# Catch the Wind Ltd.

## Consolidated Financial Statements
## For the years ended December 31, 2010 and 2009

**(Expressed in United States dollars)**

**Catch the Wind Ltd.**
**Consolidated Financial Statements**
**December 31, 2010**

**(Expressed in United States dollars)**


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# Independent Auditor's Report

To the Shareholders of Catch the Wind Ltd.:

We have audited the accompanying consolidated financial statements of Catch the Wind Ltd.,which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of loss, comprehensive loss and deficit, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits.
We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Catch the Wind Ltd., as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of $16,878,298 during the year ended December 31, 2010 and, as at December 31, 2010, the Company's accumulated deficit was $30,688,468. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
April 29, 2011

**Catch the Wind Ltd.**
**Consolidated Balance Sheets**
**As at December 31,**

| (Expressed in United States dollars) | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | 6,746,467 | 10,616,065 |
| Accounts receivable | 202,157 | 119,627 |
| Inventory (Notes 3 and 11) | 2,605,224 | 1,667,997 |
| Prepaid expenses and other assets | 228,262 | 107,719 |
| | 9,782,110 | 12,511,408 |
| Capital assets (Note 4) | 5,659,422 | 6,486,358 |
| Other intangible assets (Notes 5 and 11) | 5,971,545 | 5,889,286 |
| Deposits | 81,109 | 77,045 |
| Total assets | 21,494,186 | 24,964,097 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 2,074,698 | 1,339,905 |
| Due to related party (Note 11) | 74,388 | 355,685 |
| Obligations under capital leases - current portion (Note 9) | 194,582 | 179,633 |
| Long-term debt - current portion (Notes 12 and 13) | 178,530 | 166,213 |
| Deferred revenue and customer deposits | 333,500 | 360,000 |
| | 2,855,698 | 2,401,436 |
| Obligations under capital leases (Note 9) | 41,987 | 218,026 |
| Long-term debt (Notes 12 and 13) | 4,215,527 | 4,394,057 |
| Total liabilities | 7,113,212 | 7,013,519 |
| Non-controlling interest (Note 12) | 86,983 | 182,913 |
| **Shareholders' Equity** | | |
| Capital stock (Note 7) | 8,049 | 5,488 |
| Contributed surplus | 42,842,699 | 31,572,347 |
| Warrants (Note 7) | 2,131,711 | - |
| Deficit | (30,688,468) | (13,810,170) |
| Total shareholders' equity | 14,293,991 | 17,767,665 |
| Total liabilities and shareholders' equity | 21,494,186 | 24,964,097 |

Approved on behalf of the Board:

| (signed) "Philip L. Rogers" | (signed) “Martin Crotty” |
|---|---|
| Director | Director |

See accompanying notes to the consolidated financial statements.

**Catch the Wind Ltd.**
**Consolidated Statements of Loss, Comprehensive Loss and Deficit**
**For the years ended December 31,**

| (Expressed in United States dollars) | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Revenue** | 507,500 | - |
| **Expenses:** | | |
| Cost of sales | 1,133,127 | - |
| Salaries and benefits | 3,302,996 | 2,912,748 |
| General and administrative | 2,479,542 | 1,356,760 |
| Inventory writedown - beta units (Note 3) | 1,836,333 | 4,016,127 |
| Capital assets writedown- Racer's Edge (Note 4) | 149,000 | - |
| Amortization of other intangible assets (Note 5) | 725,400 | - |
| Amortization of capital assets | 859,924 | 322,434 |
| Sales and marketing | 417,401 | 254,648 |
| Consulting fees | 723,921 | 389,687 |
| Professional fees | 1,509,761 | 574,666 |
| Professional engineering fees (Note 11) | 2,273,902 | 1,828,059 |
| Research and development (Note 11) | 2,084,076 | 111,394 |
| Interest expense, long-term debt | 322,062 | 91,719 |
| Interest expense, leases | 52,173 | 50,112 |
| Interest income | (17,832) | (95,217) |
| Other income, net (Note 12) | (18,550) | - |
| Foreign exchange gain | (82,611) | (109,459) |
| | 17,750,625 | 11,703,678 |
| **Loss before non-controlling interest** | (17,243,125) | (11,703,678) |
| Non-controlling interest | (364,827) | (124,904) |
| **Net loss and comprehensive loss** | (16,878,298) | (11,578,774) |
| Deficit - Beginning of year | (13,810,170) | (2,231,396) |
| Deficit - End of year | (30,688,468) | (13,810,170) |
| **Net loss per common share - basic and diluted** | (0.29) | (0.24) |
| Weighted average number of common shares outstanding | 58,798,384 | 48,441,552 |

See accompanying notes to the consolidated financial statements.

**Catch the Wind Ltd.**
**Consolidated Statements of Shareholders' Equity**
**For the years ended December 31,**

| (Expressed in United States dollars) | Common Shares # | Capital Stock $ | Contributed Surplus $ | Warrants $ | Deficit $ | Shareholders' Equity $ |
|---|---|---|---|---|---|---|
| **Balance at December 1, 2009** | 38,046,784 | 3,805 | 13,259,947 | - | (2,231,396) | 11,032,356 |
| Stock-based compensation (Note 8) | - | - | 937,346 | - | - | 937,346 |
| Private-placement proceeds | 16,743,000 | 1,674 | 16,779,042 | - | - | 16,780,716 |
| Agent stock options (Note 8) | - | - | 508,146 | - | - | 508,146 |
| Stock options exercised (Note 8) | 94,188 | 9 | 87,866 | - | - | 87,875 |
| Net loss for the year | - | - | - | - | (11,578,774) | (11,578,774) |
| **Balance at December 31, 2009** | 54,883,972 | 5,488 | 31,572,347 | - | (13,810,170) | 17,767,665 |
| Stock-based compensation (Note 8) | - | - | 897,265 | - | - | 897,265 |
| Private-placement proceeds (1) | 25,557,947 | 2,556 | 10,085,743 | - | - | 10,088,299 |
| Agent stock options (Note 8) | - | - | 222,349 | - | - | 222,349 |
| Warrants issued (2) (Note 7) | - | - | - | 2,131,711 | - | 2,131,711 |
| Stock options exercised (Note 8) | 50,000 | 5 | 64,995 | - | - | 65,000 |
| Net loss for the year | - | - | - | - | (16,878,298) | (16,878,298) |
| **Balance at December 31, 2010** | 80,491,919 | 8,049 | 42,842,699 | 2,131,711 | (30,688,468) | 14,293,991 |

(1) Includes the private placement (as defined in Note 14) completed on April 20, 2010 of 2,576,000 common shares at $2.00 (CDN), (or $1.98 per share converted to USD), net of $422,555 in private placement costs, converted to U.S. dollars. The value of the warrants issued in connection with the private placement is recorded to warrants. Also includes the private placement (as defined in Note 14) completed on November 29, 2010 of 17,316,359 common shares at $0.39 (CDN) and 5,665,588 common shares at $0.34 (CDN), net of $743,713 in private placement costs, converted to U.S. dollars.
(2) Includes the fair value of 2,576,000 warrants issued in the April 20, 2010 private placement and 17,316,359 warrants issued in the November 29, 2010 private placement. See Note 7.

See accompanying notes to the consolidated financial statements.

