

**Catch the Wind Ltd.**  
**Condensed Consolidated Interim Financial Statements**  
**For the three and nine month periods ended September 30, 2011 and 2010**  
**(Expressed in United States dollars)**  
**Unaudited**

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**Catch the Wind Ltd.**  
**Condensed Consolidated Interim Balance Sheets**  
**(Unaudited)**

(Expressed in United States dollars)	Note	September 30, 2011 \$	December 31, 2010 (Note 5) \$	January 1, 2010 (Note 5) \$
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	4	9,329,036	6,746,467	10,616,065
Accounts receivable		217,970	202,157	119,627
Inventory	6	1,675,446	2,605,224	1,667,997
Prepaid expenses and other assets		553,483	228,262	107,719
		<u>11,775,935</u>	<u>9,782,110</u>	<u>12,511,408</u>
Non-current assets:				
Property and equipment	7	3,118,634	5,794,514	6,466,248
Intangible assets	8	6,538	5,990,404	5,923,105
Other assets		4,064	81,109	77,045
		<u>3,129,236</u>	<u>11,866,027</u>	<u>12,466,398</u>
Total assets		<u>14,905,171</u>	<u>21,648,137</u>	<u>24,977,806</u>
<b>Liabilities and Equity</b>				
Current liabilities:				
Accounts payable and other liabilities		2,369,290	2,043,448	1,339,905
Warranty provision	13	56,250	31,250	-
Due to related party	16	17,071	74,388	355,685
Obligations under finance leases	12	75,780	188,064	166,206
Borrowings	17, 18	188,363	178,530	166,213
Deferred revenue and customer deposits		641,200	333,500	360,000
		<u>3,347,954</u>	<u>2,849,180</u>	<u>2,388,009</u>
Non-current liabilities:				
Obligations under finance leases	12	4,781	41,467	212,934
Warrant liability	10	155,769	596,117	-
Borrowings	17, 18	4,073,000	4,215,527	4,394,057
		<u>4,233,550</u>	<u>4,853,111</u>	<u>4,606,991</u>
Total liabilities		<u>7,581,504</u>	<u>7,702,291</u>	<u>6,995,000</u>
<b>Equity</b>				
Equity attributable to owners of the Company:				
Capital stock	9	12,252	8,049	5,488
Contributed surplus		56,447,679	42,739,096	31,266,174
Deficit		(48,702,553)	(28,930,873)	(13,481,028)
Non-controlling interest		(433,711)	129,574	192,172
Total equity		<u>7,323,667</u>	<u>13,945,846</u>	<u>17,982,806</u>
Total liabilities and equity		<u>14,905,171</u>	<u>21,648,137</u>	<u>24,977,806</u>

Approved on behalf of the Board:  
(signed) "Dr. Jo Major, Jr."  
Chairman of the Board

(signed) "Susan Nickey"  
Director & Audit Committee Chair

**Catch the Wind Ltd.**  
**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**  
**(Unaudited)**

(Expressed in United States dollars)	Note	Three months ended September 30, 2011 \$	Three months ended September 30, 2010 (Note 5) \$	Nine months ended September 30, 2011 \$	Nine months ended September 30, 2010 (Note 5) \$
<b>Revenue</b>		<u>348,000</u>	<u>7,500</u>	<u>738,000</u>	<u>7,500</u>
<b>Expenses</b>					
Cost of sales	6, 16	526,599	-	1,583,303	-
Salaries and benefits		607,827	407,839	1,689,854	1,840,162
General and administrative	16	624,967	604,501	2,209,469	1,946,856
Inventory writedown	6	1,422,986	519,781	1,430,934	1,851,619
Amortization of intangible assets	8	338,417	338,540	1,015,497	401,820
Depreciation of property and equipment	7	153,107	191,413	471,223	523,700
Sales and marketing		(991)	21,168	244,711	348,982
Consulting fees		101,738	212,668	505,589	491,777
Professional fees		330,929	410,017	932,278	1,354,789
Professional engineering fees	16	102,108	790,236	582,839	1,985,677
Research and development	16	384,243	717,747	3,724,826	999,843
Finance costs		84,349	95,954	260,768	295,212
Interest income		(2,711)	(3,414)	(4,824)	(17,106)
Other income, net	17	(19,715)	-	(37,464)	-
Gain on fair value of warrant liability	10	(965,614)	(562,748)	(713,728)	(1,187,803)
Impairment of property and equipment	7	2,486,799	-	2,486,799	-
Impairment of intangible assets	8	4,968,369	-	4,968,369	-
Foreign exchange loss		72,434	2,943	79,509	6,436
		<u>11,215,841</u>	<u>3,746,645</u>	<u>21,429,952</u>	<u>10,841,964</u>
<b>Net loss and total comprehensive loss</b>		<u>(10,867,841)</u>	<u>(3,739,145)</u>	<u>(20,691,952)</u>	<u>(10,834,464)</u>
<b>Net loss and total comprehensive loss attributable to:</b>					
Owners of the Company		(10,176,903)	(3,679,532)	(19,771,680)	(10,612,796)
Non-controlling interest		(690,938)	(59,613)	(920,272)	(221,668)
		<u>(10,867,841)</u>	<u>(3,739,145)</u>	<u>(20,691,952)</u>	<u>(10,834,464)</u>
<b>Net loss per share - basic and diluted</b>		<u>(0.10)</u>	<u>(0.07)</u>	<u>(0.22)</u>	<u>(0.19)</u>
Weighted average number of common shares outstanding		<u>106,527,100</u>	<u>54,806,165</u>	<u>89,265,679</u>	<u>56,454,536</u>

See accompanying notes to the unaudited condensed consolidated interim financial statements.

**Catch the Wind Ltd.**  
**Condensed Consolidated Interim Statements of Changes in Equity**  
**(Unaudited)**

(Expressed in United States dollars)	Note	Equity attributable to owners of the Company			Non-controlling Interest	Total Equity
		Capital Stock	Contributed Surplus	Deficit		
		\$	\$	\$	\$	\$
<b>Balance at December 31, 2010</b>	5	8,049	42,739,096	(28,930,873)	129,574	13,945,846
Stock-based compensation	11	-	88,093	-	-	88,093
Non-controlling interest's contributions	17	-	-	-	356,987	356,987
Short-form prospectus offering proceeds(1)	9	4,203	13,620,490	-	-	13,624,693
Net loss and total comprehensive loss for the period		-	-	(19,771,680)	(920,272)	(20,691,952)
<b>Balance at September 30, 2011</b>		<u>12,252</u>	<u>56,447,679</u>	<u>(48,702,553)</u>	<u>(433,711)</u>	<u>7,323,667</u>
Balance at January 1, 2010	5	5,488	31,266,174	(13,481,028)	192,172	17,982,806
Stock-based compensation	11	-	59,987	-	-	59,987
Stock option exercise		5	64,995	-	-	65,000
Private placement		258	3,476,308	-	-	3,476,566
Non-controlling interest's contributions	17	-	-	-	201,121	201,121
Net loss and total comprehensive loss for the period		-	-	(10,612,796)	(221,668)	(10,834,464)
<b>Balance at September 30, 2010</b>		<u>5,751</u>	<u>34,867,464</u>	<u>(24,093,824)</u>	<u>171,625</u>	<u>10,951,016</u>

(1) Short form prospectus (as defined in Note 9) of 6,807,121 units at CDN \$0.40 and 35,214,574 common shares at CDN \$0.35 (or \$0.41 per unit and \$0.36 per share converted to USD), completed on August 5, 2011, net of \$1,438,198 in transaction costs, converted to U.S. dollars. The value of the warrants issued in connection with the short form prospectus is recorded to warrant liability.

See accompanying notes to the unaudited condensed consolidated interim financial statements.

