

Interim financial statements of

**SWEF Terrawinds Resources Corp.
(formerly known as “Terrawinds Resources
Corp.”)**

For the three and nine month periods ended September 30, 2009

SWEF Terrawinds Resources Corp.
(formerly known as “Terrawinds Resources Corp.”)
For the three and nine month periods ended September 30, 2009

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SWEF TERRAWINDS RESOURCES CORP.
(formerly known as "Terrawinds Resources Corp.")
Interim statements of operations and comprehensive income (loss)

	For the three month period ended		For the nine month period ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income	5,404	223,250	79,108	766,929
Expenses				
Administrative costs (note 6)	286,323	104,392	646,632	564,601
Capital taxes	3,000	11,000	15,000	31,000
Tax indemnity payments (note 10)	2,270,914	-	3,579,606	-
	2,560,237	115,392	4,241,238	595,601
Income (loss) before income taxes	(2,554,833)	107,858	(4,162,130)	171,328
Future income tax recovery	(708,164)	-	(1,088,605)	-
Net and comprehensive income (loss)	(1,846,669)	107,858	(3,073,525)	171,328
Earnings (loss) per share (Note 8)	(0.24)	0.01	(0.40)	0.02
Weighted average number of common shares outstanding (Note 8)	7,724,084	7,724,084	7,724,084	7,724,084

See accompanying notes

SWEF TERRAWINDS RESOURCES CORP.

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Interim statements of changes in shareholders' equity

For the three month period ended September 30, 2009

	Share Capital	Retained Earnings
	\$	\$
Balances at June 30, 2009 (unaudited)	17,945,909	1,943,930
Net and comprehensive loss	-	(1,846,669)
Balances at September 30, 2009 (unaudited)	17,945,909	97,261

For the three month period ended September 30, 2008

	Share Capital	Retained Earnings
	\$	\$
Balances at June 30, 2008 (unaudited)	24,271,450	8,763,273
Net and comprehensive income	-	107,858
Balances at September 30, 2008 (unaudited)	24,271,450	8,871,131

For the nine month period ended September 30, 2009

	Share Capital	Retained Earnings
	\$	\$
Balances at December 31, 2008	17,945,909	3,170,786
Net and comprehensive loss	-	(3,073,525)
Balances at September 30, 2009 (unaudited)	17,945,909	97,261

For the nine month period ended September 30, 2008

	Share Capital	Retained Earnings
	\$	\$
Balances at December 31, 2007	69,081,257	8,699,803
Distributions paid as return of capital invested	(44,809,807)	-
Net and comprehensive income	-	171,328
Balances at September 30, 2008 (unaudited)	24,271,450	8,871,131

See accompanying notes

SWEF TERRAWINDS RESOURCES CORP.

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Interim balance sheets

	September 30, 2009	December 31, 2008
	\$	\$
	(unaudited)	
Assets		
Current assets		
Cash	2,206,516	2,893,568
Restricted cash and cash equivalents (Note 4)	20,911,210	24,490,816
Other receivables	-	35,070
Due from SkyPower Corp. (Note 5)	19,839	17,587
Prepaid expenses (short-term)	27,970	16,098
	23,165,535	27,453,139
Prepaid expenses (long-term)	55,368	69,083
	23,220,903	27,522,222
Liabilities		
Current liabilities		
Accounts payable, accrued and other liabilities	253,756	393,423
Due to SkyPower Corp. (Note 5)	165,300	164,822
Class A preference shares	100	100
	419,156	558,345
Future income tax liability	4,758,577	5,847,182
	5,177,733	6,405,527
Shareholders' Equity		
Share capital	17,945,909	17,945,909
Retained earnings	97,261	3,170,786
	23,220,903	27,522,222

Contingencies (Note 10)

See accompanying notes

On behalf of the Board:

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

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

SWEF TERRAWINDS RESOURCES CORP.

(formerly known as "Terrawinds Resources Corp.")

Interim statements of cash flows

	For the three month period ended		For the nine month period ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating activities				
Net income (loss)	(1,846,669)	107,858	(3,073,525)	171,328
Non-cash items				
Future income tax recovery	(708,164)	-	(1,088,605)	-
Changes in non-cash working capital items				
Other receivables	49,432	(411)	35,070	66,982
Prepaid expenses	15,194	16,468	1,843	(101,648)
Due from SWEF LP	-	(60,375)	-	3,897,010
Accounts payable, accrued and other liabilities	192,328	(64,557)	(139,667)	(4,187,796)
Due to/from SkyPower Corp.	-	42,798	(1,774)	37,319
	(2,297,879)	41,781	(4,266,658)	(116,805)
Investing activities				
Restricted cash and cash equivalents	2,270,914	-	3,579,606	5,000,000
	2,270,914	-	3,579,606	5,000,000
Financing activities				
Distributions paid as return of capital invested	-	-	-	(44,809,847)
	-	-	-	(44,809,847)
Net change in cash during the period	(26,965)	41,781	(687,052)	(39,926,652)
Cash, beginning of period	2,233,481	7,791,024	2,893,568	47,759,457
Cash, end of period	2,206,516	7,832,805	2,206,516	7,832,805
Supplemental disclosure of cash flow information				
Operating activities				
Cash interest received	5,303	223,537	85,153	758,008

See accompanying notes

SWEF Terrawinds Resources Corp.

