

*Consolidated Financial Statements of*

**SWEF LP**  
**(formerly known as “SkyPower Wind Energy Fund LP”)**

*For the year ended December 31, 2007*

## **Management's Responsibility for Financial Reporting**

These consolidated 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 LP 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, the Partnerships' external auditors, have audited the consolidated 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.

A handwritten signature in black ink, appearing to read "W. Judson Martin", is centered on the page. The signature is fluid and cursive, with a long horizontal stroke at the end.

W. Judson Martin  
Chair  
SWEF GP Inc., General Partner of SWEF LP

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## Auditors' Report

To the Unitholders of  
SWEF LP (Formerly known as "SkyPower Wind Energy Fund LP")

We have audited the consolidated financial statements of SWEF LP as at December 31, 2007 and the consolidated statements of operations and comprehensive income (loss), partners' equity and cash flows for the years then ended. These financial statements are the responsibility of the general partner of SWEF LP. 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 consolidated financial statements present fairly, in all material respects, the financial position of SWEF LP as at December 31, 2007 and 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
April 18, 2008 except as to Note 14 (iv) which is as of April 29, 2008

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

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**SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**  
**Consolidated Balance Sheets**  
**As at December 31, 2007**

	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 47,759,543	\$ 14,313,019
Restricted cash and cash equivalents (Note 6)	29,490,816	352,679
Other receivables	73,987	2,627,550
Due from related party (Note 8)	4,490,062	24,658
Prepaid expenses	-	641,363
	<u>81,814,408</u>	<u>17,959,269</u>
<b>DEFERRED DEVELOPMENT COSTS (Note 7)</b>	-	85,694,731
	<u>\$ 81,814,408</u>	<u>\$ 103,654,000</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 8,775,287	\$ 12,721,790
Due to related party (Note 8)	73,983	2,106,466
Loan payable (Note 9)	-	20,591,343
	<u>8,849,270</u>	<u>35,419,599</u>
<b>FUTURE INCOME TAX LIABILITY (Notes 4, 5 &amp; 12)</b>	-	18,468,391
	<u>8,849,270</u>	<u>53,887,990</u>
<b>NON-CONTROLLING INTEREST (Notes 4 &amp; 5)</b>	-	100
<b>PARTNERS' EQUITY (Note 10)</b>	72,965,138	49,765,910
	<u>\$ 81,814,408</u>	<u>\$ 103,654,000</u>

SUBSEQUENT EVENTS (Note 14)  
CONTINGENCIES (Note 15)

APPROVED BY SWEF GP INC. AS GENERAL PARTNER  
ON BEHALF OF SWEF LP

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

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

The accompanying notes to the consolidated financial statements are  
an integral part of these statements.

**SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
For the year ended December 31, 2007

	<u>2007</u>	<u>2006</u>
INVESTMENT INCOME		
Interest income	\$ 301,313	\$ 1,117,854
EXPENSES		
Administrative costs	1,177,175	1,451,455
Capital tax	383,208	165,860
	<u>1,560,383</u>	<u>1,617,315</u>
LOSS BEFORE THE FOLLOWING	(1,259,070)	(499,461)
GAIN ON SALE OF CERTAIN ASSETS AND LIABILITIES (Note 4)	5,989,907	-
INCOME (LOSS) BEFORE INCOME TAXES	<u>4,730,837</u>	<u>(499,461)</u>
FUTURE INCOME TAX RECOVERY (Notes 4, 5 & 12)	18,468,391	249,333
NET AND COMPREHENSIVE INCOME (LOSS)	<u>\$ 23,199,228</u>	<u>\$ (250,128)</u>
NET INCOME (LOSS) PER UNIT (Note 11)	<u>\$ 3.00</u>	<u>\$ (0.03)</u>
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	<u>7,724,084</u>	<u>7,724,084</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

**SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**  
**Consolidated Statements of Partners' Equity**  
For the year ended December 31, 2007

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	<u>2007</u>	<u>2006</u>
PARTNERS' EQUITY, BEGINNING OF YEAR (Note 5)	\$ 49,765,910	\$ 50,016,038
NET INCOME (LOSS)	23,199,228	(250,128)
	-	
<b>PARTNERS' EQUITY, END OF YEAR</b>	<b>\$ 72,965,138</b>	<b>\$ 49,765,910</b>

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The accompanying notes to the consolidated financial statements are  
an integral part of these statements.

