

Interim financial statements of

SWEF Terrawinds Resources Corp.

For the three and six month periods ended June 30, 2010 and 2009

(unaudited)

SWEF Terrawinds Resources Corp.

For the three and six month periods ended June 30, 2010 and 2009

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SWEF TERRAWINDS RESOURCES CORP.

Interim statements of operations and comprehensive loss (unaudited)

	For the three month period ended		For the six month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
Interest income	9,129	10,613	16,958	73,704
Expenses				
Administrative costs	169,949	140,994	319,223	360,309
Capital tax expense	-	8,500	3,000	12,000
Tax indemnity payments (Note 7)	4,000,117	1,132,903	5,524,483	1,308,692
	4,170,066	1,282,397	5,846,706	1,681,001
Loss before income taxes	(4,160,937)	(1,271,784)	(5,829,748)	(1,607,297)
Future income tax recovery	(898,225)	(292,349)	(1,264,152)	(380,441)
Net and comprehensive loss	(3,262,712)	(979,435)	(4,565,596)	(1,226,856)
Loss per share (Note 5)	(0.42)	(0.13)	(0.59)	(0.16)
Weighted average number of common shares outstanding (Note 5)	7,724,084	7,724,084	7,724,084	7,724,084

See accompanying notes

SWEF TERRAWINDS RESOURCES CORP.

Interim statements of changes in shareholders' equity (unaudited)

For the three month period ended June 30, 2010

	Share Capital	Retained Deficit
	\$	\$
Balances at March 31, 2010	17,945,909	(1,554,265)
Net and comprehensive loss	-	(3,262,712)
Balances at June 30, 2010	17,945,909	(4,816,977)

For the three month period ended June 30, 2009

	Share Capital	Retained Earnings
	\$	\$
Balances at March 31, 2009	17,945,909	2,923,365
Net and comprehensive loss	-	(979,435)
Balances at June 30, 2009	17,945,909	1,943,930

For the six month period ended June 30, 2010

	Share Capital	Retained Deficit
	\$	\$
Balances at December 31, 2009	17,945,909	(251,381)
Net and comprehensive loss	-	(4,565,596)
Balances at June 30, 2010	17,945,909	(4,816,977)

For the six month period ended June 30, 2009

	Share Capital	Retained Earnings
	\$	\$
Balances at December 31, 2008	17,945,909	3,170,786
Net and comprehensive loss	-	(1,226,856)
Balances at June 30, 2009	17,945,909	1,943,930

See accompanying notes

SWEF TERRAWINDS RESOURCES CORP.

Interim balance sheets (unaudited)

	June 30, 2010	December 31, 2009
	\$	\$
Assets		
Current assets		
Cash	1,679,795	1,995,721
Restricted cash and cash equivalents (Note 3)	14,634,853	20,159,336
Income taxes receivable	160,279	160,279
Due from Interwind Corp. (Note 4)	19,839	19,839
Prepaid expenses	37,813	58,588
	16,532,579	22,393,763
Prepaid expenses	42,590	51,109
	16,575,169	22,444,872
Liabilities		
Current liabilities		
Accounts payable, accrued and other liabilities	365,577	405,532
Due to Interwind Corp. (Note 4)	165,300	165,300
	530,877	570,832
Future income tax liability	2,915,360	4,179,512
	3,446,237	4,750,344
Shareholders' Equity		
Share capital	17,945,909	17,945,909
Deficit	(4,816,977)	(251,381)
	13,128,932	17,694,528
	16,575,169	22,444,872

Contingencies (Note 7)

See accompanying notes

On behalf of the Board:

Signed *"W. Judson Martin"*
 Director

Signed *"Gary Solway"*
 Director

SWEF TERRAWINDS RESOURCES CORP.

