

Interim Condensed Financial Statements of

SWEF Terrawinds Resources Corp.

For the three and six month periods ended June 30, 2011 and 2010

(Unaudited)

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SWEF TERRA WINDS RESOURCES CORP.

Interim condensed statements of loss and comprehensive loss
(unaudited, in Canadian dollars)

	Notes	For the three month period ended		For the six month period ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
		\$	\$	\$	\$
Finance income		28,420	9,129	51,438	16,958
Expenses					
Professional fees		82,398	112,156	173,726	199,689
Capital tax expense		-	-	-	3,000
Other expenses	5	63,848	57,793	128,278	119,534
Tax indemnity payments	6	314,253	4,000,117	653,515	5,524,483
		460,499	4,170,066	955,519	5,846,706
Loss before income taxes		(432,079)	(4,160,937)	(904,081)	(5,829,748)
Deferred income tax recovery	4	(95,891)	(898,225)	(200,915)	(1,264,152)
Net loss and total comprehensive loss		(336,188)	(3,262,712)	(703,166)	(4,565,596)
Loss per share (basic and diluted)		(0.04)	(0.42)	(0.09)	(0.59)

See accompanying notes

SWEF TERRA WINDS RESOURCES CORP.

Interim condensed statements of changes in equity
(unaudited, in Canadian dollars)

For the six months ended June 30, 2011

	Share capital (Note 8)	Deficit
	\$	\$
Balances at January 1, 2011	17,945,909	(7,484,078)
Net loss and total comprehensive loss	-	(703,166)
Balances at June 30, 2011	17,945,909	(8,187,244)

For the six months ended June 30, 2010

	Share capital (Note 8)	Deficit
	\$	\$
Balances at January 1, 2010	17,945,909	(251,381)
Net loss and total comprehensive loss	-	(4,565,596)
Balances at June 30, 2010	17,945,909	(4,816,977)

See accompanying notes

SWEF TERRA WINDS RESOURCES CORP.

Interim condensed statements of financial position
(unaudited, in Canadian dollars)

	Notes	June 30, 2011	December 31, 2010
		\$	\$
Assets			
Current assets			
Cash		1,182,173	1,365,054
Restricted cash and cash equivalents	3	10,536,219	11,244,477
Income taxes receivable		-	74,784
Prepaid expenses (short-term)		35,396	17,036
		11,753,788	12,701,351
Non-current assets			
Prepaid expenses (long-term)		25,554	34,072
		11,779,342	12,735,423
Liabilities			
Current liabilities			
Trade and other payables		166,459	218,459
Non-current liabilities			
Deferred income taxes	4	1,854,218	2,055,133
Total liabilities		2,020,677	2,273,592
Shareholders' Equity			
Share capital		17,945,909	17,945,909
Deficit		(8,187,244)	(7,484,078)
Total shareholders' equity		9,758,665	10,461,831
		11,779,342	12,735,423

See accompanying notes

On behalf of the Board:

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

Signed "Gary Solway"
..... Director

SWEF TERRA WINDS RESOURCES CORP.

Interim condensed statements of cash flows
(unaudited, in Canadian dollars)

	For the six month period ended	
	June 30 2011	June 30 2010
	\$	\$
Cash flows from operating activities		
Net loss and total comprehensive loss	(703,166)	(4,565,596)
Items not affecting cash		
Deferred income tax recovery	(200,915)	(1,264,152)
Finance income	(51,438)	(16,958)
Changes in non-cash working capital items		
Prepaid expenses	(9,842)	29,294
Income taxes receivable	(150)	-
Trade and other payables	(52,000)	(39,955)
	(1,017,511)	(5,857,367)
Interest received	51,438	16,958
Income tax refund	74,934	-
Net cash used in operating activities	(891,139)	(5,840,409)
Net decrease in cash	(891,139)	(5,840,409)
Cash and restricted cash and cash equivalents, beginning of period	12,609,531	22,155,057
Cash and restricted cash and cash equivalents, end of period	11,718,392	16,314,648
Cash and restricted cash and cash equivalents is classified on the balance sheet as follows:		
Cash	1,182,173	1,679,795
Restricted cash and cash equivalents	10,536,219	14,634,853
	11,718,392	16,314,648

See accompanying notes

SWEF Terrawinds Resources Corp.

Notes to the interim condensed financial statements

For the three and six month periods ended June 30, 2011 and 2010

(unaudited, in Canadian dollars)

1. Corporate information and description of business

SWEF Terrawinds Resources Corp. (the "Company") is a corporation domiciled in Canada. The address of the Company's registered office is 1240 Bay Street, Suite 406, Toronto, Ontario, M5R 2A7.

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 the Company. 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 been extended to July 31, 2012. The agreement is extendible further 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 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 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.

SWEF Terrawinds Resources Corp.

