

MANAGEMENT DISCUSSION & ANALYSIS FOR THE THREE AND SIX MONTH PERIODS ENDED June 30, 2009 AND 2008

The following management discussion and analysis ("MD&A") is provided by management of SWEF Terrawinds Resources Corp. (the "Company") and should be read in conjunction with the unaudited interim financial statements of the Company for the three and six month periods ended June 30, 2009, together with the related notes contained therein. The Company's most recent filings are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed through the Internet at www.sedar.com or on the Company's website at www.sweflp.com. This MD&A should also be read in conjunction with the previous public filings of SWEF LP (the "Partnership") a previous Canadian reporting issuer, as more fully described under "Significant Events" below.

Forward Looking Statements

Certain statements contained in this MD&A constitute forward looking statements within the meaning of the *Securities Act* (Ontario) regarding the future performance of the Company based on assumptions management considered reasonable at the time it was prepared as of August 12, 2009. All forward-looking statements are inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward looking statements. We consider the assumptions on which these forward looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect. These forward looking statements involve a number of risks, uncertainties and assumptions, including the risk of future tax assessments, litigation or other unanticipated expenses. These risks and uncertainties as well as additional information are outlined in this MD&A.

The Company disclaims any intention or obligation to update or revise any forward looking statements whether as a result of new information, future events or otherwise, except as required by law. These risks may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These cautionary statements expressly qualify all forward looking statements attributable to the Company.

Significant Events

Description of Business, Capital Reorganization and Change in Reporting Issuer

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

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

The Company intended to use the proceeds of the common and flow-through share investments towards the construction of a wind turbine project (the "Facility"), including 22 wind turbines as

part of the Canadian Renewable Conservation Expense Test Phase (the "CRCE Phase") and conduct a 120-day test phase and, if successful, construct and operate the balance of the turbines in Riviere du Loup, Québec, to generate electricity for sale to Hydro-Québec pursuant to a 21 year power purchase agreement.

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

Effective December 12, 2008, the Company completed a share consolidation of the issued and outstanding common shares using an 8.943618:1 ratio. As a result of the share consolidation, every 8.943618 shares of the Company's issued and outstanding common shares were consolidated into 1 share of the Company's common shares resulting in 7,724,084 non-voting, redeemable common shares outstanding.

Effective December 18, 2008, the Partnership re-purchased and cancelled all of its outstanding limited partnership units in exchange for the 7,724,084 issued and outstanding non-voting, redeemable common shares of the Company. The result of this capital reorganization is that the former limited partners of the Partnership are now shareholders of the Company. The Partnership continues to hold all of the Class A preference shares of the Company which now represent 100% of the voting interests in the Company.

Effective December 18, 2008, the Company changed its name from Terrawinds Resources Corp. to SWEF Terrawinds Resources Corp. The Company is now a reporting issuer in all provinces in Canada, and the Partnership has ceased to be a reporting issuer in all provinces in Canada.

The general partner of the Partnership is SWEF GP Inc. (the "General Partner") which, as at December 31, 2007, was a wholly-owned subsidiary of SkyPower. The General Partner has a 0.01% beneficial interest in the Partnership. The General Partner was previously known as SkyPower 1 GP Inc., however, on January 7, 2008 the General Partner's name was changed to SWEF GP Inc. As of January 1, 2008, the General Partner is owned by the Chairman of the Board of the General Partner, a related party to the Partnership and the Company, as an accommodation to unit holders of the Partnership and to facilitate the Transaction.

Update on SkyPower Corp.

In connection with the Transaction as described above, certain liabilities, though assigned in substance and principle by the agreements to SkyPower, are not legally assignable in form, and therefore the Partnership or the Company may be required to make payments in the future if SkyPower fails to honour its obligations. On August 12, 2009 SkyPower filed for restructuring under the terms of the Companies' Creditors Arrangement Act ("CCAA"). SkyPower's ability to honour any potential obligations arising from the assignment of certain liabilities is substantially in doubt. As SkyPower's CCAA filing occurred very recently, management of the Company cannot determine the amount or likelihood of any potential financial exposure to the Company.

CRCE Phase Deductions

As a result of the Company being unable to complete the CRCE Phase by December 31, 2006, the Company had received an administrative concession from the Canada Revenue Agency ("CRA") and Revenue Québec in March 2007 that they would not re-assess, at that time, unit holders who deducted Canadian Exploration Expense ("CEE") in respect of the Partnership in their 2005 tax returns on the basis that the Company continued to work to complete the CRCE Phase of the Project in 2007.

