

Consolidated Financial Statements

Shear Wind Inc.

August 31, 2009 and 2008

SHEAR WIND INC.

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Management's Report

To the Shareholders
Shear Wind Inc.

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to Canadian generally accepted accounting principles and include amounts based on management's best estimates and judgments.

Management has established and maintains accounting and internal control systems that are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting primarily through the audit committee. The financial statements have been reviewed and approved by the board of directors on the recommendation from the audit committee. The audit committee is also responsible for making recommendation with respect to the appointment of independent auditors and for approving their remuneration and terms of engagement. Other responsibilities of the audit committee include meeting periodically with the independent auditors and management to review accounting, auditing, internal controls, litigation, financial reporting and other matters. The shareholders' external auditors have free access to the audit committee both with and without management present.

Our independent auditors, Deloitte & Touche LLP, have audited our financial statements. The accompanying auditors' report outlines the scope of their examination and their opinion.

"Michael Magnus"
Michael Magnus
President and Chief Executive Officer

"Bill Bartlett"
Bill Bartlett
Chief Financial Officer

December 16, 2009

Auditors' Report

To the Shareholders of Shear Wind Inc.

We have audited the consolidated balance sheets of Shear Wind Inc. as at August 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants
Halifax, Nova Scotia
December 16, 2009

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

	(Restated - note 13 & 14)	
	August 31, 2009	August 31, 2008
	\$	\$
ASSETS		
CURRENT		
Cash and cash equivalents	-	124,698
Accounts receivable	59,193	204,840
	59,193	329,538
Prepays and deposits (note 6)	346,676	798,516
Project development costs (note 7)	5,030,775	5,098,591
Property, plant and equipment (note 8)	3,631,244	3,845,349
Intangible assets & deferred charges (note 9)	98,360	-
	9,166,248	10,071,994
LIABILITIES		
CURRENT		
Bank indebtedness	33,296	-
Accounts payable and accrued liabilities	811,634	958,609
Shareholder loans (note 10)	-	1,024,657
Convertible debenture (note 11)	-	768,493
Current portion of capital lease (note 12)	124,842	118,058
	969,772	2,869,817
Long-term portion of capital lease (note 12)	1,321,170	1,446,012
Future income taxes (note 13)	799,700	547,300
	3,090,642	4,863,129
SHAREHOLDERS' EQUITY		
Share capital (note 14)	8,900,009	8,106,782
Contributed surplus (note 17)	1,131,763	756,697
Warrants (note 15, 18)	380,785	54,153
Deficit	(4,336,951)	(3,708,767)
	6,075,606	5,208,865
	9,166,248	10,071,994

NATURE OF OPERATIONS AND CONTINUATION OF BUSINESS (note 1)
 COMMITMENTS AND GUARANTEES (note 21)

Approved on behalf of the Board:

"Michael J. Wheatley"

Michael J. Wheatley, Director

"Gary F. MacKenzie"

Gary F. MacKenzie

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 year ended August 31 , 2009	For the year ended August 31 , 2008	Cumulative, Since inception on December 17, 2004 to August 31, 2009
	\$	\$	\$
INCIDENTAL REVENUE			
Electricity sales	296,526	215,801	712,525
Interest income	13,976	7,289	140,338
Dividend income	-	19,976	19,976
Other	-	252	997
	310,502	243,318	873,836
EXPENSES			
Salaries and benefits	856,666	882,142	2,371,172
General and administration	321,426	394,313	1,298,110
Consulting fees (note 20)	133,800	103,360	708,428
Professional fees (note 20)	209,629	264,477	704,710
Amortization of property, plant and equipment (note 8)	214,105	197,847	599,568
	1,735,626	1,842,139	5,681,988
OTHER			
Gain on sale of asset (note 7)	(1,221,459)	-	(1,221,459)
Interest expense	105,356	204,800	310,156
Asset write-down (note 6)	500,000	55,118	1,386,216
Realized loss on sale of investments	-	68,063	130,313
Other	6,226	3,410	9,636
	(609,877)	331,391	614,862
LOSS BEFORE INCOME TAXES	(815,247)	(1,930,212)	(5,423,014)
Current income tax expense	(9,182)	-	(9,182)
Future income tax recovery	196,245	795,000	1,095,245
NET AND COMPREHENSIVE LOSS	(628,184)	(1,135,212)	(4,336,951)
Deficit, beginning of period	(3,708,767)	(2,573,555)	-
Deficit, end of period	(4,336,951)	(3,708,767)	(4,336,951)
Basic loss per share (note 19)	(0.013)	(0.025)	(0.088)
Diluted loss per share (note 19)	(0.013)	(0.025)	(0.079)

