

Financial statements of

**SWEF Terrawinds Resources Corp.
(formerly known as “Terrawinds Resources
Corp.”)**

For the years ended December 31, 2008 and 2007

Management's Responsibility for Financial Reporting

These financial statements form the basis for all of the financial information that appears in this annual report. The financial statements and all of the information in this annual report are the responsibility of the management of SWEF Terrawinds Resources Corp. and have been reviewed and approved by its board of directors. The board of directors is responsible for ensuring that management fulfills its financial reporting responsibilities.

Management has prepared the financial statements according to Canadian generally accepted accounting principles ("GAAP"). Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements and notes. Management believes that these financial statements fairly present the entity's financial position and results of operations and changes in cash flows. Management has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. Management believes that the internal controls provide reasonable assurance that our financial records are reliable and form a proper basis for preparing the financial statements, and that our assets are properly accounted for and safeguarded.

Deloitte & Touche LLP, SWEF Terrawinds Resources Corp.'s external auditors, have audited the financial statements in accordance with Canadian GAAP and their report is included below. Deloitte & Touche LLP has free and full access to the board's audit committee.

Signed *"W. Judson Martin"*

W. Judson Martin
Director

Auditors' Report

To the Shareholders of
SWEF Terrawinds Resources Corp. (Formerly known as "Terrawinds Resources Corp.")

We have audited the balance sheets of SWEF Terrawinds Resources Corp. as at December 31, 2008 and 2007 and the statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of SWEF Terrawinds Resources Corp. as at December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
April 23, 2009

SWEF TERRAWINDS RESOURCES CORP.

(formerly known as "Terrawinds Resources Corp.")

Statements of operations and comprehensive income (loss)

	For the year ended	
	December 31, 2008	December 31, 2007
	\$	\$
Interest income	952,918	301,313
Expenses		
Administrative costs	493,323	756,713
Capital tax expense (recovery)	(18,849)	383,208
	474,474	1,139,921
Income (loss) before the following	478,444	(838,608)
Gain on sale of certain assets and liabilities (Note 4)	-	9,960,419
Income before income taxes	478,444	9,121,811
Current tax expense (Note 12)	160,279	-
Future income tax expense (recovery) (Notes 4, 5 & 12)	5,847,182	(18,468,391)
	6,007,461	(18,468,391)
Net and comprehensive income (loss)	(5,529,017)	27,590,202
Earnings (loss) per share (Note 11)	(0.72)	3.57
Weighted average number of common shares outstanding (Note 11)	7,724,084	7,724,084

See accompanying notes

SWEF TERRAWINDS RESOURCES CORP.

(formerly known as "Terrawinds Resources Corp.")

Statements of changes in shareholders' equity

	Share Capital	Retained Earnings (Deficit)
	\$	\$
Balances at December 31, 2006	69,081,257	(18,890,399)
Net and comprehensive income	-	27,590,202
Balances at December 31, 2007	69,081,257	8,699,803
Net and comprehensive loss	-	(5,529,017)
Distributions paid as return of capital invested (Note 9)	(51,135,348)	-
Balances at December 31, 2008	17,945,909	3,170,786

See accompanying notes

SWEF TERRAWINDS RESOURCES CORP.

(formerly known as "Terrawinds Resources Corp.")

Balance sheets

	December 31, 2008	December 31, 2007
	\$	\$
Assets		
Current assets		
Cash	2,893,568	47,759,457
Restricted cash and cash equivalents (Note 6)	24,490,816	29,490,816
Other receivables	35,070	73,982
Due from SkyPower Corp. (Note 7)	17,587	4,490,062
Due from SWEF LP (Note 8)	-	4,816,013
Prepaid expenses (short-term)	16,098	-
	27,453,139	86,630,330
Prepaid expenses (long-term)	69,083	-
	27,522,222	86,630,330
Liabilities		
Current liabilities		
Accounts payable, accrued and other liabilities	393,423	8,775,187
Due to SkyPower Corp. (Note 7)	164,822	73,983
Class A preference shares (Note 9)	100	100
	558,345	8,849,270
Future income tax liability (Note 12)	5,847,182	-
	6,405,527	8,849,270
Shareholders' Equity		
Share capital (Note 9)	17,945,909	69,081,257
Retained earnings	3,170,786	8,699,803
	27,522,222	86,630,330

Subsequent events (Note 14)

Contingencies (Note 15)

See accompanying notes

On behalf of the Board:

Signed "W. Judson Martin"

..... Director

Signed "Gary Solway"

..... Director

SWEF TERRAWINDS RESOURCES CORP.

