

# **Shear Wind Inc.**

Consolidated Financial Statements

(Unaudited)

For the three months ended

November 30, 2008 and 2007

**Shear Wind Inc.**  
**Table of Contents**  
**November 30, 2008**

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	<u>Page</u>
Consolidated Balance Sheets	1
Consolidated Statements of Operations, Comprehensive Loss and Deficit	2
Consolidated Statements of Cash Flows	3
Notes to the Consolidated Financial Statements	4-17

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

**CONSOLIDATED BALANCE SHEETS**

	November 30, 2008	August 31, 2008
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	37,928	124,698
Accounts receivable	37,855	204,840
	<b>75,783</b>	<b>329,538</b>
Prepays and deposits (note 5)	791,004	798,516
Project development costs (note 6)	5,427,715	5,098,591
Property, plant and equipment (note 7)	3,791,823	3,845,349
	<b>10,086,325</b>	<b>10,071,994</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	506,045	958,609
Shareholder loans (note 8)	1,050,070	1,024,657
Convertible debenture (note 9)	-	768,493
Current portion of capital lease	119,719	118,058
	<b>1,675,834</b>	<b>2,869,817</b>
Long-term portion of capital lease	1,415,452	1,446,012
Future income taxes	203,000	352,000
	<b>3,294,286</b>	<b>4,667,829</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 10)	9,489,801	8,302,082
Contributed surplus (note 13)	1,050,356	756,697
Warrants (note 14)	434,938	54,153
Deficit	(4,183,056)	(3,708,767)
	<b>6,792,039</b>	<b>5,404,165</b>
	<b>10,086,325</b>	<b>10,071,994</b>

NATURE OF OPERATIONS AND CONTINUATION OF BUSINESS (note 1)

COMMITMENTS AND GUARANTEES (note 17)

SUBSEQUENT EVENT (note 20)

Approved on behalf of the Board:

*"Michael J. Wheatley"*

Michael J. Wheatley, Director

*"Murray D. Smith"*

Murray D. Smith, 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 November 30, 2008	For the 3 months ended November 30, 2007	Cumulative, Since inception on December 17, 2004 to November 30, 2008
	\$	\$	\$
<b>INCIDENTAL REVENUE</b>			
Electricity sales	85,148	4,755	501,147
Interest income	3,462	(486)	129,824
Dividend income	-	9,505	19,976
Other	-	-	997
	<b>88,610</b>	<b>13,774</b>	<b>651,944</b>
<b>EXPENSES</b>			
Salaries and benefits	435,819	103,666	1,950,325
General and administration	66,330	48,479	1,043,015
Consulting fees (note 16)	59,000	24,000	633,628
Professional fees (note 16)	47,722	30,171	542,803
Amortization of property, plant and equipment	53,526	38,785	438,988
	<b>662,397</b>	<b>245,101</b>	<b>4,608,759</b>
<b>OTHER EXPENSES</b>			
Interest	49,339	33,008	254,139
Asset writedown	-	752	886,216
Realized loss on sale of investments	-	55,358	130,313
Other	163	2,554	3,573
	<b>49,502</b>	<b>91,672</b>	<b>1,274,241</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(623,289)</b>	<b>(322,999)</b>	<b>(5,231,056)</b>
Future income tax recovery	149,000	58,450	1,048,000
<b>NET AND COMPREHENSIVE LOSS</b>	<b>(474,289)</b>	<b>(264,549)</b>	<b>(4,183,056)</b>
<b>Deficit, beginning of period</b>	<b>(3,708,767)</b>	<b>(2,573,555)</b>	<b>-</b>
<b>Deficit, end of period</b>	<b>(4,183,056)</b>	<b>(2,838,104)</b>	<b>(4,183,056)</b>
<b>Basic and diluted loss per share (note 15)</b>	<b>(0.010)</b>	<b>(0.006)</b>	<b>(0.087)</b>

