

Interim Financial Statements of

SWEF Terrawinds Resources Corp.

For the three month periods ended March 31, 2011 and 2010

(Unaudited)

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SWEF TERRAWINDS RESOURCES CORP.

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

| | | For the three months ended | |
|--|-------|----------------------------|--------------------|
| | Notes | March 31 2011 | March 31 2010 |
| | | \$ | \$ |
| Finance income | | 23,018 | 7,829 |
| Expenses | | | |
| Professional fees | | 91,328 | 87,533 |
| Capital tax expense | | - | 3,000 |
| Other expenses | 10 | 64,430 | 61,741 |
| Tax indemnity payments | 11 | 339,262 | 1,524,366 |
| | | 495,020 | 1,676,640 |
| Loss before income taxes | | (472,002) | (1,668,811) |
| Deferred income tax recovery | 7 | (105,024) | (365,927) |
| | | (105,024) | (365,927) |
| Net loss and total comprehensive loss | | (366,978) | (1,302,884) |
| Loss per share (basic and diluted) | 9 | (0.05) | (0.17) |

See accompanying notes

SWEF TERRA WINDS RESOURCES CORP.

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

For the three months ended March 31, 2011

| | Share capital (Note 8) \$ | Deficit \$ |
|---------------------------------------|---------------------------------|---------------|
| Balances at December 31, 2010 | 17,945,909 | (7,484,078) |
| Net loss and total comprehensive loss | - | (366,978) |
| Balances at March 31, 2011 | 17,945,909 | (7,851,056) |

For the three months ended March 31, 2010

| | Share capital (Note 8) \$ | Deficit \$ |
|---------------------------------------|---------------------------------|---------------|
| Balances at January 1, 2010 | 17,945,909 | (251,381) |
| Net loss and total comprehensive loss | - | (1,302,884) |
| Balances at March 31, 2010 | 17,945,909 | (1,554,265) |

See accompanying notes

SWEF TERRAWINDS RESOURCES CORP.

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

| | Notes | March 31, 2011 \$ | December 31, 2010 \$ | January 1 2010 \$ (Note 14) |
|--------------------------------------|-------|-------------------------|----------------------------|--------------------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash | | 1,268,239 | 1,365,054 | 1,995,721 |
| Restricted cash and cash equivalents | 4 | 10,905,215 | 11,244,477 | 20,159,336 |
| Income taxes receivable | | - | 74,784 | 160,279 |
| Due from Interwind Corp. | 5 | - | - | 19,839 |
| Prepaid expenses (short-term) | | 50,286 | 17,036 | 58,588 |
| | | 12,223,740 | 12,701,351 | 22,393,763 |
| Non-current assets | | | | |
| Prepaid expenses (long-term) | | 29,813 | 34,072 | 51,109 |
| | | 12,253,553 | 12,735,423 | 22,444,872 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | | 208,591 | 218,459 | 205,532 |
| Provisions | 6 | - | - | 200,000 |
| Due to Interwind Corp. | 5 | - | - | 165,300 |
| | | 208,591 | 218,459 | 570,832 |
| Non-current liabilities | | | | |
| Deferred income taxes | 7 | 1,950,109 | 2,055,133 | 4,179,512 |
| Total liabilities | | 2,158,700 | 2,273,592 | 4,750,344 |
| Shareholders' Equity | | | | |
| Share capital | 8 | 17,945,909 | 17,945,909 | 17,945,909 |
| Deficit | | (7,851,056) | (7,484,078) | (251,381) |
| Total shareholders' equity | | 10,094,853 | 10,461,831 | 17,694,528 |
| | | 12,253,553 | 12,735,423 | 22,444,872 |

See accompanying notes

On behalf of the Board:

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

Signed "Gary Solway"
..... Director

SWEF TERRA WINDS RESOURCES CORP.