The Company did not incur sufficient CEE in 2007. As a result, CRA and Revenue Québec (if applicable) are expected to initiate the process of preparing a reassessment of each shareholder's 2005 taxation year. Shareholders are expected to receive a Notice of Reassessment directly from CRA and Revenue Québec (if applicable) indicating the incremental Federal and Provincial income tax payable for their 2005 income tax year. Interest will generally only accrue from May 1, 2007 on the incremental income tax based on each shareholder's share of the amount of CEE that the Company failed to incur before the end of 2007.

As a result of the Transaction, the Company placed in trust approximately \$24.5 million of proceeds to indemnify the shareholders against reassessments by CRA and/or Revenue Québec. We do not know when the Notices of Reassessment will be issued by CRA. Shareholders who are residents of the Province of Québec will also receive a Notice of Reassessment from Revenue Québec. Based on discussions with Revenue Québec, we understand that reassessments of shareholders for Québec income tax purposes has commenced. Accordingly, residents of Québec may file an indemnity claim at any time upon receipt of a Notice of Reassessment from Revenue Québec in respect of the Québec portion of their claim.

Selected Financial and Quarterly Information

The following is a summary of unaudited quarterly information regarding operations for the last five consecutive quarters.

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Revenues	\$ 244,269	\$ 223,250	\$ 185,989	\$ 63,091	\$ 10,613
Net Income (Loss) before Income Taxes	\$ 2,005	\$ 107,858	\$ 307,116	\$ (335,513)	\$ (1,271,784)
Future Income Tax Expense (Recovery)	\$ -	\$ -	\$ 5,847,182	\$ (88,092)	\$ (292,349)
Net Income (Loss)	\$ 2,005	\$ 107,858	\$ (5,700,345)	\$ (247,421)	\$ (979,4335)
Net Income (Loss) per share	\$ 0.00	\$ 0.01	\$ (0.74)	\$ (0.03)	\$ (0.13)

The following is a summary of information regarding balance sheet items for the last two consecutive balance sheet reporting dates.

	June 30, 2009	December 31, 2008
Total Assets	\$ 25,583,408	\$ 27,522,222

Additional Financial Information

The material components of general and administrative expenses for the six month periods ended June 30, 2009 and 2008 are as follows:

	June 30, 2009	June 30, 2008
Professional fees	\$ 249,210	\$ 394,331
Insurance	\$ 30,388	\$ 32,935
Director's fees	\$ 60,375	\$ -
Other	\$ 20,336	\$ 32,943
Total	\$ 360,309	\$ 460,209

Results of Operations

Three Month Comparison

Net loss for the three month period ended June 30, 2009 was \$1.0 million compared to an insignificant net income for the same period in fiscal 2008. The decrease of \$1.0 million is due primarily to the payment of tax indemnity claims, which commenced in the first quarter of fiscal 2009.

Interest income for the three month period June 30, 2009 was insignificant compared \$0.2 million for the same period in fiscal 2008. The decrease of \$0.2 million is due primarily to a decline in interest rates, and less cash on hand to invest in the second quarter of fiscal 2009 compared to the same period in fiscal 2008.

Administrative costs for the three month period ended June 30, 2009 were \$0.1 million compared to \$0.2 million for the same period in fiscal 2008. The decrease is due to the gradual wind-up of the affairs of the Company.

Capital tax expense for the three month period ended June 30, 2009 was similar to the amount for the same period in fiscal 2008. The similarity is expected given that the taxable capital of the Company was substantially similar in each period.

Future income tax recovery for the three month period ended June 30, 2009 was \$0.3 million, compared to nil for the same period in fiscal 2008. The future income tax recovery for the three month period ended June 30, 2009 arises due to the \$1.0 million in tax indemnity claims made in the period. There was no similar activity during the three month period ended June 30, 2008.

Six Month Comparison

Net loss for the six month period ended June 30, 2009 was \$1.2 million compared to a net income of \$0.1 million for the same period in fiscal 2008. The decrease of \$1.3 million is due primarily the payment of tax indemnity claims, which commenced in the first quarter of fiscal 2009.

Interest income for the six month period June 30, 2009 was \$0.1 million compared \$0.5 million for the same period in fiscal 2008. The decrease of \$0.4 million is due primarily to a decline in interest rates, and less cash on hand to invest in the second quarter of fiscal 2009 compared to the same period in fiscal 2008.

Administrative costs for the six month period ended June 30, 2009 were \$0.4 million compared to \$0.5 million for the same period in fiscal 2008. The decrease is due to the gradual wind-up of the affairs of the Company.

Capital tax expense for the six month period ended June 30, 2009 was similar to the amount for the same period in fiscal 2008. The similarity is expected given that the taxable capital of the Company was substantially similar in each period.