see accompanying notes to the consolidated financial statements

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the 3 months ended November 30, 2008	For the 3 months ended November 30, 2007	Cumulative, Since inception on December 17, 2004 to November 30, 2008
	\$	\$	\$
Cash (used in) provided by:			
<b>OPERATING ACTIVITIES</b>			
Net loss	(474,289)	(264,549)	(4,183,056)
Adjustments for items not affecting cash:			
Amortization of property, plant and equipment	53,526	38,785	438,988
Asset writedown	-	752	886,216
Loss on sale of investments	-	55,358	130,313
Accretion of convertible debenture	-	-	11,232
Accrued interest - expense	25,413	1,315	68,563
Accrued interest - income	-	-	(3,870)
Future income tax recovery	(149,000)	(58,450)	(1,048,000)
Stock-based compensation	329,921	-	1,040,601
Consulting fees settled with shares	-	-	150,100
	(214,429)	(226,789)	(2,508,913)
Changes in non-cash working capital balances			
Accounts receivable	166,985	(36,894)	(91,988)
Prepaid expenses	7,512	-	7,512
Accounts payable and accrued liabilities	(675,553)	58,167	(554,073)
	(715,485)	(205,516)	(3,147,462)
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of common shares	1,707,500	98,222	8,723,572
Share issue costs	(175,258)	-	(245,391)
Proceeds from margin loan	-	473,507	688,738
Repayment of margin loan	-	-	(688,738)
Proceeds from shareholder loan	-	1,600,000	2,600,000
Repayment of shareholder loan	-	-	(1,600,000)
Proceeds from convertible debenture	-	-	750,000
Repayment of convertible debenture	(768,493)	-	(768,493)
Proceeds from sale lease-back	-	-	1,600,000
Repayment of sale lease-back	(28,899)	-	(64,829)
Accounts payable and accrued liabilities	222,989	158,909	1,185,135
	957,839	2,330,638	12,179,994
<b>INVESTING ACTIVITIES</b>			
Cash advanced for deposits	-	(104,867)	(1,190,619)
Cash repayment from deposits	-	-	492,959
Business acquisition, net of cash acquired	-	-	361,901
Proceeds on the sale of investments	-	-	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 property, plant and equipment	-	(1,600,445)	(1,652,309)
Wind power project development costs	(329,124)	(479,485)	(6,876,223)
	(329,124)	(2,184,797)	(8,994,604)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(86,770)</b>	<b>(59,675)</b>	<b>37,928</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>124,698</b>	<b>63,379</b>	<b>-</b>
<b>Cash and cash equivalents, end of the period</b>	<b>37,928</b>	<b>3,704</b>	<b>37,928</b>
<b>Cash and cash equivalents consist of the following:</b>			
Cash held in banks (bank indebtedness)	37,928	3,704	37,928
Short-term deposits	-	-	-
	<b>37,928</b>	<b>3,704</b>	<b>37,928</b>

see accompanying notes to the consolidated financial statements and note 19 for additional cash flow information.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**1. NATURE OF OPERATIONS AND CONTINUATION OF BUSINESS**

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 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.

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption.

The Company has incurred significant operating losses over the past three fiscal years (\$1,135,212 in the year ended August 31, 2008 and \$474,289 in the period ending November 30, 2008) and has a working capital deficiency of \$1,600,051.

If the trend continues, the current working capital is not sufficient to sustain the Company for the next 12 months. Management’s opinion is that the Company must obtain cash flow from additional financing to maintain sufficient working capital to meet creditor obligations and continue to invest in wind development projects. The current economic conditions present significant challenges to raising additional financing and equity capital therefore Management is currently pursuing various options including the sale of assets to secure the necessary funds. See Note 20 - Subsequent Event.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net earnings and the balance sheet classifications used.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited interim consolidated financial statements have been prepared following the accounting policies set out in the 2008 annual audited consolidated financial statements, except as disclosed in Note 3.

