

Shear Wind Inc.

Consolidated Financial Statements

(Unaudited)

For the nine months ended

May 31, 2009 and 2008

Shear Wind Inc.
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SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

	May 31, 2009	August 31, 2008
	\$	\$
ASSETS		
CURRENT		
Cash and cash equivalents	22,891	124,698
Accounts receivable	53,490	204,840
	76,381	329,538
Prepays and deposits (note 5)	815,723	798,516
Project development costs (note 6)	4,882,141	5,098,591
Property, plant and equipment (note 7)	3,684,771	3,845,349
	9,459,016	10,071,994
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	333,622	958,609
Shareholder loans (note 8)	-	1,024,657
Convertible debenture (note 9)	-	768,493
Current portion of capital lease	123,110	118,058
	456,732	2,869,817
Long-term portion of capital lease	1,353,038	1,446,012
Future Income Taxes	883,482	352,000
	2,693,252	4,667,829
SHAREHOLDERS' EQUITY		
Share capital (note 10)	9,015,219	8,302,082
Contributed surplus (note 13)	1,131,763	756,697
Warrants (note 14)	434,938	54,153
Deficit	(3,816,156)	(3,708,767)
	6,765,764	5,404,165
	9,459,016	10,071,994

NATURE OF OPERATIONS AND CONTINUATION OF BUSINESS **(note 1)**
 COMMITMENTS AND GUARANTEES **(note 17)**

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

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE (LOSS) INCOME AND DEFICIT

	For the 3 months ended May 31, 2009	For the 3 months ended May 31, 2008	For the 9 months ended May 31, 2009	For the 9 months ended May 31, 2008	Cumulative, Since inception on December 17, 2004 to May 31, 2009
	\$	\$	\$	\$	\$
INCIDENTAL REVENUE					
Electricity sales	72,572	77,916	238,378	169,937	654,377
Interest income	3,578	2,824	10,510	3,419	136,872
Dividend income	-	3,829	-	19,976	19,976
Gain (loss) on sale of asset(note 6)	(13,228)	-	1,221,459	-	1,221,459
Other	-	10	-	252	997
	62,922	84,579	1,470,347	193,584	2,033,681
EXPENSES					
Salaries and benefits	196,151	562,980	745,931	775,330	2,260,437
General and administration	101,124	146,822	245,316	293,616	1,222,000
Consulting fees(note 16)	26,800	24,000	109,800	72,000	684,428
Professional fees(note 16)	70,228	68,732	161,765	175,478	656,846
Amortization of property, plant and equipment	53,526	53,114	160,578	144,321	546,041
	447,829	855,648	1,423,390	1,460,745	5,369,752
OTHER EXPENSES					
Interest	12,777	133,246	94,172	213,633	298,972
Asset write-down	-	-	-	752	886,216
Realized loss on sale of investments	-	19,410	-	68,063	130,313
Other	2,756	118	3,274	2,781	6,684
	15,533	152,774	97,446	285,229	1,322,185
(LOSS) INCOME BEFORE INCOME TAXES	(400,440)	(923,843)	(50,489)	(1,552,390)	(4,658,256)
Future income tax recovery (expense)	(145,900)	164,373	(56,900)	144,993	842,100
NET AND COMPREHENSIVE (LOSS) INCOME	(546,340)	(759,470)	(107,389)	(1,407,397)	(3,816,156)
Deficit, beginning of period	(3,269,816)	(3,221,483)	(3,708,767)	(2,573,556)	-
Deficit, end of period	(3,816,156)	(3,980,953)	(3,816,156)	(3,980,953)	(3,816,156)
Basic and diluted (loss) income per share (note 15)	(0.011)	(0.017)	(0.002)	(0.032)	(0.078)