(formerly known as "Terrawinds Resources Corp.")

Statements of cash flows

	For the year ended	
	December 31, 2008	December 31, 2007
	\$	\$
Operating activities		
Net income (loss)	(5,529,017)	27,590,202
Non-cash items		
Future income taxes expense (recovery)	5,847,182	(18,468,391)
Gain on sale of certain assets/liabilities (Note 4)	-	(9,960,419)
Changes in non-cash working capital items		
Other receivables	38,912	2,247,286
Prepaid expenses	(85,181)	(53,352)
Due from SWEF LP	4,816,013	(296,407)
Accounts payable, accrued and other liabilities	(3,896,229)	(1,214,970)
Due to/from SkyPower Corp. (Note 7)	77,779	(4,433,151)
	1,269,459	(4,589,202)
Investing activities		
Deferred development costs	-	(197,042,213)
Proceeds from sale of certain assets/liabilities (Note 4)	-	77,240,830
Restricted cash and cash equivalents	5,000,000	(29,138,137)
	5,000,000	(148,939,520)
Financing activities		
Proceeds from loan	-	191,747,833
Financing fees paid	-	(4,572,061)
Dividends paid	(51,135,348)	-
	(51,135,348)	187,175,772
Net increase (decrease) in cash	(44,865,889)	33,647,050
Cash, beginning of year	47,759,457	14,112,407
Cash, end of year	2,893,568	47,759,457
Supplemental disclosure of cash flow information		
Operating activities		
Cash interest received	911,170	301,313
Investing activities		
Cash interest paid	-	7,511,299

See accompanying notes

SWEF Terrawinds Resources Corp.
(formerly known as Terrawinds Resources Corp.)
Notes to the financial statements
For the years ended December 31

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SWEF Terrawinds Resources Corp.

(formerly known as Terrawinds Resources Corp.)

Notes to the financial statements

For the years ended December 31

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. ("SkyPower").

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, SkyPower'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").

As described in Note 4, on December 28, 2007, the Company sold certain assets and liabilities relating to the Facility to SkyPower. The result of the transaction is that the Partnership purchased the 71,900,901 Class A preference shares of the Company from SkyPower and the Company has ceased to carry on the development of the Facility. The Company is in the process of winding up its affairs.

As described in Note 9, 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 re-purchased 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 Partnership continues to hold all of the Class A preference shares of the Company representing 100% of the voting interests in the Company.

The general partner of the Partnership is SWEF GP Inc. (the "General Partner") which, as at December 31, 2007, was a wholly-owned subsidiary of SkyPower. The General Partner has a 0.01% beneficial interest in the Partnership. The General Partner was previously known as SkyPower 1 GP Inc., however, on January 7, 2008 the General Partner's name was changed to SWEF GP Inc. As of January 1, 2008, the General Partner 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 transaction described in Note 4.

SWEF Terrawinds Resources Corp.

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Notes to the financial statements

For the years ended December 31

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted by the Company are as follows:

Cash and cash equivalents

Cash and cash equivalents are comprised of highly liquid investments having original terms to maturity of 90 days or less when acquired.

Deferred development costs

Specific costs of developing the Facility which met the conditions of deferral under Canadian generally accepted accounting principles were deferred and were to be amortized from the beginning of the commercial operation date following the completion of the Infill Phase construction over an appropriate period depending on the nature of the deferred item. Annually, the Company reviewed the recoverability of the deferred development costs through an evaluation of the expected future cash flows from the operations of the Facility, on a non-discounted basis, to determine if there has been an impairment in the value of the deferred development costs. All other research and development costs not meeting the criteria for deferral are charged to earnings in the year incurred.