Notes to the interim condensed financial statements

For the three and six month periods ended June 30, 2011 and 2010

(unaudited, in Canadian dollars)

1. Corporate information and description of business (continued)

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 held the remaining 10 Class A preference shares of the Company, representing 100% of the voting interests in the Company, until May 31, 2010. On May 31, 2010 the General Partner transferred 5 of the 10 remaining Class A preference shares of the Company to a director of the Company, for administrative reasons.

2. Basis of presentation

Statement of compliance

These interim condensed financial statements for the three and six month periods ended June 30, 2011 were prepared in accordance with IAS 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these interim condensed financial statements as were followed in the preparation of the interim financial statements for the three month period ended March 31, 2011. In addition, the interim financial statements for the three month period ended March 31, 2011 contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP. These interim condensed financial statements do not include all the information and disclosures required in the annual financial statements. Accordingly, these interim condensed financial statements for the three and six month periods ended June 30, 2011 should be read together with the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP as well as the interim financial statements for the three month period ended March 31, 2011.

3. Restricted cash and cash equivalents

Restricted cash and cash equivalents represents amounts 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. Changes in the balance of restricted cash and cash equivalents is due to the payment of tax indemnity claims. Out of the total amount held in trust, the following was invested in Government of Canada Treasury Bills:

	\$	\$
	June 30, 2011	December 31, 2010
Invested in Government of Canada Treasury Bills	10,570,901	10,528,727

The amount invested in Government of Canada Treasury Bills includes interest earned on amounts held in trust; the interest income earned on amounts held in trust is re-invested in Government of Canada Treasury Bills.

SWEF Terrawinds Resources Corp.

Notes to the interim condensed financial statements

For the three and six month periods ended June 30, 2011 and 2010

(unaudited, in Canadian dollars)

4. Income taxes

A reconciliation between tax recovery and the product of accounting profit multiplied by the Canadian statutory tax rate for the three and six months ended June 30, 2011 and 2010 is as follows:

	For the three month periods ended		For the six month periods ended	
	\$	\$	\$	\$
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Loss before income taxes	(432,079)	(4,160,937)	(904,081)	(5,829,748)
Canadian statutory rate	28.25%	31.00%	28.25%	31.00%
Income tax recovery based on statutory income tax rates	(122,062)	(1,289,890)	(255,403)	(1,807,222)
Permanent differences	22,194	310,388	46,154	428,526
Change in future income tax rates	3,976	81,277	8,333	114,544
Net income tax recovery	(95,891)	(898,225)	(200,915)	(1,264,152)

Deferred tax relates to the following:

	Statement of Financial Position	
	\$	\$
	June 30, 2011	December 31, 2010
Tax indemnity fund	(2,143,446)	(2,276,395)
Losses available for offsetting against future taxable income	289,228	221,262
Net deferred tax liability	(1,854,218)	(2,055,133)

Statement of Loss and Comprehensive Loss

	For the three month periods ended		For the six month periods ended	
	\$	\$	\$	\$
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Tax indemnity fund	(63,931)	(45,701)	(132,949)	(86,747)
Losses available for offsetting against future taxable income	(31,960)	(852,524)	(67,966)	(1,177,405)
Deferred tax recovery	(95,891)	(898,225)	(200,915)	(1,264,152)

SWEF Terrawinds Resources Corp.

Notes to the interim condensed financial statements

For the three and six month periods ended June 30, 2011 and 2010

(unaudited, in Canadian dollars)

4. Income taxes (continued)

Deferred tax assets and liabilities listed, relate to income taxes levied by the same tax authority.

5. Related party disclosures

The ultimate parent

The ultimate parent of the Company is SWEF GP Inc. There were no transactions between the Company and SWEF GP Inc. during the periods presented.

Transactions with related entities

Other expenses include rent of \$8,269 and \$18,439 for the three and six month periods ended June 30, 2011 (2010 - \$9,450 and \$18,900) respectively, paid to a company controlled by one of the directors of the Company.

Transactions with key management personnel of the Company

Key management personnel include the directors of the Company. Other expenses include directors' fees of \$32,488 and \$64,975 for the three and six month periods ended June 30, 2011 (2010 - \$30,188 and \$60,375) respectively, related to key management personnel of the Company. Directors' fees for the year ended December 31, 2010 were \$125,350.

6. 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") and is now being wound up under court supervision. As part of a settlement that included Interwind, the Company released Interwind from any further liability to honour any potential obligations arising from the assignment of certain liabilities.

To date, two claims have arisen from which creditors sought payment from the Company as a result of Interwind's financial difficulties. Both claims have been settled. Based on information most currently available to the Company, 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. Management believes the maximum amount payable will not exceed the amount currently held in the tax indemnity fund.