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 May 31, 2009	For the 3 months ended May 31, 2008	For the 9 months ended May 31, 2009	For the 9 months ended May 31, 2008	Cumulative, Since inception on December 17, 2004 to May 31, 2009
Cash (used in) provided by:	\$	\$	\$	\$	\$
OPERATING ACTIVITIES					
Net income (loss)	(546,340)	(759,470)	(107,389)	(1,407,397)	(3,816,156)
Adjustments for items not affecting cash:					
Amortization of property, plant and equipment	53,526	53,114	160,578	144,321	546,041
Asset writedown	-	-	-	752	886,216
Loss (gain) on sale of asset	13,228	-	(1,221,459)	-	(1,221,459)
Loss on sale of investments	-	19,410	-	68,063	130,313
Accretion of convertible debenture	-	-	-	-	11,232
Accrued interest - expense	-	125,711	(43,150)	167,355	-
Accrued interest - income	-	-	-	-	(3,870)
Future income tax (expense) recovery	145,900	(164,373)	56,900	(144,993)	(842,100)
Stock-based compensation (note 12)	81,406	453,717	411,327	453,717	1,122,007
Consulting fees settled with shares	-	-	-	-	150,100
	(252,280)	(271,891)	(743,193)	(718,182)	(3,037,676)
Changes in non-cash working capital balances					
Accounts receivable	47,269	(33,593)	151,350	(14,699)	(107,623)
Prepaid expenses	7,594	-	39,541	-	39,541
Accounts payable and accrued liabilities	179,264	(238,625)	(193,036)	(1,068)	(71,556)
	(18,153)	(544,109)	(745,338)	(733,949)	(3,177,314)
FINANCING ACTIVITIES					
Proceeds from issuance of common shares	-	174,676	1,707,500	342,698	8,723,572
Share issue costs	-	-	(175,257)	-	(175,257)
Debt issue costs	-	(142,726)	-	(142,726)	-
Realized loss on investment	-	-	-	-	(70,133)
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
Repayment of shareholder loan	-	-	(1,000,000)	-	(2,600,000)
Proceeds from convertible debenture	-	750,000	-	750,000	750,000
Repayment of convertible debenture	-	-	(750,000)	-	(750,000)
Proceeds from sale lease-back	-	-	-	-	1,600,000
Repayment of sale lease-back	(29,717)	-	(87,922)	-	(123,852)
Accounts payable and accrued liabilities	70,449	(254,114)	(431,951)	179,929	530,195
	40,732	1,349,113	(737,630)	3,729,901	10,484,525
INVESTING ACTIVITIES					
Cash advanced for deposits	(25,000)	(456,146)	(56,748)	(602,695)	(1,247,367)
Cash repayment from deposits	-	-	-	40,000	492,959
Business acquisition, net of cash acquired	-	-	-	-	361,901
Proceeds on the sale of assets	-	-	2,137,500	-	2,137,500
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 property, plant and equipment	-	(3,864)	-	(1,618,648)	(1,652,310)
Wind power project development costs	(106,845)	(688,774)	(699,591)	(1,541,639)	(7,246,690)
	(131,845)	(878,766)	1,381,161	(3,034,244)	(7,284,320)
(Decrease) increase in cash and cash equivalents	(109,266)	(73,762)	(101,807)	(38,292)	22,891
Cash and cash equivalents, beginning of the period	132,157	98,849	124,698	63,379	-
Cash and cash equivalents, end of the period	22,891	25,087	22,891	25,087	22,891
Cash and cash equivalents consist of the following:					
Cash held in banks (bank indebtedness)	22,891	25,087	22,891	25,087	22,891
Short-term deposits	-	-	-	-	-
	22,891	25,087	22,891	25,087	22,891

see accompanying notes to the consolidated financial statements

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended May 31, 2009 and 2008
(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 unaudited interim 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). The Company had a net loss of \$107,389 in the nine month period ending May 31, 2009 (nine months ended May 31, 2008 – net loss of \$1,407,397). This improvement compared to the nine months ended May 31, 2008 was due to the sale of an asset which resulted in a net gain of \$1,221,459. The Company has a working capital deficit of \$380,351 as at May 31, 2009.

The current working capital is not sufficient to sustain the Company for the next 12 months. 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 the Company is currently pursuing various other options including the sale of additional assets to secure the necessary funds.

