

Shear Wind Inc.

Consolidated Financial Statements

(Unaudited)

For the nine months ended

May 31, 2008 and 2007

Shear Wind Inc.
Table of Contents
May 31, 2008

	<u>Page</u>
Notice of No Auditor Review	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5-21

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of Shear Wind Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor for the 9 months ended May 31, 2007.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

UNAUDITED

	May 31, 2008	August 31, 2007
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 25,087	\$ 63,379
Investments (note 17)	-	756,801
Accounts receivable	136,254	117,932
	161,341	938,112
Prepays and deposits (note 6)	791,196	228,501
Project development costs (note 7)	4,651,491	3,109,852
Capital assets (note 8)	3,894,078	2,594,257
	\$ 9,498,106	\$ 6,870,722
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 421,747	\$ 413,016
Margin loan (note 17)	-	-
Shareholder Loans (note 18)	2,626,820	-
Convertible Debenture (note 19)	747,809	-
	3,796,376	413,016
Future income taxes	1,002,007	1,147,000
	4,798,383	1,560,016
SHAREHOLDERS' EQUITY		
Share capital (note 11)	7,418,836	7,084,802
Contributed surplus (note 14)	866,509	432,160
Warrants (note 15)	395,331	367,299
Deficit	(3,980,953)	(2,573,555)
	4,699,723	5,310,706
	\$ 9,498,106	\$ 6,870,722

NATURE OF OPERATIONS and BASIS OF PRESENTATION (note 1)

RELATED PARTY TRANSACTIONS (note 9)

COMMITMENTS AND GUARANTEES (note 10)

COMMON SHARE PURCHASE WARRANTS AND AGENTS' OPTIONS (note 12)

STOCK OPTION PLAN (note 13)

COMPARATIVE FIGURES (note 20)

SUBSEQUENT EVENT (note 21)

Approved on behalf of the Board:

(Signed) David D. Heighington, Director

(Signed) Michael J. Wheatley, Director

see accompanying notes to the consolidated financial statements

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

UNAUDITED

	For the 3 months ended May 31, 2008	For the 3 months ended May 31, 2007	For the 9 months ended May 31, 2008	For the 9 months ended May 31, 2007	Cumulative, Since inception on December 17, 2004 to May 31, 2008
EXPENSES					
Consulting fees	\$ 24,000	\$ 15,000	\$ 72,000	\$ 43,825	\$ 543,268
Salaries & benefits	109,985	96,934	321,613	222,725	697,014
Professional fees	68,732	25,095	175,478	97,563	406,082
Amortization	53,114	63,978	144,321	137,001	331,936
General	146,100	133,448	293,616	224,311	875,989
Stock-based compensation	453,717	-	453,717	-	710,680
	855,648	334,455	1,460,745	725,425	3,564,969
INCIDENTAL REVENUE					
Other income	2,834	6,301	3,671	29,474	123,489
Dividend Income	3,829	-	19,976	-	19,976
Electricity sales	77,916	44,833	169,937	131,031	370,135
	84,579	51,134	193,584	160,505	513,600
OTHER EXPENSES					
Interest expense	133,246	-	213,633	-	213,633
Other expenses	118	-	2,781	-	2,781
Asset writedown	-	-	752	-	831,850
Realized (Gain) loss on investment	19,410	-	68,063	-	130,313
	152,774	-	285,229	-	1,178,577
LOSS BEFORE INCOME TAXES	(923,843)	(283,321)	(1,552,390)	(564,920)	(4,229,946)
Future income tax expense (recovery)	(164,373)	-	(144,993)	-	(248,993)
NET LOSS	\$ (759,470)	\$ (283,321)	\$ (1,407,397)	\$ (564,920)	\$ (3,980,953)
Deficit, beginning of period	(3,221,483)	(1,152,456)	(2,573,556)	(870,857)	-
Deficit, end of period	(3,980,953)	(1,435,777)	(3,980,953)	(1,435,777)	(3,980,953)
Basic and diluted loss per share (note 16)	\$ (0.017)	\$ (0.007)	\$ (0.032)	\$ (0.015)	\$ (0.092)