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended August 31 , 2009	For the year ended August 31 , 2008	Cumulative, Since inception on December 17, 2004 to August 31, 2009
	\$	\$	\$
Cash (used in) provided by:			
OPERATING ACTIVITIES			
Net loss	(628,184)	(1,135,212)	(4,336,951)
Adjustments for items not affecting cash:			
Amortization of property, plant and equipment	214,105	197,847	599,568
Asset writedown	500,000	55,118	1,386,216
Gain on sale of asset	(1,221,459)	-	(1,221,459)
Loss on sale of investments	-	68,063	130,313
Accretion of convertible debenture	-	11,232	11,232
Accrued interest - expense	(43,150)	43,150	-
Accrued interest - income	(10)	(3,870)	(3,880)
Future income tax expense	(196,245)	(795,000)	(1,095,245)
Stock-based compensation (note 16)	411,327	453,717	1,122,007
Consulting fees settled with shares	-	-	150,100
	(963,616)	(1,104,955)	(3,258,099)
Changes in non-cash working capital balances			
Accounts receivable	145,657	(152,548)	(113,316)
Prepaid expenses	(3,791)	-	(3,791)
Accounts payable and accrued liabilities	156,502	485,557	277,982
	(665,248)	(771,946)	(3,097,224)
FINANCING ACTIVITIES			
Proceeds from issuance of common shares	1,707,500	763,722	8,723,572
Share issue costs	(175,258)	-	(175,258)
Realized loss on investment	-	-	(70,133)
Proceeds from margin loan	-	688,738	688,738
Repayment of margin loan	-	(688,738)	(688,738)
Proceeds from shareholder loan	-	2,600,000	2,600,000
Repayment of shareholder loan	(1,000,000)	(1,600,000)	(2,600,000)
Proceeds from convertible debenture	-	750,000	750,000
Repayment of convertible debenture	(750,000)	-	(750,000)
Proceeds from sale lease-back	-	1,600,000	1,600,000
Repayment of sale lease-back	(118,058)	(35,930)	(153,988)
Cash advanced for deferred charges	(98,360)	-	(98,360)
Accounts payable and accrued liabilities	(303,477)	303,300	658,669
	(737,653)	4,381,092	10,484,502
INVESTING ACTIVITIES			
Cash advanced for deposits	(69,368)	(610,015)	(1,259,987)
Cash repayment from deposits	25,000	40,000	517,959
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	-	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	-	(1,623,445)	(1,652,310)
Wind power project development costs	(848,225)	(2,043,105)	(7,395,324)
	1,244,907	(3,547,827)	(7,420,574)
(Decrease) increase in cash and cash equivalents	(157,994)	61,319	(33,296)
Cash and cash equivalents, beginning of the year	124,698	63,379	-
Cash and cash equivalents, end of the year	(33,296)	124,698	(33,296)
Cash and cash equivalents consist of the following:			
(Bank indebtedness) Cash and cash equivalents	(33,296)	124,698	(33,296)

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2009 and 2008

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 debt and equity capital. Management is of the opinion that additional funding is available and may be sourced in time to allow the Company to continue development of its wind generation projects.

While 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 losses over the past three fiscal years (\$628,184 in the current year) and has a working capital deficiency of \$910,579 as at August 31, 2009.

