

## **MANAGEMENT DISCUSSION & ANALYSIS FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2010 and 2009**

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 month period ended March 31, 2010, 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](http://www.sedar.com) or on the Company's website at [www.sweflp.com](http://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 May 27, 2010. 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 Reorganizations 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., 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 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 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 Interwind (the "Transaction"). 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 an original term of 30 months from closing and expires on June 30, 2010. The Board of Directors has resolved to extend the tax indemnity payment agreement to July 31, 2012. The agreement is extendable at the option of the Board of Directors.

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 Interwind. 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.

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 continues to hold the 10 remaining Class A preference shares of the Company, representing 100% of the voting interests in the Company.

### ***Update on Interwind Corp.***

In connection with the Transaction as described above, 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"). Interwind's ability to honour any potential obligations arising from the assignment of certain liabilities is substantially in doubt. To date, two claims have arisen from which creditors are seeking payment from the Company as a result of Interwind's CCAA filing. Based on the information most currently available, the best estimate of potential future exposure for these claims 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.

On March 1, 2010, the Company, the General Partner and Interwind entered into an agreement to release and discharge all outstanding claims related to the sale of the Facility, subject to certain conditions. The agreement expired on May 1, 2010, though the Company is continuing to negotiate for an extension of the agreement. As a result, no adjustment has been made to amounts owing to/from Interwind.

### ***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 prepare 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. Management does 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, management understands that reassessments of shareholders for Québec income tax purposes has commenced.

## Selected Financial and Quarterly Information

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

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Revenues	\$ 63,091	\$ 10,613	\$ 5,404	\$ 6,381	\$ 7,829
Net Loss before Income Taxes	\$ (335,513)	\$ (1,271,784)	\$ (2,554,833)	\$ (1,087,986)	\$ (1,668,811)
Future Income Tax Recovery	\$ (88,092)	\$ (292,349)	\$ (708,164)	\$ (579,065)	\$ (365,927)
Net Loss	\$ (247,421)	\$ (979,435)	\$ (1,846,669)	\$ (348,642)	\$ (1,302,884)
Net Income (Loss) per share	\$ (0.03)	\$ (0.13)	\$ (0.24)	\$ (0.05)	\$ (0.17)

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

	March 31, 2010	December 31, 2009
Total Assets	\$ 20,799,426	\$ 22,444,872

## Additional Financial Information

The material components of general and administrative expenses are as follows:

	March 31, 2010	March 31, 2009
Professional fees	\$ 87,533	\$ 161,593
Insurance	\$ 14,647	\$ 15,194
Director's fees	\$ 30,188	\$ 30,188
Other	\$ 16,906	\$ 12,340
Total	\$ 149,274	\$ 219,315

## Results of Operations

Net loss for the three month period ended March 31, 2010 was \$1.3 million compared to a net loss of \$0.2 million for the same period in fiscal 2009. The increase in net loss of \$1.1 million is due primarily to higher tax indemnity payments in the first quarter of 2010 compared to the first quarter of 2009.

Interest income for the three month period ended March 31, 2010 was insignificant compared to \$0.1 million for the same period in fiscal 2009. The decrease in interest income is due to declining interest rates.

Administrative costs for the three month period ended March 31, 2010 were \$0.1 million compared to \$0.2 million for the same period in fiscal 2009. The decrease of \$0.1 million is due to fewer professional fees incurred in the first quarter of 2010 compared to the first quarter of 2009.

Capital tax expense for the three month periods ended March 31, 2010 and 2009 was insignificant.

Future income tax recovery for the three month period ended March 31, 2010 was \$0.4 million, compared to recovery of \$0.1 million for the same period in fiscal 2009. The increase of \$0.3 million is due to the higher amount of tax indemnity payments made in the first quarter of 2010 compared to the first quarter of 2009.

## **Liquidity and Capital Resources**

As at March 31, 2010, the Company had cash of \$1.9 million compared to \$2.0 million at December 31, 2009.

As at March 31, 2010 restricted cash and cash equivalents includes the following:

- \$18,634,969 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, 2009 restricted cash and cash equivalents includes the following:

- \$20,159,336 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 March 31, 2010, approximately 73% of the cash and restricted cash and cash equivalents held by the Company (including 80% 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.

Cash outflows from operating activities for the three month period ended March 31, 2010 were \$1.6 million, and include net loss from operations of \$1.3 million, a loss from non-cash items of \$0.4 million and net inflows related to changes in non-cash working capital items of \$0.1 million. Cash outflows from operating activities for the three month period ended March 31, 2009 were \$0.4 million, and include net loss from operations of \$0.2 million, a loss from non-cash items of \$0.1 million and net outflows related to changes in non-cash working capital items of \$0.1 million.

There were no cash flows from financing activities during the three month periods ended March 31, 2010 and 2009.

Cash inflows from investing activities for the three month periods ended March 31, 2010 and 2009 were \$1.5 million and \$0.2 million respectively, representing the transfer of amounts required to satisfy tax indemnity claims into unrestricted cash.

## **Related Party Transactions**

Administrative costs include rent of \$9,450 (2009 – \$3,000) paid to a company controlled by one of the directors of the Company. The transactions 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 at March 31, 2010 and May 27, 2010, there are 7,724,084 non-voting, redeemable common shares outstanding and 10 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 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"). Interwind's ability to honour any potential obligations arising from the assignment of certain liabilities is substantially in doubt.

To date, two claims have arisen from which creditors are seeking payment from the Company as a result of Interwind's CCAA filing. Based on the information most currently available, the best

estimate of potential future exposure for these claims 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, management believes 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 March 31, 2010.

## **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**

There are no significant new accounting pronouncements that affect the Company.

## **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. As the Company now expects that it will not be wound up prior to the implementation of IFRS, it has instructed its advisors to prepare an assessment of the changes required to be made to its accounting reporting to implement IFRS. It is the Board's high level assessment that the conversion to IFRS will not result in any material changes to the Company's financial statements due to the simplicity of the Company's ongoing activities. However, the Company has not yet determined the actual impact of the transition to IFRS.

## **Outlook**

- The Board now expects that the tax indemnity period will extend to July 2012.
- 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 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](http://www.sweflp.com) and [www.terida.com/paymentagent](http://www.terida.com/paymentagent).

- 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.
- Shareholders are encouraged to regularly visit [www.sweflp.com](http://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 Interwind. However, should Interwind 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 Interwind. On August 12, 2009 Interwind filed for restructuring under the terms of the CCAA. Interwind's ability to honour any potential obligations arising from the assumption of certain liabilities is substantially in doubt. To date, two claims have arisen from which creditors are seeking payment from the Company as a result of Interwind's CCAA filing. Based on the information most currently available, the best estimate of potential future exposure for these claims 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.

### **Reliance on Interwind**

Interwind 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 Interwind to disclose all pertinent information necessary to enable the Company to carry on its business.