see accompanying notes to the consolidated financial statements

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	For the 3 months ended May 31, 2008	For the 3 months ended May 31, 2007	For the 9 months ended May 31, 2008	For the 9 months ended May 31, 2007	Cumulative, Since inception on December 17, 2004 to May 31, 2008
Cash (used in) provided by:					
OPERATING ACTIVITIES					
Net loss	\$ (759,470)	\$ (283,321)	\$ (1,407,397)	\$ (564,920)	\$ (3,980,953)
Adjustments for items not affecting cash:					
Amortization	53,114	63,978	144,321	137,001	331,936
Asset writedown	-	-	752	-	831,850
Loss (Gain) on investment	19,410	-	68,063	-	130,313
Accrued interest	125,711	-	167,355	-	167,355
Future income tax expense (recovery)	(164,373)	-	(144,993)	-	(248,993)
Stock-based compensation	453,717	-	453,717	-	710,680
Consulting fees settled with shares	-	-	-	-	150,100
	(271,891)	(219,343)	(718,182)	(427,919)	(1,907,712)
Changes in non-cash working capital balances					
Accounts receivable	(535,827)	113,788	(516,933)	(220,400)	(999,776)
Accounts payable and accrued liabilities	(238,625)	166,667	(1,068)	207,108	(46,787)
	(1,046,343)	61,112	(1,236,183)	(441,211)	(2,954,275)
FINANCING ACTIVITIES					
Proceeds from issuance of common shares	174,676	3,750	342,698	6,150	6,595,048
Realized (Gain) loss on investment	-	-	-	(27,676)	(70,133)
Debt issuance costs	(142,726)	-	(142,726)	-	(142,726)
Proceeds from margin loan	91,295	-	688,738	-	688,738
Repayment of margin loan	(270,018)	-	(688,738)	-	(688,738)
Proceeds from shareholder loan	1,000,000	-	2,600,000	-	2,600,000
Proceeds from convertible debenture	750,000	-	750,000	-	750,000
	1,603,227	3,750	3,549,972	(21,526)	9,732,189
INVESTING ACTIVITIES					
Cash advanced for deposits	(456,146)	(33,570)	(602,695)	135,654	(730,340)
Cash repayment from deposits	-	-	40,000	-	40,000
Cash acquired on acquisitions, net of acquisition costs	-	(519)	-	(519)	361,901
Proceeds on the sale of investments	270,018	-	688,738	-	1,673,579
Acquisition of investments	-	-	-	-	(1,640,542)
Cash advanced for commercial paper issuance	-	-	-	-	(862,627)
Cash repayment from commercial paper issuance	-	-	-	-	699,277
Purchase of capital equipment	(3,864)	(4,955)	(1,618,648)	(8,954)	(1,647,512)
Wind power project development costs	(688,774)	(295,246)	(1,541,639)	386,660	(6,045,633)
Accounts payable and accrued liabilities	248,120	30,264	682,163	(638,314)	1,341,009
	(630,646)	(304,026)	(2,352,081)	(125,473)	(6,810,888)
(Decrease) increase in cash and cash equivalents	(73,762)	(239,164)	(38,292)	(588,210)	(32,974)
Cash and cash equivalents, beginning of the period	98,849	1,342,290	63,379	1,691,336	58,061
Cash and cash equivalents, end of the period	\$ 25,087	\$ 1,103,126	\$ 25,087	\$ 1,103,126	\$ 25,087
Cash and cash equivalents consist of the following:					
Cash held in banks	\$ 25,087	\$ 15,001	\$ 25,087	\$ 15,001	\$ 25,087
Short-term deposits	-	1,088,125	-	1,088,125	-
	\$ 25,087	\$ 1,103,126	\$ 25,087	\$ 1,103,126	\$ 25,087

see accompanying notes to the consolidated financial statements

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Shear Wind Inc. ("the Company" or "Shear Wind") was incorporated as EW Power Services Ltd. under the Business Corporation 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 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.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. To fund its past development activities, the Company has raised equity capital. Management is of the opinion that additional funding is available and may be sourced in time to allow the Company to continue development of its wind generation projects.