If the trend continues, the current working capital will not be sufficient to sustain the Company for the next 12 months. The Company needs to obtain additional financing to maintain sufficient working capital to meet creditor obligations and invest in wind development projects. If the going concern assumption was not appropriate for these financial statements, then adjustments would have been necessary to the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used. Management was successful in closing a private placement on November 3, 2009. *See Note 25 – Subsequent Events.*

2. SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Vindt Resources Inc. and Fitzpatrick Mountain Wind Energy Inc. All inter-company transactions and balances have been eliminated upon consolidation.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

In preparing the consolidated 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 consolidated financial statements and reported amounts of revenue and expenses during the year. 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, asset retirement obligations, deferred development costs, amortization, future income tax valuation allowance 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 original maturities of 90 days or less.

Project Development Costs – Wind Power

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

Property, Plant and 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.

Vehicles are recorded at cost. Amortization is recorded on a straight-line basis over three years.

Leasehold improvements are recorded at cost. Amortization is recorded on a straight-line basis over the five year term of the lease.

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,

SHEAR WIND INC.
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

the Company issues warrants to agents as commission for services. The compensation cost for options granted is determined based on the estimated fair value of the stock options at the time of the grant using the Black-Scholes option pricing model and is amortized over the vesting period with an offset to contributed surplus. 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. When options or warrants are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited to share capital.

Share Issue Costs

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

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, 2009, the Company has not incurred or committed any asset retirement obligations related to the development of its wind generating projects (2008 - \$0).

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are determined based on differences between the carrying amount 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.

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 CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Impairment of Long-Lived Assets

Long-lived assets and intangibles are reviewed for possible impairment whenever 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. During the year ended August 31, 2009 there was no impairment recorded (August 31, 2008 - \$55,118).

Shared Operations

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

Revenue Recognition

The Company recognizes electricity sales revenue at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system.

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

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

balance sheet date, and how the entity manages those risks. The required disclosures are included in Note 23. 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.

5. INVESTMENTS AND MARGIN LOAN

During the year ended August 31, 2009, the Company had no investments or margin loans. During the year ended August 31, 2008, the Company sold its remaining investments in preferred shares at a value of \$688,738. The Company incurred a loss of \$68,063 on the sale of these investments and the proceeds were used to repay the margin loan.

6. PREPAIDS AND DEPOSITS

At August 31, 2009, the Company has provided to Nova Scotia Power Inc. (“NSPI”), as a condition of its Power Purchase Agreement (“PPA”), a Performance Security Deposit (“PSD”) in the form of a letter of credit in the amount of \$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. A write-down was also recorded in the amount of \$500,000. This write-down is in relation to the full amount of the PSD held by NSPI that the Company will forfeit on November 30, 2009. This forfeiture is in accordance with the Company’s PPA with NSPI and is a result of not having the first 20 megawatts of generation at Glen Dhu, Nova Scotia in service by November 30, 2009. As a result, the net value of this PSD at August 31, 2009 is \$nil (August 31, 2008 - \$500,000). During the year ended August 31, 2009 the Company also had 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 \$66,676 (August 31, 2008 - \$43,516) related to land leases, insurance, rent, turbine maintenance and flight passes.

SHEAR WIND INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. PROJECT DEVELOPMENT COSTS

Project development costs are comprised of the following:

	August 31, 2009	August 31, 2008
Opening balance	\$ 5,098,591	\$ 3,109,852
Additions	848,225	2,043,104
Disposals	(916,041)	-
Write-downs	-	(54,365)
Closing balance	\$ 5,030,775	\$ 5,098,591

During the year ended August 31, 2009, the Company made project development expenditures of \$848,225. The Company sold its Glen Ridge project for total proceeds of \$2,137,500 in an arm's 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.