**Catch the Wind Ltd.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**(Unaudited)**

(Expressed in United States dollars)	NOTE	Nine months ended September 30, 2011 \$	Nine months ended September 30, 2010 \$
<b>Cash flows from operating activities</b>			
Net loss for the period		(20,691,952)	(10,834,464)
Adjustments for:			
Depreciation of property and equipment	7	471,223	523,700
Amortization of intangible assets	8	1,015,497	401,820
Finance costs		260,768	295,212
Stock-based compensation	11	88,093	59,987
Inventory write down	6	1,430,934	1,851,619
Impairment of property and equipment	7	2,486,799	-
Impairment of intangible assets	8	4,968,369	-
Gain on fair value of warrant liability	10	(713,728)	(1,187,803)
Changes in non-cash operating assets and liabilities:			
Accounts receivable		(15,813)	74,506
Inventory		(501,156)	(2,965,632)
Prepaid expenses and other assets		(325,221)	(100,155)
Other assets		77,045	(4,064)
Accounts payable and other liabilities		325,841	646,593
Warranty provision		25,000	-
Due to related party		(57,317)	545,412
Deferred revenue and customer deposits		307,700	(151,500)
Interest paid		<u>(260,690)</u>	<u>(295,212)</u>
<b>Cash used in operating activities</b>		<u>(11,108,608)</u>	<u>(11,139,981)</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	7	(282,219)	(178,690)
Project development costs	8	<u>-</u>	<u>(807,659)</u>
<b>Cash used in investing activities</b>		<u>(282,219)</u>	<u>(986,349)</u>
<b>Cash flows from financing activities</b>			
Proceeds from exercise of options		-	65,000
Proceeds from financing transactions, net	9	13,898,073	4,677,926
Repayment of borrowings		(102,767)	(123,539)
Repayments of finance lease obligations		(178,897)	(104,412)
Non-controlling interest - capital contribution	17	<u>356,987</u>	<u>201,121</u>
<b>Cash provided by financing activities</b>		<u>13,973,396</u>	<u>4,716,096</u>
<b>Increase/(Decrease) in cash and cash equivalents</b>		2,582,569	(7,410,234)
<b>Cash and cash equivalents, beginning of period</b>		<u>6,746,467</u>	<u>10,616,065</u>
<b>Cash and cash equivalents, end of period</b>	4	<u>9,329,036</u>	<u>3,205,831</u>

See accompanying notes to the unaudited condensed consolidated interim financial statements.

**Catch the Wind Ltd.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2011 and 2010**  
**(Unaudited)**  
**(Expressed in United States dollars)**

**1. ORGANIZATION AND DESCRIPTION OF BUSINESS**

Catch the Wind Ltd. ("CWL") develops, manufactures and sells products based on Laser Doppler Velocimetry ("LDV") wind-sensing technology also known in the industry as Light Detection and Ranging, or LIDAR, technology. The financial statements contain the consolidated results of CWL, Catch the Wind, Inc. ("CTW") and CTW's 75% membership interest subsidiary as of September 30, 2011, Falcon Fifty LLC, for the three and nine months ended September 30, 2011. Catch the Wind Ltd.'s business is carried on in the name of "Catch the Wind, Inc.". CTW, CWL and Falcon Fifty LLC are sometimes collectively referred to herein as the "Company".

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. The Company's head office is located at 4309 Henninger Court, Chantilly, Virginia 20151, U.S.A. The Company's registered office is located at c/o Solaris Corporate Services Ltd., P.O. Box 1990, 3rd Floor, First Caribbean House, George Town, Grand Cayman KY1-1104, Cayman Islands.

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.

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.

To the knowledge of the Company, as of September 30, 2011, management of OADS directly or indirectly owned or controlled 26,462,509 common shares, or approximately 21.6% of CWL. Therefore the management of OADS is considered to have significant influence over CWL. OADS is considered a related party for purposes of accounting under International Accounting Standard ("IAS") 24, Related Party Disclosures.

To the knowledge of the Company, as of September 30, 2011, various entities of Hunter Hall Investment Management Ltd. ("Hunter Hall") directly or indirectly owned or controlled 48,457,944 common shares, or approximately 39.6% of CWL. Therefore, Hunter Hall is considered to have significant influence over CWL. Hunter Hall is considered a related party for purposes of accounting under IAS 24.

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**2. BASIS OF PRESENTATION**

**Going concern**

These condensed consolidated interim 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 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 condensed consolidated interim 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.

**Statement of compliance**

The Company has adopted International Financial Reporting Standards ("IFRS") effective January 1, 2011. Prior to the adoption of IFRS, the Company prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The accompanying condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements.

The accounting policies set out below and more fully disclosed in Note 4 of the condensed consolidated interim financial statements for the three months ended March 31, 2011 have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS balance sheet at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1"). An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 5. This note includes reconciliations of equity and total comprehensive loss for comparative periods and of equity at the date of transition reported under Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

These condensed consolidated interim financial statements were approved by the Board of Directors on November 28, 2011.

**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 and the Company's operations are not subjected to seasonality. Substantially all of the Company's assets are located in the United States of America. The Company's revenues for the three and nine months ended September 30, 2011 were from three and four customers, respectively. For the three and nine months ended September 30, 2010, revenue was derived from one customer.

**Catch the Wind Ltd.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**2. BASIS OF PRESENTATION (continued)**

**Basis of measurement**

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value through profit and loss.

The consolidated financial statements are presented in United States dollars, which is the Company's and its subsidiaries' functional currency.

**Basis of consolidation**

As of September 30, 2011, these consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary company, Catch the Wind, Inc., and its 75% membership interest subsidiary, Falcon Fifty LLC. A subsidiary, from an accounting perspective, is defined as an entity controlled by a company, where the company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. The financial statements of subsidiaries are included in the financial statements from the date that accounting control commences until the date that accounting control ceases. All intercompany transactions, balances, revenues and expenses have been eliminated upon consolidation.

**3. ESTIMATES AND JUDGMENTS**

**Use of estimates**

The preparation of the consolidated financial statements in conformity with IFRS 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. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgments in applying accounting policies**

Apart from those involving estimations, management has applied critical judgments in the process of applying the Company's accounting policies.

The key judgments, estimates and assumptions made in applying accounting policies that have the most significant effect on the amounts recognized in these condensed consolidated interim financial statements are disclosed in the condensed consolidated interim financial statements for the three months ended March 31, 2011.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The preparation of these condensed consolidated interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below and more fully disclosed in Note 4 of the condensed consolidated interim financial statements for the three months ended March 31, 2011 have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS balance sheet at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1. The impact of the transition from Canadian GAAP to IFRS is explained in Note 5.

**Catch the Wind Ltd.**  
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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and cash equivalents**

Cash and cash equivalents include demand deposits with financial institutions of \$9,211,505, \$1,495,480 and \$10,616,065 at September 30, 2011, December 31, 2010 and January 1, 2010, respectively. Cash equivalents consist of short-term, highly liquid investments purchased with original maturities of three months or less and were \$117,531, \$5,250,987, and \$NIL at September 30, 2011, December 31, 2010 and January 1, 2010, respectively. Cash equivalents include funds deposited in money market accounts and certificates of deposit.

**5. TRANSITION TO IFRS**

The Company has adopted IFRS as of January 1, 2011. These financial statements have been prepared in accordance with the accounting policies described above and more fully disclosed in Note 4 of the condensed consolidated interim financial statements for the three months ended March 31, 2011. The Company will ultimately prepare its opening balance sheet and financial statements for 2010 and 2011 by applying existing IFRS with an effective date of December 31, 2011 or prior. Accordingly, the opening balance sheet and financial statements for 2010 and 2011 may differ from those presented in these financial statements.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's balance sheets, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

**Initial IFRS 1 elections upon adoption**

The guidance for the first-time adoption of IFRS is set out in IFRS 1, which provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS are disclosed in Note 5 of the condensed consolidated interim financial statements for the three months ended March 31, 2011.