Future income tax recovery for the six month period ended June 30, 2009 was \$0.4 million, compared to nil for the same period in fiscal 2008. The future income tax recovery for the six month period ended June 30, 2009 arises due to the \$1.3 million in tax indemnity claims paid in the period. There was no similar activity during the six month period ended June 30, 2008.

Liquidity and Capital Resources

As at June 30, 2009, the Company had cash of \$2.2 million compared to \$2.9 million at December 31, 2008.

As at June 30, 2009 restricted cash and cash equivalents includes the following:

- \$23,182,124 held in trust to compensate unit holders for the taxes payable by them as a result of the loss of certain tax deductions.

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

- \$24,490,816 held in trust to compensate unit holders for the taxes payable by them as a result of the loss of certain tax deductions.

As at June 30, 2009, approximately 87% of the cash and restricted cash and cash equivalents held by the Company (including 95% of the tax indemnity fund) was invested in Government of Canada Treasury Bills. The balance of the Company's cash and restricted cash was held in two of Canada's major Chartered Banks.

Three Month Comparison

Cash outflows from operating activities for the three month period ended June 30, 2009 were \$1.6 million, and include net loss from operations of \$1.0 million, a loss from non-cash items of \$0.3 million and net outflows related to changes in non-cash working capital items of \$0.3 million. Cash outflows from operating activities for the three month period ended June 30, 2008 were \$0.2 million, which included insignificant net income from operations and net outflows related to changes in non-cash working capital items of \$0.2 million.

There were no cash flows from financing activities during the three month periods ended June 30, 2009 and 2008.

Cash inflows from investing activities for the three month period ended June 30, 2009 were \$1.1 million representing the transfer of amounts required to satisfy tax indemnity claims into unrestricted cash. Cash inflows from investing activities for the three month period ended June 30, 2008 were \$5.0 million representing the transfer of amounts placed into escrow as part of the Transaction described above into unrestricted cash.

Six Month Comparison

Cash outflows from operating activities for the six month period ended June 30, 2009 were \$2.0 million, and include net loss from operations of \$1.2 million, a loss from non-cash items of \$0.4 million and net outflows related to changes in non-cash working capital items of \$0.4 million. Cash outflows from operating activities for the six month period ended June 30, 2008 were \$0.1 million, and included an insignificant net income from operations and net outflows related to changes in non-cash working capital items of \$0.2 million.

There were no cash flows from financing activities during the six month period ended June 30, 2009. Cash outflows from financing activities during the six month period ended June 30, 2008 amounted to \$44.8 million related to distributions paid as a return of capital invested.

Cash inflows from investing activities for the six month period ended June 30, 2009 were \$1.3 million representing the transfer of amounts required to satisfy tax indemnity claims into unrestricted cash. Cash inflows from investing activities for the six month period ended June 30, 2008 were \$5.0 million representing the transfer of amounts placed into escrow as part of the Transaction described above into unrestricted cash.

Related Party Transactions

Administrative costs contain director's fees paid to the Chairman of the Board of the General Partner, a related party and are recorded at the exchange amount..

Outstanding Share Capital Data

The Company has authorized an unlimited number of non-voting, redeemable common shares and an unlimited number of Class A preference shares. As June 30, 2009 and August 12, 2009, there are 7,724,084 non-voting, redeemable common shares outstanding and 71,900,901 Class A preference shares outstanding.

Commitments and Contingencies

In connection with the Transaction, potential future exposures, though assigned in substance and principle by the agreements to SkyPower, are not legally assignable in form, and therefore the Company may be required to make payments in the future if SkyPower fails to honour its obligations. On August 12, 2009 SkyPower filed for restructuring under the terms of the Companies' Creditors Arrangement Act ("CCAA"). SkyPower's ability to honour any potential obligations arising from the assignment of certain liabilities is substantially in doubt.

As at June 30, 2009, the maximum potential amount and likelihood of future payments that the Company could be required to make under these indemnification provisions and legal contingencies is not reasonably quantifiable or determinable. Because of SkyPower's CCAA filing recently, management of the Company acknowledges that the potential assignment of claims will be unlikely and may therefore increase the Company's exposure should a claim materialize. Based on the information available, management still cannot determine the amount or likelihood of any potential financial exposure to the Company. No amount has been recorded in the financial statements in respect of such potential future exposures.

The Company is contingently liable to pay amounts claimed by shareholders in respect of certain reassessments by applicable taxation authorities. The tax indemnity fund classified as restricted cash, and held in trust by the Agent, has been restricted for the purposes of indemnifying shareholders. The precise amount of future payments from the tax indemnity fund that the Company could be required to make is not reasonably determinable. In any event, the maximum amount payable will not exceed the amount currently held in the tax indemnity fund.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as at June 30, 2009.

