet with the change in fair value being recorded on the income statement as an unrealized gain.

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.

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.

23. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

	For the six month period ended February 28, 2011	For the six month period ended February 28, 2010
Interest expense – accrued	$ 56,713	$ -
Interest expense – paid in cash	10,074	25,391
Interest expense – capitalized **(note 8)**	$ 1,521,515	$ -

24. SUBSEQUENT EVENTS

On April 4, 2011, the Company announced that the Glen Dhu 62.1 MW wind facility in Nova Scotia (the "Glen Dhu Wind Farm"), had been completed and that all turbines had been erected and commissioned as of March 31, 2011.

On April 11, 2011, the Company announced that, as a result of commissioning all turbines at the Glen Dhu Wind Farm, as of March 31, 2011, it had met the requirements of the EcoENERGY Renewable Power Program (“Program”). The Contribution Agreement between Natural Resources Canada (NRCan) and Glen Dhu that was signed on July 22, 2010 provides for an incentive payment of one cent per kWh under the Program. The agreement extends until March 31, 2021 and provides for a maximum of $19,055,509 over the ten year term.