

Financial Statements of

SWEF Terrawinds Resources Corp.

For the years ended December 31, 2010 and 2009

Management's Responsibility for Financial Reporting

These financial statements form the basis for all of the financial information that appears in this annual report. The financial statements and all of the information in this annual report are the responsibility of the management of SWEF Terrawinds Resources Corp. and have been reviewed and approved by its board of directors. The board of directors is responsible for ensuring that management fulfills its financial reporting responsibilities.

Management has prepared the financial statements according to Canadian generally accepted accounting principles ("GAAP"). Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements and notes. Management believes that these financial statements fairly present the entity's financial position and results of operations and changes in cash flows. Management has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. Management believes that the internal controls provide reasonable assurance that our financial records are reliable and form a proper basis for preparing the financial statements, and that our assets are properly accounted for and safeguarded.

Deloitte & Touche LLP, SWEF Terrawinds Resources Corp.'s external auditor has audited the financial statements in accordance with Canadian GAAP and its report is included. Deloitte & Touche LLP has free and full access to the board's audit committee.

Signed "W. Judson Martin"

W. Judson Martin
Director

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Independent Auditor's Report

To the Shareholders of SWEF Terrawinds Resources Corp.:

We have audited the accompanying financial statements of SWEF Terrawinds Resources Corp. which comprises the balance sheets as at December 31, 2010 and 2009, and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SWEF Terrawinds Resources Corp. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
April 28, 2011

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SWEF Terrawinds Resources Corp.

Statements of operations and comprehensive loss

| | For the year ended | |
|--|----------------------|----------------------|
| | December 31, 2010 | December 31, 2009 |
| | \$ | \$ |
| Interest income | 49,721 | 85,489 |
| Expenses | | |
| Administrative costs (Note 11) | 491,938 | 932,882 |
| Capital tax expense | - | 16,500 |
| Tax indemnity payments (Note 10) | 8,914,859 | 4,386,223 |
| | 9,406,797 | 5,335,605 |
| Loss before income taxes | (9,357,076) | (5,250,116) |
| Current income tax recovery (Note 8) | - | (160,279) |
| Future income tax recovery (Note 8) | (2,124,379) | (1,667,670) |
| | (2,124,379) | (1,827,949) |
| Net loss and comprehensive loss | (7,232,697) | (3,422,167) |
| Loss per share, basic and diluted (Note 7) | (0.94) | (0.44) |
| Weighted average number of common shares outstanding (Note 7) | 7,724,084 | 7,724,084 |

See accompanying notes

SWEF Terrawinds Resources Corp.

Statements of changes in shareholders' equity

| | Share Capital | Retained Earnings (Deficit) |
|--------------------------------------|-------------------|--------------------------------|
| | \$ | \$ |
| Balances at January 1, 2009 | 17,945,909 | 3,170,786 |
| Net loss and comprehensive loss | - | (3,422,167) |
| Balances at December 31, 2009 | 17,945,909 | (251,381) |
| Net loss and comprehensive loss | - | (7,232,697) |
| Balances at December 31, 2010 | 17,945,909 | (7,484,078) |

See accompanying notes

SWEF Terrawinds Resources Corp.

Balance sheets

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash | 1,365,054 | 1,995,721 |
| Restricted cash and cash equivalents (Note 3) | 11,244,477 | 20,159,336 |
| Income taxes receivable | 74,784 | 160,279 |
| Due from Interwind Corp. (Note 4) | - | 19,839 |
| Prepaid expenses (short-term) | 17,036 | 58,588 |
| | 12,701,351 | 22,393,763 |
| Prepaid expenses (long-term) | 34,072 | 51,109 |
| | 12,735,423 | 22,444,872 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable, accrued and other liabilities | 218,459 | 405,532 |
| Due to Interwind Corp. (Note 4) | - | 165,300 |
| | 218,459 | 570,832 |
| Future income tax liability (Note 8) | 2,055,133 | 4,179,512 |
| | 2,273,592 | 4,750,344 |
| Shareholders' Equity | | |
| Share capital (Note 5) | 17,945,909 | 17,945,909 |
| Deficit | (7,484,078) | (251,381) |
| | 12,735,423 | 22,444,872 |

Contingencies (Note 10)

See accompanying notes

On behalf of the Board:

Signed "W. Judson Martin"

..... Director

Signed "Gary Solway"

..... Director

SWEF Terrawinds Resources Corp.

