
NAIKUN WIND ENERGY GROUP INC.

Audited Consolidated Financial Statements

For the years ended September 2013 and 2012





MANAGEMENT'S REPORT

To the Shareholders of

NaiKun Wind Energy Group Inc. (the "Company")

The preparation and presentation of the Company's consolidated financial statements as at September 30, 2013 and 2012 is the responsibility of management. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and where appropriate include managements best estimates and judgments.

Management is responsible for installing and maintaining a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded, transactions are authorized and financial information is reliable.

Independent auditors are appointed by the Company's shareholders to give an opinion on the financial statements based upon their scope of examination as outlined in their Auditor's Report.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility with the assistance of the Audit Committee. The Audit Committee meets with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the financial statements be presented to the Board of Directors for approval.

Signed: "Wilbur J. Lang"

Wilbur J. Lang - Chief Financial Officer



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of NaiKun Wind Energy Group Inc.

We have audited the accompanying consolidated financial statements of NaiKun Wind Energy Group Inc., which comprise the consolidated statements of financial position as at September 30, 2013 and 2012, the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of NaiKun Wind Energy Group Inc. as at September 30, 2013, and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

January 10, 2014
Vancouver, Canada

NAIKUN WIND ENERGY GROUP INC.
Consolidated Statements of Financial Position

	September 30, 2013	September 30, 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 3,703,263	\$ 5,259,639
Accounts receivable	13,992	27,137
Prepaid expenses and other	9,112	9,088
	3,726,367	5,295,864
Non-current assets		
Rent deposit	11,681	7,444
Property, plant and equipment (Note 5)	-	86,726
	11,681	94,170
Total assets	\$ 3,738,048	\$ 5,390,034
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 213,366	\$ 208,431
Non-Current Liabilities		
Asset retirement obligation (Note 6)	400,000	1,000,000
Total liabilities	613,366	1,208,431
Shareholders' Equity		
Share capital (Note 7(a))	45,837,202	45,745,326
Contributed surplus (Note 7(c))	1,668,828	1,665,370
Deficit	(44,381,348)	(43,229,093)
Total shareholders' equity	3,124,682	4,181,603
Total liabilities & equity	\$ 3,738,048	\$ 5,390,034

Nature and continuance of operations (Notes 1 & 2)
 Commitments (Note 10)
 Contingent liabilities (Note 11)
 Subsequent events (Note 14)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors and authorized for issue on January 10, 2014.

Director: "Graham Wilson"

Director: "Michael O'Connor"

NAIKUN WIND ENERGY GROUP INC.**Consolidated Statements of Changes in Shareholders' Equity
For the years ended September 30, 2013 and 2012**

	Number of Shares (Note 7(a))	Share Capital (Note 7(a))	Contributed Surplus (Note 7(c))	Deficit	Total Equity
Balance, October 1, 2011	40,000,205	\$ 45,652,877	\$ 1,625,599	\$ (40,850,719)	\$ 6,427,757
Total comprehensive loss for the period	-	-	-	(2,378,374)	(2,378,374)
Share based portion of compensation	950,203	92,449	-	-	92,449
Share based compensation expense	-	-	39,771	-	39,771
Balance, September 30, 2012	40,950,408	45,745,326	1,665,370	(43,229,093)	4,181,603
Total comprehensive loss for the period	-	-	-	(1,152,255)	(1,152,255)
Share based portion of compensation	1,103,786	91,876	-	-	91,876
Share based compensation expense	-	-	3,458	-	3,458
Balance, September 30, 2013	42,054,194	\$ 45,837,202	\$ 1,668,828	\$ (44,381,348)	\$ 3,124,682

The accompanying notes are an integral part of these consolidated financial statements.

NAIKUN WIND ENERGY GROUP INC.
Consolidated Statements of Comprehensive Loss
For the years ended September 30, 2013 and 2012

	September 30 2013	September 30 2012
Expenses		
Accretion	\$ -	\$ 9,903
Compensation	887,720	1,049,666
Consultants	232,559	-
Depreciation and amortization	86,726	665,270
Engineering and development costs	82,842	99,528
Office and administration	218,693	264,552
Public and community relations	189,999	269,905
Professional fees	62,146	60,723
Share based compensation expense	3,458	39,771
Travel	51,276	57,632
Asset retirement obligation (note 6)	(600,000)	-
Loss before the following:	(1,215,419)	(2,516,950)
Other Revenues		
Petroleum and natural gas sales, net	-	52,069
Foreign exchange gain (loss)	216	4,036
Miscellaneous recovery	6,000	-
Investment income	56,948	82,471
	63,164	138,576
Loss and comprehensive loss for the period	\$ (1,152,255)	\$ (2,378,374)
Loss per share, basic and diluted	\$ (0.03)	\$ (0.06)
Weighted average number of shares outstanding	41,622,532	40,455,107

The accompanying notes are an integral part of these consolidated financial statements.