SHEAR WIND INC.
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8. PROPERTY, PLANT AND EQUIPMENT

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

	September 1, 2008 Cost	Accumulated Amortization	August 31, 2009 Net Book Value
Turbines under capital lease	\$ 1,600,000	\$ (216,410)	\$ 1,383,590
Turbine related infrastructure	2,578,503	\$ (348,759)	2,229,744
Office equipment	10,648	(5,026)	5,622
Computer equipment	21,811	(20,698)	1,113
Vehicles	5,511	(4,134)	1,377
Leasehold improvements	14,339	(4,541)	9,798
Total	\$ 4,230,812	\$ (599,568)	\$ 3,631,244

There were no additions to property, plant and equipment during the year ended August 31, 2009. The Company recorded amortization expense in the amount of \$214,105 during the year ended August 31, 2009 (August 31, 2008 - \$197,847). The Company's wholly owned subsidiary Fitzpatrick Mountain Wind Energy Inc. sold its two turbines to a commercial bank in June 2008 for \$1,600,000 and entered into a capital lease for a period of five years. *See Note 12 – Obligation under Capital Lease.*

SHEAR WIND INC.
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8. PROPERTY, PLANT AND EQUIPMENT (continued)

	September 1, 2007 Cost	Additions	Adjustments & Write-downs	Accumulated Amortization	August 31, 2008 Net Book Value
Turbines under capital lease	\$ -	\$ 1,600,000	\$ -	\$ (43,282)	\$ 1,556,718
Turbine related infrastructure	2,753,009	-	(174,506)	(321,887)	2,256,616
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

9. INTANGIBLE ASSETS AND DEFERRED CHARGES

During the year ended August 31, 2009, the Company incurred costs related to a private placement which was expected to close in the following period. The Company had reasonable certainty that the transaction would close and recorded these costs as deferred charges pending completion of the transaction. Upon closing, these share issue costs will be presented as a reduction to share capital. *See Note 25 - Subsequent Events*

SHEAR WIND INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. SHAREHOLDER LOANS

	August 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.

11. CONVERTIBLE DEBENTURE

	August 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 issued a 5% secured convertible debenture to a shareholder in the amount of \$750,000 in the prior year which matured on September 1, 2008. The shareholder had the right to convert all or any portion of outstanding indebtedness into units ("units") of the Company at the conversion price per unit (the "Conversion Price") equal to \$0.80 per unit. Each unit consisted of one common share and one half (1/2) purchase warrant with each whole warrant entitling the shareholder to acquire one additional common share at \$0.90 within 12 months of the conversion date. The shareholder was entitled to convert all or a portion of the indebtedness into units anytime prior to the second anniversary of the date of issue (the "Conversion Period"). The debenture was secured by a General Security Agreement. As the shareholder could convert all or any portion of the debenture into units of the Company, the debenture obligations were classified partially as a liability and partially as shareholders' equity. The liability component was calculated in the amount of \$738,768. This amount represented the present value of the required contractual payments of principal and

SHEAR WIND INC.
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11. CONVERTIBLE DEBENTURE (continued)

interest discounted at an interest rate of 8% approximating that which would have been applicable to non-convertible subordinated debt at the time the debenture was issued. The difference between the original principal amount of the debenture and the amount recorded as a liability was \$11,232 and represented the value of the conversion option which was recorded as capital stock. This equity component of \$11,232 has been fully amortized and accrued interest in the amount of \$18,493 had been recorded in the prior year. The shareholder was fully repaid on September 9, 2008 for the principal plus accrued interest of \$19,521.

12. OBLIGATION UNDER CAPITAL LEASE

The Company's wholly owned subsidiary Fitzpatrick Mountain Wind Energy Inc. sold its two turbines to a commercial bank in June 2008 for \$1,600,000 and entered into a capital lease for a period of five years. At the end of the lease term Fitzpatrick Mountain Wind Energy Inc. may: (a) exercise an option to purchase the equipment (b) cause a third party to purchase the equipment or (c) renew the lease for another term. Fitzpatrick Mountain Wind Energy Inc. has provided security to the commercial bank by the assignment of its Power Purchase Agreement with Nova Scotia Power, the assignment of its maintenance agreement with the turbine manufacturer and the assignment of its land leases. The lease had an outstanding balance of \$1,446,012 as of August 31, 2009. This site is currently operational with positive cash flow. The lease contract is repayable in monthly installments of \$16,887. The payments include principal plus a floating interest rate which is based on the Canadian Deposit Offering Rate ("CDOR") plus a spread of 2.44%. Interest is calculated monthly and adjusted quarterly. The lease has a purchase option of \$944,000 on June 30, 2013.