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, 2008 annual audited consolidated financial statements. These unaudited consolidated financial statements are denominated in Canadian dollars.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**3. ADOPTION OF NEW ACCOUNTING POLICIES**

**Financial Instruments – Disclosures and Financial Instruments – Presentation**

On September 1, 2008 the Company adopted Section 3862, Financial instruments – Disclosures and Section 3863, Financial instruments – Presentation. Section 3862 requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The required disclosures are included in Note 18. Section 3863 contains standards for presentation of financial instruments and non-financial derivatives. The adoption of this Section had no impact on the consolidated financial statements.

**4. FUTURE ACCOUNTING PRONOUNCEMENTS**

**International Financial Reporting Standards**

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for publicly accountable enterprises are expected to converge with International Financial Reporting Standards ("IFRS") for years starting on or after January 1, 2011. The Company will begin reporting its financial statements in accordance with IFRS for periods commencing September 1, 2011. The Company has begun planning its transition to IFRS but the impact on the Company's consolidated financial statements has not yet been determined.

**5. PREPAIDS AND DEPOSITS**

As at the period ended November 30, 2008, the Company has provided to Nova Scotia Power, as a condition of its Power Purchase Agreement (PPA), a Performance Security Deposit in the form of a letter of credit in the amount of \$500,000 (August 31, 2008 - \$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 made deposits in the amount of \$255,000 (August 31, 2008 - \$255,000) for interconnection and system impact studies as well as prepaid expenses in the amount of \$36,004 (August 31, 2008 - \$43,516) related to land leases, insurance and flight passes.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**6. PROJECT DEVELOPMENT COSTS**

Project development costs are comprised of the following:

	September 1, 2008 Opening Balance	Additions	Writedowns	November 30, 2008 Closing Balance
<b>Wind Project Development Costs:</b>	5,098,591	329,124		5,427,715

	September 1, 2007 Opening Balance	Additions	Writedowns	August 31, 2008 Closing Balance
<b>Wind Project Development Costs:</b>	3,109,852	2,043,104	(54,365)	5,098,591

During the period ended November 30, 2008, the Company had project development expenditures of \$329,124.

During the year-ended August 31, 2008, the Company had project development expenditures of \$2,043,104. In addition, the Company cancelled further development on its' site at Merland, Nova Scotia and recorded a write-down of \$54,365.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**7. PROPERTY, PLANT AND EQUIPMENT**

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

	September 1, 2008 Cost	Accumulated Amortization	November 30, 2008 Net Book Value
<b>Turbines and related infrastructure</b>	4,178,502	(415,169)	3,763,333
<b>Office equipment</b>	10,648	(3,429)	7,219
<b>Computer equipment</b>	21,811	(15,245)	6,566
<b>Vehicles</b>	5,511	(2,755)	2,756
<b>Leasehold Improvements</b>	14,339	(2,390)	11,949
<b>Total</b>	4,230,811	(438,988)	3,791,823

During the period ended November 30, 2008 there were no additions. The Company recorded amortization in the amount of \$53,526. (August 31, 2008 - \$38,785)

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**7. PROPERTY, PLANT AND EQUIPMENT (continued)**

	September 1, 2007 Cost	Accumulated Amortization	August 31, 2008 Net Book Value
<b>Turbines and related infrastructure</b>	2,753,008	(365,169)	3,813,333
<b>Office equipment</b>	7,024	(2,897)	7,751
<b>Computer equipment</b>	16,329	(13,427)	8,384
<b>Vehicles</b>	5,511	(2,296)	3,215
<b>Leasehold Improvements</b>	-	(1,673)	12,666
<b>Total</b>	2,781,872	(385,462)	3,845,349

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**8. SHAREHOLDER LOANS**

	<b>November 30, 2008</b>	<b>August 31, 2008</b>
Opening balance	\$ 1,024,657	\$ -
Gross proceeds	-	2,600,000
Repayment	-	(1,600,000)
Accrued interest	25,413	24,657
<b>Ending balance</b>	<b>\$ 1,050,070</b>	<b>\$ 1,024,657</b>

The Company's two loans from a shareholder and a shareholder and director were amended on September 1, 2008. The principal balance of each is \$512,400. The loans bear an interest rate of 10% per year and mature on December 31, 2008.