Critical Accounting Policies

Financial Instruments

Financial assets and liabilities held-for-trading are 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, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Recent Accounting Pronouncements

Effective January 1, 2009 the Company adopted the requirements of CICA Handbook Section 3064, Goodwill and Intangible Assets. Section 3064 replaces Sections 3062, Goodwill and Other Intangible Assets, and 3450, Research and Development Costs. Additionally, Accounting Guideline AcG-11, Enterprises in the Development Stage, has been modified and EIC-27, Revenues and Expenditures during the Pre-Operating Period will not apply to entities that have adopted Section 3064. Adopting Section 3064 had no impact on the interim financial statements.

CICA Handbook Section 1582, Business Combinations which replaces Handbook Section 1581, Business Combinations and is converged with IFRS 3, Business Combinations establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. This standard is effective for fiscal years beginning on or after January 1, 2011. The Company may elect to early adopt this standard and if so, will be required to early adopt Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. The adoption of these standards is not expected to have any impact on the Company's financial statements.

CICA Handbook Section 1601, Consolidated Financial Statements and Handbook Section 1602, Non-Controlling Interests replace Handbook Section 1600, Consolidated Financial Statements. Handbook Section 1601 carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Handbook Section 1602 establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. The standards are effective for fiscal years beginning on or after January 1, 2011. The Company may elect to early adopt the standards and if so, will be required to early adopt Handbook Section 1582, Business Combinations. The adoption of these standards is not expected to have any impact on the Company's financial statements.

International Financial Reporting Standards ("IFRS")

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

Outlook

- During the third quarter of fiscal 2008, the CRA completed an audit of the CEE incurred by the Company and allocated to unit holders of the Partnership \$0.85 per unit in respect of the 2005 taxation year and has advised that no adjustments will be made to the deductions claimed.
- Management mailed a Letter to shareholders dated August 29, 2008 that contains important information for all unit holders with respect to the payment of taxes owing for 2005. See www.sweflp.com for a copy of the letter.

- On March 10, 2008, April 29, 2008, August 29, 2008, November 13, 2008, March 26, 2009 and July 24, 2009 management provided instructions to shareholders regarding the process for submitting tax indemnity claims and the status of the claims process. Distributions of the \$24.5 million held in trust by the Agent have commenced during the first quarter of fiscal 2009 as the relevant taxation authorities have begun providing individual reassessments for the 2005 tax year allowing shareholders to make their tax indemnity claims. Further information is available at www.sweflp.com and www.terida.com/paymentagent.
- The Partnership is in the process of winding up. Details regarding the winding up process are set out in the Management Information Circular dated November 29, 2007, a copy of which is available at www.sweflp.com. A letter to unit holders dated December 1, 2008 describing the wind up process has been mailed to unit holders and is available at www.sweflp.com.
- The Company will be wound up once the tax indemnity claims process has been completed. It is anticipated that this will take more than a year to complete.
- Any portion of the cash held by the Company which is not required to fund obligations of the Company will ultimately be distributed to shareholders.
- Letters were sent to shareholders dated March 26, 2009 and July 24, 2009 containing tax reporting information and an update on the CRA reassessments and tax indemnity process.
- Shareholders are encouraged to regularly visit www.sweflp.com to obtain up-to-date information on the status of SWEF Terrawinds Resources Corp. and the tax indemnity process.

This Outlook section is based on management's assumptions and expectations that management considers reasonable at the date hereof. There can be no assurance that these assumptions and expectations will be accurate. See "Forward Looking Statements" and "Risks and Uncertainties".

Risks and Uncertainties

Future Liabilities

As a result of the Transaction, most liabilities of the Company existing prior to closing were assumed by SkyPower. However, should SkyPower fail to fulfill those obligations, the Company may be required to fulfill them. In addition, as the wind power project did not proceed, it is possible that unanticipated liabilities could arise which are not assumed by SkyPower. On August 12, 2009 SkyPower filed for restructuring under the terms of the CCAA. SkyPower's ability to honour any potential obligations arising from the assumption of certain liabilities is substantially in doubt. Because of SkyPower's CCAA filing recently, management of the Company acknowledges that the potential assignment of claims will be unlikely and may therefore increase the Company's exposure should a claim materialize. Based on the information available, management still cannot determine the amount or likelihood of any potential financial exposure to the Company. No amount has been recorded in the financial statements in respect of such potential future exposures.

Reliance on SkyPower

SkyPower was responsible for the administration of the Company and the management and operation of the Project up to closing of the Transaction. The Company has relied on SkyPower to disclose all pertinent information necessary to enable the Company to carry on its business.