

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

**BALANCE SHEET**  
**FOR THE PERIOD ENDED NOVEMBER 30, 2006**

**UNAUDITED**

(with comparative figures at August 31, 2005)

	<b>November 30</b>	August 31
	<b>2006</b>	2005
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and Cash Equivalents	<b>1,666,566</b>	1,633,275
Accounts Receivable	<b>115,742</b>	321,343
Cash Calls	-	-
	<b>1,782,308</b>	1,954,618
Deposits	<b>261,037</b>	190,224
Wind Power Project Development Costs (note 5)	<b>4,587,779</b>	4,582,727
Equipment (note 6)	<b>7,388</b>	8,350
	<b>6,638,512</b>	6,735,919
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts Payable and Accrued Liabilities	<b>859,924</b>	796,918
Future income taxes	<b>1,628,000</b>	1,628,000
	<b>2,487,924</b>	2,424,918
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (note 9)	<b>4,914,108</b>	4,911,708
Contributed Surplus (note 12)	<b>270,150</b>	270,150
Deficit	<b>(1,033,670)</b>	(870,857)
	<b>4,150,588</b>	4,311,001
<b>NATURE OF OPERATIONS and BASIS OF PRESENTATION (note 1)</b>		
<b>COMMITMENTS AND GUARANTEES (note 8)</b>		
<b>SUBSEQUENT EVENT (note 15)</b>		
	<b>6,638,512</b>	6,735,919

Approved on behalf of the Board:

(Signed) Gary MacKenzie, Director

(Signed) J. M. Magnus, Director

See accompanying notes to the financial statements.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

**STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE PERIOD FROM SEPTEMBER 1, 2006 TO NOVEMBER 30, 2006**  
**UNAUDITED**

**(with comparative figures for the period from September 1, 2005 to November 30, 2005**  
**and cumulative figures since inception on December 17, 2004 to November 30, 2006)**

	<b>3 months ended</b> <b>November 30,</b> <b>2006</b>	3 months ended November 30, 2005	Cumulative, Since inception on December 17, 2004 to November 30, 2006
<b>EXPENSES</b>			
Consulting Fees	28,825	57,837	418,268
Amortization	58,246	-	62,095
General and Administrative	110,533	35,744	448,200
Stock-Based Compensation	-	-	240,000
	<b>197,604</b>	<b>93,581</b>	<b>1,168,563</b>
<b>INCIDENTAL REVENUE</b>			
Other Income	11,974	8,435	81,249
Electricity Sales	22,817	3,776	45,369
Gain on Sale of Investment	-	-	8,275
	<b>34,791</b>	<b>12,211</b>	<b>134,893</b>
<b>NET LOSS</b>	<b>(162,813)</b>	<b>(81,370)</b>	<b>(1,033,670)</b>
<b>Deficit, beginning of period</b>	<b>(870,857)</b>	<b>(235,777)</b>	<b>-</b>
<b>Deficit, end of period</b>	<b>(1,033,670)</b>	<b>(317,147)</b>	<b>(1,033,670)</b>
<b>Basic and Diluted Loss Per Share (note 15)</b>	<b>0.005</b>	<b>0.004</b>	

See accompanying notes to the financial statements.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE PERIOD FROM SEPTEMBER 1, 2006 TO NOVEMBER 30, 2006**  
**UNAUDITED**

(with comparative figures for the period from September 1, 2005 to November 30, 2005  
and cumulative figures since inception on December 17, 2004 to November 30, 2006)