As at December 27, 2007, all deferred development costs were recovered as a result of the transaction described in Note 4.

Income taxes

The Company is a taxable Canadian corporation, subject to federal and provincial income taxes and capital taxes. The Company accounts for income taxes under the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and the tax basis of the assets and liabilities. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Foreign currency

Transactions in foreign currencies are translated into Canadian dollars at rates in effect on the transaction dates. Monetary assets and liabilities denominated in a foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date. The resulting foreign exchange gains and losses are included in the statement of operations and comprehensive income (loss).

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts and revenues and expenses during the year. Actual results could differ from those estimates.

SWEF Terrawinds Resources Corp.

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Notes to the financial statements

For the years ended December 31

3. Accounting policies adopted and to be adopted

Accounting policies adopted

Effective January 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 Capital Disclosures, Section 3862 Financial Instruments – Disclosures, and Section 3863 Financial Instruments – Presentation. The adoption of Section 1535 resulted in additional disclosure requirements in presenting management's policies and processes, both qualitatively and quantitatively, in defining and managing its capital, as further discussed in Note 10. Sections 3862 and 3863 enhance the existing disclosures for financial instruments. In particular, Section 3862 focuses on the identification of risk exposures and the Partnership's approach to management of these risks, as further discussed in Note 13.

Effective January 1, 2008, the Company prospectively adopted the amendments to Handbook Section 1400, General Standards of Financial Statement Presentation. The amendments provide guidance with respect to management's assessment of whether an entity is a going concern, and related disclosures.

Other than additional disclosures, there was no financial impact to the financial statements as a result of adopting these new standards.

Accounting policy to be adopted

The CICA has issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Sections 3062, Goodwill and Other Intangible Assets, and 3450, Research and Development Costs. Additionally, Accounting Guideline AcG-11, Enterprises in the Development Stage, has been modified and EIC-27, Revenues and Expenditures during the Pre-Operating Period will not apply to entities that have adopted Section 3064. These changes are effective for fiscal years beginning on or after October 1, 2008.

The Company intends to adopt this new accounting pronouncement in its next fiscal year. No impact on the financial statements is expected upon adoption of this new pronouncement.

SWEF Terrawinds Resources Corp.

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Notes to the financial statements

For the years ended December 31

4. Sale of certain assets and liabilities

On December 28, 2007 ("closing"), the Company sold certain assets and liabilities relating to the Facility to SkyPower, a related party, for gross proceeds of \$77,240,830, inclusive of the assumption or cancellation by SkyPower of certain liabilities amounting to \$220,997,769. The result of the transaction is that the Company has divested all of its beneficial ownership interest in the Facility and underlying liabilities.

\$5,000,000 of the total gross proceeds was placed into escrow for a period of four months from closing to be available to SkyPower in the event certain unforeseen claims were made against it or the assets it purchased. No claims were made. The escrowed amount, plus interest earned, became unrestricted on April 29, 2008.

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 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. As at December 31, 2007 these funds were held in trust by the Partnership's legal counsel. On January 4, 2008 these funds were transferred to the Agent. The tax indemnity payment agreement has a term of 30 months from closing and expires on June 30, 2010 and is extendable at the option of the Board of Directors.

On closing, the Company and the Partnership set aside a portion of the purchase price as a reserve to pay transaction expenses, liabilities not assumed by SkyPower, and ongoing expenses of the Partnership and the Company that will be incurred during the period until all amounts available for distribution to unit holders of the Partnership have been distributed and the Partnership and the Company have been dissolved. The amount of the reserve was \$7,000,000. If the amount of the reserve is ultimately insufficient, some or all of any balance of the tax indemnity amount, if available, may be added to the reserve and used to meet expenses and liabilities. Any portion of the tax indemnity amount or the reserve not required for the foregoing purposes will ultimately be distributed pro rata to shareholders of the Company as soon as possible.