**Catch the Wind Ltd.**
**Consolidated Statements of Cash Flows**
**For the years ended December 31,**

| (Expressed in United States dollars) | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Operating activities** | | |
| Net loss for the year | (16,878,298) | (11,578,774) |
| Items not affecting cash: | | |
| Amortization | 1,585,324 | 322,434 |
| Non-controlling interest | (364,827) | (124,904) |
| Stock-based compensation (Note 8) | 897,265 | 937,346 |
| Inventory write down - beta units (Note 3) | 1,836,333 | 4,016,127 |
| Capital assets write down- Racer's Edge (Note 4) | 149,000 | - |
| Changes in non-cash operating assets and liabilities: | | |
| Accounts receivable | (82,530) | (119,627) |
| Inventory | (2,898,560) | (6,127,193) |
| Prepaid expenses and other assets | (120,543) | (3,817) |
| Deposits | (4,064) | (72,546) |
| Accounts payable and accrued liabilities | 734,793 | 513,155 |
| Due to related party | (281,297) | (171,450) |
| Deferred revenue and customer deposits | (26,500) | 160,000 |
| **Cash used in operating activities** | (15,453,904) | (12,249,249) |
| **Investing activities** | | |
| Purchase of capital assets | (31,690) | (5,594,436) |
| Project development costs (Note 5) | (807,659) | (2,814,284) |
| Non-controlling interest - capital contribution (Note 12) | 268,897 | 307,817 |
| **Cash used in investing activities** | (570,452) | (8,100,903) |
| **Financing activities** | | |
| Proceeds from exercise of options | 65,000 | 87,875 |
| Proceeds from private placements, net (Note 14) | 12,442,359 | 17,288,862 |
| Proceeds from long-term debt | - | 4,600,000 |
| Repayment of long-term debt | (166,213) | (39,730) |
| Repayments of capital lease obligations | (186,388) | (114,557) |
| **Cash provided by financing activities** | 12,154,758 | 21,822,450 |
| **Increase (decrease) in cash and cash equivalents** | (3,869,598) | 1,472,298 |
| **Cash and cash equivalents, beginning of year** | 10,616,065 | 9,143,767 |
| **Cash and cash equivalents, end of year (Note 2)** | 6,746,467 | 10,616,065 |
| **Supplemental disclosure of cash flow information** | | |
| Interest paid | 374,235 | 141,937 |
| Capital assets acquired under capital leases | 25,298 | 512,215 |
| Assets transferred from inventory to capital assets | 125,000 | 674,000 |

See accompanying notes to the consolidated financial statements.

**(Expressed in United States dollars)**

## 1. ORGANIZATION AND DESCRIPTION OF BUSINESS AND GOING CONCERN

Catch the Wind Ltd. (”CWL”) develops, manufactures and sells products based on laser Doppler velocimetry technology. Catch the Wind Ltd.’s business is carried on in the name of “Catch the Wind, Inc.” (“CTW” or “the Company”) and is an operating subsidiary of CWL. CTW was incorporated under the laws of the Commonwealth of Virginia on March 18, 2008 and operated as an unincorporated entity and affiliate of Optical Air Data Systems, LLC ("OADS"), a Virginia limited liability company, for the period from its inception (on January 1, 2008) to March 17, 2008. Pursuant to the terms of an acquisition agreement between Bayview Public Ventures Inc. ("Bayview") and CTW dated September 3, 2008, Bayview acquired all of the outstanding shares of common stock of CTW through a merger of CTW and a wholly owned subsidiary of Bayview (the "Qualifying Transaction”). For accounting purposes, the acquisition was treated as a recapitalization of CTW with CTW as the acquirer (Reverse Takeover). Bayview changed its name to “Catch the Wind Ltd.”. As a result of the completion of the Qualifying Transaction, CTW became a wholly owned subsidiary of CWL.

CTW’s primary product, the Vindicator remote wind sensing system (the “Vindicator”), is a fiber optic laser sensor that is capable of measuring real-time horizontal and vertical wind speed and direction data at varying ranges ahead of the sensor location. This system, located internally and on the surface of the wind turbine nacelle, utilizes forward-looking wind sensors to read the approaching wind at ranges out to 300 meters and control the wind turbine proactively. Vindicator wind measurements are input into a proprietary control algorithm that allows a turbine to reorient before the wind arrives.

In addition to the Vindicator, CTW’s product line includes Racer’s Edge laser wind sensor (“Racer’s Edge”) and the WindSeeker Xtreme laser wind sensor (“WindSeeker”). Racer’s Edge and the WindSeeker are miniaturized hand-held versions of CTW’s precision laser wind sensing technology that measure wind speed and direction at a distance of up to 1000 meters. The Racer’s Edge is for use in sailing, boating and other sporting events where knowledge of wind conditions is a contributing factor to performance. The WindSeeker is designed for wind prospecting, rapid resource assessment and turbine performance monitoring.

On June 22, 2010, CWL completed a corporate re-domestication from Delaware to the Cayman Islands for the purpose of achieving greater flexibility in potential future financings. In connection therewith, the “.s” designation on the trading symbol was removed. The re-domestication results in shareholders of Catch the Wind Ltd. holding shares in a Cayman Islands exempted company.

As of December 31, 2010, management of OADS directly or indirectly owns or controls 26,470,588 common shares, or approximately 33% of Catch the Wind Ltd. Therefore the management of OADS is considered to have significant influence over CWL. OADS is considered a related party for purposes of accounting under Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3840 "Related Party Transactions".

The Company’s activities since inception in 2008 have consisted primarily of company formation, capital raising, initial marketing, production and manufacturing of product prototype units, performance testing and other organizational activities, as well as gaining market acceptance of the accuracy and reliability of laser wind sensing and market adoption of laser wind sensing for turbine control. During the second quarter of 2010, the Company determined that it had commenced its principal commercial operations and was no longer a development stage enterprise. Accordingly, the Company records sales transactions as revenue and has ceased to net them against capitalized development costs. The Company had net losses of $(16,878,298) and $(11,578,774) for the years ended December 31, 2010 and 2009, respectively.

## 1. ORGANIZATION AND DESCRIPTION OF BUSINESS AND GOING CONCERN (continued)

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern," which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Continuation of the Company as a going concern is dependent upon the Company obtaining additional financing and/or achieving profitable operations. The Company has incurred significant net losses since inception. There is no guarantee that the Company's operations will yield positive results in the future. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. If the "going concern" assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments could be material.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following significant accounting policies:

### Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation. The consolidated financial statements are presented in United States dollars, which is the Company's functional currency.

### Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates inherent in the preparation of the consolidated financial statements include the recoverability of capitalized project development costs, warranty provision, provision for doubtful accounts, accruals, valuation of inventory, future income tax valuation, fair value of warrants and agent stock options and determination of stock-based compensation. Actual results could differ from those estimates.

### Segment Reporting

The business of the Company is carried on in the name of "Catch the Wind, Inc.". The Company operates in one reportable segment. Substantially all of the Company's assets are located in the United States of America. Substantially all of the Company's revenues for the year ended December 31, 2010 was from one customer (2009 – NIL).

### Cash and Cash Equivalents

Cash and cash equivalents includes demand deposits with financial institutions of $1,495,480 and $79,771at December 31, 2010 and December 31, 2009, respectively. Cash equivalents consist of short-term, highly liquid investments purchased with original maturities of three months or less and were $5,250,987 and $10,536,294 at December 31, 2010 and December 31, 2009, respectively. Cash equivalents include funds deposited in money market accounts and certificates of deposit

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventory

Inventory consists of electronic and optical components used to manufacture the Vindicator, WindSeeker and Racer's Edge products, finished beta units and work-in-process. Electronic and optical components are carried at cost. Work in-process and finished beta units are carried at the lower of cost and net realizable value. Cost is determined using the first-in, first-out inventory basis, and includes the purchase price, import duties and other taxes, and transport expenses. Fixed and variable production overheads are systematically allocated to the carrying amount of inventory.

### Capital Assets

Capital assets are recorded at cost and are amortized over their estimated useful lives on a straight-line basis. Maintenance and repairs are charged against income when incurred. Amortization is provided using the following methods and periods:

| | |
|---|---|
| Computer software | 3 years straight-line |
| Computer equipment | 3 years straight-line |
| Vindicator test units | 3 years straight-line |
| Tradeshow booths | 5 years straight-line |
| Furniture and fixtures | 5 years straight-line |
| Test and manufacturing equipment | 5 years straight-line |
| Aircraft | 15 years straight-line |

### Leases

Leases that transfer substantially all of the benefits, risks and rewards of ownership to the Company are recorded as capital leases and classified as capital assets with a corresponding increase to obligations under capital leases. Amortization is recorded when the assets are placed into service. All other leases are classified as operating leases under which leasing costs are expensed in the period incurred.