	<b>3 months ended November 30, 2006</b>	3 months ended November 30, 2005	Cumulative, Since inception on December 17, 2004 to November 30, 2006
Cash (used in) provided by:			
<b>OPERATING ACTIVITIES</b>			
Net loss	(162,813)	(81,370)	(1,033,670)
Adjustments for items not affecting cash:			
Amortization	58,246	-	62,095
Gain on sale of investment	-	-	(8,275)
Stock-based compensation	-	-	240,000
Consulting fees settled with shares	-	-	150,100
	<b>(104,567)</b>	<b>(81,370)</b>	<b>(589,750)</b>
Changes in non-cash working capital balances			
Cash calls	-	317,146	-
Accounts receivable	205,601	(449)	(105,235)
Accounts payable and accrued liabilities	49,041	387,301	1,977
	<b>150,075</b>	<b>622,628</b>	<b>(693,008)</b>
<b>FINANCING ACTIVITIES</b>			
Cash acquired on acquisition of MWP Capital Corp.	-	-	362,420
Common shares issued for cash	2,400	1,461,000	6,202,900
Share issuance costs	-	(4,580)	(42,457)
	<b>2,400</b>	<b>1,456,420</b>	<b>6,522,863</b>
<b>INVESTING ACTIVITIES</b>			
Deposits	(70,813)	49,120	(261,037)
Proceeds on the sale of investments	-	-	171,625
Cash advanced for commercial paper issuance	-	-	(862,627)
Cash repayment from commercial paper issuance	-	169,500	699,277
Purchase of equipment	-	-	(12,199)
Wind power project development costs	(62,336)	(1,235,161)	(4,645,063)
Accounts payable and accrued liabilities	13,965	-	746,735
	<b>(119,184)</b>	<b>(1,016,541)</b>	<b>(4,163,289)</b>
<b>Increase in cash</b>	<b>33,291</b>	<b>1,062,507</b>	<b>1,666,566</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>1,633,275</b>	<b>887,567</b>	<b>-</b>
<b>Cash and cash equivalents, end of the period</b>	<b>1,666,566</b>	<b>1,950,074</b>	<b>1,666,566</b>
<b>Cash and cash equivalents consist of the following:</b>			
Cash held in banks	477,134	558,302	477,134
Short-term deposits	1,189,432	1,391,772	1,189,432
	<b>1,666,566</b>	<b>1,950,074</b>	<b>1,666,566</b>

See accompanying notes to the financial statements.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**November 30, 2006**

**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 generation technology through a joint venture operating agreement on a non-operating basis. 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 this technology.

These 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 its development of its wind generation technology.

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 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. REVERSE TAKEOVER TRANSACTION**

On June 9, 2006, MWP Capital Corp. (“MWP”), a capital pool company listed on the TSX Venture Exchange, completed its Qualifying Transaction pursuant to TSX Venture Exchange (the “Exchange”) policy with Shear Wind, through an amalgamation agreement (the “Amalgamation”). Pursuant to the Amalgamation MWP acquired all of the issued and outstanding equity securities of Shear Wind. After the acquisition, MWP and Shear Wind amalgamated into Shear Wind Inc. (or the “Company”). For accounting purposes, the Qualifying Transaction is considered a reverse takeover with Shear Wind identified as the acquirer and MWP the deemed acquired company. There are a number of factors that indicate Shear Wind is the continued entity for accounting purposes, including: the continued use of the Shear Wind name and of its principal business operations; dominance of the management of Shear Wind; dominance of the Board of Shear Wind by Shear Wind management and nominees and the lack of any individually significant shareholdings other than the former Shear Wind shareholders.

As a consequence of applying reverse takeover accounting, these financial statements have been prepared on the basis that Shear Wind is the continuing accounting entity. The Qualifying Transaction has been accounted for as a capital transaction of Shear Wind.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**November 30, 2006**

**2. REVERSE TAKEOVER TRANSACTION (continued)**

A summary of the net assets acquired of MWP on June 9, 2006 is as follows:

Cash and cash equivalents	362,420
Other receivables	10,507
Deferred transaction costs	171,912
Accounts payable and accrued liabilities	(111,212)
Options issued prior to reverse takeover	(35,700)
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4,100,000 Class A common shares issued	397,927
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**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**Use of Estimates**

In preparing the 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 financial statements and reported amounts of revenue and expenses during the period. 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, including asset retirement obligations and the determination of stock-based compensation.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, balances with banks and highly liquid short-term deposits with maturities at period end of twelve months or less.

**Wind Power Project Development Costs**

All direct costs relating to the Wind Power Project 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 generation power to a clearly defined market, and adequate resources exist or are expected to be available to complete the project to commercial production.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**November 30, 2006**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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

**Stock-Based Compensation**

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. Awards of share options are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense and a credit to contributed surplus when share options are granted. 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. Any consideration paid on exercise of share options is credited to share capital.

**Share Issue Costs**

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

**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.

**SHEAR WIND INC.**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**November 30, 2006**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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, 2006, the Company has not incurred or committed any asset retirement obligations related to the development of its Wind Generation Project.