**9. CONVERTIBLE DEBENTURE**

	<b>November 30, 2008</b>	<b>August 31, 2008</b>
Opening balance	\$ 768,493	\$ -
Gross proceeds	-	750,000
Accrued interest	1,028	18,493
Repayment	(769,521)	-
<b>Ending balance</b>	<b>\$ -</b>	<b>\$ 768,493</b>

The Company issued a 5% secured convertible debenture to a shareholder in the amount of \$750,000 in the period ended August 31, 2008. The debenture matured on September 1, 2008 at which time the principal and interest was due. The Company repaid the debenture and accrued interest of \$19,521 on September 10, 2008.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**10. 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 (\$)
<b>Balance, August 31, 2007</b>	<b>42,840,000</b>	<b>7,088,188</b>
Fair value transfer on exercise of warrants	-	313,146
Fair value transfer on exercise of options	-	137,026
Issued on exercise of options	1,043,334	291,500
Issued on exercise of warrants	1,612,287	472,222
<b>Balance, August 31, 2008</b>	<b>45,495,621</b>	<b>8,302,082</b>
Issued on exercise of options	150,000	45,000
Fair value transfer on exercise of options	-	36,262
Private Placement:		
Flow-through shares issued for cash	3,452,128	1,622,500
Issued for cash	85,106	40,000
Share issue costs		(175,258)
Fair value of warrants issued		(380,785)
<b>Balance, November 30, 2008</b>	<b>49,182,855</b>	<b>9,489,801</b>

**Share capital transactions during the period ended November 30, 2008.**

During the period ended November 30, 2008, the Company raised \$1,662,500 from a private placement consisting of the issuance of 3,537,234 units at a price of \$0.47 per unit for total proceeds of \$1,662,500. Each unit includes one common share and one-half of one purchase warrant, with each full warrant entitling the holder to purchase one additional common share at a price of \$0.55 within 24 months of closing. Of the total common shares issued, 3,452,128 were issued on a flow-through basis pursuant to the "Canadian Development Expense(s) and "Canadian Exploration Expense(s)" provisions under subsections 66.2(5) and 66.1(6) of the Income Tax Act (Canada). Related parties subscribed for 900,000 common shares under the private placement. The common shares and warrants will be subject to a 4 month hold period. Share issue

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**10. SHARE CAPITAL (continued)**

costs were \$175,258 and the fair value of warrants issued was calculated at \$380,785 using the Black-Scholes pricing model under the following assumptions: volatility of 117 %, risk-free interest rate of 2.77 % and a term of two years. Additionally, a former director of the Company's subsidiary, Vindt Resources Inc., exercised 150,000 options at \$0.30 and the fair value transfer on the exercise of these options was \$36,262.

**11. COMMON SHARE PURCHASE WARRANTS**

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

Expiry Date	Exercise Price (\$)	September 1, 2008 Opening Balance	Issued	Exercised	Expired	November 30, 2008 Closing Balance
<b>Warrants:</b>						
June 20, 2009	0.25	250,713	-	-	-	250,713
September 30, 2010	0.55	-	1,768,618	-	-	1,768,618
<b>Total</b>		<b>250,713</b>	<b>1,768,618</b>	<b>-</b>	<b>-</b>	<b>2,019,331</b>

Expiry Date	Exercise Price (\$)	September 1, 2007 Opening Balance	Issued	Exercised	Expired	August 31, 2008 Closing Balance
<b>Warrants:</b>						
October 24, 2007	0.15	58,500	-	(58,500)	-	-
June 20, 2008	0.30	1,500,000	-	(1,500,000)	-	-
June 20, 2009	0.25	304,500	-	(53,787)	-	250,713
<b>Total</b>		<b>1,863,000</b>	<b>-</b>	<b>(1,612,287)</b>	<b>-</b>	<b>250,713</b>