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

## **Consolidated Statements of Cash Flows**

**For the year ended December 31, 2007**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 23,199,228	\$ (250,128)
Non-cash items		
Amortization of prepaid expenses	-	131,342
Future income taxes	(18,468,391)	(249,333)
Gain on sale of certain assets/liabilities (Note 4)	(5,989,907)	-
Changes in non-cash working capital items		
Other receivables	2,368,255	(2,455,844)
Prepaid expenses	(64,435)	(983,835)
Accounts payable and accrued liabilities	(1,369,004)	565,736
Due to/from related parties (Note 8)	(4,465,374)	56,405
	<u>(4,789,628)</u>	<u>(3,185,657)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Deferred development costs (Note 7)	(197,042,213)	(40,598,832)
Proceeds from sale of certain assets/liabilities (Note 4)	77,240,830	-
Restricted cash (Note 6)	(29,138,137)	(352,679)
	<u>(148,939,520)</u>	<u>(40,951,511)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan (Note 9)	191,747,833	20,591,343
Financing fees paid	(4,572,061)	(1,675,598)
Non-controlling interest (Notes 4 & 5)	(100)	-
	<u>187,175,672</u>	<u>18,915,745</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	33,446,524	(25,221,423)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	14,313,019	39,534,442
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 47,759,543</u>	<u>\$ 14,313,019</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
<b>OPERATING ACTIVITIES:</b>		
Cash interest received	\$ 301,313	\$ 1,117,854
<b>INVESTING ACTIVITIES:</b>		
Cash interest paid	\$ 7,511,299	\$ 414,395
<b>NON-CASH INVESTING ACTIVITIES:</b>		
Deferred development costs included in accounts payable	\$ -	\$ 10,379,377

The accompanying notes to the consolidated financial statements are an integral part of these statements.

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2007**

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### **1. DESCRIPTION OF BUSINESS**

#### *Description of business*

SWEF LP (the “Partnership”) was formed as a limited partnership under the laws of the Province of Ontario on December 30, 2004. The Partnership was previously known as SkyPower Wind Energy Fund LP, however on December 28, 2007, the Partnership’s name was changed to SWEF LP. The general partner of the Partnership is SWEF GP Inc. (the “General Partner”) which is a wholly-owned subsidiary of SkyPower Corp. (“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, as an accommodation to Unitholders and to facilitate the transaction described in Note 4.

As described in Note 5, on December 23, 2005, the Partnership invested in common shares, including flow-through shares, of Terrawinds Resources Corp. (“Terrawinds”). Terrawinds intended to use the proceeds 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 Rivière 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 Partnership sold certain assets and liabilities relating to the Facility to SkyPower. The result of the transaction is that the Partnership has divested all of its beneficial ownership interest in the Facility and ceased to carry on the development of the Facility. The Partnership is in the process of winding up its affairs.

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2007**

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### **2. SIGNIFICANT ACCOUNTING POLICIES**

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

#### *Consolidation*

In accordance with the guidance of the Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 15 (“AcG-15”) “Consolidation of Variable Interest Entities”, Terrawinds had been determined to be a variable interest entity for the year ended December 31, 2006 and the period January 1, 2007 to December 27, 2007. As a result of the terms of the flow-through and common shares, the Partnership had a variable interest in Terrawinds and received the majority of Terrawinds' expected residual returns absorbed the majority of the expected losses. Under the provision of AcG-15, the Partnership was deemed to be the primary beneficiary and has consolidated the results of Terrawinds in its financial statements for the periods noted above.

As at December 28, 2007, and for the period December 28, 2007 to December 31, 2007 the Partnership holds 100% (2006 – 49%) of the voting shares of Terrawinds and is consolidated into the results of the Partnership, though it is not considered a variable interest entity after December 27, 2007.