**Income Taxes**

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting 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.

**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. Currently, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and accordingly basic and diluted loss per common share are the same.

**SHEAR WIND INC.**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**November 30, 2006**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of Long-Lived Assets**

Canadian generally accepted accounting principles requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment when ever 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 those assets.

Where the undiscounted future cash flows are less than the carrying amount of the asset, the assets are written down to their estimated fair values. Management has not identified circumstances indicating possible impairment of the Company's long-lived assets as at August 31, 2006 and November 30, 2006.

**Joint Venture Operations**

The Company's activities are conducted jointly with others. The Company's accounts reflect only the Company's proportionate interest in these activities.

**4. FINANCIAL INSTRUMENTS**

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The carrying amounts recorded in the financial statements for the financial instruments approximate their fair values due to the short-term maturity of these instruments.

**5. WIND POWER PROJECT DEVELOPMENT COSTS**

Costs incurred relating to the Wind Power Project development is as follows:

	<b>September 1, 2006 Opening Balance</b>	<b>Additions &amp; (Writedowns)</b>	<b>Amortization</b>	<b>November 30, 2006 Closing Balance</b>
<b>Acquisition and Development Costs:</b>	<b>4,582,727</b>	<b>62,336</b>	<b>57,284</b>	<b>4,587,779</b>

**SHEAR WIND INC.**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**November 30, 2006**

**5. WIND POWER PROJECT DEVELOPMENT COSTS (continued)**

	<b>September 1, 2005</b>	<b>Opening Balance</b>	<b>Additions &amp; (Writedowns)</b>	<b>Amortization</b>	<b>August 31, 2006</b>
					<b>Closing Balance</b>
<b>Acquisition and Development Costs:</b>	<b>1,499,116</b>		<b>3,083,611</b>	<b>-</b>	<b>4,582,727</b>

In December, 2004 the Company entered into a joint venture farm-in agreement 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 have secured a 15 year power purchase agreement with Nova Scotia Power Inc. for 4 Megawatts of power annually. Pursuant to the Company's agreement with RESL the Company has the right to pay 2/3 of the installed costs of the test turbines in return for a 1/3 working interest. The estimated cost to purchase and install six turbines is approximately \$7,200,000, of which the Company is responsible for \$4,800,000. As at November 30, 2006 four wind turbines have been erected and tied into the power grid and two others have been erected.

**6. EQUIPMENT**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>November 30, 2006 Net Book Value</b>	<b>August 31, 2006 Net Book Value</b>
<b>Office equipment</b>	<b>1,627</b>	<b>406</b>	<b>1,221</b>	1,302
<b>Computer equipment</b>	<b>10,572</b>	<b>4,405</b>	<b>6,167</b>	7,048
	<b>12,199</b>	<b>4,811</b>	<b>7,338</b>	8,350

**7. 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.

**SHEAR WIND INC.**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**7. RELATED PARTY TRANSACTIONS (continued)**

Amounts paid to related parties are in the normal course of pre-operations and are valued at fair market value as determined by management. The Company was involved in the following related party transactions:

A company owned 100% by an officer of the Company had charged the Company \$25,000 (2006 - \$0) in consulting fees in the period.

**8. COMMITMENTS AND GUARANTEES**

The Company is contractually obligated, through the joint venture agreements, to provide the net electrical output of the Goodwood, Brookfield, Fitzpatrick and Statia area wind generation facilities at a rate of \$0.068 per Kilowatt-hour for the next 15 years.

The Company has secured office premises through lease until March, 2009. Annual rent, including operating costs, is estimated at \$22,000.

During 2005 the Company agreed to guarantee a loan for a third party for the initial amount of \$250,000. In order to guarantee this loan, the Company pledged and assigned a \$250,000 guaranteed investment certificate. The term of the guarantee extended to March 14, 2006. The loan was not repaid at that date. The Company's investment, including accrued interest used to secure the loan, was forfeited. In exchange for issuing the guarantee, the debtor company pledged certain assets as collateral. Subsequent to 2006 the Company was successful in realizing on the assets pledged as collateral and recovered the full amount guaranteed of \$250,000.