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 interim consolidated financial statements do not conform in all material respects to the requirements of Canadian Generally Accepted Accounting Principles (GAAP) for annual

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 19. 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

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning September 1, 2009. It establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

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5. PREPAIDS AND DEPOSITS

At May 31, 2009, 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 for a three year term and bearing interest at an annual compound equivalent rate of 1.283% per year. The Company also made deposits in the amount of \$280,000 (August 31, 2008 - \$255,000) for interconnection and system impact studies as well as prepaid expenses in the amount of \$35,723 (August 31, 2008 - \$43,516) related to land leases, insurance and flight passes.

6. PROJECT DEVELOPMENT COSTS

Project development costs are comprised of the following:

	May 31, 2009	August 31, 2008
Opening balance	\$ 5,098,591	\$ 3,109,852
Additions	699,591	2,043,104
Disposals	(916,041)	-
Writedowns	-	(54,365)
Closing balance	\$ 4,882,141	\$ 5,098,591

During the nine month period ended May 31, 2009, the Company made project development expenditures of \$699,591. The Company sold its Glen Ridge project for total proceeds of \$2,137,500 in an arms length transaction and had a net gain of \$1,221,459. Disposals of \$916,041 relate to costs incurred on the Company's Glen Ridge asset prior to the sale of this asset.

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.

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7. PROPERTY, PLANT AND EQUIPMENT

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

	September 1, 2008 Cost	Accumulated Amortization	May 31, 2009 Net Book Value
Turbines and related infrastructure	4,178,503	(515,169)	3,663,334
Office equipment	10,648	(4,494)	6,154
Computer equipment	21,811	(18,880)	2,931
Vehicles	5,511	(3,674)	1,837
Leasehold improvements	14,339	(3,824)	10,515
Total	4,230,812	(546,041)	3,684,771

There were no additions to property, plant and equipment during the nine month period ended May 31, 2009. The Company recorded amortization expense in the amount of \$160,579 (May 31, 2008 - \$144,321).

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7. PROPERTY, PLANT AND EQUIPMENT (continued)

	September 1, 2007 Cost	Additions	Adjustments & Writedowns	Accumulated Amortization	August 31, 2008 Net Book Value
Turbines and related infrastructure	2,753,009	1,600,000	(174,506)	(365,169)	3,813,334
Office equipment	7,024	3,624	-	(2,897)	7,751
Computer equipment	16,329	5,482	-	(13,428)	8,383
Vehicles	5,511	-	-	(2,296)	3,215
Leasehold improvements	-	14,339	-	(1,673)	12,666
Total	2,781,873	1,623,445	(174,506)	(385,463)	3,845,349

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(A DEVELOPMENT STAGE COMPANY)
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8. SHAREHOLDER LOANS

	May 31, 2009	August 31, 2008
Opening balance	\$ 1,024,657	\$ -
Gross proceeds	-	2,600,000
Repayment	(1,060,738)	(1,600,000)
Accrued interest	36,081	24,657
Closing balance	\$ -	\$ 1,024,657

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

9. CONVERTIBLE DEBENTURE

	May 31, 2009	August 31, 2008
Opening balance	\$ 768,493	\$ -
Gross proceeds	-	750,000
Accrued interest	1,028	18,493
Repayment	(769,521)	-
Closing balance	\$ -	\$ 768,493

The Company repaid the 5% secured debenture and accrued interest of \$19,521 on September 10, 2008.

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(A DEVELOPMENT STAGE COMPANY)
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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 (\$)
Balance, August 31, 2007	42,840,000	7,088,188
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
Balance, August 31, 2008	45,495,621	8,302,082
Issued on exercise of options	150,000	45,000
Fair value transfer on exercise of options	-	36,261
Private Placement:		
Flow-through shares issued for cash	3,452,128	1,622,500
Shares issued for cash	85,106	40,000
Tax benefits renounced to shareholders	-	(527,313)
Share issue costs	-	(122,526)
Fair value of warrants issued	-	(380,785)
Balance, May 31, 2009	49,182,855	9,015,219

Share capital transactions during the nine month period ended May 31, 2009.

During the nine month period ended May 31, 2009, 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 included 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

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10. SHARE CAPITAL (continued)

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 were subject to a 4 month hold period. Share issue costs were \$122,526, the tax benefits renounced to shareholders was \$527,313 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 \$36,261.