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

| | For the three months ended | | |
|--|----------------------------|-------------------|--------------------|
| | Notes | March 31, 2011 | March 31, 2010 |
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Net loss and total comprehensive loss | | (366,978) | (1,302,884) |
| Items not affecting cash | | | |
| Deferred income tax recovery | | (105,024) | (365,927) |
| Finance income | | (23,018) | (7,829) |
| Changes in non-cash working capital items | | | |
| Prepaid expenses | | (28,991) | 14,646 |
| Income taxes receivable | | (150) | 23,365 |
| Trade and other payables | | (9,868) | - |
| | | (534,029) | (1,638,629) |
| Interest received | | 23,018 | 7,829 |
| Income tax refund | | 74,934 | - |
| Net cash used in operating activities | | (436,077) | (1,630,800) |
| Net decrease in cash | | (436,077) | (1,630,800) |
| 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 | | 12,173,454 | 20,524,257 |
| Cash and restricted cash and cash equivalents is classified on the balance sheet as follows: | | | |
| Cash | | 1,268,239 | 1,889,288 |
| Restricted cash and cash equivalents | | 10,905,215 | 18,634,929 |
| | | 12,173,454 | 20,524,217 |

See accompanying notes

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 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 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.

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 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 financial statements of the Company have been prepared in accordance with International Financial Reporting Standard 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1") and International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its financial statements as at and for the year ending December 31, 2011.

As these interim financial statements are the Company's first financial statements prepared using International Financial Reporting Standards ("IFRS"), certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been included in these financial statements for the comparative annual period.

These interim financial statements should be read in conjunction with the Company's 2010 annual financial statements and in consideration of the IFRS transition disclosures included in Note 14 to these financial statements and the additional annual disclosures included therein.

These interim financial statements were authorized for issuance by the Board of Directors of the Company on June 27, 2011.

Basis of measurement

These interim financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and presentation currency

These interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

(unaudited, in Canadian dollars)

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term, highly liquid investments which include government treasury bills with original maturities at the date of purchase of 90 days or less.

Financial instruments

Financial assets are classified as either "financial assets at fair value through profit or loss", "loans and receivables", "available-for-sale", or "held-to-maturity". The Company determines the classification of its financial assets at initial recognition. All financial assets are initially recognized at fair value plus directly attributable transactions costs, if any, except for financial assets at fair value through profit or loss, which are initially recognized at fair value. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial liabilities are classified as either "financial liabilities at fair value through profit or loss" or "other financial liabilities". The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are initially recognized at fair value plus directly attributable transaction costs, if any, except for financial liabilities at fair value through profit and loss, which are initially recognized at fair value. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The subsequent measurement of financial assets and liabilities depends on their classification. Classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. The Company has elected to apply each of its categories of financial instruments as follows:

| | |
|--------------------------------------|-----------------------------|
| Cash | Loans and receivables |
| Restricted cash and cash equivalents | Loans and receivables |
| Due from Interwind Corp. | Loans and receivables |
| Due to Interwind Corp. | Other financial liabilities |
| Trade and other payables | Other financial liabilities |

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

(unaudited, in Canadian dollars)

3. Summary of significant accounting policies (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent period, the amount of an estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by directly adjusting the carrying amount of the asset. If a future impairment is later recovered, the recovery is credited to administrative costs in the statement of loss and comprehensive loss.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Finance income

Finance income comprises interest income on funds invested. Finance income is recognized as it accrues in profit or loss, using the effective interest method.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the statement of loss and comprehensive loss except to the extent that the tax relates to a business combination, or items recognized directly in shareholder's equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

(unaudited, in Canadian dollars)

3. Summary of significant accounting policies (continued)

Deferred tax is provided using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of loss and comprehensive loss net of any reimbursement.

Use of estimates and judgments

The preparation of the interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

On an ongoing basis, the Company evaluates its estimates and judgments, including those related to utilization of tax losses. The company bases its judgments and estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances.