7. Financial instruments

The Company's financial assets and liabilities are comprised of cash, restricted cash and cash equivalents and trade and other payables.

SWEF Terrawinds Resources Corp.

Notes to the interim condensed financial statements

For the three and six month periods ended June 30, 2011 and 2010

(unaudited, in Canadian dollars)

7. Financial instruments (continued)

Fair value information

The carrying amount of cash, restricted cash and cash equivalents, and trade and other payables approximates their fair value due to the short-term nature of these financial instruments.

8. Explanation of transition to IFRS

Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements. The Company will ultimately prepare its opening statement of financial position and financial statements for 2010 and 2011 by applying existing IFRS with an effective date of December 31, 2011 or prior. Accordingly, the opening statement of financial position and financial statements for 2010 may differ from these financial statements.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the tables below and the notes that accompany the tables. Adjustments relate to financial statement line item classification differences only.

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date unless certain exemptions are elected and certain mandatory exceptions are applied. In general, all IFRS adjustments to assets and liabilities are recorded in retained earnings upon transition. In preparing its opening IFRS statement of financial position, the Company has not used any elective exemptions. In preparing its opening IFRS statement of financial position, the Company has used the following mandatory exception:

Mandatory exception

- Estimates – the Company applied the mandatory exception from full retrospective application of IFRS for estimates. This mandatory exception requires that estimates made at the transition date under Canadian GAAP be consistent with estimates made under IFRS, unless the need to be adjusted to reflect a revised accounting policy or error.

SWEF Terrawinds Resources Corp.

Notes to the interim condensed financial statements

For the three and six month periods ended June 30, 2011 and 2010

(unaudited, in Canadian dollars)

8. Explanation of transition to IFRS (continued)

Reconciliation of equity

	Notes	Canadian	Effect of transition	IFRSs
		GAAP	to IFRSs June 30, 2010	
Assets				
Current assets				
Cash		1,679,795		1,679,795
Restricted cash and cash equivalents		14,634,853		14,634,853
Income taxes receivable		160,279		160,279
Due from Interwind Corp.		19,839		19,839
Prepaid expenses (short-term)		37,813		37,813
		16,532,579		16,532,579
Non-current assets				
Prepaid expenses (long-term)		42,590		42,590
		16,575,169		16,575,169
Liabilities				
Current liabilities				
Accounts payable, accrued and other liabilities	(a)	365,577	(365,577)	-
Trade and other payables	(a)	-	165,577	165,577
Provisions	(a)	-	200,000	200,000
Due to Interwind Corp.		165,300		165,300
		530,877		530,877
Non-current liabilities				
Deferred income taxes		2,915,360		2,915,360
Total liabilities		3,446,237		3,446,237
Shareholders' Equity				
Share capital		17,945,909		17,945,909
Deficit		(4,816,977)		(4,816,977)
Total shareholders' equity		13,128,932		13,128,932
		16,575,169		16,575,169

Reconciliation of loss and comprehensive loss

	Notes	Canadian	Effect of transition	IFRSs	Canadian	Effect of transition	IFRSs
		GAAP	to IFRSs	IFRSs	GAAP	to IFRSs	IFRSs
		For the three months ended June 30, 2010			For the six months ended June 30, 2010		
Finance income		9,129		9,129	16,958		16,958
Expenses							
Administrative costs	(b)	169,949	(169,949)	-	319,223	(319,223)	-
Capital tax expense		-		-	3,000		3,000
Professional fees	(b)	-	112,156	112,156	-	199,689	199,689
Other expenses	(b)	-	57,793	57,793	-	119,534	119,534
Tax indemnity payments		4,000,117		4,000,117	5,524,483		5,524,483
		4,170,066		4,170,066	5,846,706		5,846,706
Loss before income taxes		(4,160,937)		(4,160,937)	(5,829,748)		(5,829,748)
Deferred income tax recovery		(898,225)		(898,225)	(1,264,152)		(1,264,152)
Net loss and total comprehensive loss		(3,262,712)		(3,262,712)	(4,565,596)		(4,565,596)

SWEF Terrawinds Resources Corp.

Notes to the interim condensed financial statements

For the three and six month periods ended June 30, 2011 and 2010

(unaudited, in Canadian dollars)

8. Explanation of transition to IFRS (continued)

Notes to the reconciliations

(a) Trade and other payables and provisions

Provisions for contingent liabilities previously included in accounts payable, accrued and other liabilities are separately disclosed as provisions under IFRS. The effect is to reclassify \$200,000 at June 30, 2010 from accounts payable, accrued and other liabilities to provisions. The remaining balance of accounts payable, accrued and other liabilities was reclassified to trade and other payables to conform to IFRS line item naming conventions.

(b) Professional fees and other expenses

Amounts previously classified as administrative expenses have been reclassified as professional fees or other expenses based on their nature.