The Company entered into flow-through share subscription agreements during the current and prior period whereby it is committed to incur on or before December 31, 2006 and renounce to shareholders, a total of \$5,495,000 of qualifying Canadian Exploration Expenditures (of which \$4,270,000 of qualifying expenditures have been renounced to November 30, 2006) as described in the Income Tax Act of Canada. Commencing February 1, 2007, the Company will be liable to pay a tax of approximately 7% per annum, calculated monthly on the unspent portion of the commitment.

**SHEAR WIND INC.**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**November 30, 2006**

**9. SHARE CAPITAL AND RELATED INFORMATION**

**Authorized:**

<u>Class of shares</u>	<u>Number of shares authorized</u>
Class A - voting common shares	Unlimited
Class B - voting common shares	Unlimited
Class C - voting common shares	Unlimited
Class D - voting common shares	Unlimited
Class E - voting common shares	Unlimited
Class F - voting common shares	Unlimited
Class G - non-voting preference common shares	Unlimited
Class H - non-voting preference common shares	Unlimited
Class I - non-voting, non-participating common shares	Unlimited

**Issued and outstanding:**

	<b>Class A Common Shares</b>	<b>Amount (\$)</b>
Private Placements:		
Issued for cash	4,650,000	558,000
Flow-through shares issued for cash	15,300,000	3,060,000
Issued in lieu of payment of consulting fees	1,251,000	150,100
Share issue costs	-	(34,823)
<b>Balance, August 31, 2005</b>	<b>21,201,000</b>	<b>3,733,277</b>
Flow-through shares issued on exercise of flow-through warrants	9,740,000	2,435,000
Tax benefits renounced to shareholders	-	(1,628,000)
Issued on exercise of warrants	500,000	125,000
Issued on exercise of agents' options	150,000	22,500
Fair value transfer on exercise of agents' options	-	5,550
Share issue costs	-	(7,634)
Cancelled on amalgamation	(550,000)	-
Issued on acquisition of MWP	4,100,000	397,927
Costs of reverse takeover transaction	-	(171,912)
<b>Balance, August 31, 2006</b>	<b>35,141,000</b>	<b>4,911,708</b>
Agents options	16,000	2,400
<b>Balance, November 30, 2006</b>	<b>35,157,000</b>	<b>4,914,108</b>

**SHEAR WIND INC.**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**November 30, 2006**

**9. SHARE CAPITAL AND RELATED INFORMATION (continued)**

**Share capital transactions in period**

During the period 16,000 agent's options were exercised at a price of \$0.15, raising \$2,400.

**10. COMMON SHARE PURCHASE WARRANTS AND AGENTS' OPTIONS**

The following table reflects the continuity of the number of warrants and Agents' options:

<b>Expiry Date</b>	<b>Exercise Price (\$)</b>	<b>2007 Opening Balance</b>	<b>Issued</b>	<b>Exercised</b>	<b>Expired</b>	<b>2007 Closing Balance</b>
<b>Agents' Options:</b>						
August 26, 2007	0.15	150,000	-	(16,000)	-	134,000
<b>Warrants:</b>						
December 15, 2005	0.25	-	-	-	-	-
July 15, 2006	0.25	-	-	-	-	-
		150,000	-	(16,000)	-	134,000

<b>Expiry Date</b>	<b>Exercise Price (\$)</b>	<b>2006 Opening Balance</b>	<b>Issued</b>	<b>Exercised</b>	<b>Expired</b>	<b>2006 Closing Balance</b>
<b>Agents' Options:</b>						
August 26, 2007	0.15	300,000	-	(150,000)	-	150,000
<b>Warrants:</b>						
December 15, 2005	0.25	15,300,000	-	(9,740,000)	(5,560,000)	-
July 15, 2006	0.25	500,000	-	(500,000)	-	-
		16,100,000	-	(10,390,000)	(5,560,000)	150,000

**SHEAR WIND INC.**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**11. 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.

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

	Number of Stock Options		Weighted Average Exercise Price	
	November 30, 2006	August 31 2006	November 30, 2006	August 31, 2006
Opening balance	2,410,000	825,000	0.27	0.18
Granted	-	2,000,000	-	0.30
Issued on reverse takeover	-	410,000	-	0.15
Cancelled/expired	-	(825,000)	-	0.18
Exercised	-	-	-	-
Ending balance	2,410,000	2,410,000	0.27	0.27

As at November 30, 2006, there were 2,410,000 exercisable stock options.

