

*Interim financial statements of*

**SWEF Terrawinds Resources Corp.**

*For the three month periods ended March 31, 2010 and 2009*

*(unaudited)*

# **SWEF Terrawinds Resources Corp.**

For the three month periods ended March 31, 2010 and 2009

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# SWEF TERRAWINDS RESOURCES CORP.

Interim statements of operations and comprehensive loss (unaudited)

	For the three month periods ended	
	March 31, 2010	March 31, 2009
	\$	\$
<b>Interest income</b>	<b>7,829</b>	63,091
<b>Expenses</b>		
Administrative costs	<b>149,274</b>	219,315
Capital tax expense	<b>3,000</b>	3,500
Tax indemnity payments (Note 7)	<b>1,524,366</b>	175,789
	<b>1,676,640</b>	398,604
Loss before income taxes	<b>(1,668,811)</b>	(335,513)
Future income tax recovery	<b>(365,927)</b>	(88,092)
<b>Net and comprehensive loss</b>	<b>(1,302,884)</b>	(247,421)
<b>Loss per share (Note 5)</b>	<b>(0.17)</b>	(0.03)
Weighted average number of common shares outstanding (Note 5)	<b>7,724,084</b>	7,724,084

See accompanying notes

# **SWEF TERRAWINDS RESOURCES CORP.**

Interim statements of changes in shareholders' equity (unaudited)

**For the three month period ended March 31, 2010**

	<b>Share Capital</b>	<b>Retained Earnings (Deficit)</b>
	\$	\$
<b>Balances at December 31, 2009</b>	<b>17,945,909</b>	<b>(251,381)</b>
Net and comprehensive loss	-	<b>(1,302,884)</b>
<b>Balances at March 31, 2010</b>	<b>17,945,909</b>	<b>(1,554,265)</b>

**For the three month period ended March 31, 2009**

	<b>Share Capital</b>	<b>Retained Earnings (Deficit)</b>
	\$	\$
<b>Balances at December 31, 2008</b>	17,945,909	3,170,786
Net and comprehensive loss	-	(247,421)
<b>Balances at March 31, 2009</b>	17,945,909	2,923,365

*See accompanying notes*

# SWEF TERRAWINDS RESOURCES CORP.

Interim balance sheets (unaudited)

	March 31, 2010	December 31, 2009
	\$	\$
<b>Assets</b>		
Current assets		
Cash	1,889,288	1,995,721
Restricted cash and cash equivalents (Note 3)	18,634,969	20,159,336
Income taxes receivable	160,279	160,279
Due from Interwind Corp. (Note 4)	19,839	19,839
Prepaid expenses	48,200	58,588
	20,752,575	22,393,763
Prepaid expenses	46,851	51,109
	20,799,426	22,444,872
<b>Liabilities</b>		
Current liabilities		
Accounts payable, accrued and other liabilities	428,897	405,532
Due to Interwind Corp. (Note 4)	165,300	165,300
	594,197	570,832
Future income tax liability	3,813,585	4,179,512
	4,407,782	4,750,344
<b>Shareholders' Equity</b>		
Share capital	17,945,909	17,945,909
Deficit	(1,554,265)	(251,381)
	16,391,644	17,694,528
	20,799,426	22,444,872

Contingencies (Note 7)

See accompanying notes

On behalf of the Board:

**Signed**     *"W. Judson Martin"*  
 ..... Director

**Signed**     *"Gary Solway"*  
 ..... Director

# SWEF TERRAWINDS RESOURCES CORP.

## Interim statements of cash flows (unaudited)

	For the three month periods ended	
	March 31, 2010	March 31, 2009
	\$	\$
<b>Operating activities</b>		
Net loss	(1,302,884)	(247,421)
Non-cash items		
Future income tax recovery	(365,927)	(88,092)
Changes in non-cash working capital items		
Prepaid expenses	14,646	(28,545)
Accounts payable, accrued and other liabilities	23,365	(30,949)
Due to/from Interwind Corp. (Note 4)	-	(2,252)
	<b>(1,630,800)</b>	<b>(397,259)</b>
<b>Investing activities</b>		
Restricted cash and cash equivalents	1,524,367	175,789
	<b>1,524,367</b>	<b>175,789</b>
Net decrease in cash	(106,433)	(221,470)
Cash, beginning of period	1,995,721	2,893,568
<b>Cash, end of period</b>	<b>1,889,288</b>	<b>2,672,098</b>
<b>Supplemental disclosure of cash flow information</b>		
Operating activities		
Cash interest received	7,829	69,236