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**Notes to the Condensed Consolidated Interim Financial Statements**  
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**5. TRANSITION TO IFRS (continued)**

**Reconciliation of consolidated balance sheet at January 1, 2010**

(Expressed in United States dollars)	NOTE	Canadian GAAP balance (1)	IFRS adjustments	IFRS reclassifications	IFRS balance
		\$	\$	\$	\$
<b>Assets</b>					
Current assets:					
Cash and cash equivalents		10,616,065			10,616,065
Accounts receivable		119,627			119,627
Inventory		1,667,997			1,667,997
Prepaid expenses and other assets		107,719			107,719
		<u>12,511,408</u>	-	-	<u>12,511,408</u>
Non-current assets:					
Property and equipment	(a)	6,452,539	13,709		6,466,248
Other intangible assets		5,923,105			5,923,105
Other assets		77,045			77,045
		<u>12,452,689</u>	<u>13,709</u>	-	<u>12,466,398</u>
Total assets		<u>24,964,097</u>	<u>13,709</u>	<u>-</u>	<u>24,977,806</u>
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Accounts payable and other liabilities		1,339,905			1,339,905
Due to related party		355,685			355,685
Obligations under finance leases	(a)	179,633	(13,427)		166,206
Borrowings		166,213			166,213
Deferred revenue and customer deposits		360,000			360,000
		<u>2,401,436</u>	<u>(13,427)</u>	-	<u>2,388,009</u>
Non-current liabilities:					
Obligations under finance leases	(a)	218,026	(5,092)		212,934
Borrowings		4,394,057			4,394,057
		<u>4,612,083</u>	<u>(5,092)</u>	-	<u>4,606,991</u>
Total liabilities		<u>7,013,519</u>	<u>(18,519)</u>	<u>-</u>	<u>6,995,000</u>
Non-controlling interests	(d)	182,913	9,259	(192,172)	-
<b>Equity</b>					
Equity attributable to owners of the Company					
Capital stock		5,488			5,488
Contributed surplus	(b)	31,572,347	(306,173)		31,266,174
Deficit	(a),(b)	(13,810,170)	329,142		(13,481,028)
Non-controlling interest	(d)	-		192,172	192,172
Total equity		<u>17,767,665</u>	<u>22,969</u>	<u>192,172</u>	<u>17,982,806</u>
Total liabilities and equity		<u>24,964,097</u>	<u>13,709</u>	<u>-</u>	<u>24,977,806</u>

(1) The carrying value of computer software for \$33,819 included in property and equipment has been reclassified to intangible assets to correct an immaterial classification error (Note 8).

**Catch the Wind Ltd.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(Unaudited)**  
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**5. TRANSITION TO IFRS (continued)**

**Reconciliation of Consolidated Balance Sheet at September 30, 2010**

(Expressed in United States dollars)	NOTE	Canadian GAAP balance (1)	IFRS adjustments	IFRS reclassifications	IFRS balance
		\$	\$	\$	\$
<b>Assets</b>					
Current assets:					
Cash and cash equivalents		3,205,831			3,205,831
Accounts receivable		45,121			45,121
Inventory		2,782,010			2,782,010
Prepaid expenses and other assets		207,874			207,874
		<u>6,240,836</u>	-	-	<u>6,240,836</u>
Non-current assets:					
Property and equipment	(a)	6,003,145	118,095		6,121,240
Other intangible assets		6,328,942			6,328,942
Other assets		81,109			81,109
Total assets		<u>18,654,032</u>	<u>118,095</u>	<u>-</u>	<u>18,772,127</u>
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Accounts payable and other liabilities		1,986,498			1,986,498
Due to related party		901,097			901,097
Obligations under finance leases - current pc	(a)	202,857	(8,691)		194,166
Borrowings		175,368			175,368
Deferred revenue and customer deposits		208,500			208,500
		<u>3,474,320</u>	<u>(8,691)</u>	<u>-</u>	<u>3,465,629</u>
Non-current liabilities:					
Obligations under finance leases	(a)	81,861	(1,299)		80,562
Warrant liability	(e)	-		13,557	13,557
Borrowings		4,261,363			4,261,363
Total liabilities		<u>7,817,544</u>	<u>(9,990)</u>	<u>13,557</u>	<u>7,821,111</u>
Non-controlling interest	(d)	137,367	34,258	(171,625)	-
<b>Equity</b>					
Equity attributable to owners of the Company:					
Capital stock		5,751			5,751
Contributed surplus	(b)	35,071,524	(204,060)		34,867,464
Warrants	(e)	1,201,360	(1,187,803)	(13,557)	-
Deficit	(a),(b),(e)	(25,579,514)	1,485,690		(24,093,824)
Non-controlling interest	(d)	-	-	171,625	171,625
Total equity		<u>10,699,121</u>	<u>93,827</u>	<u>158,068</u>	<u>10,951,016</u>
Total liabilities and equity		<u>18,654,032</u>	<u>118,095</u>	<u>-</u>	<u>18,772,127</u>

(1) The carrying value of computer software for \$22,599 included in property and equipment has been reclassified to intangible assets to correct an immaterial classification error (Note 8).

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**5. TRANSITION TO IFRS (continued)**

**Reconciliation of Consolidated Balance Sheet at December 31, 2010**

(Expressed in United States dollars)	NOTE	GAAP balance (1)	IFRS adjustments	IFRS reclassifications	IFRS balance
		\$	\$	\$	\$
<b>Assets</b>					
Current assets:					
Cash and cash equivalents		6,746,467			6,746,467
Accounts receivable		202,157			202,157
Inventory		2,605,224			2,605,224
Prepaid expenses and other assets		228,262			228,262
		<u>9,782,110</u>	-	-	<u>9,782,110</u>
Non-current assets:					
Property and equipment	(a)	5,640,563	153,951		5,794,514
Other intangible assets		5,990,404			5,990,404
Other assets		81,109			81,109
		<u>11,712,076</u>	<u>153,951</u>	-	<u>11,866,027</u>
Total assets		<u>21,494,186</u>	<u>153,951</u>	<u>-</u>	<u>21,648,137</u>
<b>Liabilities and equity</b>					
Current liabilities:					
Accounts payable and other liabilities	(f)	2,074,698	(31,250)		2,043,448
Warranty provision	(f)	-	31,250		31,250
Due to related party		74,388			74,388
Obligations under finance leases	(a)	194,582	(6,518)		188,064
Borrowings		178,530			178,530
Deferred revenue and customer deposits		333,500			333,500
		<u>2,855,698</u>	<u>(6,518)</u>	-	<u>2,849,180</u>
Non-current liabilities:					
Obligations under finance leases	(a)	41,987	(520)		41,467
Warrant liability	(e)	-	-	596,117	596,117
Borrowings		4,215,527			4,215,527
		<u>4,257,514</u>	<u>(520)</u>	<u>596,117</u>	<u>4,853,111</u>
Total liabilities		<u>7,113,212</u>	<u>(7,038)</u>	<u>596,117</u>	<u>7,702,291</u>
Non-controlling interest	(d)	86,983	42,591	(129,574)	-
<b>Equity</b>					
Equity attributable to owners of the Company					
Capital stock		8,049			8,049
Contributed surplus	(b)	42,842,699	(103,603)		42,739,096
Warrants	(e)	2,131,711	(1,535,594)	(596,117)	-
Deficit	(a),(b),(e)	(30,688,468)	1,757,595		(28,930,873)
Non-controlling interest	(d)	-		129,574	129,574
Total equity		<u>14,293,991</u>	<u>118,398</u>	<u>(466,543)</u>	<u>13,945,846</u>
Total liabilities and equity		<u>21,494,186</u>	<u>153,951</u>	<u>-</u>	<u>21,648,137</u>

(1) The carrying value of computer software for \$18,859 included in property and equipment has been reclassified to intangible assets to correct an immaterial classification error (Note 8).

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**5. TRANSITION TO IFRS (continued)**

**Reconciliation of Consolidated Statement of Loss and Comprehensive Loss for the three months ended September 30, 2010**

(Expressed in United States dollars)	NOTE	Canadian GAAP Balance \$	IFRS Adjustments \$	IFRS Balance \$
<b>Revenue</b>		7,500	-	7,500
<b>Expenses:</b>				
Cost of sales		-		-
Salaries and benefits	(b)	248,880	158,959	407,839
General and administrative		604,501		604,501
Inventory writedown - beta units		519,781		519,781
Amortization of other intangible assets		338,540		338,540
Depreciation of property and equipment	(a)	227,269	(35,856)	191,413
Sales and marketing		21,168		21,168
Consulting fees		212,668		212,668
Professional fees		410,017		410,017
Professional engineering fees		790,236		790,236
Research and development		717,747		717,747
Interest expense, long-term debt		80,030		80,030
Interest expense, leases	(a)	12,555	3,369	15,924
Interest income		(3,414)		(3,414)
Loss (gain) on warrants	(e)	-	(562,748)	(562,748)
Foreign exchange loss		2,943		2,943
		<u>4,182,921</u>	<u>(436,276)</u>	<u>3,746,645</u>
<b>Net loss and total comprehensive loss</b>		(4,175,421)	436,276	(3,739,145)
<b>Net loss and total comprehensive loss attributable to:</b>				
Owners of the Company		(4,107,475)	427,943	(3,679,532)
Non-controlling interest	(d)	(67,946)	8,333	(59,613)
		<u>(4,175,421)</u>	<u>436,276</u>	<u>(3,739,145)</u>