Statements of cash flows

| | For the year ended | |
|---|----------------------|----------------------|
| | December 31, 2010 | December 31, 2009 |
| | \$ | \$ |
| Operating activities | | |
| Net loss | (7,232,697) | (3,422,167) |
| Non-cash items | | |
| Future income taxes expense (recovery) | (2,124,379) | (1,667,670) |
| Due to/from Interwind Corp. (Note 4) | (145,461) | (1,774) |
| Changes in non-cash working capital items | | |
| Other receivables | - | 35,070 |
| Prepaid expenses | 58,590 | (24,516) |
| Income taxes receivable | 85,495 | (160,279) |
| Accounts payable, accrued and other liabilities | (187,074) | 12,009 |
| | (9,545,526) | (5,229,327) |
| Investing activities | | |
| Restricted cash and cash equivalents | 8,914,859 | 4,331,480 |
| | 8,914,859 | 4,331,480 |
| Net decrease in cash | (630,667) | (897,847) |
| Cash, beginning of year | 1,995,721 | 2,893,568 |
| Cash, end of year | 1,365,054 | 1,995,721 |
| Supplemental disclosure of cash flow information | | |
| Operating activities | | |
| Cash interest received | 49,721 | 91,534 |
| Income tax paid | - | 160,279 |
| Income tax refund received | 104,495 | - |

See accompanying notes

SWEF Terrawinds Resources Corp.

Notes to the financial statements

For the years ended December 31, 2010 and 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., 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 re-purchased and cancelled all of its outstanding limited partnership units in exchange for 7,724,084 non-voting common shares of the Company. The result of this capital reorganization is that the former limited partners of the Partnership are now shareholders of the Company.

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

The Partnership held all of the Class A preference shares of the Company until December 18, 2009. On December 18, 2009, the General Partner purchased 10 Class A preference shares of the Company from the Partnership for \$1. The Company then purchased all remaining interests in the Partnership for \$101. The Partnership was dissolved and all assets of the Partnership were conveyed to the Company. The remaining 71,900,891 Class A preference shares of the Company were cancelled. This transaction had no material impact on the financial statements, as the Partnership held nominal assets. The General Partner held the remaining 10 Class A preference shares of the Company, representing 100% of the voting interests in the Company, until May 31, 2010. On May 31, 2010 the General Partner transferred 5 of the 10 remaining

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

SWEF Terrawinds Resources Corp.

Notes to the financial statements

For the years ended December 31, 2010 and 2009

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted by the Company are as follows:

Cash and cash equivalents

Cash and cash equivalents are comprised of highly liquid investments having original terms to maturity of 90 days or less when acquired.

Financial instruments

The Company has elected to apply each of its categories of financial instruments as follows:

| | |
|---|-----------------------------|
| Cash | Held for trading |
| Restricted cash and cash equivalents | Held for trading |
| Due from Interwind Corp. | Loans and receivables |
| Due to Interwind Corp. | Other financial liabilities |
| Accounts payable, accrued and other liabilities | Other financial liabilities |

Financial assets classified as held for trading are initially and subsequently measured at fair value. Interest earned, and other fluctuations in market value are recorded in interest income.

Financial assets classified as loans and receivables are initially measured at fair value, and subsequently measured at amortized cost.

Financial liabilities classified as other financial liabilities are initially measured at fair value, and subsequently measured at amortized cost.