While it has been successful in the past, there can be no assurance that it will be able to raise sufficient funds in the future. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. AMALGAMATION TRANSACTION

Pursuant to the terms of a three cornered Amalgamation Agreement dated April 3rd, 2007, Vindt Resources Inc. ("Vindt") amalgamated with Shear Wind's wholly owned subsidiary, 1297091 Alberta Ltd. The amalgamation was effective April 11, 2007 and the amalgamated entity will operate as a wholly owned subsidiary of Shear Wind and will continue under the name "Vindt Resources Inc."

All outstanding securities of Vindt were exchanged for Shear Wind securities on the following basis:

- (i) 6,810,000 Shear Wind common shares at a value of \$0.25 per share;
- (ii) 1,525,000 Shear Wind warrants exercisable at \$0.30 and expiring on June 20th, 2008;
- (iii) 427,000 Shear Wind broker warrants exercisable at \$0.25 and expiring on June 20th, 2009; and
- (iv) 600,000 Shear Wind incentive stock options exercisable at \$0.30 and expiring on June 21st, 2011.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

2. AMALGAMATION TRANSACTION (continued)

In addition, Shear Wind issued 800,000 common shares at a value of \$0.25 to Modus Management Group Inc. as compensation under the terms of a management consulting agreement dated April 11th, 2007.

At the closing of the transaction, 2,800,000 Shear Wind common shares issued to current directors, officers, and founders of Vindt were subject to a voluntary escrow, which has been released as of April 11th, 2008. The value of the 7,610,000 common shares issued was determined based on the average market price of Shear Wind common shares over the two-day period before and after the terms of the acquisition were agreed to and announced with the value of the shares under escrow being discounted at a rate of 25%. The value of the warrants and agent's options were valued using the Black-Scholes option pricing model under the following assumptions: volatility of 125.7% to 204.0%, risk-free interest rate of 4.11% to 4.23% and a term ranging from 1.25 to 4.25 years.

This transaction has been accounted for using the purchase method with the results of Vindt Resources Inc.'s operations being included in the consolidated results of Shear Wind Inc. since that date.

The Company has recorded a future tax liability of \$580,000 with respect to differences between income tax values and fair values of acquired assets. The Company has offset \$427,000 of this future tax liability by recognizing previously unrecognized future tax assets.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

2. AMALGAMATION TRANSACTION (continued)

The following table summarizes the preliminary purchase equation based on the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition and consideration given.

Net Assets Acquired		
as at		
April 11, 2007		
Cash and Cash Equivalents	\$	58,061
Accounts Receivable		1,000
Deposits		100,856
Wind Power Project Development Costs		2,131,383
Total Assets Acquired	\$	2,291,300
Accounts Payable & Accrued Liabilities		(7,034)
Future Income Tax Liability		(153,000)
Total Liabilities Assumed		(160,034)
Net Assets Acquired		\$ 2,131,266
Shares	\$	1,677,500
Warrants		367,299
Options		145,047
Acquisition Costs		(58,580)
Total Consideration Given		\$ 2,131,266

3. ARBITRATION DISPUTE & TERMINATION SETTLEMENT

In December, 2004 the Company entered into a Power Development, Operating and Farm-In Agreement (“PDOA”) with Renewable Energy Services Ltd. (“RESL”), a private company operating in Nova Scotia, for the joint development of wind power generation in the Province of Nova Scotia. The Company and RESL secured a 15 year power purchase agreement with Nova Scotia Power Inc. for 4 Megawatts of power annually.

The Company had disputed charges accrued in the accounts for wind turbine purchase and installations and disputed the whole Farm in Agreement and the Joint Operating

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

3. ARBITRATION DISPUTE & TERMINATION SETTLEMENT (continued)

Agreement with RESL. In order to settle the dispute, the Company and RESL went to binding arbitration. An Interim Order was received from the arbitrator on March 23, 2007 which resulted in a reduction in the amounts due to RESL, a recovery of amounts previously paid and a corresponding reduction in the capitalized costs of the wind power project.