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**5. TRANSITION TO IFRS (continued)**

**Reconciliation of Consolidated Statement of Loss and Comprehensive Loss for the nine months ended September 30, 2010**

(Expressed in United States dollars)	NOTE	Canadian GAAP Balance \$	IFRS Adjustments \$	IFRS Balance \$
<b>Revenue</b>		7,500	-	7,500
<b>Expenses:</b>				
Cost of sales		-		-
Salaries and benefits	(b)	1,738,049	102,113	1,840,162
General and administrative		1,946,856		1,946,856
Inventory writedown - beta units		1,851,619		1,851,619
Amortization of other intangible assets		401,820		401,820
Depreciation of property and equipment	(a)	631,334	(107,634)	523,700
Sales and marketing		348,982		348,982
Consulting fees		491,777		491,777
Professional fees		1,354,789		1,354,789
Professional engineering fees		1,985,677		1,985,677
Research and development		999,843		999,843
Interest expense, long-term debt		242,572		242,572
Interest expense, leases	(a)	40,863	11,777	52,640
Interest income		(17,106)		(17,106)
Loss (gain) on warrants	(e)	-	(1,187,803)	(1,187,803)
Foreign exchange loss		6,436		6,436
		<u>12,023,511</u>	<u>(1,181,547)</u>	<u>10,841,964</u>
<b>Net loss and total comprehensive loss</b>		(12,016,011)	1,181,547	(10,834,464)
<b>Net loss and total comprehensive loss attributable to:</b>				
Owners of the Company		(11,769,344)	1,156,548	(10,612,796)
Non-controlling interest	(d)	(246,667)	24,999	(221,668)
		<u>(12,016,011)</u>	<u>1,181,547</u>	<u>(10,834,464)</u>

**Catch the Wind Ltd.**  
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**5. TRANSITION TO IFRS (continued)**

**Notes to the reconciliations:**

**(a) Property and equipment**

The Company applied IAS 17, Leases (“IAS 17”) on a retrospective basis. Under Canadian GAAP, the present value of the minimum lease payments is calculated using the interest rate implicit in the lease or the lessee’s incremental borrowing rate, whichever is lower. The present value of the minimum lease payments under IFRS should be calculated using the interest rate implicit in the lease. The effect of implementing this provision of IAS 17 resulted in a decrease of \$23,328 in the balance of the finance leases contained within property and equipment, and a decrease of \$13,427 and \$5,092 in the balance of current and non-current obligations under finance leases, respectively, on the opening balance sheet. As at September 30, 2010, the effect of implementing this provision of IAS 17 resulted in a decrease of \$4,387 in the balance of the finance leases contained within property and equipment, and a decrease of \$8,691 and \$1,299 in the balance of current and non-current obligations under finance leases, respectively. As at December 31, 2010, the effect of implementing this provision of IAS 17 resulted in a decrease of \$26,576 in the balance of the finance leases contained within property and equipment, and a decrease of \$6,518 and \$520 in the balance of current and non-current obligations under finance leases, respectively. The adjustment resulted in an increase of \$12,252 in interest expense, leases, recognized through opening deficit at January 1, 2010, \$3,369 and \$11,777 for the three and nine months ended September 30, 2010, respectively, and \$14,728 for the twelve months ended December 31, 2010. The adjustment also resulted in a decrease of \$7,443 in depreciation of property and equipment expense on finance leased assets, recognized through opening deficit at January 1, 2010, \$2,523 and \$7,635 for the three and nine months ended September 30, 2010, respectively and \$10,158 for the twelve months ended December 31, 2010.

Under IAS 16, Property, Plant and Equipment (“IAS 16”), the depreciable amount of a depreciable asset is its cost less its residual value. Under Canadian GAAP, annual depreciation is based on the greater of cost less salvage value over the life of the asset, and cost less residual value over the useful life of the asset to the enterprise. The Company has estimated the residual value of the aircraft as of January 1, 2010 to be \$2,000,000. The impact of implementing this provision of IAS 16 increased the property and equipment balance by \$37,037, \$137,036 and \$170,371 at January 1, 2010, September 30, 2010 and December 31, 2010, respectively. The implementation also resulted in a decrease of \$37,037 in depreciation expense recognized through opening deficit at January 1, 2010, \$33,333 and \$99,999 for the three and nine months ended September 30, 2010, respectively, and \$133,334 for the twelve months ended December 31, 2010.

**(b) Stock-based compensation**

Under IFRS 2, Share-based Payment (“IFRS 2”), each installment that vests must be accounted for as a separate arrangement with its own distinct fair value measurement, and compensation cost for each tranche is recognized over its own distinct vesting period. Under Canadian GAAP, the Company recognized options that vest in installments as a single pool with a fair value based on the average life of the instruments. IFRS 2 also requires an entity to make a forfeiture estimate at the measurement date as opposed to Canadian GAAP, which gives an entity the choice of estimating the expected forfeiture rate at the date of grant or recognizing the impact of actual forfeitures as they occur. The Company recognized actual forfeitures as they occur under Canadian GAAP. The effect of implementing IFRS 2 on transition decreased stock option compensation expense included in salaries and benefits by \$306,173 recognized through opening deficit at January 1, 2010. Implementation resulted in an increase in stock option compensation expense included in salaries and benefits of \$158,959 and an increase of \$102,113 for the three and nine months ended September 30, 2010, respectively, and an increase of \$202,570 for the twelve months ended at December 31, 2010.

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**5. TRANSITION TO IFRS (continued)**

**Notes to the reconciliations (continued):**

**(c) Deferred tax assets**

The adjustments upon adoption of IFRS discussed above would have resulted in a deferred tax asset. The Company has not recognized the deferred tax asset, recording a valuation allowance against the resulting deferred tax asset, as it is not probable that sufficient taxable profit will be available against which the temporary difference will be utilized.

**(d) Non-controlling interest**

Non-controlling interest is included in the determination of total comprehensive loss under IFRS. Canadian GAAP states that non-controlling interest is not a financial liability or an equity instrument of an entity, and should be presented in the consolidated balance sheet separately from equity. However, under IFRS non-controlling interest is presented as a part of equity. The adjustments upon adoption of IFRS discussed above resulted in a decrease in Falcon Fifty LLC's opening deficit by \$37,037 which results in a decrease of \$9,259 in the non-controlling interest as of January 1, 2010. Similarly, for the three and nine month periods ended September 30, 2010 and twelve month period ended December 31, 2010, Falcon Fifty LLC's net loss decreased by \$33,333, \$99,999 and \$133,334, respectively, hence the non-controlling interest also decreased by \$8,333 and \$24,999 for the three and nine months ended September 30, 2010, respectively, and \$33,332 as at December 31, 2010.

**(e) Warrant liability**

The warrants issued in the April 2010 and November 2010 private placements ("April 2010 and November 2010 Warrants") have an exercise price denominated in Canadian dollars, which is a currency other than the Company's functional currency. Under Canadian GAAP, warrants are accounted for at their carrying value within shareholders' equity. Under IFRS, warrants that have an exercise price denominated in a currency other than the Company's functional currency meet the definition of a derivative financial liability and are marked-to-market each reporting period with the subsequent change in fair value recognized as gains or losses in the Statement of Loss and Comprehensive Loss until they are exercised or expire. In accordance with IFRS, the April 2010 and November 2010 warrants do not meet the definition of an equity instrument and have been recorded at fair value as a derivative financial liability. There is no impact to the opening balance sheet. The change in fair value as measured using the Black-Scholes valuation model has resulted in a decrease in the net loss of \$562,748, \$1,187,803 and \$1,535,594 for the three and nine months ended September 30, 2010 and the twelve months ended December 31, 2010, respectively.

**(f) Warranty provision**

Provisions for warranty liabilities previously included in accounts payable and other liabilities are separately disclosed as provisions under IFRS. This does not impact the January 1, 2010 opening balance sheet. However, this results in reclassifying \$31,250 at December 31, 2010 from accounts payable and other liabilities to warranty provision.

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**6. INVENTORY**

Inventory consists of electronic and optical components used to manufacture the Company's products and in-process products and finished -beta units. The electronic and optical components are carried at cost and the Vindicator spare modules (included in components in the chart below), in-process and finished units are carried at the lower of cost and net realizable value, which is the amount the Company expects to realize from the sale of its inventory in the ordinary course of business.