### Project Development Costs - Intangible Asset

It is the Company's policy to capitalize the costs associated with development of an intangible asset until the point that it is capable of operating in the manner intended. The intangible asset consists of project development costs related to the development of the Vindicator and includes directly attributable expenses, including labor charges from OADS subcontractors, materials and third party consulting costs, required to produce and prepare the asset to be capable of operating in the manner intended. The Company ceased capitalizing costs associated with the development of the Vindicator on June 15, 2010.

Once an item is capable of operation in the manner intended, these costs are amortized over their estimated useful lives on a straight-line basis unless such lives are deemed indefinite. The Company commenced amortizing the project development costs intangible asset over its estimated useful life of five years on June 16, 2010. Intangible assets are assessed for impairment as described in the "Impairment of Long-Lived Assets" section of Note 5, with any impairment being recorded in the Consolidated Statement of Loss in the period deemed impaired.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of Long-Lived Assets

Long-lived assets subject to amortization are assessed for impairment whenever events or changes in circumstance indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use. An impairment loss is measured as the amount by which the carrying amount exceeds its fair value.

### Revenue Recognition

The Company enters into agreements to sell products and multiple element arrangements that include a combination of products and services (generally product installation and data analysis). Revenue is recognized from product sales when the significant risks and rewards of ownership of the product passes to the customer (which may either be at the time of shipment or upon delivery and acceptance by the customer, depending on the terms of sale), evidence of such arrangement exists, price is fixed or determinable, and collection is reasonably assured. Sales discounts and allowances are recorded in the period in which the sale occurs. Services revenue is recognized when services are rendered.

*Product revenue* – Product revenue is generated predominantly from the sale of Vindicator, Racer's Edge or WindSeeker units. For sales or arrangements that include customer-specified acceptance criteria, including those where acceptance is required upon achievement of product performance milestones, revenue is recognized after the acceptance criteria have been met. For products that include installation, if the installation meets the criteria to be considered a separate element, product revenue is recognized upon delivery, and installation revenue is recognized when installation is complete. Otherwise, neither the product nor the installation revenue is recognized until the installation is complete. For the year ended December 31, 2009, initial product sales of $282,696 were netted against capitalized project development costs as required by the Company's then status as a development stage enterprise.

*Multiple element arrangements* – The Company uses objective and reliable evidence of fair value to allocate revenue to elements in a multiple element arrangement. The Company recognizes revenue for a delivered element when the item has value on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered item or items and there are no general rights of return affecting the revenue recognized for the delivered elements. If the criteria are not met, revenue is deferred until such criteria are met or until the period when the last undelivered element is delivered. In the absence of fair value of a delivered element, the Company allocates revenue to the fair value of the undelivered elements and the residual value to the delivered elements.

*Deferred revenue* - The Company records advances received from customers as deferred revenue.

### Warranty Accrual

Depending on customer contract terms, the Company accrues for estimated costs of product warranties at the time the product is installed or delivered. The Company accrues for warranty obligations based on an estimation of repair and/or replacement costs to correct product failures as a percentage of sales list price. Due to the Company's early stage, the Company does not have historical experience on which to base its estimate. The accrual is reviewed regularly. Should actual experience differ from estimates, the accrual will be adjusted to reflect changes in warranty cost estimates. Estimated warranty charges are recorded within cost of sales at the time products are sold.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Research and Development Costs

Research costs are expensed as incurred. Development costs are expensed as incurred, unless such costs meet the criteria for capitalization and amortization under GAAP. The criteria requires that development costs meet the definition of an intangible asset and the recognition criteria in accordance with CICA section 3064, "Goodwill and Intangible assets".

### Stock-Based Compensation

The Company accounts for stock-based compensation granted to directors, officers, employees and third parties using the fair value method of accounting. Accordingly, the fair value of options granted is determined using the Black-Scholes option pricing model. For employees, officers and directors, the fair value is measured at the date of grant and stock-based compensation is recorded over the vesting period, with a corresponding increase to contributed surplus, on a graded vesting basis over the vesting periods. For non-employees, the fair value is remeasured each reporting period until the options vest, and stock compensation is adjusted each reporting period to reflect the repricing. For all stock options issued, if and when the stock options are exercised, the applicable amounts of contributed surplus are transferred together with the proceeds to share capital. The Company has chosen to recognize stock option forfeitures as they occur rather than to estimate them in advance.

### Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to be settled or realized.

The Company records a valuation allowance to reduce its future income tax assets to the amount that is more likely than not to be realized. Realization of the future tax assets is principally dependent upon the achievement of projected future taxable income. If the estimates and related assumptions change in the future, the Company may be required to adjust its valuation allowance against its future income tax assets, resulting in a benefit or a charge to income in the period such determination is made. As of December 31, 2010, the Company has recorded a full valuation allowance against the net future income tax asset.

### Net Loss per Share

Basic loss per share is calculated by dividing the net loss by the weighted-average number of shares outstanding for the period. Diluted earnings per share is calculated using the treasury stock method. The treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings per share calculation. Diluted income per share calculation will exclude any potential conversion of options and warrants that would increase earnings per share. Diluted loss per share is not presented, as the effect would be anti-dilutive.

### Stock Issuance Costs

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

| Asset/Liability | Classification | Measurement |
|---|---|---|
| Cash and cash equivalents | Held for trading | Fair value |
| Accounts receivable | Loans and receivables | Amortized cost |
| Deposits | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Due to related party | Other liabilities | Amortized cost |
| Long-term debt | Other liabilities | Amortized cost |

The Company includes disclosures about the relative reliability of data that are used to measure the fair value of financial instruments based upon a fair value hierarchy as well as enhanced discussion and quantitative disclosure related to liquidity risk. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in the active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based upon observable market data.

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

With the exception of long-term debt, the carrying value of financial instruments approximates their fair value due to the short-term nature of such amounts. The fair market value of the Company's long term debt will fluctuate with changes in interest rates, but this does not affect the carrying value of the debt on the balance sheet. Based on quoted average interest rates for long-term debt of companies of similar investment grade as the Company, in management's estimation, the carrying value of long-term debt approximates fair value. Gains or losses on financial instruments classified as held for trading are recognized in net income based on the changes in the fair market value of the financial instrument during the period.

### Foreign Currency Translation

The Company's presentation and functional currency is the United States dollar.

The Company owns monetary assets in Canada, and makes payments to certain of its vendors and suppliers in Canada. As such, monetary assets and liabilities are translated at the rate of exchange in effect on the balance sheet date, non-monetary items are translated at historical exchange rates and revenues and expenses are translated at the average rate of exchange for the period in which the transaction occurred. Amortization of non-monetary assets is translated at the same exchange rate as the assets to which they relate. Exchange gains and losses are included in the determination of net loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Future Accounting Changes

Revenue Recognition

In December 2009, the CICA issued EIC 175, “Multiple Deliverable Revenue Arrangements”, replacing EIC 142, “Revenue Arrangements with Multiple Deliverables.” This abstract provides updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and the consideration allocated; requires, in situations where a vendor does not have vendor-specific objective evidence (VSOE) or third party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; eliminates the use of residual method and requires an entity to allocate revenue using the relative selling price method; and requires expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. This EIC is effective for future years beginning on or after January 1, 2011.

Convergence of Canadian GAAP and International Financial Reporting Standards

In February 2008, the CICA announced that Canadian publicly accountable enterprises would adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective January 1, 2011. The Company’s interim and annual consolidated financial statements for 2011 under IFRS will require, for comparative purposes, that the amounts previously reported under Canadian GAAP for the year ended December 31, 2010 be restated.

The Company has adopted IFRS as of January 1, 2011, which will be reflected starting with the consolidated financial statements for the quarter ended March 31, 2011, and will include a restatement of the corresponding quarter of 2010 for comparative purposes.