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Notes to the interim financial statements

For the three and nine month periods ended September 30, 2009

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. (“SkyPower”).

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, 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 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 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.

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 Partnership continues to hold all of the Class A preference shares of the Company representing 100% of the voting interests in the Company.

The general partner of the Partnership is SWEF GP Inc. (the “General Partner”). 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 sale of certain assets and liabilities described above.

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Notes to the interim financial statements

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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, except as described in Note 3. These interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2008.

3. Accounting policies adopted

Effective January 1, 2009 the Company adopted the requirements of the Canadian Institute of Chartered Accountants (“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.

4. Restricted cash and cash equivalents

As at September 30, 2009, restricted cash and cash equivalents include the following:

- \$20,911,210 held in trust to compensate shareholders for the taxes payable by them as a result of the loss of certain tax deductions. Of the total amount held in trust, \$16,699,499 was invested in Government of Canada Treasury Bills.

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

- \$24,490,816 held in trust to compensate shareholders for the taxes payable by them as a result of the loss of certain tax deductions. Of the total amount held in trust, \$23,972,444 was invested in Government of Canada Treasury Bills.

The decrease in restricted cash and cash equivalents from December 31, 2008 to September 30, 2009 is due to the payment of tax indemnity claims.

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

- (i) Due from SkyPower Corp. includes amounts owed by SkyPower which remain to be received as part of a final accounting of amounts between the Partnership, the Company and SkyPower.
- (ii) Due to SkyPower Corp. includes amounts owed to SkyPower which remain to be paid as part of a final accounting of amounts between the Partnership, the Company and SkyPower.
- (iii) On closing of the transaction described in Note 1, the Partnership, the Company, the General Partner and SkyPower entered into a Transition Services Agreement. The agreement provided for SkyPower to provide information to the Company to assist in the preparation of financial statements and other reports. The agreement expired on June 30, 2008. No fee is payable to SkyPower in respect of this agreement.

6. 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.

7. 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 and dividends to shareholders, to pay 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 share capital.

8. Earnings (loss) per share

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 non-voting common share of the Company. Accordingly, all of the Company's issued and outstanding common shares for all periods presented have been restated to reflect the share consolidation. This includes the weighted average number of common shares outstanding used to calculate earnings (loss) per share consistent with the requirements of CICA Handbook Section 3500, Earnings per Share. As a result, earnings (loss) per share have been calculated based on the weighted average number of common shares outstanding of 7,724,084.

The diluted earnings (loss) per share is not presented as there are no dilutive items outstanding.

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9. Financial instruments

The Company's financial assets and liabilities are comprised of cash, restricted cash and cash equivalents, other receivables, due from SkyPower Corp., accounts payable, accrued and other liabilities and due to SkyPower Corp. 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.

Credit risk

The Company is exposed to credit risk with respect to its restricted cash equivalents, other receivables and due from SkyPower Corp. balance. The Company manages credit risk through an investment policy related to the investment of all funds, the accurate filing of commodity tax returns and ongoing negotiations between the Company and SkyPower. It is management's belief that the Company is not subject to any significant credit risks arising from its financial instruments.

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 other significant price risk.

Fair values

As at September 30, 2009, the carrying amount of cash, restricted cash and cash equivalents, other receivables and accounts payable, accrued and other liabilities approximates their fair value due to the short-term nature of these financial instruments.

The fair values of the amounts due to/from SkyPower Corp. are less than their carrying values, as amounts are non-interest bearing. It is management's best estimate that these amounts will be paid/received within a year. Therefore the fair values of the amounts to/from SkyPower Corp. approximate their carrying values due to their anticipated short-term maturity.

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10. Contingencies

In connection with the sale of certain assets and liabilities to SkyPower as described in Note 1, certain liabilities, 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.

To date, only one claim has arisen from which a creditor is seeking payment from the Company as a result of SkyPower’s CCAA filing. Based on the information most currently available, the best estimate of potential future exposure for that claim has been recorded in the financial statements. 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. 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 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.

11. Subsequent event

On November 16, 2009 the Government of Ontario substantively enacted a 4% Ontario income tax rate reduction to be phased in over the next four years. Management estimates that the Company’s future tax liability would have been reduced by approximately \$124,000 as at September 30, 2009 had the new Ontario income tax rates been substantively enacted as at September 30, 2009.

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12. Transition of Canadian GAAP to International Financial Reporting Standards (“IFRS”) and future accounting pronouncements

In February 2008, the Canadian Accounting Standards Board confirmed that IFRS will replace Canadian generally accepted accounting principles 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.

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.

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments, Disclosures to enhance disclosures with respect to liquidity risk and fair value information. The amendment is effective for fiscal years ending after September 30, 2009. The adoption of the amendment is not expected to have any impact on the Company’s financial statements.