The aggregate inventory write down recorded for the three months ended September 30, 2011 was \$1,422,986, consisting of: A) \$491,250 for the carrying value of its in-process WindSeeker (\$191,250) and completed Racer's Edge units (\$300,000) which are no longer being actively marketed; B) \$625,000 for the carrying value of its completed Vindicator beta units; \$52,650 for Generation 2.0 spare modules and \$80,974 for partially completed Generation 2.0 ("G 2.0") product which were written down to the lower of cost and net realizable value and C) \$173,112 due to shrinkage.

During the nine months ended September 30, 2011, the Company wrote down its inventory for components, in-process and completed Vindicator beta and G 2.0 units and in-process WindSeeker and completed Racer's Edge units by \$1,430,934. During the nine months ended September 30, 2010, the Company wrote down its inventory to net realizable value for in-process and completed Vindicator beta units by \$1,851,619.

For the three months ended September 30, 2011 (2010 – NIL) the Company recorded inventory expense of \$348,000. For the nine months ended September 30, 2011, the Company recorded inventory expense of \$723,000 (2010 - NIL) to cost of sales.

	September 30, 2011	December 31, 2010	January 1 2010
	\$	\$	\$
Inventory - components	768,946	270,224	348,647
Inventory - work in process	606,500	435,000	169,850
Inventory - completed units	300,000	1,900,000	1,149,500
	<u>1,675,446</u>	<u>2,605,224</u>	<u>1,667,997</u>

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**7. PROPERTY AND EQUIPMENT**

Property and equipment consists of the items listed below. During the three months ended September 30, 2011, the Company wrote off the carrying value on four Vindicator beta test units and two Racer's Edge tests units, as their fair value less costs to sell as determined by reference to an active market, was estimated to be less than their carrying amount. This resulted in an aggregate write-down of \$215,369.

The aircraft owned by Falcon Fifty LLC was also deemed impaired, as its fair value less costs to sell of \$2.6 million as determined by reference to an active market was estimated to be less than its carrying amount, resulting in a write down of \$2,271,430.

During the year ended December 31, 2010, the Company recorded an impairment loss on two Racer's Edge test units, as the fair value less costs to sell as determined by reference to an active market, was estimated to be less than its carrying amount. This resulted in a write-down of \$149,000.

	September 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Cost	4,104,188	6,762,985	6,736,117
Accumulated depreciation	985,554	968,471	269,869
Carrying value	<u>3,118,634</u>	<u>5,794,514</u>	<u>6,466,248</u>

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

	Balance as at January 1, 2010	Additions	Disposals	Impairments	Balance as at December 31, 2010
<b>Cost</b>	\$	\$	\$	\$	\$
Furniture and fixtures	65,679	34,819	16,110	-	84,388
Computer equipment	5,193	5,409	-	-	10,602
Test and manufacturing equipment	83,937	3,094	-	-	87,031
Vindicator test units	674,000	125,000	-	149,000	650,000
Tradeshow booths	105,581	1,606	-	-	107,187
Aircraft (Note 17 and 18)	5,320,283	-	-	-	5,320,283
Test and manufacturing equipment under finance lease	481,444	22,050	-	-	503,494
	<u>6,736,117</u>	<u>191,978</u>	<u>16,110</u>	<u>149,000</u>	<u>6,762,985</u>

	Balance as at January 1, 2010	Additions	Disposals	Balance as at December 31, 2010
<b>Accumulated Depreciation</b>	\$	\$	\$	\$
Furniture and fixtures	7,264	12,663	-	19,927
Computer equipment	1,586	3,086	-	4,672
Test and manufacturing equipment	11,670	17,280	-	28,950
Vindicator test units	45,139	259,389	-	304,528
Tradeshow booths	18,534	21,250	-	39,784
Aircraft (Note 17 and 18)	61,487	221,352	-	282,839
Test and manufacturing equipment under finance lease	124,189	163,582	-	287,771
	<u>269,869</u>	<u>698,602</u>	<u>-</u>	<u>968,471</u>

**Catch the Wind Ltd.**  
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**7. PROPERTY AND EQUIPMENT (continued)**

	Balance as at December 31, 2010	Additions	Disposals	Impairment	Balance as at September 30, 2011
<b>Cost</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Furniture and fixtures	84,388	28,758	-	3,596	109,550
Computer equipment	10,602	14,010	-	8,862	15,750
Test and manufacturing equipment	87,031	-	-	7,128	79,903
Vindicator test units	650,000	196,000	-	650,000	196,000
Tradeshow booths	107,187	-	-	-	107,187
Aircraft (Notes 17 and 18)	5,320,283	-	-	2,271,430	3,048,853
Leasehold improvements	-	43,451	-	-	43,451
Test and manufacturing equipment under finance lease	503,494	-	-	-	503,494
	<u>6,762,985</u>	<u>282,219</u>	<u>-</u>	<u>2,941,016</u>	<u>4,104,188</u>
	Balance as at December 31, 2010	Depreciation	Disposals	Impairment	Balance as at September 30, 2011
<b>Accumulated depreciation</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Furniture and fixtures	20,004	12,522	-	1,858	30,668
Computer equipment	4,672	2,404	-	6,134	942
Test and manufacturing equipment	28,950	12,936	-	3,392	38,494
Vindicator test units	304,528	138,305	-	442,833	-
Tradeshow booths	39,784	16,078	-	-	55,862
Aircraft	282,839	166,014	-	-	448,853
Leasehold improvements	-	-	-	-	-
Test and manufacturing equipment under finance lease	287,771	122,964	-	-	410,735
	<u>968,548</u>	<u>471,223</u>	<u>-</u>	<u>454,217</u>	<u>985,554</u>

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**8. INTANGIBLE ASSETS**

Intangible assets consist of the following:

	Computer Software	Project Development Costs	Total Intangible Assets
<b>Cost</b>	\$	\$	\$
Balance at January 1, 2010	44,880	5,889,286	5,934,166
Additions	-	807,659	807,659
Impairments	-	-	-
Balance at December 31, 2010	<u>44,880</u>	<u>6,696,945</u>	<u>6,741,825</u>
Additions	-	-	-
Impairments	(4,405)	(6,696,945)	(6,701,350)
Balance at September 30, 2011	<u>40,475</u>	<u>-</u>	<u>40,475</u>
<b>Accumulated amortization</b>			
Balance at January 1, 2010	11,061	-	11,061
Amortization for the period	14,960	725,400	740,360
Balance at December 31, 2010	<u>26,021</u>	<u>725,400</u>	<u>751,421</u>
Amortization for the period	11,098	1,004,399	1,015,497
Impairments	(3,182)	(1,729,799)	(1,732,981)
Balance at September 30, 2011	<u>33,937</u>	<u>-</u>	<u>33,937</u>
Carrying value at:			
January 1, 2010	33,819	5,889,286	5,923,105
December 31, 2010	18,859	5,971,545	5,990,404
September 30, 2011	<u>6,538</u>	<u>-</u>	<u>6,538</u>

Computer software is being amortized over its estimated useful life of three years. At September 30, 2011, the Company recorded an impairment loss of \$1,223 due to software that is no longer in use.

The project development costs relate to the development of the Vindicator beta 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.

As of September 30, 2011, the Company is no longer actively marketing the Vindicator Beta product and wrote off the associated inventory as disclosed in Note 6. The Company reviewed its product offering and decided that with the introduction of the lower cost G 2.0 product, the Company also wrote off the remaining Vindicator beta unit net capitalized project development costs of \$4,967,146.

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## **9. CAPITAL STOCK**

### Authorized

At the Company's Annual Meeting on June 22, 2011, the authorized number of common shares was increased from one hundred and fifty million (150,000,000) to three hundred million (300,000,000).

The Company's capital stock also includes one hundred and fifty million (150,000,000) shares of restricted voting shares and seventy-five million (75,000,000) preferred shares.