## 3. INVENTORY

Inventory is comprised of the following categories in accordance with CICA Section 3031 “Inventories.” Inventory consists of electronic and optical components used to manufacture the Vindicator, WindSeeker and Racer’s Edge products; in-process products and finished Vindicator and Racer’s Edge beta units. The electronic and optical components are carried at cost and the in-process and finished beta units are carried at net realizable value, which is the amount the Company expects to realize from the sales of its inventory in the ordinary course of business. The beta units are currently being manufactured in the Company’s pilot manufacturing facility and the cost of producing a unit is higher than the amount expected to be realized from the sale of a unit, resulting in a write-down. During the years ended December 31, 2010 and 2009, the Company wrote down its inventory to net realizable value for completed and in-process beta units by $1,836,333 and $4,016,127, respectively. The Company recorded a reversal to a write-down at December 31, 2010 to reflect the net realizable value of three finished Vindicators that were held in inventory to satisfy a firm sales contract. During the year ended December 31, 2010, the Company recorded inventory expense of $500,000 (2009 - NIL) to cost of sales.

**(Expressed in United States dollars)**

## 3. INVENTORY (continued)

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Inventory - components | 270,224 | 348,647 |
| Inventory - work in process | 435,000 | 169,850 |
| Inventory - completed units | 1,900,000 | 1,149,500 |
| | 2,605,224 | 1,667,997 |

## 4. CAPITAL ASSETS

Capital assets consist of the following items listed below. During the year ended December 31, 2010, the Company recorded an impairment loss on two Racer's Edge test units due to a decrease in its market price, resulting in a write-down of $149,000 (2009 – NIL).

| | | 2010 | |
|---|---|---|---|
| | Cost | Accumulated amortization | Net book value |
| | $ | $ | $ |
| Furniture and fixtures | 84,389 | 19,927 | 64,462 |
| Computer equipment | 10,602 | 4,672 | 5,930 |
| Test and manufacturing equipment | 87,031 | 28,950 | 58,081 |
| Vindicator test units | 650,000 | 304,527 | 345,473 |
| Tradeshow booths | 107,187 | 39,784 | 67,403 |
| Computer software | 44,880 | 26,021 | 18,859 |
| Aircraft (Notes 12 and 13) | 5,320,283 | 453,210 | 4,867,073 |
| Test and manufacturing equipment under capital lease (Note 9) | 537,513 | 305,372 | 232,141 |
| | 6,841,885 | 1,182,463 | 5,659,422 |

| | | 2009 | |
|---|---|---|---|
| | Cost | Accumulated amortization | Net book value |
| | $ | $ | $ |
| Furniture and fixtures | 65,679 | 7,264 | 58,415 |
| Computer equipment | 5,193 | 1,586 | 3,607 |
| Test and manufacturing equipment | 83,937 | 11,670 | 72,267 |
| Vindicator test units | 674,000 | 45,139 | 628,861 |
| Tradeshow booths | 105,581 | 18,534 | 87,047 |
| Computer software | 44,880 | 11,061 | 33,819 |
| Aircraft (Notes 12 and 13) | 5,320,283 | 98,524 | 5,221,759 |
| Test and manufacturing equipment under capital lease (Note 9) | 512,215 | 131,632 | 380,583 |
| | 6,811,768 | 325,410 | 6,486,358 |

**(Expressed in United States dollars)**

## 5. OTHER INTANGIBLE ASSETS

Other intangible assets consist of the following:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Balance, beginning of year | 5,889,286 | 3,075,002 |
| Project development costs incurred | 807,659 | 2,814,284 |
| Amortization of project development costs | (725,400) | - |
| Balance, end of year | 5,971,545 | 5,889,286 |

The project development costs relate to the development of the Vindicator and include directly attributable expenses, including labor charges from OADS subcontractors, materials and third party consulting costs, required to produce and prepare the asset to be capable of operating in the manner intended.

The Company determined that the intangible asset representing product development costs related to the Vindicator had reached the condition necessary for it to be capable of operating in the manner intended by management on June 15, 2010 and accordingly, recognition of costs in the carrying amount of the intangible asset ceased as of that date. The Company commenced amortizing the project development costs intangible asset over its estimated useful life of five years on June 16, 2010.

## 6. INCOME TAXES

Income tax expense has been determined as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Loss before income taxes | (16,878,298) | (11,578,774) |
| Federal income tax rate | 34.00% | 34.00% |
| Expected income tax based on statutory rate | (5,738,621) | (3,936,783) |
| State and local taxes (net of federal benefit) | (668,381) | (458,519) |
| Non-deductible expenses | 275,849 | (38,978) |
| Other | (77,289) | (45,669) |
| Changes in valuation allowance | 6,208,441 | 4,479,949 |
| | - | - |

**(Expressed in United States dollars)**

## 6. INCOME TAXES (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Future tax assets (liabilities) at December 31, 2010 consist primarily of the following:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Future tax assets: | | |
| Net operating loss | 8,254,842 | 344,029 |
| Book and tax base differences on assets and liabilities | 3,663,529 | 4,948,985 |
| Gross future tax assets | 11,918,371 | 5,293,014 |
| Valuation allowance | 11,367,587 | 5,159,146 |
| Net future tax assets | 550,784 | 133,868 |
| Future tax liabilities: | | |
| Book and tax base differences on assets and liabilities | 19,888 | - |
| Depreciation | 530,896 | 133,868 |
| Net future tax liabilities | 550,784 | 133,868 |
| Net future tax assets | - | - |

The Company has net operating losses ("NOL") carried forward which are available to reduce future years' income for tax purposes which if unused will expire as follows:

| Incurred in | Amount | Expire in |
|---|---|---|
| | $ | |
| 2010 | 14,648,339 | 2030 |
| 2009 | 6,980,385 | 2029 |
| 2008 | 117,435 | 2028 |
| | 21,746,159 | |

The Company may be able to utilize their NOLs to reduce future federal and state income tax liabilities. However, these NOLs are subject to various limitations under Internal Revenue Code ("IRC") Section 382. IRC Section 382 limits the use of NOLs to the extent there has been an ownership change of more than 50 percentage points. If the limitation is significant enough, there may be some NOLs and tax attributes that cannot be utilized at all. In addition, the NOL carryforwards are subject to examination by the taxing authority and could be adjusted or disallowed due to such exams. Although the Company has not undergone an IRC Section 382 analysis, it is likely that the utilization of the NOLs may be substantially limited.

## 6. INCOME TAXES (continued)

Included in the Company's 2010 NOL is $1,133,753 (2009- $606,624) arisen from the Company's distributive share of the tax loss of Falcon Fifty LLC. For the tax year ended December 31, 2010, the entire loss was $1,929,784 (2009- $606,624). However, under IRC Section 704(d), a partner's distributive share of partnership loss shall be allowed only to the extent of the adjusted basis of such partner's interest in the partnership at the end of the partnership year in which such loss occurred. The Company's adjusted tax basis in Falcon Fifty LLC prior to the partnership loss reduction would have been $1,133,753. Therefore, based on IRC Section 704(d), the excess NOL of $796,031 ($1,929,784-$1,133,753) (2009 – NIL) can be carried forward and shall be allowed as a deduction at the end of the partnership year in which such excess is repaid to the partnership.

## 7. CAPITAL STOCK AND WARRANTS

As part of the corporate re-domestication to the Cayman Islands, the Company amended its existing capital stock by authorizing: (i) the creation of one hundred and fifty million (150,000,000) shares of a new class of restricted voting shares; (ii) an increase in the authorized number of common shares from one hundred million (100,000,000) to one hundred and fifty million (150,000,000); and (iii) an increase in the authorized number of preferred shares from fifty million (50,000,000) to seventy-five million (75,000,000).

During the year ended December 31, 2010, a total of 25,607,947 common shares were issued. There were 5,665,588 common shares and 17,316,359 units, with such units consisting of a common share and a warrant to purchase one half of one common share, issued in the private placement completed on November 29, 2010. In addition, 2,576,000 common shares were issued in conjunction with a warrant to purchase one half of one common share as a unit in the private placement completed on April 20, 2010. There were 50,000 common shares issued in 2010 due to a stock option exercise by a placement agent for the 2008 private placement. As of December 31, 2010, there were 80,491,919 common shares issued and outstanding.

To date, no restricted voting shares or preferred shares have been issued.