Income taxes

The Company is a taxable Canadian corporation, subject to federal and provincial income taxes and capital taxes. The Company accounts for income taxes under the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and the tax basis of the assets and liabilities. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts and revenues and expenses during the year. Actual results could differ from those estimates.

SWEF Terrawinds Resources Corp.

Notes to the financial statements

For the years ended December 31, 2010 and 2009

3. Restricted cash and cash equivalents

As at December 31, 2010, restricted cash and cash equivalents includes \$11,244,477 (2009 - \$20,159,336) held in trust to compensate shareholders for the taxes payable by them as a result of the loss of certain tax deductions as further described in Note 1. Of the total amount held in trust, \$10,528,727 (2009 - \$16,700,160) was invested in Government of Canada Treasury Bills. The decrease in restricted cash and cash equivalents from December 31, 2009 to December 31, 2010 is due to the payment of tax indemnity claims.

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

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 December 31, 2010, no amount was receivable (2009 - \$19,839) and no amount was payable (2009 - \$165,300).

5. Share Capital

Share capital consists of the following:

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

| | \$ | \$ |
|--|-------------------|-------------------|
| | 2010 | 2009 |
| | - | - |
| | <u>17,945,909</u> | 17,945,909 |
| | <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 current liabilities on the balance sheets.

SWEF Terrawinds Resources Corp.

Notes to the financial statements

For the years ended December 31, 2010 and 2009

6. 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.

7. Loss per share

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

SWEF Terrawinds Resources Corp.

Notes to the financial statements

For the years ended December 31, 2010 and 2009

8. Income taxes

(i) Income tax expense (recovery) has been determined as follows:

| | \$ | \$ |
|---|--------------------|-------------|
| | <u>2010</u> | <u>2009</u> |
| Loss before income taxes | (9,357,076) | (5,250,116) |
| Canadian statutory rate | 31.00% | 33.00% |
| Income tax expense (recovery) based on statutory income tax rates | (2,900,694) | (1,732,538) |
| Permanent differences | 690,902 | 357,541 |
| Change in future income tax rates | 85,413 | (452,952) |
| Net income tax expense (recovery) | (2,124,379) | (1,827,949) |

(ii) The non-capital losses carried forward are 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 |
| | \$ 28,468,000 | |

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.

(iii) Future income taxes are provided for the differences between accounting and tax basis of asset and liabilities. Future income tax assets and liabilities are comprised of the following:

| | \$ | \$ |
|--|--------------------|-------------|
| | <u>2010</u> | <u>2009</u> |
| Future tax liability on tax indemnity fund | (2,276,395) | (4,284,791) |
| Loss carry forwards | 221,262 | 105,279 |
| Future income tax liability | (2,055,133) | (4,179,512) |

SWEF Terrawinds Resources Corp.

Notes to the financial statements

For the years ended December 31, 2010 and 2009

9. Financial instruments

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

The Company's financial instruments that are measured at fair value on a recurring basis in periods subsequent to initial recognition and the level within the fair value hierarchy used to measure them are set out in the following table:

| As at Dec. 31 | Level 1 | | Level 2 | | Level 3 | |
|--------------------------------------|------------|------------|---------|------|---------|------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Cash | 1,365,054 | 1,995,721 | - | - | - | - |
| Restricted cash and cash equivalents | 11,244,477 | 20,159,336 | - | - | - | - |

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.

SWEF Terrawinds Resources Corp.

Notes to the financial statements

For the years ended December 31, 2010 and 2009

9. Financial instruments (continued)

Other price risk

The Company does not own any equity investments. The Company is not exposed to any significant price risk.

Fair values

The carrying amount of due to/from Interwind Corp. and accounts payable and accrued and other liabilities approximates their fair value due to the short-term nature of these financial instruments.

10. 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.

11. Related party transactions

Administrative costs include rent of \$39,523 (2009 - \$31,500) paid to a company controlled by one of the directors of the Company. The transactions are recorded at the exchange amount.