The following table reflects the stock options outstanding as at November 30, 2006:

Expiry Date	Weighted Average Exercise Price (\$)	Options Outstanding
August 26, 2010	0.15	410,000
June 26, 2011	0.30	2,000,000
		2,410,000

During the year ended August 31, 2006, 2,000,000 (2005 – 825,000) stock options were granted to directors, officers and employees of the Company. These options will be expensed in the statement of operations and deficit as they vest. Of the options granted 2,000,000 (2005 – 275,000) have vested and accordingly, \$240,000 (2005 - \$Nil) was recorded as stock-based compensation and credited to contributed surplus.

As part of the reverse takeover transaction 410,000 stock options was issued to replace the MWP stock options cancelled on amalgamation. The stock options issued contained the same exercise terms and conditions as before.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**November 30, 2006**

**11. STOCK OPTION PLAN (continued)**

The fair value of all options granted fiscal 2006 have been estimated at the date of grant using a Black-Scholes option pricing model. The current's valuation was calculated with the following assumptions: weighted average risk free interest rate of 3.33%; volatility factor of the expected market price of the Company's common stock of 40%; and a weighted average expected life of the option of 5 years.

**12. CONTRIBUTED SURPLUS**

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

	<b>Amount (\$)</b>
Balance, August 31, 2005	-
Stock-based compensation expense	240,000
Agents' options from reverse takeover	11,100
Stock-based compensation from reverse takeover	24,600
Fair value transfer on exercise of Agents' options	(5,550)
Balance August 31, 2006 and November 30, 2006	270,150

**13. ARBITRATION DISPUTE**

The Company has disputed charges accrued in the accounts for wind turbine purchase and installations and disputed the whole Farm in Agreement and the Joint Operating Agreement with RESL as disclosed in note 5. In order to settle the dispute the Company and RESL went to binding arbitration. On November 21, 2006 the arbitrator ruled in favour of the Company. Although the exact amount is still being determined, management anticipates a reduction in the amounts due to RESL at November 30, 2006 and a recovery of amounts previously paid and a corresponding reduction in the capitalized costs of the wind power project.

**SHEAR WIND INC.**  
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**November 30, 2006**

**14. LOSS PER SHARE**

The basic loss per share is computed by dividing the loss for the year by the weighted average number of shares outstanding during the year. Diluted loss per share is that 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:

	<b>2006</b>	<b>2005</b>
Numerator:		
Net loss	<b>162,813</b>	81,370
Denominator:		
Weighted average number of shares	<b>35,146,000</b>	21,201,000

**15. SUBSEQUENT EVENT**

On December 22, 2006 the Company entered into a letter of intent with Vindt Resources Inc. ("Vindt"), a private Alberta based energy resource development and management company whereby the Company will acquire all of the issued and outstanding equity securities of Vindt. All outstanding securities of Vindt will be exchanged for Shear Wind securities on the following basis:

- i. The issuance of two common shares of Shear Wind for each Vindt common share outstanding, or an aggregate of 6,810,000 Shear Wind shares at a deemed issue price of \$0.19 per share;
- ii. The issuance of two warrants of Shear Wind for each Vindt warrant outstanding, or an aggregate of 1,525,000 Shear Wind warrants exercisable at \$0.30 and expiring on June 30, 2008;
- iii. The issuance of two broker warrants of Shear Wind for each Vindt broker warrant outstanding, or an aggregate of 426,000 Shear Wind broker warrants exercisable at \$0.25 and expiring on June 29, 2009; and
- iv. The issuance of two incentive stock options of Shear Wind for each Vindt incentive stock option outstanding, or an aggregate of 600,000 Shear Wind options exercisable at \$0.30 and expiring June 21, 2011.

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**15. SUBSEQUENT EVENT (continued)**

In addition, pursuant to the terms of the letter of intent, certain directors and officers of Vindt will receive 800,000 Shear Wind shares as a signing bonus for entering into employment agreement with Shear Wind. At the closing of the transaction, 1,800,000 Shear Wind shares issued to current directors, officers, and founder of Vindt will be subject to a voluntary escrow, all of which will be released one year after closing of the transaction.

The proposed transaction is arm's length and will not result in a change of control or management of Shear Wind. The proposed transaction is subject to a number of conditions, including further due diligence, TSX Venture Exchange approval and shareholder approval by Vindt's shareholders.