	August 31, 2009	August 31, 2008
Total amount of future minimum lease payments	\$ 1,703,924	\$ 1,906,570
Interest included in installments	(257,912)	(342,500)
Obligation under capital lease	\$ 1,446,012	\$ 1,564,070
Current portion	124,842	118,058
Long-term portion	\$ 1,321,170	\$ 1,446,012

Future minimum lease payments under the capital lease in each of the next four years are as follows:

September 1, 2009 – August 31, 2010	\$ 202,646
September 1, 2010 – August 31, 2011	202,646
September 1, 2011 – August 31, 2012	202,646
September 1, 2013 – August 31, 2013	<u>1,095,986</u>
	\$ 1,703,924

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13. INCOME TAXES

Current Income Taxes

The provision for income taxes differs from the results which would be obtained by applying the Company's combined Federal and Provincial statutory tax rate of 35.17% (2008 – 35.50%) to the loss before income taxes. This difference results from the following items:

	August 31, 2009	August 31, 2008
Income tax expense (recovery) at combined statutory rate of 35.17%	\$ (287,500)	\$ (685,000)
Increase (decrease) resulting from:		
Stock-based compensation	144,600	161,000
Amounts not deductible for tax and other	12,137	46,000
Rate change	(36,300)	(127,000)
Wind power project development costs previously renounced	-	(174,000)
Loss on sale of investments	-	25,000
Share issue costs	(20,000)	(42,000)
Income tax recovery	\$ (187,063)	\$ (795,000)

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13. INCOME TAXES (continued)

The tax effect of items which give rise to future income tax assets and liabilities at August 31 are as follows:

	August 31, 2009	(Restated) August 31, 2008
Future income tax asset – long term		
Tax loss carry forwards	\$ 791,300	\$ 593,000
Financing costs and other	62,100	63,000
	<u>853,400</u>	<u>656,000</u>
Future income tax liabilities – long term		
Project development costs	(1,259,500)	(478,300)
Capital assets	(393,600)	(725,000)
	<u>(1,653,100)</u>	<u>(1,008,000)</u>
Future income tax liability	\$ (799,700)	\$ (547,300)

The financial statements for the year ended August 31, 2008 have been restated to adjust for future income tax liabilities as a result of the issuance of flow-through shares which was not recorded. This error resulted in a restatement to increase the future income tax liability by \$195,300, with a corresponding decrease to share capital (Note 14). The resulting restatement caused the August, 31 2008 future income tax liability to increase from \$352,000 to \$547,300 and the closing August 31, 2007 share capital to decrease from \$7,088,188 to \$6,892,888.

Tax Losses

The Company has non-capital losses for income tax purposes which can be used to reduce taxable income in future years, expiring as follows:

2027	\$ 24,800
2028	581,200
2029	1,944,200
	<u>\$ 2,550,200</u>

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14. 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
Prior period adjustment – Note 13	-	(195,300)
As restated	42,840,000	6,892,888
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	8,106,782
Issued on exercise of options	150,000	45,000
Fair value transfer on exercise of options	-	36,261
Fair value transfer on expiry of warrants	-	54,153
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	-	(502,975)
Share issue costs	-	(120,927)
Fair value of warrants issued	-	(380,785)
Balance, August 31, 2009	49,182,855	8,900,009

Share capital transactions during the year ended August 31, 2009.

During the year ended August 31, 2009, the Company raised proceeds of \$1,662,500 from a private placement consisting of the issuance of 3,537,234 units at a price of \$0.47 per unit. Each unit included one common share and one-half of one purchase warrant, with each full warrant entitling the holder

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14. SHARE CAPITAL (continued)

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 were subject to a 4 month hold period. Share issue costs were \$120,927 (net of future tax benefit of \$54,330), the tax benefit renounced to shareholders was \$502,975 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.