**12. 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.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

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

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

	Number of Stock Options		Weighted Average Exercise Price	
	November 30, 2008	August 31, 2008	November 30, 2008	August 31, 2008
Opening balance	3,546,666	4,060,000	0.36	0.28
Granted	940,000	530,000	0.40	0.75
Exercised	(150,000)	(1,043,334)	0.30	0.28
<b>Ending balance</b>	<b>4,336,666</b>	<b>3,546,666</b>	<b>0.37</b>	<b>0.36</b>

As at November 30, 2008 there were 4,336,666 stock options outstanding under the Plan. No options have expired or been forfeited during the three months ended November 30, 2008. The following table reflects the weighted average exercise price as at November 30, 2008:

Expiry Date	Weighted Average Exercise Price (\$)	Options Outstanding	Options Outstanding and Exercisable
November 26, 2010	0.15	266,666	266,666
June 26, 2011	0.30	1,250,000	1,250,000
June 21, 2011	0.30	300,000	300,000
April 12, 2012	0.30	1,000,000	333,333
June 19, 2012	0.29	50,000	50,000
April 4, 2013	0.75	530,000	530,000
September 26, 2013	0.40	940,000	-
<b>Total</b>	<b>0.37</b>	<b>4,336,666</b>	<b>2,729,999</b>

During the period ended November 30, 2008 a former director of the Company's wholly owned subsidiary – Vindt Resources Inc. exercised 150,000 options at a price of \$0.30 and the fair value transfer on the exercise of these options was \$36,262. During the period ended November 30, 2008, 940,000 stock options (2007 – 530,000) were granted to two directors and a consultant of the Company pursuant to its Stock Option Plan. The options expire on September 26, 2013 and are exercisable at a price of \$0.40 per share. The options are subject to a four month hold period from date of grant. The fair value of these options was estimated using the Black-Scholes option pricing model under the following assumptions: volatility of 126%, risk-free interest rate of 3.16% and a term of 5 years. These options will be expensed in the statement of operations and deficit as they vest and accordingly \$329,921 (2007 - \$453,717) was recorded as stock-based compensation and credited to contributed surplus.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**13. CONTRIBUTED SURPLUS**

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

<b>Contributed Surplus</b>	<b>November 30, 2008</b>	<b>August 31, 2008</b>
Opening balance	\$ 756,697	\$ 428,774
Stock-based compensation expense	-	453,717
Fair value of options issued	329,921	-
Equity component of convertible debenture	-	11,232
Fair value of options exercised	(36,262)	(137,026)
<b>Ending balance</b>	<b>\$ 1,050,356</b>	<b>\$ 756,697</b>

**14. WARRANTS**

The following table reflects the continuity of warrants issued:

<b>Warrants</b>	<b>November 30, 2008</b>	<b>August 31, 2008</b>
Opening balance	54,153	367,299
Fair value of warrants issued for private placement	380,785	-
Fair value of warrants issued for shareholder loans	-	131,494
Fair value of warrants expired from shareholder loans	-	(131,494)
Fair value of warrants exercised	-	(313,146)
<b>Ending balance</b>	<b>434,938</b>	<b>54,153</b>

The Company closed a private placement offering on September 29, 2008. The offering included a half warrant for every unit purchased. The fair value of warrants issued was calculated at \$380,785 using the Black-Scholes pricing model under the following assumptions: volatility of 117 %, risk-free interest rate of 2.77 % and a term of two years.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**15. 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 fully diluted loss per share.

**16. 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 during the three month period ended November 30, 2008:

- A company owned 100% by a director of the Company charged the Company \$35,000 for consulting fees (November 30, 2007 - \$0).
- A company owned 100% by a former director of the Company charged the Company \$5,702 for legal fees (November 30, 2007 - \$nil).
- A company owned 100% by a shareholder of the Company charged the Company \$24,000 for consulting fees (November 30, 2007 - \$24,000).
- A shareholder was repaid during the period for a convertible debenture provided during the year ended August 31, 2008. Repayment was for the principal balance of \$750,000 plus accrued interest of \$19,521 and was made on September 10, 2008 (August 31, 2008 - \$0).
- A director purchased 900,000 units of the private placement offering which closed on September 29, 2008 for total proceeds of \$423,000 (August 31, 2008 - \$0).
- A shareholder and director provided a loan for \$nil (August 31, 2008 - \$1,600,000). The Company repaid the loan during the year ended August 31, 2008.
- A shareholder and director provided a loan for \$nil (August 31, 2008 - \$500,000).
- A shareholder provided a loan for \$nil (August 31, 2008 - \$500,000).