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	May 31, 2009 Closing Balance
Warrants:						
June 20, 2009	0.25	250,713	-	-	-	250,713
September 30, 2010	0.55	-	1,768,618	-	-	1,768,618
Total		250,713	1,768,618	-	-	2,019,331

Expiry Date	Exercise Price (\$)	September 1, 2007 Opening Balance	Issued	Exercised	Expired	August 31, 2008 Closing Balance
Warrants:						
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
Total		1,863,000	-	(1,612,287)	-	250,713

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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 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, 2009	August 31, 2008	May 31, 2009	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
Expired	(150,000)	-	0.30	0.28
Ending balance	4,186,666	3,546,666	0.37	0.36

As at May 31, 2009 there were 4,186,666 stock options outstanding under the Plan. 150,000 options have expired during the nine months ended May 31, 2009. The following table reflects the weighted average exercise price as at May 31, 2009:

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	150,000	150,000
April 12, 2012	0.30	1,000,000	666,666
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	940,000
Total	0.37	4,186,666	3,853,332

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12. STOCK OPTION PLAN (continued)

During the nine month period ended May 31, 2009 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 \$36,261. During the nine month period ended May 31, 2009, 940,000 stock options (2008 – nil) 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 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. Options are expensed in the statement of operations and deficit as they vest and accordingly \$411,327 (May 31, 2008 - \$453,717) has been recorded as stock-based compensation and credited to contributed surplus.

13. CONTRIBUTED SURPLUS

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

Contributed Surplus	May 31, 2009	August 31, 2008
Opening balance	\$ 756,697	\$ 428,774
Stock-based compensation expense	411,327	453,717
Equity component of convertible debenture	-	11,232
Fair value of options exercised	(36,261)	(137,026)
Ending balance	\$ 1,131,763	\$ 756,697

14. WARRANTS

The following table reflects the continuity of warrants issued:

Warrants	May 31, 2009	August 31, 2008
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)
Ending balance	434,938	54,153

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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. 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 nine month period ended May 31, 2009:

- A company owned 100% by a director of the Company charged the Company \$35,000 for consulting fees (May 31, 2008 - \$0).
- A company owned 100% by a former director of the Company charged the Company \$60,380 for legal fees (May 31, 2008 - \$59,945).
- A company owned 100% by a shareholder of the Company charged the Company \$72,000 for consulting fees (May 31, 2008 - \$72,000).
- 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 - \$768,493).
- A director purchased 900,000 units of the private placement offering which closed on September 29, 2008 for total proceeds of \$423,000 (August 31, 2008 - \$0).
- A shareholder and director 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 was repaid during the period for a loan provided during the year ended August 31, 2008 and amended on September 1, 2008. Repayment was for the principal balance of \$512,400 plus accrued interest of \$30,369 and was made on January 7, 2009 (August 31, 2008 - \$512,328).
- A shareholder was repaid during the period for a loan provided during the year ended August 31, 2008 and amended on September 1, 2008. Repayment was for the principal balance of \$512,400 plus accrued interest of \$30,369 and was made on January 7, 2009 (August 31, 2008 - \$512,329).

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17. COMMITMENTS AND GUARANTEES

As at the nine month period ended May 31, 2009, 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 Company's decision to proceed further with the project, the Company may be required to provide an additional performance security deposit in the amount of \$1,000,000. If the Company decides that it will not proceed with the project it's only liability will be \$500,000. See Note 5 – Prepaids and Deposits.
- The Company has secured office premises through lease until February, 2013. Annual rent, including operating costs, is estimated at \$35,000.
- The Company has a turbine lease contract in the amount of \$1,600,000 repayable in monthly installments of \$16,887 including an effective interest rate of 5.6% per annum with a purchase option of \$944,000 on June 30, 2013. Principal balance outstanding as at May 31, 2009 was \$1,476,148.

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.

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19. FINANCIAL INSTRUMENTS

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 made short-term investments during the nine months ended May 31, 2009 and has no investments as at May 31, 2009.

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 May 31, 2009 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 to 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.*

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19. 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.

20. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

Other information

	May 31, 2009	August 31, 2008
Interest paid	94,172	161,650