A final order was received on July 19, 2007 settling all previously outstanding matters including finalization of charges with respect to the Goodwood and Fitzpatrick Mountain sites and costs.

The Company subsequently reached an agreement to terminate their PDOA with RESL. Under the terms of the agreement the Company acquired 100 % ownership of two turbines (1.6 megawatts) for \$1,600,000 and relinquished their 33.33 % ownership in three other turbines (2.0 megawatts). The agreement was finalized on October 17, 2007 and closed on November 28, 2007. Proceeds from a shareholder loan of \$1,600,000 were used to close the transaction.

4. ADOPTION OF NEW ACCOUNTING POLICIES

Comprehensive Income, Equity, Financial Instruments and Hedges

Effective September 1, 2007, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3855, "Financial Instruments - Recognition and Measurement" and Section 3865, "Hedges". Under the standards:

Financial assets are classified as loans and receivables, held-to-maturity, held-for-trading or available-for-sale. Loans and receivables include all loans and receivables except debt securities and are accounted for at amortized cost. Held-to-maturity classification is restricted to fixed maturity instruments that the Company intends and is able to hold to maturity and are accounted for at amortized cost. Held-for-trading instruments are recorded at fair value with realized and unrealized gains and losses reported in net earnings.

Financial liabilities are classified as either held-for-trading or other. Held-for-trading instruments are recorded at fair value with realized and unrealized gains and losses reported in net earnings. Other instruments are accounted for at

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

4. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

amortized cost with gains and losses reported in net earnings in the period that the liability is derecognized; and

Derivative instruments ("derivatives") are classified as held-for-trading unless designated as hedging instruments. All derivatives are recorded at fair value on the consolidated balance sheet. For derivatives that hedge variability in cash flows, the effective portion of the changes in the derivatives' fair value are initially recognized in other comprehensive earnings ("OCE") with any ineffective portion recorded in net earnings. Amounts temporarily recorded in AOCE will subsequently be reclassified to net earnings in the periods when net earnings is affected by the variability in the cash flows of the hedged item.

These standards have been applied prospectively; accordingly comparative amounts for prior periods have not been restated. The adoption of these standards resulted in the following classifications as of September 1, 2007 in accordance with the transition provisions:

Cash and cash equivalents are classified as held for trading. These financial assets are marked-to-market through net earnings in each period. The carrying value of these assets approximate the market value at the transition date and no adjustment was required. The Company holds preferred shares that pay a quarterly dividend. The Company adjusts the carrying value of these investments to fair market value at each reporting period and records any gain or loss on these investments in net earnings.

Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost and no transition adjustment was required.

Accounts payable, shareholder loans and long - term debt are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost and no transition adjustment was required.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

5. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared following the accounting policies set out in the 2007 annual audited consolidated financial statements, except as disclosed in Note 4.

The disclosures in these unaudited consolidated financial statements do not conform in all material respects to the requirements of GAAP for annual financial statements. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the August 31, 2007 annual audited consolidated financial statements.

These unaudited consolidated financial statements are denominated in Canadian dollars.

6. PREPAIDS AND DEPOSITS

During the period ending May 31, 2008, the Company was required to provide to Nova Scotia Power, as a condition of its Power Purchase Agreement (PPA), a Letter of Credit in the amount of \$500,000. This letter of credit is secured by a Redeemable Short Term Investment renewing annually and bearing interest at a rate of 2.75% per year. The Company also has made deposits in the amount of \$255,000 for interconnection and system impact studies as well as prepaid expenses in the amount of \$36,196 related to land leases, insurance and flight passes.