See accompanying notes

# SWEF Terrawinds Resources Corp.

## Notes to the interim financial statements

For the three month periods ended March 31, 2010 and 2009 (unaudited)

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### 1. Description of business

SWEF Terrawinds Resources Corp. (the "Company") was incorporated on December 8, 2003 under the provisions of the Canada Business Corporations Act. On incorporation, there were 100 issued and outstanding Class A common shares owned by SkyPower Corp., now known as Interwind Corp. ("Interwind").

On December 23, 2005, the Company issued 9,716,450 common and 59,364,807 flow-through shares to SWEF LP (the "Partnership"). On the same date, Interwind's initial investment of 100 Class A common shares was converted into 71,900,901 Class A preference shares of the Company, representing a 51% voting interest in the Company.

The Company intended to use the proceeds of the common and flow-through share investments towards the construction of a wind turbine project (the "Facility"), including 22 wind turbines as part of the Canadian Renewable Conservation Expense Test Phase (the "CRCE Phase") and conduct a 120-day test phase (the "Test Phase") and, if successful, construct and operate the balance of the turbines ("Infill Phase") in Riviere du Loup, Québec, to generate electricity for sale to Hydro-Québec pursuant to a 21 year power purchase agreement ("PPA").

On December 28, 2007, the Company sold certain assets and liabilities relating to the Facility to Interwind. The Partnership purchased the 71,900,901 Class A preference shares of the Company from Interwind. The Company has ceased to carry on the development of the Facility. The Company is in the process of winding up its affairs.

On January 4, 2008, the Company entered into a tax indemnity payment agent agreement with a tax indemnity agent (the "Agent") whereby \$24,490,816 of the total gross proceeds of the sale of the Facility to Interwind was paid to the Agent to be held in trust for SWEF Terrawinds. These funds will be used to indemnify shareholders for the taxes payable by them as a result of the loss of certain deductions from income for Canadian federal and provincial income tax purposes that shareholders expected to receive for their 2005 taxation year. Any trust balance not required to indemnify shareholders will be returned to the Company. The tax indemnity payment agreement has an original term of 30 months from closing and expires on June 30, 2010. The Board of Directors has resolved to extend the tax indemnity payment agreement to July 31, 2012. The agreement is extendible at the option of the Board of Directors.

On December 12, 2008, the Company consolidated every 8.943618 of its issued and outstanding common shares into 1 non-voting common share of the Company. The Partnership then repurchased and cancelled all of its outstanding limited partnership units in exchange for 7,724,084 non-voting common shares of the Company. The result of this capital reorganization is that the former limited partners of the Partnership are now shareholders of the Company.

The general partner of the Partnership is SWEF GP Inc. (the "General Partner") which is owned by the Chairman of the Board of the General Partner, a related party to the Partnership and the Company, as an accommodation to unit holders of the Partnership and to facilitate the sale of the Facility as described above. The General Partner had a 0.01% beneficial interest in the Partnership.

The Partnership held all of the Class A preference shares of the Company until December 18, 2009. On December 18, 2009, the General Partner purchased 10 Class A preference shares of the Company from the Partnership for \$1. The Company then purchased all remaining interests in the Partnership for \$101. The Partnership was dissolved and all assets of the Partnership were conveyed to the Company. The remaining 71,900,891 Class A preference shares of the Company were cancelled. This transaction had no material impact on the financial statements, as the Partnership held nominal assets. The General Partner continues to hold the 10 remaining Class A preference shares of the Company, representing 100% of the voting interests in the Company.

# **SWEF Terrawinds Resources Corp.**

Notes to the interim financial statements

For the three month periods ended March 31, 2010 and 2009 (unaudited)

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## **2. Significant accounting policies**

These interim financial statements are prepared in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the interim periods presented. However, these interim financial statements do not include all the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these interim financial statements are the same as those used in the most recent annual consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2009.