#### *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 Partnership 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 31, 2007, all deferred development costs were recovered as a result of the transaction described in Note 4.

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2007**

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### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *Income taxes*

The Partnership is not a taxable entity. Income taxes on its income are the responsibility of the individual partners and have accordingly not been recorded in these financial statements.

Terrawinds is a taxable Canadian corporation, subject to federal and provincial income taxes and capital taxes. Terrawinds will account 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 statements 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.

### **3. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING POLICIES TO BE ADOPTED**

In 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued four new standards: CICA Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 3861, Financial Instruments – Disclosure and Presentation, which provides disclosure and presentation requirements related to the aforementioned standards. The new standards became effective for the Partnership on January 1, 2007.

#### *Comprehensive Income*

Section 1530 introduces Comprehensive Income and represents changes in Partners’ Equity during a period arising from transactions and other events from non-owner sources. The consolidated financial statements include a Statement of Operations and Comprehensive Income (Loss).

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to Accumulated Other Comprehensive Income since the partnership has no Other Comprehensive Income (“OCI”).

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2007**

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### **3. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING POLICIES TO BE ADOPTED (continued)**

#### *Financial Instruments*

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when the Partnership becomes a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

Financial assets and financial liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost using the effective interest method of amortization.

The Partnership has implemented the following classifications:

- a) Cash and cash equivalents and restricted cash and cash equivalents are designated as financial assets “held-for-trading” and measured at carrying value, which approximates fair value due to the short-term nature of these instruments.
- b) Other receivables and amounts due from related party are classified as “loans and receivables”.
- c) Accounts payable and accrued liabilities, amounts due to related party and loan payable are designated as “other liabilities”.

There has been no material impact on the adoption of this standard on the Partnership’s consolidated financial statements.

#### *Hedges*

The Partnership uses derivative financial instruments to manage its exposures to interest risks. When derivatives are used to manage exposures, the Partnership determines for each derivative whether hedge accounting can be applied. Where hedge accounting is applied, the derivative must be highly effective in accomplishing the objective of offsetting the change in cash flows attributable to the hedged risk both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued prospectively.

**SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**  
**Notes to the Consolidated Financial Statements**  
For the year ended December 31, 2007

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**3. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING POLICIES TO BE ADOPTED (continued)**

*Accounting Policies to be Adopted*

CICA Handbook Section 1535, Capital Disclosures is applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The new section requires disclosure of information about an entity's objectives, policies and processes for managing capital as well as quantitative data about capital and whether the entity has complied with any capital requirements. This policy will be adopted effective January 1, 2008 and is expected to have no significant impact on the financial statements.

CICA Handbook Section 1400, General Standards of Financial Statement Presentation has been amended to incorporate going concern guidance with respect to management's assessment of whether an entity is a going concern, and related disclosures. The amendments regarding going concern considerations apply to fiscal years beginning on or after January 1, 2008. The policy will be adopted effective January 1, 2008 and is expected to have no significant impact on the financial statements.

CICA Handbook Sections 3862, Financial Instruments – Disclosure and 3863, Financial Instruments – Presentation, are applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3862 establishes disclosure standards for disclosures about financial instruments and non-financial derivatives. The new standard places increased emphasis on disclosure about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 carries forward unchanged the presentation requirements of CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation. These policies will be adopted effective January 1, 2008 and are expected to have no significant impact on the financial statements.

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2007**

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#### **4. SALE OF CERTAIN ASSETS AND LIABILITIES**

On December 28, 2007 (“closing”), the Partnership 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 \$221,002,135. The result of the transaction is that the Partnership 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 the closing date to be available to SkyPower in the event certain unforeseen claims are made against it or the assets it purchased. No claims have been made to date. These escrowed funds have been included as part of the determination of the gain on sale and any accrued interest will be recorded as interest income in the future periods in which the escrowed funds remain restricted. If no claims are made, the escrowed amount, plus interest earned will become unrestricted on April 29, 2008.