7. PROJECT DEVELOPMENT COSTS

Costs incurred relating to Project Development are as follows:

	September 1, 2007 Opening Balance	Additions	Transfers	May 31, 2008 Closing Balance
Wind Power Project Development Costs:	3,109,852	1,541,639		4,651,491

	September 1, 2006 Opening Balance	Additions	Transfers	August 31, 2007 Closing Balance
Wind Power Project Development Costs:	4,582,728	3,109,852	(4,582,728)	3,109,852

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

8. CAPITAL ASSETS

Costs incurred relating to Capital Assets are as follows:

	September 1, 2007 Cost	Additions	Transfers	Adjustments and Writedowns	Sub-total Cost	Accumulated Amortization	May 31, 2008 Net Book Value
Turbines and related infrastructure	2,753,008	1,425,494	-	-	4,178,502	(315,169)	3,863,333
Office equipment	7,024	758	-	-	7,782	(2,365)	5,417
Computer equipment	16,329	3,551	-	-	19,880	(11,609)	8,271
Vehicles	5,511	-	-	-	5,511	(1,837)	3,674
Leasehold Improvements	-	14,339	-	-	14,339	(956)	13,383
Total	2,781,872	1,444,142	-	-	4,226,014	(331,936)	3,894,078

	September 1, 2006 Cost	Additions	Transfers	Adjustments and Writedowns	Sub-total Cost	Accumulated Amortization	August 31, 2007 Net Book Value
Turbines and related infrastructure	-	-	4,582,728	(1,829,720)	2,753,008	(178,502)	2,574,506
Office equipment	1,627	5,397	-	-	7,024	(1,210)	5,814
Computer equipment	10,572	5,757	-	-	16,329	(7,443)	8,886
Vehicles	-	5,511	-	-	5,511	(460)	5,051
Total	12,199	16,665	4,582,728	(1,829,720)	2,781,872	(187,615)	2,594,257

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

9. 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 are similar to those 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:

- A shareholder and director provided a loan for \$1,600,000 during the period ended November 30, 2007.
- A shareholder and director provided a loan for \$500,000 during the period ended May 31, 2008.
- A shareholder provided a loan for \$500,000 during the period ended May 31, 2008.
- A shareholder provided a convertible debenture for \$750,000 during the period ended May 31, 2008.
- A company owned 100% by a director of the Company charged the Company \$77,400 during the period ended May 31, 2008 (2007 - \$49,889) for legal fees.

10. COMMITMENTS AND GUARANTEES

The Company is contractually obligated, through a 1.6 megawatt Power Purchase Agreement (PPA) with Nova Scotia Power Inc. (NSPI) to provide the net electrical output of the Fitzpatrick Mountain wind generation site for the next 13 years.

The Company is contractually obligated, through a 60 megawatt Power Purchase Agreement (PPA) with Nova Scotia Power Inc. (NSPI) to provide the net electrical output of the Glen Dhu - North wind generation site. Initial commissioning will be as of November 30, 2009 and final commissioning will be as of December 31, 2010. The agreement is for a period of 20 years from December 31, 2010.

The Company has secured office premises through lease until February, 2013. Annual rent, including operating costs, is estimated at \$35,000.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

10. COMMITMENTS AND GUARANTEES (continued)

The Company obtained a loan from a shareholder and director in the amount of \$1,600,000. The loan bears interest at a rate of 10%, is payable on demand and is secured by two turbines, intellectual property and associated equipment located at the Company's site at Fitzpatrick Mountain. Principal plus accrued interest in the amount of \$81,974 has been recorded as of the period ended May 31, 2008.

The Company obtained a loan from a shareholder and director in the amount of \$500,000. The loan bears interest at a rate of 5% per annum and matures on September 1, 2008 at which time the principal and interest is due. The loan is secured by a General Security Agreement. As consideration for the risk associated with this loan, the shareholder received 125,000 purchase warrants exercisable into 125,000 common shares of the Corporation at a price of \$0.80 per common share. The warrants expire on the second anniversary date of the date of issue. The warrants were valued in the amount of \$65,747 using the Black-Scholes option pricing model under the following assumptions: volatility of 151%, risk-free interest rate of 2.60% and a term of two years. The calculated value will be amortized as interest expense over the life of the loan. Principal plus accrued interest in the amount of \$6,027 less the unamortized value of the warrants in the amount of \$33,604 has been recorded as of the period ended May 31, 2008.