## **3. Restricted cash and cash equivalents**

As at March 31, 2010, restricted cash and cash equivalents include the following:

- \$18,634,969 held in trust to compensate shareholders for the taxes payable by them as a result of the loss of certain tax deductions as further described in Note 1. Of the total amount held in trust, \$14,999,249 was invested in Government of Canada Treasury Bills.

As at December 31, 2009, restricted cash and cash equivalents include the following:

- \$20,159,336 held in trust to compensate shareholders for the taxes payable by them as a result of the loss of certain tax deductions as further described in Note 1. Of the total amount held in trust, \$16,700,160 was invested in Government of Canada Treasury Bills.

The decrease in restricted cash and cash equivalents from December 31, 2009 to March 31, 2010 is due to the payment of tax indemnity claims.

## **4. Due to/from Interwind Corp. and transactions with Interwind Corp.**

- (i) Due from Interwind Corp. includes amounts owed by Interwind which remained to be received as part of a final accounting of amounts between the Company and Interwind.
- (ii) Due to Interwind Corp. includes amounts owed to Interwind which remained to be paid as part of a final accounting of amounts between the Company and Interwind.
- (iii) On March 1, 2010, the Company, the General Partner and Interwind entered into an agreement to release and discharge all outstanding claims related to the sale of the Facility, subject to certain conditions. The agreement expired on May 1, 2010, though the Company is continuing to negotiate for an extension of the agreement. As a result, no adjustment has been made to amounts owing to/from Interwind.

## **5. Loss per share**

The weighted average number of common shares outstanding used to calculate loss per share is consistent with the requirements of CICA Handbook Section 3500, Earnings per Share. The diluted loss per share is not presented as there are no dilutive items outstanding.

# **SWEF Terrawinds Resources Corp.**

Notes to the interim financial statements

For the three month periods ended March 31, 2010 and 2009 (unaudited)

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## **6. Financial instruments**

### **Fair values**

As at March 31, 2010, the carrying amount of cash, restricted cash and cash equivalents, and accounts payable and accrued and other liabilities approximates their fair value due to the short-term nature of these financial instruments. None of the Company's financial assets or liabilities are measured at fair value on a recurring basis.

The fair values of the amounts due to/from Interwind Corp. are less than their carrying values, as amounts are non-interest bearing. It is management's best estimate that these amounts will be paid/received within a year. Therefore the fair values of the amounts to/from Interwind Corp. approximate their carrying values due to their anticipated short-term maturity.

## **7. Contingencies**

In connection with the transaction described in Note 1, certain liabilities, though assigned in substance and principle by the agreements to Interwind, are not legally assignable in form, and therefore the Company may be required to make payments in the future if Interwind fails to honour its obligations. On August 12, 2009, Interwind filed for restructuring under the terms of the Companies' Creditors Arrangement Act ("CCAA"). Interwind's ability to honour any potential obligations arising from the assignment of certain liabilities is substantially in doubt.

To date, two claims have arisen from which creditors are seeking payment from the Company as a result of Interwind's CCAA filing. Based on the information most currently available, the best estimate of potential future exposure for these claims has been recorded in the financial statements. The maximum potential amount and likelihood of future payments that the Company could be required to make under these indemnification provisions and legal contingencies is not reasonably quantifiable or determinable. Management believes no other claims are likely.

The maximum potential amount and likelihood of future payments that the Company could be required to make under these indemnification provisions and legal contingencies is not reasonably quantifiable or determinable. Management believes no other claims are likely.

The Company is contingently liable to pay amounts claimed by shareholders in respect of certain reassessments by applicable taxation authorities. The tax indemnity fund classified as restricted cash and cash equivalents, and held in trust by the Agent, has been restricted for the purposes of indemnifying shareholders. The precise amount of future payments from the tax indemnity fund that the Company could be required to make is not reasonably determinable. In any event, management believes the maximum amount payable will not exceed the amount currently held in the tax indemnity fund.

## **8. Related party transactions**

Administrative costs include rent of \$9,450 (2009 - \$3,100) paid to a company controlled by one of the directors of the Company. The transactions are recorded at the exchange amount.