On January 4, 2008, Terrawinds 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. These funds will be used to indemnify Unitholders 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 Unitholders expected to receive for their 2005 taxation year. Any trust balance not required to indemnify Unitholders will be returned to Terrawinds. 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.

On closing, Terrawinds 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 Terrawinds that will be incurred during the period until all amounts available for distribution to Unitholders have been distributed and the Partnership and Terrawinds have been dissolved. The amount of the reserve was \$7 million. If the amount of the reserve is insufficient, some or all of any balance of the tax indemnity amount or escrow amount may be added to the reserve and used to meet expenses and liabilities. Any portion of the tax indemnity amount, escrow amount or the reserve not required for the foregoing purposes will ultimately be distributed pro rata to Unitholders as soon as possible.

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

The future tax liability resulting from the difference in the tax basis compared to the accounting basis of the deferred development costs has been reversed and recorded as a future tax recovery in the statement of operations and comprehensive income (loss).

# SWEF LP (formerly known as SkyPower Wind Energy Fund LP)

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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### 4. SALE OF CERTAIN ASSETS AND LIABILITIES (continued)

The Partnership recorded a gain on the sale of the above assets/liabilities in the amount of \$5,989,907, including accrued transaction costs of \$4,057,314. The gain is calculated as follows:

<b>Gain on sale of certain net assets</b>	<b>\$</b>
Proceeds	77,240,830
Current assets	886,739
Deferred development costs (Note 7)	287,309,005
Accounts payable and accrued liabilities	(6,630,446)
Forgiveness of amounts owed to SkyPower	(2,032,513)
Turbine supply loan	(212,339,176)
Accrued transaction costs	4,057,314
Net assets disposed, including transaction costs	71,250,923
Gain on sale of net assets	5,989,907

As at December 31, 2007, SkyPower owned 100% of the common stock of the General Partner. The transaction was recorded at the exchange amount and the gain on sale of net assets is included in the consolidated statement of operations and comprehensive income (loss).

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2007**

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### **5. ACQUISITION**

On December 23, 2005, the Partnership executed two binding agreements (the “Common Share Subscription Agreement” and the “Flow-Through Subscription Agreement”) with Terrawinds. The Partnership subscribed for 9,716,450 common shares for cash consideration of \$9,716,450. The acquisition was accounted for using the fair values of assets and liabilities of Terrawinds. Further, the Partnership subscribed for 59,364,807 flow-through shares of Terrawinds 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 Terrawinds’ 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 Terrawinds to the date of acquisition.

On the date of acquisition, Terrawinds converted 100 Class A Common Shares held by SkyPower into 100 Class A Preferred Shares of Terrawinds. The Class A Preferred Shares issued to SkyPower, representing the non-controlling interest were recorded at a nominal amount of \$100 on the balance sheet. 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 Common Shares were purchased by the Partnership as part of the transaction described above in Note 4.

The Flow-Through Subscription Agreement required Terrawinds 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, Terrawinds 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 (“EIC”) 146 “Flow-Through Shares”, the future income tax liability amounting to \$18,717,724 has been recorded and Partners’ equity has been 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 in the period ended September 30, 2007 as a result of a change in future federal and provincial income tax rates. This change in estimate, amounting to \$296,824, was adjusted in the statement of operations and comprehensive income (loss) for the year ended December 31, 2007 (2006 - \$249,333).

# SWEF LP (formerly known as SkyPower Wind Energy Fund LP)

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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### 6. RESTRICTED CASH AND CASH EQUIVALENTS

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

- \$24,490,816 held in trust to compensate Unitholders 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 Partnership's legal counsel. On January 4, 2008 these funds were transferred to a tax indemnity payment agent to be held in trust to indemnify Unitholders 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 have been invested in three-month Government of Canada Treasury Bills.

As at December 31, 2006, restricted cash and cash equivalents included amounts funded to Terrawinds through the Turbine Supply Loan (Note 9). These funds could only be accessed to fund progress payments owing to General Electric Company ("GE") under the Turbine Supply Agreement for the turbines delivered in 2006 and 2007, and for related interest, commitment fees and costs associated with the Turbine Supply Loan.