The Company obtained a loan from a shareholder in the amount of \$500,000. The loan bears interest at a rate of 5% per annum and matures on September 1, 2008 at which time the principal and interest is due. The loan is secured by a General Security Agreement. As consideration for the risk associated with this loan, the shareholder received 125,000 purchase warrants exercisable into 125,000 common shares of the Corporation at a price of \$0.80 per common share. The warrants expire on the second anniversary date of the date of issue. The warrants were valued in the amount of \$65,747 using the Black-Scholes option pricing model under the following assumptions: volatility of 151%, risk-free interest rate of 2.60% and a term of two years. The calculated value will be amortized as interest expense over the life of the loan. Principal plus accrued interest in the amount of \$6,027 less the unamortized value of the warrants in the amount of \$33,604 has been recorded as of the period ended May 31, 2008.

The Company obtained a convertible debenture from a shareholder in the amount of \$750,000. The loan bears interest at a rate of 5% per annum and matures on September 1, 2008 at which time the principal and interest is due. The shareholder has the right to convert all or any portion of outstanding indebtedness into units ("units") of the Corporation at the conversion price per unit (the "Conversion Price") equal to \$0.80 per unit. Each unit consists of one common share and one half (1/2) purchase warrant with each whole warrant entitling the shareholder to acquire one additional common share at \$0.90 within 12 months of the conversion date. The shareholder is entitled to convert all or a portion of the indebtedness into units anytime prior to the second anniversary of the

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

10. COMMITMENTS AND GUARANTEES (continued)

date of issue (the "Conversion Period"). The loan is secured by a General Security Agreement. Principal plus accrued interest in the amount of \$9,041 has been recorded as of the period ended May 31, 2008.

11. 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, 2006	34,991,000	4,911,708
Issued on exercise of warrants	239,000	51,850
Share issue costs	-	(27,676)
Tax benefits renounced to shareholders	-	530,000
Share acquisition costs - Vindt Resources Inc.	-	(58,580)
Issued on acquisition of Vindt Resources Inc.	7,610,000	1,677,500
Balance, August 31, 2007	42,840,000	7,084,802
Fair value transfer on exercise of warrants		103,462
Fair value transfer on exercise of options		30,600
Issued on exercise of options	260,000	76,500
Issued on exercise of warrants	449,787	123,472
Balance, May 31, 2008	43,549,787	7,418,836

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

11. SHARE CAPITAL (continued)

Share capital transactions in period

During the period the Company raised \$76,500 when a director of the Company exercised 10,000 options at a price of \$0.15 and 250,000 options at a price of \$0.30. Additionally, the Company raised \$91,522 when 58,500 warrants were exercised at a price of \$0.15, 53,787 warrants were exercised at a price of \$0.25 and 337,500 warrants were exercised at a price of \$0.30

12. COMMON SHARE PURCHASE WARRANTS

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

Expiry Date	Exercise Price (\$)	September 1, 2007 Opening Balance	Issued	Exercised	Expired	May 31, 2008 Closing Balance
Warrants:						
October 24, 2007	0.15	58,500	-	(58,500)	-	-
June 20, 2008	0.30	1,500,000	-	(337,500)	-	1,162,500
June 20, 2009	0.25	304,500	-	(53,787)	-	250,713
March 04, 2010	0.80	-	250,000	-	-	250,000
Total		1,863,000	250,000	(449,787)	-	1,663,213

Expiry Date	Exercise Price (\$)	September 1, 2006 Opening Balance	Issued	Exercised	Expired	August 31, 2007 Closing Balance
Warrants:						
October 24, 2007	0.15	150,000	-	(91,500)	-	58,500
June 20, 2008	0.30	-	1,525,000	(25,000)	-	1,500,000
June 20, 2009	0.25	-	427,000	(122,500)	-	304,500
Total		150,000	1,952,000	(239,000)	-	1,863,000

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

13. 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 to officers and directors.