During 2009, 16,743,000 common shares were issued in a private placement (see Note 14) and 94,188 common shares were issued due to stock option exercises by investors. As of December 31, 2009, there were 54,883,972 common shares issued and outstanding.

In association with the private placement completed on November 29, 2010 (see Note 14), warrants were issued to purchase common shares of the Company. The warrants entitle the holder to purchase one-half of one common share for each of the 17,316,359 common shares issued in the private placement as part of a unit. The warrants vest immediately and have a two-year life. The exercise price of the warrants is CDN $0.55 per whole common share. CTW determined the fair value of the warrants to be $930,351 using the Black-Scholes model.

On April 20, 2010, in association with the private placement transaction (see Note 14), warrants were issued to purchase common shares of the Company. The warrants entitle the holder to purchase one-half of one common share for each of the 2,576,000 common shares issued in the private placement. The warrants vest immediately and have a two-year life. The exercise price of the warrants is CDN $2.20 per whole common share. CTW determined the fair value of the warrants to be $1,201,360 using the Black-Scholes model.

There were no warrants issued in 2009.

## 7. CAPITAL STOCK AND WARRANTS (continued)

The fair value of the warrants was calculated with the following assumptions on a weighted average basis:

| | 2010 | 2009 |
|---|---|---|
| Exercise price ($CDN) | $ 0.76 | $ - |
| Risk-free interest rate | 0.25 % | - % |
| Dividend yield | nil | nil |
| Expected volatility | 80 % | - % |
| Expected term (in years) | 2 | - |

A summary of the Company's warrant activity is as follows:

| | 2010 | |
|---|---|---|
| | Number of Warrants Outstanding | Weighted Avg. Exercise price ($CDN) |
| | | $ |
| Balance, beginning of year | - | - |
| Granted* | 19,892,359 | 0.38 |
| Exercised | - | - |
| Expired | - | - |
| Balance, end of year | 19,892,359 | 0.38 |

* The warrants issued entitle the holder to purchase one half of one common share. A total of 19,892,359 warrants to purchase 9,946,179 common shares are outstanding. The weighted average exercise price to purchase one whole common share is CDN $0.76.

## 8. STOCK OPTIONS

The Company has an Amended and Restated 2008 Stock Option Plan (the "Plan") for the benefit of the directors, officers, employees and consultants of the Company and its affiliates. Under the Plan, and in accordance with the policies of the TSX Venture Exchange, a maximum of 10% of the common shares outstanding of the Company are from time to time reserved for issuance. Options granted to directors and employees vest over the term determined by the Compensation Committee of the Company's board of directors. Directors' options generally vest over a 2-year period. Options granted to officers, employees and most consultants previously vested over a 4-year period prior to November 23, 2010, when the Board approved an amendment as described below. All options granted prior to the approval of the amended Plan in August 2009 expire five years from the date of grant thereof. The amended Plan extends the expiration date of stock options issued after adoption of the Plan to ten years from the date of grant. The exercise price of options granted under the Plan is the closing market price of common shares of the Company on the trading day preceding the date of grant, unless the option grant is made after the close of trading on the grant date, in which case the exercise price of the option grant is the closing market price of common shares of the Company on the date of grant.

## 8. STOCK OPTIONS (continued)

On November 23, 2010, the Company's board of directors approved certain amendments to outstanding stock option grants made to directors, employees and certain consultants to the Company. The first amendment, which is subject to all required regulatory and shareholder approvals, was an extension of the expiration date of outstanding options with a term of five years to ten years from the date of grant. This amendment will be effective if and when all required approvals are obtained. In addition, the board of directors approved an amendment to those outstanding option grants made to directors, employees and certain consultants to the Company that had four-year vesting terms to vesting terms of three years, with vesting to occur at the rate of one third on each of the first, second and third anniversaries of the date of grant. Stock option compensation expense of $148,300 related to the acceleration of vesting on the outstanding stock options has been recorded in salaries and benefits in the consolidated financial statements for the year ended December 31, 2010.

On November 29, 2010, 4,610,000 stock options were granted to employees and directors of and consultants to the Company. These options were issued with an exercise price of CDN $0.36 per share, equal to the closing market price of the Company's common shares on the date of grant, and were subject to vesting in three equal, annual installments beginning on the first anniversary of the date of grant. Those options had a fair value of CDN $0.20 at the date of grant as measured by the Black-Scholes option pricing model. The model utilized a risk free rate of 0.23%, expected volatility of 85.6% and an expected life of 3 years as assumptions to calculate the fair value. On December 13, 2010, all of the 4,610,000 stock options granted on November 29, 2010 were cancelled and unrecognized compensation cost related to the grant was recognized at the cancellation date. As a result, total compensation expense of $769,944 was recorded in salaries and benefits in the consolidated financial statements for the year ended December 31, 2010 related to the November 29, 2010 option grant and subsequent cancellation.

Excluding the November 29, 2010 option grant, the Company issued an aggregate of 315,000 stock options to directors, officers, employees and consultants of CTW during 2010.

In addition, an aggregate of 1,290,681 compensation options were granted to placement agents related to the November 2010 private placement. CTW issued 1,038,981 option units to placement agents at CDN $0.39 per unit. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase, subject to adjustments, one-half of one common share at a price of CDN $0.55 per whole common share. The warrants expire 24 months from the closing of the private placement. CTW also issued 251,700 options at CDN $0.34 per common share to placement agents. All of the compensation options are exercisable for 24 months from the closing of the private placement. CTW determined the total fair value of the placement agent options to be $222,349 using the Black-Scholes model. The model utilized a risk free rate of 0.23%, expected volatility of 77.6% and an expected life of 2 years as assumptions to calculate the fair value. The fair value of the agent options was netted against the private placement in contributed surplus in the consolidated financial statements for the year ended December 31, 2010.

There were 5,205,011 stock options outstanding at December 31, 2010, of which 2,293,761 are compensation options granted to agents and 2,911,250 are outstanding employee, officer, consultant and director options.

## 8. STOCK OPTIONS (continued)

CTW determined the fair value of the stock options granted under the Plan using the Black-Scholes model with the following assumptions on a weighted average basis:

**Employee and director options:**

| | 2010 | 2009 |
|---|---|---|
| Exercise price ($CDN) | $ 0.49 | $ 1.51 |
| Risk-free interest rate | 0.32 % | 1.74 % |
| Dividend yield | nil | nil |
| Expected volatility | 85.00 | 76.37 |
| Expected term (in years) | 3.09 | 4 |

**Non-employee options:**

| | 2010 | 2009 |
|---|---|---|
| Exercise price ($CDN) | $ 0.39 | $ 1.63 |
| Risk-free interest rate | 0.26 % | 1.56 % |
| Dividend yield | nil | nil |
| Expected volatility | 85.40 % | 77.24 % |
| Expected term (in years) | 3.02 | 4 |

## 8. STOCK OPTIONS (continued)

A summary of the Company's stock option activity is as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of Options Outstanding | Weighted Avg. Exercise price ($CDN) | Number of Options Outstanding | Weighted Avg. Exercise price ($CDN) |
| | | $ | | $ |
| Balance, beginning of year | 5,136,384 | 1.39 | 3,164,616 | 1.28 |
| Granted [1] | 6,215,681 | 0.44 | 2,703,080 | 1.49 |
| Exercised [2] | (50,000) | 1.30 | (94,188) | 1.00 |
| Cancelled | (4,610,000) | 0.36 | - | - |
| Expired [3] | (1,209,970) | 1.29 | (62,124) | 1.00 |
| Forfeited | (277,084) | 1.52 | (575,000) | 1.33 |
| Balance, end of year | 5,205,011 | 1.18 | 5,136,384 | 1.39 |

[1] Options granted in 2010 include 1,290,681 compensation options with a weighted average exercise price of CDN $0.38 granted to placement agents in conjunction with the November 2010 private placement. Options granted in 2009 include 1,003,080 compensation options with an exercise price of CDN$1.30 granted to placement agents in conjunction with a private placement.

[2] Options exercised in 2010 are compensation options issued to a placement agent in conjunction with a private placement.