### 7. DEFERRED DEVELOPMENT COSTS

Deferred development costs relate to the construction of the Facility as follows:

	<u>2007</u>	<u>2006</u>
Deferred development costs, beginning of year	\$ 85,694,731	\$ 32,829,794
Development costs incurred	\$ 201,614,274	\$ 52,864,937
Development costs sold (Note 4)	\$ (287,309,005)	-
Deferred development costs, end of year	<u>\$ -</u>	<u>\$ 85,694,731</u>

**SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**  
**Notes to the Consolidated Financial Statements**  
For the year ended December 31, 2007

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**8. RELATED PARTY TRANSACTIONS**

- (i) Due to related party includes a promissory note of \$ nil (2006 - \$2,000,000), an amount of \$ nil (2006 - \$62,044) for costs incurred on behalf of the Partnership and \$ nil (2006 - \$44,422) representing the outstanding balance of administrative fees all payable to SkyPower by the Partnership.
- (ii) Due from related party includes amounts owed by SkyPower related to certain taxes payable by Terrawinds recoverable from SkyPower as part of the transaction described in Note 4. These taxes payable have also been accrued in accounts payable and accrued liabilities. See Note 14 (iii) for more information. Due to related party includes amounts owed to SkyPower which remain to be paid as part of a final accounting of amounts between the Partnership, Terrawinds and SkyPower.
- (iii) On December 23, 2005, Terrawinds and the Partnership entered into an Administrative Services Agreement (“ASA”) with SkyPower whereby SkyPower provided administrative services to the General Partner and Terrawinds. The administrative services provided include accounting, financial and tax reporting, compliance, investor relations, cash management and assisting the General Partner and Terrawinds 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 Terrawinds 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 (“CPI”).

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 is automatically renewed for successive five year terms unless SkyPower has given twelve months’ notice that it has determined not to renew the agreement.

During the fiscal year ended December 31, 2007, the Partnership and Terrawinds incurred administrative costs of \$500,080 (2006 - \$500,193) pursuant to the ASA.

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

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

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2007**

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### **9. LOAN PAYABLE**

On December 4, 2006, Terrawinds entered into a \$130 million Turbine Supply Loan Agreement, amending the \$26 million facility entered into on July 25, 2006 with the same lender. At December 31, 2007, the Partnership has no ongoing obligations under the Turbine Supply Loan as the loan was assumed by SkyPower as part of the transaction described in Note 4 above.

As at December 31, 2006, \$20,591,343 was drawn on the facility with an interest rate of Bankers' Acceptance plus 1.75% and a commitment fee of 0.5% on the undrawn amount of the facility. Collateral for the Turbine Supply Loan is provided by a first-priority security interest in the assets of Terrawinds. The loan was used to fund (a) the balance of the progress payments due under the Turbine Supply Agreement for turbines delivered in 2006, (b) a portion of the progress payments due for turbines to be delivered in 2007, (c) a portion of the initial CRCE Phase construction costs and (d) related interest, commitment fees and costs associated with the Turbine Supply Loan. The new Turbine Supply Loan is repayable on the earlier of the closing of a senior secured construction and term debt facility or May 31, 2007.

Terrawinds entered into an interest rate swap agreement effective August 1, 2007, to hedge the interest rate risk associated with the Turbine Supply Loan. The interest rate swap transaction hedged a notional \$247 million of floating rate debt at a fixed rate of 6.79% per annum. The swap was to expire on March 31, 2008. The unrealized mark to market gain or loss on this derivative was recorded to deferred development costs as the Partnership did not adopt hedge accounting for this interest rate swap agreement. As part of the transaction outlined in Note 4 above, the swap was purchased by SkyPower on December 28, 2007 and the related effect is included in the gain on sale resulting from the transaction described in Note 4.