### Issued and outstanding

On August 5, 2011, the Company completed its best efforts short form prospectus offering of units and common shares of the Company generating gross proceeds of approximately CDN\$15,047,949. Each unit was priced at CDN\$0.40 and consisted of one common share and one-half of one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of CDN\$0.60 per share at any time within two years following the closing of the offering. Each common share sold separately from units was priced at CDN\$0.35. A total of 6,807,121 units (consisting of 6,807,121 common shares and 3,403,561 whole warrants) and 35,214,574 stand-alone common shares were issued under the offering. The agent under the offering received a cash fee equal to 6% of the gross proceeds raised through the offering. In addition, the Company granted the agent compensation options, exercisable at any time within two years following the closing of the offering, to purchase: (a) 2,112,875 common shares of the Company at an exercise price of CDN\$0.35 per share; and (b) 408,912 units of the Company at an exercise price of CDN\$0.40 per unit, with each unit consisting of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of CDN\$0.60 per share at any time within two years following the closing of the offering. Transaction costs totaling \$1,438,198 were offset against the proceeds of the offering. Net proceeds recorded to equity in connection with the offering were \$13,898,073. Of the total net proceeds, \$273,380 is allocated to warrant liability, \$4,203 is allocated to capital stock and \$13,620,490 is allocated to contributed surplus.

As of September 30, 2011 there were 122,513,614 common shares issued and outstanding. During the nine months ended September 30, 2011, 42,021,695 common shares were issued under the Company's best efforts short form prospectus offering completed on August 5, 2011.

On January 1, 2010, there were 54,883,972 common shares issued and outstanding. During the year ended December 31, 2010, a total of 25,607,947 common shares were issued. 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. Costs associated with the issuance of common shares are charged directly to capital stock.

## **10. DERIVATIVES**

### Warrant liability

As of September 30, 2011, there were 23,291,881 warrants outstanding to acquire 13,349,740 common shares. The weighted average exercise price of warrants outstanding at September 30, 2011 was CDN \$0.72 to purchase one whole common share. The Company has revalued its warrant liability as of September 30, 2011. A decline in the fair value of the warrant liability has resulted in a decrease in the net loss for the three and nine months ended September 30, 2011 of \$965,614 and \$713,728, respectively. For the three and nine months ended September 30, 2010, the Company had a decline in the fair value of the warrant liability resulting in a decrease in the net loss of \$562,748 and \$1,187,803, respectively.

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## **11. 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 and employees historically vest over a 3-year term. All options granted prior to the approval of the amended Plan in August 2009 originally were due to expire five years from the date of grant thereof. On July 15, 2011, the TSX Venture Exchange informed the Company that it had accepted its amendments to extend the expiration date to ten years from the date of grant for officer, employee, director and certain consultant options. The amended Plan extends the expiration date of stock options issued after adoption of the Plan to ten years from the date of grant. Typically, 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.

The Company accounts for options granted under the Plan in accordance with the fair value based method of accounting for stock-based compensation. The estimated fair value of the options that are ultimately expected to vest is recorded over the option's vesting period and charged to stock-based compensation expense.

The Company recorded employee and consultant stock option expense (recovery) of \$48,948 and (\$183,074) for the three months ended September 30, 2011 and 2010, respectively. For the nine months ended September 30, 2011 and 2010, the Company recorded employee and consultant stock option expense of \$88,093 and \$59,987, respectively. For consultants, the fair value is remeasured each reporting period until the options vest, and stock compensation is adjusted each reporting period to reflect the repricing.

There were no stock options issued by the Company to employees, directors and consultants during the quarter ended September 30, 2011. During the nine months ended September 30, 2011, the Company granted an aggregate of 1,600,000 stock options to certain executive officers. The options have a ten-year life and vest in three equal, annual installments beginning on the first anniversary of the grant of the award. The exercise price of the options is the Board determined price of CDN \$0.55 per share, which exceeds the closing price on the date of grant.

Related to the Company's August 5, 2011 best efforts short form prospectus offering, the Company granted, outside of the Amended and Restated 2008 Stock Option Plan, effective September 18, 2008, as further amended and restated July 24, 2009, and August 17, 2010, the agent compensation options, exercisable at any time within two years following the closing of the offering, to purchase (a) 2,112,875 common shares of the Company at an exercise price of CDN\$0.35 per share; and (b) 408,912 units of the Company at an exercise price of CDN\$0.40 per unit, with each unit consisting of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of CDN\$0.60 per share at any time within two years following the closing of the offering.

At September 30, 2011, there were 4,180,000 employee, officer, consultant and director options outstanding.

There were 3,812,468 compensation options granted to agents outstanding at September 30, 2011.

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

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**11. STOCK OPTIONS (continued)**

**Employee and director options:**

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Exercise price (\$CDN)	\$ -	\$ 1.44	\$ 0.55	\$ 1.77
Risk-free interest rate	-	0.98 %	1.21 %	1.25 %
Dividend yield	-	nil	-	nil
Expected volatility	-	79.26 %	82.01 %	79.23 %
Expected term (in years)	-	4	4	4

**Non-employee options:**

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Exercise price (\$CDN)	\$ 0.36	\$ -	\$ 0.36	\$ 1.74
Risk-free interest rate	0.19 %	0 %	0.19 %	1.64 %
Dividend yield	nil	nil	nil	nil
Expected volatility	68.12 %	- %	68.12 %	79.56 %
Expected term (in years)	2	-	2	4

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**11. STOCK OPTIONS (continued)**

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

	Number of Options Outstanding	Weighted Avg. Exercise price (\$CDN) \$
Balance as at January 1, 2010 (1)	5,136,384	1.39
Granted (2)	6,215,681	0.44
Exercised	(50,000)	1.30
Cancelled	(4,610,000)	0.36
Expired	(1,209,970)	1.29
Forfeited	(277,084)	1.52
Balance as at December 31, 2010	5,205,011	1.18
Granted (3)	4,121,787	0.43
Exercised	-	-
Expired	(1,222,663)	1.32
Forfeited	(111,667)	1.48
Balance as at September 30, 2011	7,992,468	0.77

<sup>(1)</sup> Options outstanding at January 1, 2010 include 1,003,080 compensation options with an exercise price of CDN\$ granted to placement agents in conjunction with a private placement in 2009.

<sup>(2)</sup> Options issued during the twelve months ended December 31, 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.

<sup>(3)</sup> Options issued during the nine months ended September 30, 2011 include 2,521,787 compensation options with a weighted average exercise price of CDN \$0.36 granted to placement agents in conjunction with the August 5 2011 short form prospectus offering.

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**11. STOCK OPTIONS (continued)**

At September 30, 2011, outstanding stock options have the following terms:

Number of Options	Options Outstanding		Options Exercisable	
	Weighted Avg. Price (\$CDN)	Expiry Date	Number of Options	Weighted Avg. Price (\$CDN)
	\$			\$
1,290,681	0.38	2012	1,290,681	0.38
3,621,787	0.64	2013	3,584,287	0.64
1,275,000	1.60	2014	841,654	1.60
25,000	1.92	2019	8,333	1.92
180,000	1.99	2020	126,665	1.98
1,600,000	0.55	2021	-	-
<u>7,992,468</u>	<u>0.77</u>		<u>5,851,620</u>	<u>0.75</u>

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.

**12. LEASE OBLIGATIONS**

Finance lease obligations

The Company has entered into finance leases with the following future minimum lease payments as of September 30, 2011 as follows:

	\$
Not later than one year	81,749
Later than one year and not later than five years	4,921
Later than five years	<u>-</u>
Total minimum lease payments	86,670
Amount representing interest	<u>(6,109)</u>
Present value of minimum capital lease payments	80,561
Less current portion of obligations under finance leases	<u>(75,780)</u>
Long term portion of obligations under finance leases	<u><u>4,781</u></u>

The obligations under finance leases are secured by the related test and manufacturing equipment with a carrying value of \$92,759 (Note 7). Interest rates underlying finance leases are fixed at respective contract rates ranging from 9% to 42% per annum. Lease terms range from twenty-five to thirty-six months. The Company does not have the option to purchase the equipment at the end of the lease terms for substantially all of its leases. There are no restrictions imposed by the leases on securing additional debt or leases.

Operating Lease Obligations

For the three months ended September 30, 2011 and 2010, rent and operating lease expense of \$21,606 and \$20,855, respectively, was recognized in general and administrative expense. For the nine months ended September 30, 2011 and 2010, the Company recognized rent and operating lease expense of \$63,318 and \$61,996, respectively. See Note 14 for information about the Company's agreements related to the rent expense.

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**13. WARRANTY PROVISION**

Balance as at January 1, 2010	\$ -
Additional provision recognized	31,250
Balance as at December 31, 2010	31,250
Additional provision recognized	25,000
Balance as at September 30, 2011	56,250

The provision for warranty obligations represents the Company's best estimate of repair and/or replacement costs to correct product failures and is accrued as a percentage of sales list price. Depending on customer contract terms, the Company accrues for estimated costs of product warranties at the time the product is installed or delivered.