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**17. COMMITMENTS AND GUARANTEES**

As at the period ended November 30, 2008, the Company was engaged in the following 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. This site is currently operational with positive cash flow.
- The Company is contractually obligated, through a 60 megawatt PPA with NSPI to provide the net electrical output of the Glen Dhu - North wind generation site. The agreement is for a period of 20 years from the Commercial Operation Date ("COD"). As part of the agreement the Company has posted a \$500,000 performance security deposit. Subject to the results of a System Impact Study (SIS) currently being prepared by NSPI the Company may be required to provide an additional performance security deposit in the amount of \$1,000,000. If costs identified within the SIS exceed a pre-determined amount then the Company has the option of not proceeding with the project and as a result it's only liability shall be \$500,000. 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 \$35,000.

**18. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its wind projects and to maintain a flexible capital structure for its projects for the benefit of its shareholders. As the Company is in the development stage, its principal source of funds is from the issuance of common shares. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents, receivables and investment balances. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. The Company expects its current capital resources will not be sufficient to carry its development plans and operations through its current operating year and plans to raise additional funds through the sale of assets or through the issue of additional shares.

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**18. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)**

**Financial Instruments and Risk Management**

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

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

**Market value risk**

The Company manages market risk with respect to any short-term investments it holds by investing in guaranteed investment certificates with a Canadian chartered bank. The Company has had no short-term investments during the three months ended November 30, 2008.

**Foreign currency risk**

The Company is not currently exposed to foreign currency fluctuations. The Company may have exposure to foreign currency fluctuations in the future as it moves forward with the construction of various wind projects and will consider entering into derivative contracts at that time to reduce any potential exposure to these fluctuations.

**Interest rate risk**

The Company is exposed to interest rate fluctuations as its capital lease has a floating interest rate. As at November 30, 2008 the Company has assessed that a one percentage point increase in interest rates would have caused a quarterly decrease in net income of approximately \$4,000 and a one percentage point decrease in interest rates would have caused a quarterly increase in net income of approximately \$4,000.

**Liquidity risk**

The Company may be unable to sell its entire interest in an asset quickly without having an adverse effect on the fair value of the asset. The Company may also be exposed to risk of not being able raise funds to meet commitments associated with its financial liabilities (i.e. Accounts payable, capital lease obligation and shareholder loans). The Company continuously monitors its forecast and actual cash flows to assess and further reduce liquidity risk. *See Note 1 – Nature of Operations and Continuation of Business.*

**SHEAR WIND INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended November 30, 2008 and 2007**  
**(Unaudited)**

**18. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)**

**Credit risk**

The Company has minimal credit risk with respect to accounts receivable balances owing. Credit risk is also managed with respect to any short-term investments it holds by investing in guaranteed investment certificates with a Canadian chartered bank. The Company has had no short-term investments during the three months ended November 30, 2008.

**19. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS**

Other information

	<b>November 30, 2008</b>	<b>August 31, 2008</b>
Interest paid	42,399	161,650

**20. SUBSEQUENT EVENT**

**Sale of Glenridge Wind Project**

On January 7, 2009, the Company sold its Alberta based Glenridge Wind Project. The Project, which was owned by the Company's wholly owned subsidiary, Vindt Resources Inc., was sold to an arm's length party at a premium to the original project development costs incurred. The Company has decided not to disclose any further information concerning the terms of the sale at this time due to competitive land issues in the area and ongoing discussions with other major industry participants. The sale proceeds will be used to pay down existing debt, to provide working capital and to further develop the Company's pipeline of wind projects.