On closing, the Partnership acquired all of the outstanding Class A preference shares of the Company, representing 51% of the voting securities of the Company, for \$100. The Administrative Services Agreement and Exchange Agreement, both dated December 23, 2005 among the Company, the General Partner and SkyPower, were cancelled on closing.

The future tax liability resulting from the temporary difference in the tax basis compared to the accounting basis of the deferred development costs (Note 5) has been reversed and recorded as a future tax recovery during the fiscal year ended December 31, 2007.

SWEF Terrawinds Resources Corp.

(formerly known as Terrawinds Resources Corp.)

Notes to the financial statements
For the years ended December 31

4. Sale of certain assets and liabilities (continued)

On closing, the Company recorded a gain on the sale of the above assets/liabilities in the amount of \$9,960,419. Additional transaction costs of \$3,957,385 were incurred by the Partnership, and paid for by the Company. The gain is calculated as follows:

Gain on sale of certain net assets	\$
Proceeds	77,240,830
Current assets	869,246
Deferred development costs (Note 7)	287,309,005
Accounts payable and accrued liabilities	(6,626,080)
Forgiveness of amounts owed to SkyPower	(2,032,513)
Turbine supply loan	(212,339,176)
Transaction costs	99,929
Net assets disposed, including transaction costs	67,280,411
Gain on sale of net assets	9,960,419

As at December 31, 2007, SkyPower owned 100% of the common stock of the General Partner.

On closing, the transaction was recorded at the exchange amount.

On January 16, 2008, the Company paid a dividend of \$40,750,094 to the Partnership from the proceeds of the sale. The Partnership distributed these funds to its unit holders.

SWEF Terrawinds Resources Corp.

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Notes to the financial statements

For the years ended December 31

5. Acquisition

On December 23, 2005, the Partnership executed two binding agreements (the "Common Share Subscription Agreement" and the "Flow-Through Subscription Agreement") with the Company. The Partnership subscribed for 9,716,450 common shares for cash consideration of \$9,716,450. Further, the Partnership subscribed for 59,364,807 flow-through shares of the Company for cash consideration of \$59,364,807 to be used to fund future operations.

The fair value of net assets acquired amounted to \$9,595,615 (net of cash acquired), classified as development costs and included the following:

- i. All of the Company's rights, title and interest in and under the PPA with Hydro-Québec and the Turbine Supply Agreement with General Electric Company ("Turbine Supply Agreement");
- ii. Development costs incurred by the Company to the date of acquisition.

On the date of acquisition, the Company converted 100 Class A common shares held by SkyPower into 71,900,901 Class A preference shares of the Company. These shares under certain circumstances and contingent upon the completion of a Liquidity Event, as defined in the Exchange Agreement, were exchangeable into a specific number of units of the Partnership subject to anti-dilution adjustments and reduction as a result of construction cost overrun adjustments in the event that the final construction costs exceeded the estimated construction costs detailed in the Exchange Agreement. The Class A preference shares were purchased by the Partnership as part of the transaction described above in Note 4.

The Flow-Through Subscription Agreement required the Company to incur Canadian Exploration Expenditures ("CEE") of \$59,364,807 effective on or before December 31, 2006 and renounce these expenditures in accordance with income tax legislation effective on or before December 31, 2005 to the Partnership which is required to allocate these expenditures to its limited partners pursuant to the Partnership Agreement. This will reduce the tax basis of the assets by the equivalent amount and will result in future income tax liabilities. On February 28, 2006, the Company filed the renouncement documents with the tax authorities to renounce the tax deductions associated with the CEE of \$59,364,807 with an effective date of December 31, 2005. In accordance with the guidance of the CICA Emerging Issues Committee 146 "Flow-Through Shares", the future income tax liability amounting to \$18,717,724 was recorded and Partners' equity was reduced by the same amount on the date of filing of the renouncement documents with the tax authorities. This future income tax liability was adjusted to \$18,171,567 as a result of changes in future federal and provincial income tax rates.

As part of the transaction described in Note 4, the future income tax liability was reversed as a future tax recovery on closing.

SWEF Terrawinds Resources Corp.