[3] Expired options in 2010 include 1,096,210 compensation options with an exercise price of CDN $1.30 issued to placement agents in conjunction with a private placement.

At December 31, 2010 outstanding stock options have the following terms:

| Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|
| Number of Options | Weighted Avg. Price ($CDN) | Expiry Date | Number of Options | Weighted Avg. Price ($CDN) |
| 1,003,080 | 1.30 | 2011 | 1,003,080 | 1.30 |
| 1,290,681 | 0.38 | 2012 | - | - |
| 1,212,500 | 1.30 | 2013 | 712,500 | 1.30 |
| 1,358,750 | 1.60 | 2014 | 391,250 | 1.59 |
| 25,000 | 1.92 | 2019 | 6,250 | 1.92 |
| 315,000 | 1.76 | 2020 | 116,666 | 1.78 |
| 5,205,011 | 1.18 | | 2,229,746 | 1.38 |

Options that expire in 2011 and 2012 are compensation options granted to placement agents in conjunction with private placement transactions.

## 8. STOCK OPTIONS (continued)

At December 31, 2009 outstanding stock options have the following terms:

| Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|
| Number of Options | Weighted Avg. Price ($CDN) | Expiry Date | Number of Options | Weighted Avg. Price ($CDN) |
| 1,146,210 | 1.30 | 2010 | 1,146,210 | 1.30 |
| 1,003,080 | 1.30 | 2011 | 1,003,080 | 1.30 |
| 47,094 | 1.00 | 2012 | 47,094 | 1.00 |
| 1,325,000 | 1.30 | 2013 | 456,248 | 1.30 |
| 50,000 | 1.30 | 2014 | - | - |
| 475,000 | 1.50 | 2014 | - | |
| 1,065,000 | 1.65 | 2014 | - | |
| 25,000 | 1.92 | 2019 | - | - |
| 5,136,384 | 1.39 | | 2,652,632 | 1.29 |

Options that expire in 2010 and 2011 are compensation options granted to placement agents in conjunction with private placement transactions.

Excluding compensation expense related to the November 23, 2010 option modifications and the November 29, 2010 cancelled option grant, the Company recorded employee and consultant stock option expense (recovery) of $(20,979) and $937,346 for the years ended December 2010 and 2009, respectively. The expense recovery of $(20,979) for the year ended December 31, 2010, results from the variable accounting method used to record consultant stock option expense, whereby the fair value of granted options is remeasured each reporting period until the options vest. Stock option expense (recovery) is included in salaries and benefits on the consolidated statement of loss.

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

## 9. CAPITAL LEASE OBLIGATIONS

The Company has entered into capital leases with the following future minimum lease payments as of December 31, 2010 as follows:

| | $ |
|---|---|
| 2011 | 216,123 |
| 2012 | 43,453 |
| 2013 | 793 |
| Total minimum lease payments | 260,369 |
| Amount representing interest (at rates of 15%) | (23,800) |
| Present value of minimum capital lease payments | 236,569 |
| Less current portion of obligations under capital leases | (194,582) |
| Long term portion of obgliations under capital leases | 41,987 |

The obligations under capital lease are secured by the related test and manufacturing equipment with a carrying value of $232,141 (Note 4).

## 10. COMMITMENTS AND CONTINGENCIES

Effective September 3, 2008, the Company entered into a licensing agreement (the "Licensing Agreement") with OADS under which the Company was granted an irrevocable, transferable, exclusive worldwide right and license to develop, produce and sell products based on fiber optic sensing technology developed by OADS. The license can be used for any and all uses and applications, excluding military applications and commercial avionics and airborne instrument applications. The Licensing Agreement also provides the Company with the right to sublease the licensed technology, as defined in the Licensing Agreement, to third parties. Per the Licensing Agreement, the Company will pay to OADS an annual running royalty calculated as a percentage on net sales of royalty product by the Company or a sub-licensee. A guaranteed minimum royalty payment of $500,000 per year, payable in equal quarterly installments, on or before March 31, June 30, September 30 and December 31 as an advance for the following quarterly period, is due each year after the date of first sale (prorated for any partial year), less any running royalties paid during the year. The date of first sale is defined in the agreement as the earlier to occur of three years after September 3, 2008, or the date as of when an aggregate of one hundred units of royalty product, as defined in the agreement, have been sold by the Company. Payments of the guaranteed minimum royalty are not to be made until after the date of first sale. Per the terms of the agreement, therefore, and absent the prior sale by the Company of one hundred units of royalty product, the initial quarterly royalty payment of $125,000 will be paid by the Company to OADS on September 30, 2011 as an advance for the fourth quarter of 2011.

Effective October 30, 2009, CTW executed with OADS a sublease renewal agreement (the "Sublease Renewal Agreement"). The Sublease Renewal Agreement renewed the original sublease agreement (the "Sublease Agreement") dated September 1, 2008, between CTW and OADS pursuant to which CTW leased certain office and support space from OADS for a period of one year. The Sublease Renewal Agreement renews the Sublease Agreement for a term of two years commencing as of September 1, 2009 and ending August 31, 2011. Rent for 1,657 square feet of leased space is payable at the rate of $22.66 per square foot during the first year of the renewal term and $23.34 per square foot during the second year of the renewal term.

Effective July 8, 2010, CTW extended the term of the Sublease Renewal Agreement with the execution of a sublease renewal extension agreement ("the Sublease Renewal Extension Agreement") with OADS. Per the Sublease Renewal Extension Agreement, the Sublease Renewal Agreement is extended for nine years commencing September 1, 2011 until August 31, 2020. During the extension term, rent shall be payable by CTW to OADS at a rate equal to the current fair market value per square foot as at September 1, 2011, to be mutually agreed by the parties, with an annual escalation of three percent (3%) per year beginning on September 1, 2012 and every year thereafter during the remainder of the Extension Term. If CTW and OADS do not come to an agreement in writing by August 31, 2011 regarding a fair market value rental rate, the Sublease Agreement, as renewed by the Sublease Renewal Agreement and as further extended by the Sublease Renewal Extension Agreement, shall terminate.

Future minimum payments as of December 31, 2010 are as follows:

| | $ |
|---|---|
| 2011 | 275,783 |
| 2012 | 500,000 |
| 2013 | 500,000 |
| 2014 | 500,000 |
| 2015 | 500,000 |
| Total minimum payments | 2,275,783 |

The Company is occasionally named as a party in various claims and legal proceedings, which arise during the normal course of its business. The Company is not aware of any claims or potential claims.

## 11. RELATED PARTY TRANSACTIONS AND ECONOMIC DEPENDENCE

Management of OADS holds a majority of the membership interests in OADS and also, directly or indirectly, owned or controlled 26,470,588 common shares, or approximately 33%, of the common shares of CWL as of December 31, 2010 and therefore the management of OADS is considered to have significant influence over CWL. OADS is considered a related party for accounting purposes under CICA Handbook Section 3840, "Related Party Transactions". Transactions between the Company and OADS are measured at the exchange amount, which is the consideration established and agreed to by the two parties. The Company and OADS have an existing Licensing Agreement (see Note 10), a Services Agreement, described below, and a sublease agreement and sublease extensions (see Note 10).

The costs incurred by OADS prior to January 1, 2008 related to the development of the Vindicator remote wind sensor, the underlying laser Doppler velocimetry technology, and the ownership of patents held by OADS are not reflected in these consolidated financial statements.

Effective September 3, 2008, CTW entered into a services agreement (the "Services Agreement") with OADS under which it engaged OADS, on a non-exclusive basis, to provide technical assistance and other services to the Company as needed on a best-effort, as-available basis. CTW and OADS amended the Services Agreement effective October 1, 2010. Under the terms of the original Services Agreement, OADS' services were billed to CTW on a time and materials basis. Per the amendment, OADS charges CTW for technical and administrative support at a fixed price per month. The fixed price is reviewed quarterly by CTW and OADS, and adjusted if required based upon forecasted support needs. At no time will the fixed price exceed what fees would have been in any applicable quarter on a time and materials basis. CTW also reimburses OADS for direct out-of-pocket expenses incurred on the Company's behalf.