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

(unaudited, in Canadian dollars)

3. Summary of significant accounting policies (continued)

Standards issued but not effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing includes standards and interpretations issued, which the Company reasonably expects to be applicable at a future date, and omits those standards and interpretations issued that have no impact on the Company.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial asset as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The Company does not expect the adoption of this standard to have an impact on the classification and measurement of its financial assets. However, the Company will continue to monitor the potential effect in conjunction with the other phases, when issued, to present a comprehensive picture. The Company intends to adopt this standard when it becomes effective.

4. 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:

| | \$ | \$ | \$ |
|--|----------------|-------------------|-----------------|
| | March 31, 2011 | December 31, 2010 | January 1, 2010 |
| Invested in Government of Canada Treasury Bills | 10,546,711 | 10,528,727 | 16,700,160 |

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

Due from/to Interwind Corp. includes amounts owed by Interwind which remained to be received/paid as part of a final accounting of amounts between the Company and Interwind.

On July 6, 2010, the Company, the General Partner and Interwind Corp. 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 \$145,461 was recognized in administrative costs during the third quarter of fiscal 2010 as a result of this settlement.

As at March 31, 2011, no amount was receivable (December 31, 2010 – nil; January 1, 2010 - \$19,839) and no amount was payable (December 31, 2010 – nil; January 1, 2010 - \$165,300).

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

(unaudited, in Canadian dollars)

6. Provisions

| | \$ |
|---|----------------------|
| | Contingent Liability |
| At January 1, 2010 | \$ 200,000 |
| Utilized | (\$200,000) |
| At December 31, 2010 and March 31, 2011 | - |

Contingent liability

As described in Note 11, the Company may be required to make payments in the future if Interwind fails to honour its obligations. At January 1, 2010, management has provided for the best estimate of claims that the Company may be required to pay. During fiscal 2010, this provision was used in full to make payments to Interwind creditors.

7. Income taxes

A reconciliation between tax recovery and the product of accounting profit multiplied by the Canadian statutory tax rate for the three months ended March 31, 2011 and 2010 is as follows:

| | \$ | \$ |
|---|-----------|-------------|
| | 2011 | 2010 |
| Loss before income taxes | (472,002) | (1,668,811) |
| Canadian statutory rate | 28.25% | 31.00% |
| Income tax recovery based on statutory income tax rates | (133,341) | (517,331) |
| Permanent differences | 23,960 | 118,138 |
| Change in future income tax rates | 4,357 | 33,266 |
| Net income tax recovery | (105,024) | (365,927) |

Deferred tax relates to the following:

| | Statement of financial position | | |
|--|---------------------------------|----------------------|--------------------|
| | \$ | \$ | \$ |
| | March 31, 2011 | December 31, 2010 | January 1, 2010 |
| Tax indemnity fund | (2,207,377) | (2,276,395) | (4,284,791) |
| Losses available for offsetting against future taxable income | 257,268 | 221,262 | 105,279 |
| Net deferred tax liability | (1,950,109) | (2,055,133) | (4,179,512) |

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

(unaudited, in Canadian dollars)

7. Income taxes (continued)

| | Statement of operations | |
|--|-------------------------|-----------|
| | \$ | \$ |
| | 2011 | 2010 |
| Tax indemnity fund | (69,019) | (324,881) |
| Losses available for offsetting against future taxable income | (36,005) | (41,046) |
| Deferred tax recovery | (105,024) | (365,927) |

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

The Company has tax losses which arose in Canada as follows:

| <u>Incurring in</u> | <u>Amount</u> | <u>Expire in</u> |
|---------------------|----------------------|------------------|
| 2006 | 6,882,000 | 2026 |
| 2007 | 20,825,000 | 2027 |
| 2009 | 319,000 | 2029 |
| 2010 | 442,000 | 2030 |
| | <u>\$ 28,468,000</u> | |

As per the requirements of the *Income Tax Act (Canada)*, the non-capital losses related to years 2007 and earlier are restricted following the acquisition of control that occurred January 1, 2008. The related benefits have not been recognized in the accounts.