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Notes to the financial statements
For the years ended December 31

6. Restricted cash and cash equivalents

As at December 31, 2008, restricted cash and cash equivalents include the following:

- \$24,490,816 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 4. Of the total amount held in trust, \$23,972,444 was invested in 60-day Government of Canada Treasury Bills as at December 31, 2008.

As at December 31, 2007, restricted cash and cash equivalents include the following:

- \$24,490,816 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 4. As at December 31, 2007 these funds were held in trust by the Company's legal counsel. On January 4, 2008 these funds were transferred to a tax indemnity payment agent to be held in trust to indemnify shareholders as described in Note 4.
- \$5,000,000 held in escrow as per the terms and conditions of the escrow agreement as further described in Note 4. These funds were invested in three-month Government of Canada Treasury Bills.

SWEF Terrawinds Resources Corp.

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Notes to the financial statements

For the years ended December 31

7. Due to/from SkyPower Corp. and transactions with SkyPower Corp.

As at December 31, 2007, SkyPower was a related party. As at January 1, 2008, SkyPower ceased to be a related party.

- (i) As at December 31, 2008, due from SkyPower Corp. includes amounts owed by SkyPower which remain to be received as part of a final accounting of amounts between the Partnership, the Company and SkyPower. As at December 31, 2007, due from SkyPower Corp. includes amounts owed by SkyPower related to certain taxes payable by the Company recoverable from SkyPower as part of the transaction described in Note 4. Those taxes payable have also been accrued in accounts payable and accrued liabilities as at December 31, 2007. SkyPower paid the outstanding tax liability in March 2008 on the Company's behalf.
- (ii) Due to SkyPower Corp. includes amounts owed to SkyPower which remain to be paid as part of a final accounting of amounts between the Partnership, the Company and SkyPower.
- (iii) On December 23, 2005, the Company and the Partnership entered into an Administrative Services Agreement ("ASA") with SkyPower whereby SkyPower provided administrative services to the General Partner and the Company. The administrative services provided include accounting, financial and tax reporting, compliance, investor relations, cash management and assisting the General Partner and the Company in arranging financing, as required.

In consideration for providing its services under the ASA, SkyPower received a total fee (the "Administrative Fee") equal to \$500,000 per annum which was allocated between the Company and the General Partner based on the services provided during the respective year. The Administrative Fee increased every twelve months by the greater of (i) 1.5% or (ii) the percentage increases in the Canadian Consumer Price Index.

Pursuant to the ASA, SkyPower was also entitled to reimbursement of certain expenses incurred in providing the services under the ASA. The ASA has an initial term of 21 years, and was to be automatically renewed for successive five year terms unless SkyPower gave twelve months' notice that it had decided not to renew the agreement.

As a result of the purchase transaction described in Note 4 above, the ASA was cancelled effective December 28, 2007.

During the fiscal year ended December 31, 2008, the Company incurred administrative costs of nil (2007 - \$453,513) pursuant to the ASA.

- (iv) On closing of the transaction described in Note 4, the Partnership, the Company, the General Partner and SkyPower entered into a Transition Services Agreement. The agreement provides for SkyPower to provide information to the Company to assist in the preparation of financial statements and other reports. The agreement expired on June 30, 2008. No fee is payable to SkyPower in respect of this agreement.

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Notes to the financial statements

For the years ended December 31

8. Due from SWEF LP

Amounts due from SWEF LP, a related party, as at December 31, 2007 represent certain transaction costs and operating expenses of the Partnership paid for by the Company.

9. Share capital

Share capital consists of the following:

	\$	\$
	<u>2008</u>	<u>2007</u>
Authorized		
Unlimited Class A preference shares, voting, redeemable at the option of the holder		
Unlimited common shares, non-voting [2007 – voting], redeemable at the option of the Company [2007 – no redemption features]		
Issued		
71,900,901 Class A preference shares	-	-
7,724,084 non-voting common shares	<u>17,945,909</u>	<u>69,081,257</u>
	<u>17,945,909</u>	<u>69,081,257</u>

The Class A preference shares are redeemable at the option of the holder at a preferential amount equal to \$100/71,900,901 per share. The preferential amount is paid to holders of Class A preference shares before any amount is paid to any other class of shares. The Class A preference shares have been included in current liabilities on the balance sheets.