In the third quarter of 2009, OADS and CTW executed a purchase agreement whereby OADS would purchase hardware from CTW. The hardware, which consisted of two modified Vindicator units, was purchased by OADS to fulfill its customer contractual obligations. The modified units were sold from CTW's inventory in the normal course of operations under terms and conditions that would apply to an unrelated party. Proceeds of $189,696 from these initial sales were netted against capitalized development costs as was required by the Company's then status as a development stage enterprise.

In the third quarter of 2009, CTW became a 75% equity owner in Falcon Fifty LLC, an entity created for the purpose of providing aviation management services. The remaining 25% equity interest in Falcon Fifty LLC is held by Tristar Aviation LLC ("Tristar"), a company whose principal members are an officer and a director of the Company and hold a majority of the ownership interests in OADS. On September 21, 2009, Falcon Fifty and its members executed an agreement to purchase a Falcon Fifty aircraft for $5,000,000. For its legal services related to the aircraft transaction, CTW utilized a firm with a noted specialty in aviation law in which a partner is a spouse of an officer of CTW. On October 1, 2010, CTW management committed to a plan to sell its 75% membership interest in Falcon Fifty LLC. Tristar intends to retain its 25% membership interest. CTW's membership interest was listed for sale with a third-party aircraft broker in October 2010. CTW intends to sell its membership interest if it is able to do so on terms it deems acceptable. There can be no assurance that CTW's interest can be sold on terms acceptable to CTW, and CTW will retain its interest if acceptable terms are not reached on any proposed sale. Included in accounts receivable is a balance of $12,590 due from Tristar Aviation at December 31, 2010, as compared to $79,212 at December 31, 2009.

On April 29, 2011, Falcon Fifty LLC and OADS entered into an Aircraft Maintenance Agreement, effective as of July 6, 2009, which provides for the reimbursement to OADS of certain ordinary course aviation maintenance and travel related services that were previously provided to Falcon Fifty LLC under the Services Agreement, and which services are not included in the fixed fee arrangement under the amended Services Agreement in effect since October 1, 2010. Transactions between Falcon Fifty LLC and OADS are measured at the exchange amount, which is the consideration established and agreed to by the two parties.

## 11. RELATED PARTY TRANSACTIONS AND ECONOMIC DEPENDENCE (continued)

The consolidated financial statements for the years ended December 31, 2010 and 2009 reflect the following labor charges from OADS:

| Financial Statement Caption | December 31, 2010 | December 31, 2009 |
|---|---|---|
| | $ | $ |
| Cost of sales | 523,878 | - |
| Inventory | 2,573,710 | 3,790,939 |
| Professional engineering fees | 2,273,902 | 1,828,059 |
| General and administrative expense [1] | 301,272 | 143,317 |
| Research and development expense | 1,513,242 | - |
| Other intangible assets | 705,871 | 1,730,842 |
| Total labor charges | 7,891,875 | 7,493,157 |

[1] Consists of aviation maintenance and travel related labor costs billed by OADS to Falcon Fifty LLC.

At December 31, 2010 and December 31, 2009, the Company owed a consolidated net balance of $74,388 and $355,685, respectively, to OADS for labor charges, accrued royalties and administrative costs. Included in the consolidated balance due at December 31, 2010 is a balance of $99,195 due to OADS from Falcon Fifty LLC for labor and material charges (2009 – NIL).

Due from OADS to the Company at December 31, 2010 and 2009 and included in accounts receivable is a balance of $2,459 and $27,771, respectively, for the cost of materials and third-party consulting fees paid for on behalf of OADS.

All balances payable to OADS are due within 30 days of invoice date. Payments will be due when the invoice for work done by OADS has been approved by CTW.

Other related party transactions between OADS and CTW reflected in the consolidated financials statements as of December 31, 2010 include non-labor general and administrative expense and accrued royalties of $194,589 (2009 - $285,392). The consolidated financials statements as of December 31, 2010 also include $5,110 (2009 - $22,459) of non-labor general and administrative expense billed by OADS to Falcon Fifty LLC.

## 12. OWNERSHIP INTEREST IN FALCON FIFTY LLC

On July 6, 2009, CTW became a 75% equity owner in Falcon Fifty LLC, an entity created for the purpose of providing aviation management services. The remaining 25% equity interest in Falcon Fifty LLC is held by Tristar Aviation LLC, a company whose principal members are an officer and a director and significant shareholders of the Company.

On September 21, 2009, Falcon Fifty LLC and its shareholders executed an agreement to purchase an aircraft for $5,000,000. An initial deposit of $400,000 was made for the aircraft, with the balance of $4,600,000 financed over a term of 10 years at a fixed rate of 7.17%. One hundred and twenty consecutive monthly installments of $40,649 are due commencing November 1, 2009, with a balloon payment of $2,300,000 due with the final installment. The aircraft has been recorded as a fixed asset on the financial statements of Falcon Fifty LLC and is being depreciated using the straight-line method over an estimated useful life of fifteen years.

## 12. OWNERSHIP INTEREST IN FALCON FIFTY LLC (continued)

On June 22, 2010, in connection with the CTL Cayman Islands re-domestication and in order to comply with Federal Aviation Administration regulations concerning citizenship requirements for aircraft registered in the United States, Tristar and CTW executed an amendment to the original July 6, 2009 operating agreement. Per the amendment, Tristar became the manager of Falcon Fifty LLC and gained voting rights such that it holds a 75% share of total voting rights, while retaining its 25% membership interest. Conversely, CTW's voting rights were reduced to a 25% share, while it retained its 75% membership interest. As a result, CTW no longer holds the majority of voting interests enabling it to control the strategic policies of Falcon Fifty LLC. In accordance with accounting guideline AcG-15, CTW continues to include the operations of Falcon Fifty LLC in its consolidated financial statements from July 6, 2009, as it is considered the "primary beneficiary" and will absorb the majority of Falcon Fifty LLC's expected losses or receive a majority of Falcon Fifty LLC's returns. Tristar Aviation's proportionate share of Falcon Fifty LLC's net loss and net assets are identified on the Company's financial statements as "Non-controlling interest." The balance due from Tristar Aviation at December 31, 2010 was $12,590 as compared to $79,212 at December 31, 2009.

On October 1, 2010, CTW management committed to a plan to sell its 75% membership interest in Falcon Fifty LLC. Tristar intends to retain its 25% membership interest. CTW's membership interest was listed for sale with a third-party aircraft broker in October 2010. CTW intends to sell its membership interest if it is able to do so on terms it deems acceptable. There can be no assurance that CTW's interest can be sold on terms acceptable to

CTW, and CTW will retain its interest if acceptable terms are not reached on any proposed sale. In accordance with CICA Section 3475 Disposal of Long-lived Assets and Discontinued Operations, CTW's membership interest has not been classified as held for sale because not all of the required criteria have been met. A long-lived asset to be sold should be classified as held for sale per CICA 3475 only if the sale is expected to qualify for recognition as a completed sale within one year (except as permitted in certain circumstances). Management does not believe this to be probable.

Effective October 15, 2010, Falcon Fifty LLC entered into an aircraft operating agreement with an aircraft charter company to engage the charter company to operate the aircraft as a Federal Aviation Regulation Part 135 Air Charter when the aircraft is not being used by a member of Falcon Fifty LLC. The charter arrangement is subject to Federal Aviation Administration approval. In addition, Falcon Fifty LLC is actively pursuing leasing the aircraft under Federal Aviation Regulation Part 91, independent of the aircraft charter agreement. Falcon Fifty LLC recorded income from short-term leasing of the aircraft, net of expenses, of $18,550 for the year ended December 31, 2010 (2009 - NIL), which is included in Other income, net in the Company's consolidated financial statements.

Tristar's capital contribution was $268,897 and $307,817 for the year ended December 31, 2010 and 2009, respectively.