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

	Number of Stock Options		Weighted Average Exercise Price	
	May 31, 2008	August 31, 2007	May 31, 2008	August 31, 2007
Opening balance	4,060,000	2,410,000	0.28	0.27
Granted	530,000	1,050,000	0.75	0.30
Exercised	(260,000)	-	0.29	-
Issued on Vindt acquisition	-	600,000	-	0.30
Ending balance	4,330,000	4,060,000	0.34	0.28

As at May 31, 2008 there were 4,330,000 stock options outstanding under the Plan. The following table reflects the weighted average exercise price as at May 31, 2008:

Expiry Date	Weighted Average Exercise Price (\$)	Options Outstanding
November 26, 2010	0.15	400,000
June 26, 2011	0.30	1,750,000
June 21, 2011	0.30	600,000
April 12, 2012	0.30	1,000,000
June 19, 2012	0.29	50,000
April 4, 2013	0.75	530,000
Total	0.34	4,330,000

During the period ended May 31, 2008, 530,000 (2007 – 1,050,000) stock options were granted to two directors of the Company. The fair value of these options was estimated using the Black-Scholes option pricing model under the following assumptions: volatility of 148%, risk-free interest rate of 3.21% and a term of 5 years. These options will be expensed in the statement of operations and deficit as they vest. During the period ended

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

13. STOCK OPTION PLAN (continued)

May 31, 2008, 863,333 (2007 - 50,000) had vested and accordingly \$453,717 (2007 - \$16,963) was recorded as stock-based compensation and credited to contributed surplus.

During the period ended November 30, 2007 a director of the Company exercised 10,000 options at a price of \$0.15 and 250,000 options at a price of \$0.30.

As part of the Vindt acquisition 600,000 incentive stock options were issued effective April 11, 2007 to replace the Vindt Resources Inc. stock options cancelled on amalgamation. These are exercisable at \$0.30 and expire on June 21, 2011.

The fair value of all warrants, agent's options and incentive options granted in fiscal year 2007 were estimated using the Black-Scholes option pricing model under the following assumptions: volatility of 186% to 204%, risk-free interest rate of 4.11% to 4.23% and a term ranging from 1.25 to 4.25 years.

14. CONTRIBUTED SURPLUS

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

Contributed Surplus	May 31, 2008	August 31, 2007
Opening balance	432,160	270,150
Stock-based compensation expense	453,717	16,963
Fair value of options issued for Vindt acquisition	-	145,047
Equity component of convertible debenture	11,232	-
Fair value of options exercised	(30,600)	-
Ending balance	866,509	432,160

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

15. WARRANTS

The following table reflects the continuity of warrants issued:

Warrants	May 31, 2008	August 31, 2007
Opening balance	367,299	-
Fair value of warrants issued for Vindt acquisition	-	367,299
Fair value of warrants issued for shareholder loans	131,494	-
Fair value of warrants exercised	(103,462)	-
Ending balance	395,331	367,299

16. 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. Diluted loss per share is the same as basic loss per share. The effect of the options, warrants and Agents' options on the net loss is anti-dilutive and therefore, basic loss per share is equal to full diluted loss per share. The following table sets forth the computation of basic and fully diluted loss per share during the period:

	3 months ended May 31, 2008	3 months ended May 31, 2007	9 months ended May 31, 2008	9 months ended May 31, 2007
Numerator:				
Net loss	\$ 759,470	\$ 283,321	\$ 1,407,397	\$ 564,920
Denominator:				
Weighted average number of shares	43,525,352	38,821,350	43,525,352	38,821,350

17. INVESTMENTS AND MARGIN LOAN

As at May 31, 2008, the Company had sold their remaining investments in preferred shares at a value of \$688,738. The Company incurred a loss of \$68,063 on the sale of these investments and the proceeds were used to repay the margin loan in the amount of \$180,048 and the balance used for working capital. As at May 31, 2008 the value of the Company's investments was \$ nil (August 31, 2007 - \$756,801) and the Company's margin loan balance was \$ nil (2007 - \$ nil).

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

18. SHAREHOLDER LOANS

	May 31, 2008	August 31, 2007
Opening balance	-	-
Gross proceeds	2,600,000	-
Accrued interest	94,028	-
Unamortized fair value of warrants	(67,208)	-
Ending balance	2,626,820	-

The Company obtained a loan from a shareholder and director to facilitate the closing of the termination settlement with RESL (Note 3) during the period ended November 30, 2007. The loan bears interest at a rate of 10%, is payable on demand and is secured by the two turbine assets, intellectual property and associated equipment located at the Company's Fitzpatrick Mountain site. Principal of \$1,600,000 plus accrued interest of \$81,974 was recorded as of May 31, 2008.