8. Share capital

Share capital consists of the following:

| | \$ | \$ | \$ |
|--|-------------------|----------------------|--------------------|
| | March 31, 2011 | December 31, 2010 | January 1, 2010 |
| Authorized | | | |
| Unlimited Class A preference shares, voting, redeemable at the option of the holder | | | |
| Unlimited common shares, non-voting redeemable at the option of the Company | | | |
| Issued | | | |
| 10 Class A preference shares | — | — | — |
| 7,724,084 non-voting common shares | 17,945,909 | 17,945,909 | 17,945,909 |
| | <u>17,945,909</u> | <u>17,945,909</u> | <u>17,945,909</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 trade and other payables on the statement of financial position.

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

(unaudited, in Canadian dollars)

9. Loss per share

Basic loss per share amounts are calculated by dividing the Company's net loss for the period by the weighted average number of common shares outstanding during the period. There are no dilutive items outstanding. The weighted average number of common shares outstanding used to calculate loss per share is 7,724,084 in all periods presented.

There have been no other transactions involving common shares between the reporting date and the date of completion of these financial statements.

10. 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 \$10,170 for the three month period ended March 31, 2011 (2010 - \$9,450) 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 for the three month period ended March 31, 2011 (2010 - \$30,188) related to key management personnel of the Company. Directors' fees for the year ended December 31, 2010 were \$125,350.

11. 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.

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

(unaudited, in Canadian dollars)

12. Financial instruments

The Company's financial assets and liabilities are comprised of cash, restricted cash and cash equivalents due to/from Interwind Corp. and trade and other payables.

Fair value information

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

13. Financial risk management objectives and policies

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. All of the Company's financial liabilities mature within one year of the balance sheet date based on contractual payment terms.

Credit risk

The Company is exposed to credit risk with respect to its restricted cash equivalents. The Company manages credit risk through an investment policy related to the investment of all funds. It is management's belief that the Company is not subject to any significant credit risks arising from its financial instruments and the maximum exposure is limited to the carrying value of the restricted cash equivalents.

Interest rate risk

The Company is exposed to interest rate risk that arises from fluctuations in interest rates on its cash and restricted cash and cash equivalents. 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 price risk.

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

(unaudited, in Canadian dollars)

13. Financial risk management objectives and policies (continued)

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 tax indemnity payments, dividends to shareholders, 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 cash equivalents.

14. Explanation of transition to IFRS

The accounting policies set out in Note 3 have been applied in preparing the interim financial statements as at and for the three months ended March 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of the opening IFRS statement of financial position at January 1, 2010 (the Company's date 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. These financial statements have been prepared in accordance with the accounting policies described in Note 3. 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:

SWEF Terrawinds Resources Corp.

Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

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14. Explanation of transition to IFRS (continued)

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.