15. 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	August 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	-	250,713	1,768,618

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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16. 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	
	August 31, 2009	August 31, 2008	August 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 August 31, 2009 there were 4,186,666 stock options outstanding under the Plan. 150,000 options expired during the year ended August 31, 2009. The following table reflects the weighted average exercise price as at August 31, 2009:

Expiry Date	Weighted Average Exercise Price (\$)	Options Outstanding	Options Outstanding and Exercisable
August 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 3, 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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16. STOCK OPTION PLAN (continued)

During the year ended August 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 year ended August 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 (August 31, 2008 - \$453,717) has been recorded as stock-based compensation and credited to contributed surplus.

17. CONTRIBUTED SURPLUS

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

Contributed Surplus	August 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

18. WARRANTS

The following table reflects the continuity of warrants issued:

Warrants	August 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 expired	(54,153)	-
Fair value of warrants exercised	-	(313,146)
Ending balance	\$ 380,785	\$ 54,153

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19. BASIC AND DILUTED LOSS PER SHARE

The basic loss per share is computed by dividing the net loss for the year by the weighted average number of shares outstanding during the year. The effect of the options and warrants on the net loss is anti-dilutive and therefore, diluted loss per share is equal to basic loss per share.

	2009	2008
Numerator:		
Net loss	\$ 628,184	\$ 1,135,212
Denominator:		
Weighted average number of shares	49,182,855	44,613,419

20. 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 year ended August 31, 2009:

- A company owned 100% by a director of the Company charged the Company \$35,000 for consulting fees (August 31, 2008 - \$0).
- A company owned 100% by a former director of the Company charged the Company \$83,452 for legal fees (August 31, 2008 - \$88,750).
- A company owned 100% by a shareholder of the Company charged the Company \$96,000 for consulting fees (August 31, 2008 - \$96,000).
- 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 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).

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20. RELATED PARTY TRANSACTIONS (continued)

- 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).

The Company was involved in the following related party transactions during the year ended August 31, 2008:

- A shareholder and director provided a loan for \$1,600,000 which was also repaid during the year ended August 31, 2008. (August 31, 2007 - \$nil).

21. COMMITMENTS AND GUARANTEES

As at August 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 10.5 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 its only liability will 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.
- 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 August 31, 2009 was \$1,446,012.

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22. 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. *See Note 25 – Subsequent Events.*

23. 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 period ended August 31, 2009 and has no investments as at August 31, 2009.

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23. FINANCIAL INSTRUMENTS (continued)

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 August 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.*

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.

24. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

Other information

	August 31, 2009	August 31, 2008
Interest paid	\$ 105,356	\$ 204,800

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25. SUBSEQUENT EVENTS

Private Placement

On November 3, 2009, the Company closed a private placement and subsequently received approval from the TSX Venture Exchange on November 4, 2009. The private placement ("Private Placement") was with Genera Avante Holdings Canada Inc. ("GAHC"), an indirectly owned subsidiary of Inveravante Inversiones Universales, S.L. ("Inveravante"). Proceeds were in the amount of \$26,925,935 based on the issuance of 96,439,595 common shares of Shear Wind to GAHC at a price of \$0.2792 per common share. GAHC now holds approximately 62% of the common shares of Shear Wind, on a fully-diluted basis. All securities of Shear Wind issued in connection with the Private Placement are subject to a hold period of four months plus one day from the date of issue pursuant to applicable securities laws in Canada. Concurrent with the closing of the Private Placement, Shear Wind paid STS Capital Partners International Inc. ("STS") a finder's fee of CAD\$1,750,000 and issued 4,500,000 warrants (the "STS Warrants") with each STS Warrant exercisable for one newly issued common share of Shear Wind at the Subscription Price per share for two years following the closing. STS is at arms' length to Shear Wind and GAHC.

Land Lease

On November 3, 2009, the Company signed a 20 year lease agreement with a renewal option for land required for its Glen Dhu, Nova Scotia project.