The Company obtained a loan from a shareholder and director in the amount of \$500,000. The loan bears interest at a rate of 5% per annum and matures on September 1, 2008 at which time the principal and interest is due. The loan is secured by a General Security Agreement. As consideration for the risk associated with this loan, the shareholder received 125,000 purchase warrants exercisable into 125,000 common shares of the Company at a price of \$0.80 per common share. The warrants expire on the second anniversary date of the date of issue. The warrants were valued in the amount of \$65,747 using the Black-Scholes option pricing model under the following assumptions: volatility of 151%, risk-free interest rate of 2.60% and a term of 2 years. The calculated value will be amortized as interest expense over the life of the loan. Principal plus accrued interest in the amount of \$6,027 less the unamortized value of the warrants in the amount of \$33,604 has been recorded as of the period ended May 31, 2008.

The Company obtained a loan from a shareholder in the amount of \$500,000. The loan bears interest at a rate of 5% per annum and matures on September 1, 2008 at which time the principal and interest is due. The loan is secured by a General Security Agreement. As consideration for the risk associated with this loan, the shareholder received 125,000

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

18. SHAREHOLDER LOANS (continued)

purchase warrants exercisable into 125,000 common shares of the Company at a price of \$0.80 per common share. The warrants expire on the second anniversary date of the date of issue. The warrants were valued in the amount of \$65,747 using the Black-Scholes option pricing model under the following assumptions: volatility of 151%, risk-free interest rate of 2.60% and a term of 2 years. The calculated value will be amortized as interest expense over the life of the loan. Principal plus accrued interest in the amount of \$6,027 less the unamortized value of the warrants in the amount of \$33,604 has been recorded as of the period ended May 31, 2008.

19. CONVERTIBLE DEBENTURE

	May 31, 2008	August 31, 2007
Opening balance	-	-
Gross proceeds	750,000	-
Accrued interest	9,041	-
Equity component	(11,232)	-
Ending balance	747,809	-

On March 4, the Company issued a 5% secured convertible debenture to a shareholder in the amount of \$750,000. The debenture matures on September 1, 2008 at which time the principal and interest is due. The shareholder has the right to convert all or any portion of outstanding indebtedness into units ("units") of the Corporation at the conversion price per unit (the "Conversion Price") equal to \$0.80 per unit. Each unit consists of one common share and one half (1/2) purchase warrant with each whole warrant entitling the shareholder to acquire one additional common share at \$0.90 within 12 months of the conversion date. The shareholder is entitled to convert all or a portion of the indebtedness into units anytime prior to the second anniversary of the date of issue (the "Conversion Period"). The debenture is secured by a General Security Agreement.

As the shareholder can convert all or any portion of the debenture into units of the Corporation, the debenture obligations were classified partially as a liability and partially as shareholders' equity. The liability component was calculated in the amount of \$738,768 and represents the present value of the required contractual payments of principal and interest discounted at an interest rate approximating that which would have been applicable to non-convertible subordinated debt at the time the debenture was issued. The difference between the original principal amount of the debenture and the

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2008 and 2007
(Unaudited)

19. CONVERTIBLE DEBENTURE (continued)

amount recorded as a liability is \$11,232 and represents the value of the conversion option which has been recorded as capital stock. Accrued interest in the amount of \$9,041 has been recorded as of the period ended May 31, 2008.

20. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the presentation used in the current year.

21. SUBSEQUENT EVENT

On June 17, 2008, the Company's wholly owned subsidiary Fitzpatrick Mountain Wind Energy Inc. sold its two turbines to a commercial bank 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 purchase the equipment or (c) renew the lease for another five year 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. Proceeds from the sale of these two turbines were used to repay to the Company amounts owing from Fitzpatrick Mountain Wind Energy Inc.'s purchase of these assets and the Company used these proceeds to repay a shareholder loan.