Reconciliation of equity

| | Notes | Canadian | Effect of transition | IFRSs | Canadian | Effect of transition | IFRSs | Canadian | Effect of transition | IFRSs |
|---|-------|------------|----------------------|-----------------|-------------|----------------------|----------------|-------------|----------------------|-------------------|
| | | GAAP | to IFRSs | January 1, 2010 | GAAP | to IFRSs | March 31, 2010 | GAAP | to IFRSs | December 31, 2010 |
| Assets | | | | | | | | | | |
| Current assets | | | | | | | | | | |
| Cash | | 1,995,721 | | 1,995,721 | 1,889,288 | | 1,889,288 | 1,365,054 | | 1,365,054 |
| Restricted cash and cash equivalents | | 20,159,336 | | 20,159,336 | 18,634,969 | | 18,634,969 | 11,244,477 | | 11,244,477 |
| Income taxes receivable | | 160,279 | | 160,279 | 160,279 | | 160,279 | 74,784 | | 74,784 |
| Due from Interwind Corp. | | 19,839 | | 19,839 | 19,839 | | 19,839 | - | | - |
| Prepaid expenses (short-term) | | 58,588 | | 58,588 | 48,200 | | 48,200 | 17,036 | | 17,036 |
| | | 22,393,763 | | 22,393,763 | 20,752,575 | | 20,752,575 | 12,701,351 | | 12,701,351 |
| Non-current assets | | | | | | | | | | |
| Prepaid expenses (long-term) | | 51,109 | | 51,109 | 46,851 | | 46,851 | 34,072 | | 34,072 |
| | | 22,444,872 | | 22,444,872 | 20,799,426 | | 20,799,426 | 12,735,423 | | 12,735,423 |
| Liabilities | | | | | | | | | | |
| Current liabilities | | | | | | | | | | |
| Accounts payable, accrued and other liabilities | (a) | 405,532 | (405,532) | - | 428,897 | (428,897) | - | 218,459 | (218,459) | - |
| Trade and other payables | (a) | - | 205,532 | 205,532 | - | 228,897 | 228,897 | - | 218,459 | 218,459 |
| Provisions | (a) | - | 200,000 | 200,000 | - | 200,000 | 200,000 | - | - | - |
| Due to Interwind Corp. | | 165,300 | | 165,300 | 165,300 | | 165,300 | - | | - |
| | | 570,832 | | 570,832 | 594,197 | | 594,197 | 218,459 | | 218,459 |
| Non-current liabilities | | | | | | | | | | |
| Deferred income taxes | | 4,179,512 | | 4,179,512 | 3,813,585 | | 3,813,585 | 2,055,133 | | 2,055,133 |
| Total liabilities | | 4,750,344 | | 4,750,344 | 4,407,782 | | 4,407,782 | 2,273,592 | | 2,273,592 |
| Shareholders' Equity | | | | | | | | | | |
| Share capital | | 17,945,909 | | 17,945,909 | 17,945,909 | | 17,945,909 | 17,945,909 | | 17,945,909 |
| Deficit | | (251,381) | | (251,381) | (1,554,265) | | (1,554,265) | (7,484,078) | | (7,484,078) |
| Total shareholders' equity | | 17,694,528 | | 17,694,528 | 16,391,644 | | 16,391,644 | 10,461,831 | | 10,461,831 |
| | | 22,444,872 | | 22,444,872 | 20,799,426 | | 20,799,426 | 12,735,423 | | 12,735,423 |

Reconciliation of loss and comprehensive loss

| | Notes | Canadian | Effect of transition | IFRSs | Canadian | Effect of transition | IFRSs |
|---------------------------------------|-------|-------------|----------------------|---|-------------|----------------------|--------------------------------------|
| | | GAAP | to IFRSs | For the three months ended March 31, 2010 | GAAP | to IFRSs | For the year ended December 31, 2010 |
| Finance income | | 7,829 | | 7,829 | 49,721 | | 49,721 |
| Expenses | | | | | | | |
| Administrative costs | (b) | 149,274 | (149,274) | - | 491,938 | (491,938) | - |
| Capital tax expense | | 3,000 | | 3,000 | - | | - |
| Professional fees | (b) | - | 87,533 | 87,533 | - | 423,401 | 423,401 |
| Other expenses | (b) | - | 61,741 | 61,741 | - | 68,537 | 68,537 |
| Tax indemnity payments | | 1,524,366 | | 1,524,366 | 8,914,859 | | 8,914,859 |
| | | 1,676,640 | | 1,676,640 | 9,406,797 | | 9,406,797 |
| Loss before income taxes | | (1,668,811) | | (1,668,811) | (9,357,076) | | (9,357,076) |
| Deferred income tax recovery | | (365,927) | | (365,927) | (2,124,379) | | (2,124,379) |
| Net loss and total comprehensive loss | | (1,302,884) | | (1,302,884) | (7,232,697) | | (7,232,697) |

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Notes to the interim financial statements

For the three month periods ended March 31, 2011 and 2010

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14. 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 January 1, 2010 and March 31, 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.