Interim statements of cash flows (unaudited)

	For the three month periods ended		For the six month periods ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
Operating activities				
Net loss	(3,262,712)	(979,435)	(4,565,596)	(1,226,856)
Non-cash items				
Future income tax recovery	(898,225)	(292,349)	(1,264,152)	(380,441)
Changes in non-cash working capital items				
Other receivables	-	(14,362)	-	(14,362)
Prepaid expenses	14,648	15,194	29,294	(13,351)
Accounts payable, accrued and other liabilities	(63,320)	(301,046)	(39,955)	(331,995)
Due to/from Interwind Corp. (Note 4)	-	478	-	(1,774)
	(4,209,609)	(1,571,520)	(5,840,409)	(1,968,779)
Investing activities				
Restricted cash and cash equivalents	4,000,116	1,132,903	5,524,483	1,308,692
	4,000,116	1,132,903	5,524,483	1,308,692
Net decrease in cash	(209,493)	(438,617)	(315,926)	(660,087)
Cash, beginning of period	1,889,288	2,672,098	1,995,721	2,893,568
Cash, end of period	1,679,795	2,233,481	1,679,795	2,233,481
Supplemental disclosure of cash flow information				
Operating activities				
Cash interest received	9,129	10,613	16,958	79,849

See accompanying notes

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three and six month periods ended June 30, 2010 and 2009 (unaudited)

1. Description of business

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

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

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

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

On January 4, 2008, the Company entered into a tax indemnity payment agent agreement with a tax indemnity agent (the "Agent") whereby \$24,490,816 of the total gross proceeds of the sale of the Facility to Interwind was paid to the Agent to be held in trust for SWEF Terrawinds. These funds will be used to indemnify shareholders for the taxes payable by them as a result of the loss of certain deductions from income for Canadian federal and provincial income tax purposes that shareholders expected to receive for their 2005 taxation year. Any trust balance not required to indemnify shareholders will be returned to the Company. The tax indemnity payment agreement has 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 repurchased and cancelled all of its outstanding limited partnership units in exchange for 7,724,084 non-voting common shares of the Company. The result of this capital reorganization is that the former limited partners of the Partnership are now shareholders of the Company.

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

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

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three and six month periods ended June 30, 2010 and 2009 (unaudited)

1. Description of business (continued)

Class A preference shares of the Company to a director of the Company, for administrative reasons.

2. Significant accounting policies

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

3. Restricted cash and cash equivalents

As at June 30, 2010, restricted cash and cash equivalents include the following:

- \$14,634,853 held in trust to compensate shareholders for the taxes payable by them as a result of the loss of certain tax deductions as further described in Note 1. Of the total amount held in trust, \$14,237,297 was invested in Government of Canada Treasury Bills.

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

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

The decrease in restricted cash and cash equivalents from December 31, 2009 to June 30, 2010 is due to the payment of tax indemnity claims.

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

- (i) Due from Interwind Corp. includes amounts owed by Interwind which remained to be received as part of a final accounting of amounts between the Company and Interwind.
- (ii) Due to Interwind Corp. includes amounts owed to Interwind which remained to be paid as part of a final accounting of amounts between the Company and Interwind.
- (iii) On July 6, 2010, the Company, the General Partner and Interwind entered into an agreement to release and discharge all amounts owed by Interwind, and all amounts owed to Interwind, related to the sale of the Facility. A recovery of approximately \$145,000 will be recognized in the third quarter as a result of this settlement.

5. Loss per share

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

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

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6. Financial instruments

Fair values

As at June 30, 2010, the carrying amount of cash, restricted cash and cash equivalents, and accounts payable and accrued and other liabilities approximates their fair value due to the short-term nature of these financial instruments. None of the Company's financial assets or liabilities are measured at fair value on a recurring basis.

7. Contingencies

In connection with the transaction described in Note 1, certain liabilities, though assigned in substance and principle by the agreements to Interwind, are not legally assignable in form, and therefore the Company may be required to make payments in the future if Interwind fails to honour its obligations. On August 12, 2009, Interwind filed for restructuring under the terms of the Companies' Creditors Arrangement Act ("CCAA") 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 are seeking payment from the Company as a result of Interwind's financial difficulties. Both claims were settled during or subsequent to the quarter for amounts consistent with management's previous estimates. One settlement amount was paid during the quarter and the other was paid after quarter end. 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. In any event, management believes the maximum amount payable will not exceed the amount currently held in the tax indemnity fund.

8. Related party transactions

Administrative costs include rent of \$18,900 (2009 – \$12,550) paid to a company controlled by one of the directors of the Company. The transactions are recorded at the exchange amount.