**14. COMMITMENTS**

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 sublicense 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, being September 3, 2011, 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, the initial quarterly royalty payment of \$125,000 was 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 renewed 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 was payable at the rate of \$22.66 annually per square foot during the first year of the renewal term and \$23.34 annually 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 was extended for nine years commencing September 1, 2011 until August 31, 2020. During the extension term, rent was payable by CTW to OADS at a rate equal to the current fair market value per square foot as of 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 did 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

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**14. COMMITMENTS (continued)**

Agreement, would terminate. On July 26, 2011, CTW and OADS entered into a non-binding letter of intent (“LOI”) memorializing their intentions regarding their relationship under the Sublease Renewal Extension Agreement and a Services Agreement (described below). The LOI and Sublease Extension Renewal Agreement each expired on August 31, 2011 without entry into a definitive agreement by CTW and OADS regarding the Sublease Renewal Agreement and the Services Agreement.

Effective August 31, 2011, the Company executed a lease agreement with a third party for a lease term of approximately one year commencing September 15, 2011 and ending September 30, 2012 for 6,100 square feet at a cost of \$11.25 per square foot annually. Provided the Company is not in default of any of the terms and conditions of the lease, the Company has the right to extend the lease for a two-year period with an annual escalation of 3% per year.

Future minimum payments as of September 30, 2011 are as follows:

	\$
2011 (remainder of year)	142,156
2012	551,469
2013	500,000
2014	500,000
2015	500,000
Total minimum payments	2,193,625

**15. CONTINGENCIES**

The Company is occasionally named as a party in various claims and legal proceedings, which arise during the normal course of its business.

On September 27, 2011, Catch the Wind Ltd. and CTW filed an action against OADS and Philip Rogers in Virginia Circuit Court for Prince William County seeking a preliminary and permanent injunction and other relief for recovery of essential tangible and intangible property of CTW that CTW has alleged in its complaint is being detained by OADS and Mr. Rogers in violation of applicable Virginia law and their respective contractual obligations to CTW.

Effective October 22, 2011, CTW withdrew its membership in Falcon Fifty LLC (“Falcon Fifty”), which was originally formed in July 2009 to acquire a Falcon 50 aircraft. As a result, CTW no longer has any interest in the aircraft.

In order to compel access to necessary information and for other declaratory relief, on October 12, 2011, CTW filed a Complaint in the Delaware Chancery Court against Falcon Fifty, Tristar Aviation LLC (Falcon Fifty’s sole member), Apogee Holdings LLC (Tristar Aviation LLC’s sole member), and Apogee Holding LLC’s owners, Philip and Alisa Rogers. In response to that Complaint, these defendants filed motions on November 14 and 15, 2011, to dismiss this case based on various grounds and to disqualify CTW’s legal representation. The schedule for resolution of these motions and the case has yet to be determined by the Chancery Court.

On November 10, 2011, CTW received a copy of a Complaint filed by Philip Rogers and Alisa Rogers against CTW in the Circuit Court for Prince William County, Virginia on October 28, 2011. Pursuant to the Complaint, Mr. and Mrs. Rogers have asserted a claim for confirmation of the validity of the indemnity agreement executed by CTW in favor of Mr. and Mrs. Rogers for any claims made against the Rogers’ in

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**15. CONTINGENCIES (continued)**

the event of a default under security granted by Falcon Fifty to VFS Financing, Inc. for the financing of the Falcon 50 aircraft. If the indemnity agreement is held to be valid and binding on CTW, CTW believes that its potential exposure under the indemnity agreement is approximately USD\$4.2 million, less the proceeds from the eventual sale of the aircraft, plus any applicable interest, penalties and costs associated therewith.

On November 2, 2011, OADS and Mr. Rogers asserted counterclaims for breach of the Sublease Agreement between CTW and OADS dated September 3, 2008, which Sublease Agreement expired on August 31, 2011, and for breach of Mr. Rogers's employment agreement with the Company. Mr. Rogers has asserted a claim of \$1,227,232 in severance under his employment agreement, and OADS has asserted \$83,983 in damages for alleged breach of the Sublease Agreement.

On November 4, 2011, the Prince William County Circuit Court ordered enforcement of a mandatory mediation provision in the Licensing Agreement between CTW and OADS and temporarily stayed all further proceedings in the action for 90 days, with the exception of a preliminary injunction hearing already scheduled for November 9, 2011. At that hearing, the court entered an electronic evidence preservation order directing OADS and Mr. Rogers to maintain all electronic files in their current condition without changes, modifications or deletions and to produce a comprehensive index of all software and data files currently stored on certain computers and servers in the possession of OADS and Mr. Rogers within 30 days. The court-ordered mediation has been scheduled for January 16 and January 17, 2012.

**16. RELATED PARTY TRANSACTIONS**

The Company believes that the management of OADS holds a majority of the membership interests in OADS and also, directly or indirectly, owned or controlled 26,462,509 common shares, or approximately 21.6%, of the common shares of CWL as of September 30, 2011, and therefore the management of OADS is considered to have significant influence over CWL. OADS is considered a related party for accounting purposes under IAS 24, Related Party Disclosures. 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 14) and a Services Agreement, described below, and Falcon Fifty LLC has an aircraft maintenance agreement with OADS, described below.

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 charged CTW for technical and administrative support at a fixed price per month. The fixed price was reviewed quarterly by CTW and OADS, and adjusted if required based upon forecasted support needs; provided, that at no time would the fixed price exceed what fees would have been in any applicable quarter on a time and materials basis. CTW also reimbursed OADS for direct out-of-pocket expenses incurred on the Company's behalf. Under the terms of the amended Services Agreement, the monthly fixed fee arrangement charged by OADS to the Company for services could be terminated by OADS as of the date on which Mr. Rogers ceased to be Chief Executive Officer of the Company. On July 26, 2011, CTW and OADS entered into the LOI memorializing their intentions regarding their relationship under the Sublease Renewal Extension Agreement and to extend the fixed fee arrangement under the Services Agreement under certain conditions notwithstanding the cessation of Mr. Rogers service as Chief Executive Officer of the Company. The LOI expired on August 31, 2011 without the entry into a definitive agreement by CTW and OADS with respect to a fixed fee arrangement under the Services Agreement and the Sublease Renewal Extension Agreement, and Mr. Rogers ceased to be Chief Executive Officer of the Company effective September 1, 2011. The Company has not utilized OADS services subsequent to August 31, 2011.

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**16. RELATED PARTY TRANSACTIONS (continued)**

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.

In the third quarter of 2009, CTW became a 75% member in Falcon Fifty LLC, an entity created for the purpose of providing aviation management services. The remaining 25% membership interest in Falcon Fifty LLC was held by Tristar Aviation LLC ("Tristar"), a company whose sole member is owned entirely by a former officer and former directors of the Company and who holds a majority of the ownership interests in OADS. On September 21, 2009, Falcon Fifty LLC and its members executed an agreement to purchase an 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. CTW is utilizing this same aviation law firm in which a partner is a spouse of an officer of CTW in connection with its complaint filed in the Delaware Chancery against Falcon Fifty LLC, Tristar Aviation LLC, Apogee Holdings LLC and Philip Rogers and Alisa Rogers described below. On October 1, 2010, CTW management committed to a plan to sell its 75% membership interest in Falcon Fifty LLC. CTW's membership interest was listed for sale with a third-party aircraft broker in October 2010. CTW's intent was to sell its membership interest if it was able to do so on terms it deemed acceptable. Subsequent to the end of the quarter dated September 30, 2011, the Company withdrew from Falcon Fifty LLC (See Note 19 "Subsequent Events".) Included in accounts receivable is a balance due of \$53,613 at September 30, 2011 from Tristar, as compared to \$12,590 at December 31, 2010.

On April 29, 2011, Falcon Fifty LLC and OADS entered into an Aircraft Maintenance Agreement, effective as of July 6, 2009, which provided 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 were 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.