Capital reorganization

Effective December 12, 2008, the Company completed a share consolidation of the issued and outstanding common shares using an 8.943618:1 ratio. As a result of the share consolidation, every 8.943618 shares of the Company's issued and outstanding common shares were consolidated into 1 non-voting common share of the Company. Accordingly, all of the Company's issued and outstanding common shares for all periods presented have been restated to reflect the share consolidation.

Effective December 18, 2008, the Partnership re-purchased and cancelled all of its outstanding limited partnership units in exchange for the 7,724,084 issued and outstanding 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 Partnership continues to hold all of the Class A preference shares of the Company which now represent 100% of the voting interests in the Company.

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9. Share capital (continued)

As part of the capital reorganization, the rights, privileges, restrictions and conditions attaching to the common shares of the Company were modified as follows:

- The holders of the common shares are not entitled to vote at any meeting of the shareholders (except as expressly provided in the Canada Business Corporations Act); and
- The common shares are redeemable, at any time, without notice, at the option of the Company for a redemption amount equal to: (a) the total amount of cash or cash equivalents standing to the credit of the Company, less (i) the amount required to redeem the outstanding preference shares in the capital of the Company; and (ii) an amount equal to the existing and contingent liabilities determined by the directors of the Company in good faith; divided by (b) the total number of outstanding common shares.

Return of capital distributions

During the year ended December 31, 2008, the Company declared and paid distributions as a return of capital to the common shareholders totaling \$51,135,348 (2007 – nil).

10. Capital management

The Company is in the process of winding up its affairs and, as such, the Company's objective for managing the capital structure is to invest cash to earn the highest possible amount of interest income, while also maintaining liquidity so as to pay dividends to shareholders, to pay administrative expenses and to fund contingency payments (if any). Funds are invested in accordance with an investment policy which limits investments to those that maximize interest income, while avoiding excessive risk, in order to protect capital. Management monitors capital markets in the context of the general economic environment, the Company's financial position and outlook.

The Company's capital consists of cash, restricted cash, and share capital.

11. Earnings (loss) per share

Effective December 12, 2008, the Company completed a share consolidation of the issued and outstanding common shares using an 8.943618:1 ratio. As a result of the share consolidation, every 8.943618 shares of the Company's issued and outstanding common shares were consolidated into 1 non-voting common share of the Company. Accordingly, all of the Company's issued and outstanding common shares for all periods presented have been restated to reflect the share consolidation. This includes the weighted average number of common shares outstanding used to calculate earnings (loss) per share consistent with the requirements of CICA Handbook Section 3500, Earnings per Share. As a result, earnings (loss) per share has been calculated based on the weighted average number of common shares outstanding of 7,724,084 (2007 – 7,724,084).

The diluted earnings (loss) per share is not presented as there are no dilutive items outstanding.

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Notes to the financial statements
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12. Income taxes

(i) Income tax expense (recovery) has been determined as follows:

	\$	\$
	2008	2007
Income before income taxes	478,444	9,121,811
Canadian statutory rate	33.50%	35.51%
Income tax expense based on statutory income tax rates	160,279	3,329,155
Loss for tax purposes on sale of assets and business	-	(8,845,418)
Benefit of losses not recognized	-	5,606,263
Change in future statutory income tax rates	-	-
Change in valuation allowance	-	-
	160,279	-
Reversal of future income tax liability on sale of assets and business	-	(18,171,567)
Future income tax liability on tax indemnity fund	5,847,182	
Change in future income tax rates	-	(296,824)
Net future income tax expense (recovery)	6,007,461	(18,468,391)

The temporary difference giving rise to the future income tax liability of \$5,847,182 as at December 31, 2008 relates to the previous deduction of the restricted cash balance for tax purposes. The future tax liability will reverse as payments are made to shareholders to satisfy tax indemnity claims. These payments do not constitute or result in cash taxes to the Company. Any remaining restricted cash balance that is not paid to shareholders to satisfy tax indemnity claims will be subject to tax, to be paid by the Company.