## 12. OWNERSHIP INTEREST IN FALCON FIFTY LLC (continued)

The following dollar amounts have been recorded in the consolidated financial statements of the Company related to Falcon Fifty LLC:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Cash | 39,894 | - |
| Accounts receivable | 50,600 | - |
| Prepaid expenses | 40,689 | 53,167 |
| Capital assets (net) | 4,909,800 | 5,253,022 |
| Total assets | 5,040,983 | 5,306,189 |
| Accounts payable and accrued liabilities | 298,994 | 14,269 |
| Long-term debt (Note 13) | 4,394,057 | 4,560,270 |
| Total liabilities | 4,693,051 | 4,574,539 |
| Net equity | 347,932 | 731,650 |
| Non-controlling interest- 25% | 86,983 | 182,913 |

## 13. LONG-TERM DEBT

Long-term debt consists of a ten-year note executed by Falcon Fifty LLC (Note 12), a 75% owned subsidiary of CTW, and a U.S. financial institution. The note in the amount of $4,600,000 is for the purchase of a Falcon 50 aircraft. The note bears a fixed interest rate of 7.17% per annum. One hundred and twenty consecutive monthly installments of $40,649 became due commencing November 1, 2009, with a balloon payment of $2,300,000 due with the final installment on November 1, 2019. The note is collateralized by the Falcon 50 aircraft with a carrying value of $4,867,073 (Note 4).

Based on quoted average interest rates for long-term debt of companies of similar investment grade as the Company, in management's estimation, the carrying value of long-term debt approximates fair value.

**(Expressed in United States dollars)**

## 13. LONG-TERM DEBT (continued)

The table below summarizes the future cash flow requirements for consolidated long-term debt obligations at December 31, 2010:

| | $ |
|---|---|
| 2011 | 487,793 |
| 2012 | 487,793 |
| 2013 | 487,793 |
| 2014 | 487,793 |
| 2015 and beyond | 4,617,015 |
| Total minimum payments | 6,568,187 |
| Amount representing interest | (2,174,130) |
| Present value of minimum payments | 4,394,057 |
| Less current portion | (178,530) |
| Long term portion | 4,215,527 |

At December 31, 2009, the current portion of obligations was $166,213 and the long term portion was $4,394,057.

## 14. PRIVATE PLACEMENTS

On November 29, 2010, the Company completed a private placement offering of 17,316,359 units ("November 2010 Units") and 5,665,588 common shares of the Company generating aggregate gross proceeds of CDN$8,679,680. Each November 2010 Unit was priced at C$0.39 and is comprised of one common share of the Company and one common share purchase warrant (the "November 2010 Warrants"). Each whole November 2010 Warrant entitles the holder to purchase, subject to adjustment in accordance with its terms, one half of one common share of the Company at an exercise price of CDN$0.55 per whole share at any time within 24 months from the closing of the offering. Certain purchasers under the offering elected to purchase common shares only. In that case, each such common share was priced at CDN$0.34 per share. The agents for the private placement received a commission of: (a) 6% of the aggregate gross proceeds raised under the brokered portion of the offering; and (b) compensation options entitling the agents to acquire, in the aggregate, 6% of the respective number of common shares and units issued to subscribers under the brokered portion of the offering, with the compensation options exercisable into one common share at a price of CDN $0.34 per share, and one unit at a price of CDN $0.39 per unit, as applicable. The compensation options are exercisable for a period of 24 months from the closing of the offering. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase, subject to adjustment in accordance with its terms, one half of one common share of the Company at an exercise price of CDN $0.55 per whole share at any time within 24 months from the closing of the offering. Placement costs totaling $743,713 were offset against the proceeds of the private placement. Net proceeds recorded to equity in connection with the private placement were $7,764,433.

## 14. PRIVATE PLACEMENTS (continued)

On April 20, 2010, the Company completed a private placement of 2,576,000 units (the "Units"), each at a price of CDN $2.00, generating gross proceeds of CDN $5,152,000. Each Unit is comprised of one common share of the Company and one common share purchase warrant (the "Warrants"). Each whole Warrant entitles the holder to purchase one half of one common share of the Company at an exercise price of C$2.20 per whole share at any time within 24 months from the closing of the offering. Agents for the private placement received a commission of 6.0% of the gross proceeds raised under the offering, substantially paid in the form of 150,000 Units of the Company at CDN $2.00 per Unit, with such Units having the same terms and conditions as those issued to purchasers under the offering. Placement costs totaling $422,555 were offset against the proceeds of the private placement. Net proceeds recorded to equity in connection with the private placement were $4,677,926.

On May 20, 2009, the Company completed a private placement (the "Private Placement") of 16,743,000 common shares at a price of (CDN) $1.30 per share. In connection with the Private Placement, the Company paid a total commission equal to 6% of the gross proceeds of the brokered portion of the Private Placement to National Bank Financial Inc., Research Capital Corporation and Canaccord Capital Corporation (collectively, the "Agents"), who acted as placement agents for the Private Placement. The Company also granted compensation options to the Agents entitling the holders thereof to acquire an aggregate of 1,003,080 common shares at an exercise price of (CDN) $1.30 per share, exercisable for the 24-month period following the completion of the Private Placement. Placement costs totaling $1,937,958 were offset against the proceeds of the Private Placement. Net proceeds recorded to equity in connection with the Private Placement were $17,288,862.

## 15. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure that sufficient resources are available to fund the development and commercialization of its products and to safeguard the Company's ability to continue as a going concern, so that it can provide a return for shareholders. The Company considers its capital to include shareholders' equity and long-term debt.

Management reviews its capital management approach on an ongoing basis, and believes that this approach, given the relative size of the Company, is reasonable. There were no changes to the Company's approach to capital management in the year ended December 31, 2010. The Company is not subject to any externally imposed capital requirements.

## 16. FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, deposits accounts payable and accrued liabilities, long-term debt and balances due to related party approximate their carrying values.

As at December 31, 2010 the Company had cash equivalents that were measured at fair value and were valued based upon the Level 1 fair value hierarchy.

The Company may be exposed to risks of varying degrees of significance that affect its ability to achieve its strategic objectives. The main objectives of the Company's risk processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are as follows:

## 16. FINANCIAL INSTRUMENTS (continued)

*Capital risk*

The Company manages its capital to ensure there are adequate capital resources to fund development and commercialization of its laser-based wind sensor products. The capital structure consists of shareholders' equity; capital leases and loans taken out to fund operations and will be affected by the Company's future results of operations and working capital usage until such time as sales of the Company's products occur.

*Credit risk*

Credit risk is the risk that a client or vendor will be unable to pay any amounts owed to the Company. Management's assessment of the Company's risk is low, and is primarily attributable to money held in the Company's bank account. The Company monitors its investments and balances held at depository institutions and is satisfied with the credit ratings of its banks. The Company's maximum exposure is limited to the carrying value of accounts receivable. The Company has not recorded a provision for doubtful accounts as at December 31, 2010 based on an assessment of its credit risk. The Company's cash and cash equivalents are federally insured.

*Liquidity risk*

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due. Balances owed to the Company's creditors included in accounts payable and accrued liabilities are payable in accordance with the vendors' individual credit terms (i.e., within 30 days of invoice date). Lease payments are due monthly and long term debt payments are due monthly with a balloon payment due with the final installment on November 1, 2019. Long-term debt payments for the next 5 years are included in Note 13. The balance due to OADS is repayable within 30 days of invoice date. Payments will be due when the invoice for work done by OADS has been approved by CTW. The Company intends on fulfilling its obligations.

*Interest rate risk*

The Company has long-term debt bearing a fixed interest rate of 7.17%. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by banking institutions. Given the relatively short-term nature of these cash equivalents, the Company's exposure to fluctuations in interest rates is limited.

*Foreign currency risk*

Since the Company operates on an international basis, it is subject to risks and losses resulting from fluctuations in the relative currencies of different countries where its customers or suppliers are located. While the Company will attempt to be prudent in managing such risks, there can be no assurance that the Company will not suffer losses in the future. Any such losses could have a material adverse impact on results of operations and cash available to support operations. The Company does not use any financial instruments to mitigate this risk.

*Market risk*

Market risk is the risk to the Company that the fair value of future cash flows of financial instruments will fluctuate due to changes in interest rates and foreign currency rates. The Company does not have any financial instruments subject to this risk.