The consolidated financial statements for the three and nine months ended September 30, 2011 and 2010 reflect the following labor charges from OADS:

Financial Statement Caption	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cost of sales	110,984	-	658,630	-
Capitalized costs related to inventory	767,542	710,778	767,542	2,409,138
Professional engineering fees	79,588	790,236	541,024	1,985,677
General and administrative expense <sup>(1)</sup>	86,283	48,901	321,329	212,745
Research and development expense	191,886	640,020	2,632,804	843,667
Capitalized costs related to intangible asset	-	-	-	705,871
<b>Total labor charges</b>	<b>1,236,283</b>	<b>2,189,935</b>	<b>4,921,329</b>	<b>6,157,098</b>

<sup>(1)</sup> Comprises of aviation maintenance and travel related labor costs billed by OADS to Falcon Fifty LLC.

At September 30, 2011 and December 31, 2010, the Company owed a net balance of \$17,071 and \$74,388, respectively, to OADS for labor charges, accrued royalties and administrative costs. Included in the balances due at September 30, 2011 and December 31, 2010 are amounts of \$210 and \$99,195, respectively, due to OADS from Falcon Fifty LLC for labor and material charges.

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**16. RELATED PARTY TRANSACTIONS (continued)**

Due from OADS to the Company at September 30, 2011 and December 31, 2010 and included in accounts receivable are balances of \$2,589 and \$2,459, respectively, for the cost of materials and third-party consulting fees paid 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 financial statements for the three months ended September 30, 2011 and 2010 include non-labor general and administrative expense of \$57,050 and \$54,274, respectively. For the nine months ended September 30, 2011 and 2010, non-labor general and administrative and royalty expenses recorded were \$354,904 and \$128,226, respectively.

Compensation of Key Management Personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the members of the Board of Directors and the Chief Executive Officer.

The remuneration of directors and other members of key management personnel during the three and nine month periods were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short-term benefits	166,353	91,038	565,946	491,895
Long-term benefits	416	769	1,664	1,711
Share-based payment transaction	4,242	49,838	10,478	110,379
	<u>171,011</u>	<u>141,645</u>	<u>578,088</u>	<u>603,985</u>

**17. OWNERSHIP INTEREST IN FALCON FIFTY LLC**

On July 6, 2009, CTW became a 75% membership interest owner in Falcon Fifty LLC, an entity created for the purpose of providing aviation management services. The remaining 25% membership interest in Falcon Fifty LLC was held by Tristar Aviation LLC, a company whose sole member is owned entirely by a former officer and former directors of the Company and who are significant shareholders of the Company.

On September 21, 2009, Falcon Fifty LLC and its members 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. For the period ended September 30, 2011 the aircraft has been recorded as property and equipment in the financial statements of Falcon Fifty LLC and is being depreciated using the straight-line method over an estimated useful life of fifteen years.

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**17. 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 held 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. However, any change in the managers of Falcon Fifty LLC, including the addition of new managers, or any sale or other disposition of any aircraft owned by Falcon Fifty LLC, including the Falcon 50 aircraft, requires approval by greater than 80% of the votes of all members of Falcon Fifty LLC. As a result, as of June 22, 2010, CTW no longer holds the majority of voting interests enabling it to control the strategic policies of Falcon Fifty LLC. In accordance with accounting guidance, CTW continues to include the operations of Falcon Fifty LLC in its consolidated financial statements from July 6, 2009.. Tristar's proportionate share of Falcon Fifty LLC's net loss and net assets are identified in the Company's financial statements as "Non-controlling interest." The balances due from Tristar at September 30, 2011 and December 31, 2010 were \$53,613 and \$12,590, respectively.

On October 1, 2010, CTW management committed to a plan to sell its 75% membership interest in Falcon Fifty LLC. CTW's membership interest was listed for sale with a third-party aircraft broker in October 2010. CTW's intent was to sell its membership interest if it was able to do so on terms it deemed acceptable. In accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations guidance, 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 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. Subsequent to the end of the quarter, the Company withdrew from Falcon Fifty LLC (See Note 19 "Subsequent Events").

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. In addition, Falcon Fifty LLC has the option to continue to lease under Federal Aviation Regulation Part 91, independent of the aircraft charter agreement. For the three and nine months ended September 30, 2011, the Company recorded charter and lease income, net of expenses, of \$19,715 and \$37,464 (three and nine months ended September 30, 2010 – NIL) in Other income, net.

Tristar's capital contribution was \$356,987, \$202,101 and \$268,897 for the nine months ended September 30, 2011, nine months ended September 30, 2010 and the year ended December 31, 2010, respectively.

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**17. 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:

	September 30, 2011	December 31, 2010
	\$	\$
Cash	153,421	39,894
Accounts receivable	66,969	50,600
Prepaid expenses and other assets	26,961	40,689
Property and equipment (net)	2,635,203	5,080,172
<b>Total assets</b>	<b>2,882,554</b>	<b>5,211,355</b>
Accounts payable and other liabilities	356,033	298,994
Borrowings (Note 18)	4,261,363	4,394,057
<b>Total liabilities</b>	<b>4,617,396</b>	<b>4,693,051</b>
Net equity	(1,734,842)	518,304
Non-controlling interest- 25%	(433,711)	182,913

**18. BORROWINGS**

Borrowings consist of a ten-year note executed by Falcon Fifty LLC (Note 17), a 75% membership interest 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. Payment of one hundred and twenty consecutive monthly installments of \$40,649 commenced on 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 aircraft with a carrying value of \$2.6 million (Note 7).

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

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**(Expressed in United States dollars)**

**18. BORROWINGS (continued)**

The table below summarizes the future cash flow requirements for borrowings at September 30, 2011:

	\$
2011 (remainder of the year)	121,948
2012	487,793
2013	487,793
2014	487,793
2015 and beyond	<u>4,617,015</u>
Total minimum payments	6,202,342
Amount representing interest	<u>(1,940,979)</u>
Present value of minimum payments	4,261,363
Less current portion	<u>(188,363)</u>
Long term portion	<u><u>4,073,000</u></u>

At December 31, 2010, the current portion of obligations was \$178,530 and the long-term portion was \$4,215,527.

**19. SUBSEQUENT EVENTS**

CTW had received services from OADS employees as consultants under the Services Agreement and other consultants who had received stock option grants over the years. On September 30, 2011, CTW sent notification to these consultants, and other consultants to the Company, notifying them that effective October 5, 2011, CTW was terminating their consulting agreements. There were 1,665,000 options issued and outstanding as of September 30, 2011 and 1,309,990 options were exercisable as of October 5, 2011. The consultants had thirty days, to November 4, 2011, to exercise their options. All 1,665,000 options were cancelled on November 4, 2011.

On October 11, 2011, the Company granted 100,000 stock options to each of Dr. Jo Major, Jr., and Ms. Susan Nickey, in their capacities as directors of the Company in accordance with the Company's outside director compensation policy. The options are exercisable at a price of CDN \$0.21 per share based on the closing share price of the Company on October 11, 2011. One third of the options vested immediately, one third will vest on the first anniversary of the grant date and the remaining one third will vest on the second anniversary of the grant date. The term of the options is ten years from the date of grant.

CTW withdrew its membership in Falcon Fifty LLC effective October 22, 2011 as disclosed in Note 15, Contingencies. In addition, there are claims and counterclaims between CTW, Falcon Fifty LLC, OADS, Tristar Aviation LLC, Apogee Holdings LLC, Philip Rogers and Alisa Rogers. These are described under Note 15 Contingencies.

On November 14, 2011, the Company granted 100,000 stock options to Dr. Jo Major, Jr, in his capacity as Chairman of the Board, 890,000 stock options to John E. Green, newly appointed Chief Financial Officer and 280,000 stock options to Frederick C. Belen, newly appointed Vice President of Technology and Product Line Manager. The options are exercisable at a price of CDN \$0.16 per share based on the closing share price of the Company on November 14, 2011. One-quarter of the options will vest on the first anniversary of the grant date followed by one-forty-eighth of the options vesting each month thereafter for thirty-six months for an aggregate forty-eight month vesting period. The term of the options is ten years from the date of grant.

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**19. SUBSEQUENT EVENTS (continued)**

In addition, on November 14, 2011, the Company granted an additional 705,667 stock options to new hires and existing employees. The options are exercisable at a price of CDN \$0.16 per share based on the closing share price of the Company on November 14, 2011. One-quarter of the options will vest on the first anniversary of the grant date followed by one-forty-eighth of the options vesting each month thereafter for thirty-six months for an aggregate forty-eight month vesting period. The term of the options is ten years from the date of grant.