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12. Income taxes (continued)

(ii) The non-capital losses carried forward are as follows:

<u>Incurred in</u>	<u>Amount</u>	<u>Expire in</u>
2003	\$ 7,000	2010
2004	85,000	2014
2005	1,898,000	2015
2006	6,865,000	2026
2007	15,885,000	2,027
	<u>\$ 24,740,000</u>	

As per the requirements of the *Income Tax Act (Canada)*, the non-capital losses are restricted following the acquisition of control that occurred January 1, 2008. The related benefits have not been recognized in the accounts.

SWEF Terrawinds Resources Corp.

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For the years ended December 31

13. Financial instruments

The Company's financial assets and liabilities are comprised of cash, restricted cash and cash equivalents, other receivables, due from SkyPower Corp., due from SWEF LP, accounts payable and accrued and other liabilities and due to SkyPower Corp. The significant risks that could materially affect the Company's future business results are summarized as follows:

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the settlement of its financial liabilities. The Company manages liquidity risk by maintaining sufficient cash on hand to settle obligations as they arise. It is management's belief that the Company is not subject to any significant liquidity risks arising from its financial instruments.

Credit risk

The Company is exposed to credit risk with respect to its restricted cash equivalents, other receivables and due from SkyPower Corp. balance. The Company manages credit risk through an investment policy related to the investment of all funds, the accurate filing of commodity tax returns and ongoing negotiations between the Company and SkyPower. It is management's belief that the Company is not subject to any significant credit risks arising from its financial instruments.

Interest rate risk

The Company is exposed to interest rate risk that arises from fluctuations in interest rates on its cash and restricted cash. The Company manages interest rate risk by investing funds only in bank accounts with set interest rates, or in guaranteed investment certificates. It is management's belief that the Company is not subject to any significant interest rate risks arising from its financial instruments.

Currency risk

The Company has no significant currency risk as almost all of its interest income, expenses, assets and liabilities are denominated in Canadian dollars.

Other price risk

The Company does not own any equity investments. The Company is not exposed to any significant other price risk.

Fair values

As at December 31, 2008, the carrying amount of cash, restricted cash, other receivables and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these financial instruments.

The fair values of the amounts due to/from SkyPower 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 within a year. Therefore the fair values of the amounts to/from SkyPower Corp. approximate their carrying values due to their anticipated short-term maturity.

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14. Subsequent events

- (i) As at December 31, 2008, the Company was a reporting issuer in all Provinces of Canada except Ontario. On April 28, 2009, the Company became a Reporting Issuer in the Province of Ontario.
- (ii) Commencing February 2009, the Company began paying tax indemnity claims made by certain shareholders.

15. Contingencies

In connection with the transaction described in Note 4, certain liabilities, though assigned in substance and principle by the agreements to SkyPower, are not legally assignable in form, and therefore the Partnership or the Company may be required to make payments in the future if SkyPower fails to honour its obligations.

As at December 31, 2008, 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. No amount has been recorded in the financial statements in respect of such potential future exposures.

The Company is contingently liable to pay amounts claimed by shareholders in respect of certain reassessments by applicable taxation authorities. The tax indemnity fund of \$24,490,816 classified as restricted cash, 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, the maximum amount payable will not exceed the \$24,490,816 currently held in the tax indemnity fund.

16. Transition of Canadian GAAP to International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that IFRS will replace Canadian GAAP for all publicly accountable enterprises, no later than fiscal years commencing on or after January 1, 2011. The Company would be required to report its results in accordance with IFRS starting in 2011. At this time, the Company has not begun an IFRS conversion plan, as it is anticipated that all tax indemnity payments will be made, and the Company wound up prior to January 1, 2011. If this is not the case, it is the Board's high level assessment that the conversion to IFRS will not have any material changes to the Company's financial statements due to the simplicity of the Company's ongoing activities, however the exact financial impact of the transition to IFRS cannot be reasonably estimated at this time.

17. Comparative financial information

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2008 financial statements.