### **10. PARTNERS' EQUITY**

The Partnership has authorized an unlimited number of units. On December 23, 2005, the Partnership completed its initial offering of 7,724,084 limited partnership units at a price of \$10 per unit for gross proceeds of \$77,240,840 before deduction of agent's fees and issuance costs totaling \$8,086,168.

The Partnership recorded the future tax liability of \$18,717,724 relating to the tax deductions associated with the CEE of \$59,364,807 at the time of the filing of the renouncement documents with the tax authorities on February 28, 2006 (Note 5).

Holders of limited partnership units are entitled to a 99.99% allocation of income, loss, capital gains or capital losses of the Partnership, pro rata based on the number of units held.

### **11. NET LOSS PER UNIT**

Net loss per unit has been calculated based on the weighted average number of units outstanding of 7,724,084 (2006 – 7,724,084).

The diluted loss per unit is not presented as at December 31, 2007 as there are no dilutive items outstanding. The diluted loss per unit is not presented as at December 31, 2006 as the effect would be anti-dilutive.

# SWEF LP (formerly known as SkyPower Wind Energy Fund LP)

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

### 12. INCOME TAXES

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

	<u>2007</u>	<u>2006</u>
Income (loss) before income taxes	\$ 4,730,837	\$ (499,461)
Less: Loss attributable to the Partnership	(4,293,643)	(442,773)
Income (loss) attributable to Terrawinds	9,024,480	(56,688)
Canadian statutory tax rate	35.51%	35.87%
Income taxes expense (recovery) based on		
statutory income tax rates	3,204,593	(20,334)
Loss for tax purposes on sale of assets and business	(8,845,418)	-
Benefit of losses not recognized	5,640,825	-
Change in future statutory income tax rates	-	2,701
Change in valuation allowance	-	17,633
	-	-
Reversal of future income tax liability on sale of		
assets and business	18,171,567	-
Change in future income tax rates	296,824	249,333
Net income tax recovery	\$ 18,468,391	\$ 249,333

(ii) The tax effects of temporary differences that give rise to significant portions of the future tax assets and future income tax liabilities are presented below:

	<u>2007</u>	<u>2006</u>
Non current future income tax assets		
Unused tax losses	\$ -	\$ 2,754,643
Non current future income tax liabilities		
Tax deductions renounced to unit holders	-	(18,468,391)
Capital assets - differences in net book value and undepreciated capital cost	-	(2,680,371)
Non current future income tax liability	-	(21,148,762)
Non current future income tax liability before valuation allowance	-	(18,394,119)
Valuation allowance	-	(74,274)
Net non current future income tax liability	\$ -	\$ (18,468,393)

# **SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2007**

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### **12. INCOME TAXES (continued)**

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

<u>Incurring 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>	

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.

### **13. FAIR VALUE OF FINANCIAL INSTRUMENTS**

At December 31, 2007, the carrying amount of cash and cash equivalents, restricted cash and cash equivalents, other receivables and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these financial instruments.

The fair value of the amounts due to/from related party is less than carrying value, as amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

It is management's belief that the Partnership is not subject to any significant credit or interest rate risks arising from its financial instruments.

### **14. SUBSEQUENT EVENTS**

- (i) On January 1, 2008, all outstanding shares of the General Partner were purchased for \$1 from SkyPower by the Chair of the Board of the General Partner, who is a related party to the Partnership as an accommodation to Unitholders and to facilitate the transaction described in Note 4. As of January 1, 2008, SkyPower was no longer a related party to the Partnership.
- (ii) On January 16, 2008, the Partnership distributed \$40,750,014 to the Unitholders from the proceeds of the sale described in Note 4.
- (iii) In March 2008, SkyPower paid an outstanding tax liability on behalf of the Partnership.
- (iv) On April 29, 2008, the escrow amount became unrestricted. There were no indemnity claims made against this amount by SkyPower.

**SWEF LP (formerly known as SkyPower Wind Energy Fund LP)**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2007**

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**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 Terrawinds may be required to make payments in the future if SkyPower fails to honour its obligations.

As at December 31, 2007, the maximum potential amount and likelihood of future payments that the Partnership 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.