NAIKUN WIND ENERGY GROUP INC.
Consolidated Statements of Cash Flows
For the years ended September 30, 2013 and 2012

	September 30, 2013	September 30, 2012
Cash flows provided by (used in)		
OPERATING ACTIVITIES		
Loss for the period	\$ (1,152,255)	\$ (2,378,374)
Items not affecting cash		
Accretion	-	9,903
Depreciation and amortization	86,726	665,270
Share-based compensation	95,334	132,220
Asset retirement obligation	(600,000)	-
Changes in non-cash working capital		
Receivables	13,145	11,761
Prepaid expenses and other	(24)	26,542
Accounts payable and accrued liabilities	4,935	8,875
Net cash used in operating activities	(1,552,139)	(1,523,803)
INVESTING ACTIVITIES		
Rent deposit	(4,237)	29,568
Net cash from investing activities	(4,237)	29,568
Decrease in cash and cash equivalents	(1,556,376)	(1,494,235)
Cash and cash equivalents, beginning of period	5,259,639	6,753,874
Cash and cash equivalents, end of period	\$ 3,703,263	\$ 5,259,639

The accompanying notes are an integral part of these consolidated financial statements.

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

1. Corporate Information

NaiKun Wind Energy Group Inc. ("NaiKun Wind" or the "Company") is incorporated under the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange. The Company's registered office is at Suite 615, 1140 West Pender, Vancouver, BC, V6E 4G1. The Company's primary business is the development of renewable energy projects. The Company is currently developing a project (the "NaiKun Wind Project") on the north coast of British Columbia in Hecate Strait. As the Company is in the development phase, it has not generated any revenue from the sale of wind energy. The Company has financed its operations through equity issuance and currently has sufficient funds, at its current activity level, to continue to pursue an electricity purchase agreement for 2 years.

On March 31, 2010, NaiKun Wind learned that its offshore wind energy project was no longer under consideration in BC Hydro's Clean Power Call procurement process. Following that decision, the Board directed a review of the alternatives open to the Company. These were broad ranging and included continuing to advance the wind project, business combinations, joint ventures, and the sale of all or part of the Company. The Board and Management were assisted in this review by Cormark Securities and Energy+Environmental Economics (E3). It was determined that the best interest of the shareholders would be served by continuing to advance the wind project, reducing the day to day costs of operating the company, and continuing to look for partnerships and business opportunities in the Renewable Energy field. The Company cautions that there can be no assurance that these strategic efforts will ultimately result in an offshore wind project being completed.

2. Basis of presentation

(a) Going concern

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, the Company recognizes that economic, regulatory and market variables affect this assumption and that many of these variables are beyond the Company's control. In the longer term, the Company will be required to either sell or find a strategic partner for its project in order to be successful. If the going concern assumption is not appropriate for these financial statements, adjustments affecting the carrying value of assets, liabilities, reported net losses, and balance sheet classifications may be required, and such adjustments could be material.

(b) Statement of compliance

These condensed consolidated financial statement have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The policies applied in these condensed consolidated financial statements are based on IFRS issued and outstanding as of January 10, 2014, the date the Board of Directors approved the financial statements.

These consolidated financial statements are stated in Canadian dollars and were prepared under the historical cost convention.

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies, 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 of expenses during the reporting periods. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future period affected.

Areas requiring the use of management estimates relate to the amount of asset retirement obligations and the Company's ability to utilize tax losses. A discussion of these estimates is provided in the relevant accounting policy notes.

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements and have been applied consistently by NaiKun Wind Energy Group Inc. and its subsidiaries.

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: NaiKun Wind Development Inc. ("Devco"); NaiKun Wind Operating Inc. ("Opco"); and 50% owned NaiKun Wind Generating Inc. ("Genco"). Genco is a jointly controlled entity. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated upon consolidation. For partly owned subsidiaries, the interest attributable to non-controlling shareholders is reflected in non-controlling interest.

b) Foreign currency translation

The presentation and functional currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. Foreign exchange gains and losses resulting from the settlements of such transactions are recognized in the income statement. At each financial reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the balance sheet. Non-monetary assets and liabilities are translated using the historical rate on the date that the fair value was determined.

c) Cash and restricted cash

Cash and restricted cash include short term investments that are readily convertible into cash with original maturities of three months or less.

d) Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use, along with borrowing costs and the future cost of dismantling and removing the asset. Such cost includes the cost of replacing part of the plant and equipment, significant overhauls, and borrowing costs for long-term construction projects if the recognition criteria are met. The cost of replacing a part of an item of property, plant, and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company. All other repair and maintenance costs are recognized in the statement of comprehensive loss as incurred.

Residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate major components.

The estimated useful lives and depreciation methods for the current and comparative periods are as follows:

Wind measuring equipment	5 years straight line
Office equipment	3 - 5 years straight line

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

e) Asset retirement obligations

The Company recognizes its legal obligations associated with the future costs of removal and abandonment of its long-lived assets in the period in which the obligation is incurred. The fair value of the asset retirement obligation ("ARO") is recorded as a liability in the period when those future costs can be reasonably estimated and the carrying value of the related long-lived asset is increased by the corresponding amount. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in that period. Changes in estimates of the liability are reflected as a change in the related asset unless the asset has been reduced to zero, in which case, any excess amount would be included in the statement of comprehensive loss. Significant judgments and estimates are involved in forming expectations of the amount and timing of these obligations.

f) Impairment of non-financial assets

Non-financial assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments to the time value of money and the risks specific to the asset, for which the estimated of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss.

g) Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future, or on temporary differences that arise from goodwill which is not deductible for tax purposes.

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

h) Revenue Recognition

Interest earned on the Company's cash and cash equivalent balances is recorded as investment income on an accrual basis.

i) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. If the Company had reported positive earnings, diluted earnings per share would be calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. As the Company has had a net loss for all periods presented herein, the unexercised stock options and share purchase warrants, disclosed in notes 7(b) and 7(d), have not been included in any calculations of loss per share as their inclusion would have been anti-dilutive.

j) Share based payments

Compensation expense for stock options granted to employees or consultants is measured at fair value, using the Black-Scholes valuation model, factoring in amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected useful lives of the stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair values of stock-based compensation are charged to expense over the vesting period with offsetting amounts recognized as contributed surplus. The value assigned to stock options shown on the balance sheet as contributed surplus is subsequently reduced if the options are exercised, and the amount so reduced is then credited to share capital. Any values assigned to stock options that have expired remain in contributed surplus.

k) Financial instruments

i) Financial assets

Management determines the classification of its financial assets at initial recognition. The Company classified its financial assets as loans and receivables based on the purpose for which the asset was acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date, and are carried at amortized cost, using the effective interest method, less any impairment. Loans and receivables are comprised of cash and cash equivalents and amounts receivable.

All financial assets are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Gains or losses related to impairment or de-recognition are recognized in the statement of comprehensive loss in the period.

(ii) Financial liabilities

The Company's financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transactions costs, and the redemption value is recognized in the income statement over the period to maturity using the effective interest method.

Financial liabilities include accounts payable and accrued liabilities.

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issuance

4. Recent accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following pronouncements may have an impact on the Company.

a) IFRS 9 - Financial instruments

IFRS 9, 'Financial instruments' was issued in November 2009 as the first step in a project to replace IAS 39 'Financial instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2015, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting.

b) IFRS 10 - Consolidated financial statements

IFRS 10, 'Consolidated financial statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation - Special purpose entities' and IAS 27 'Consolidated and separate financial statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.

c) IFRS 11 - Joint arrangements

IFRS 11, 'Joint arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.

d) IFRS 12 - Disclosure of interests in other entities

IFRS 12, 'Disclosure of interest in other entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interest in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

e) IFRS 13 - Fair value measurement

IFRS 13, 'Fair value measurement' was issued in May 2011 and sets out in a single IFRS standard a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

5. Property, Plant and Equipment

	Wind measuring equipment	Office equipment	Total
Cost as at September 30, 2011, 2012 and 2013	\$ 3,283,144	\$ 201,106	\$ 3,484,250
Accumulated Amortization, September 30, 2011	2,548,162	184,092	2,732,254
Depreciation	656,629	8,641	665,270
Accumulated Amortization, September 30, 2012	3,204,791	192,733	3,397,524
Depreciation	78,353	8,373	86,726
Accumulated Amortization, September 30, 2013	3,283,144	201,106	3,484,250
Net book value			
September 30, 2011	734,982	17,014	751,996
September 30, 2012	78,353	8,373	86,726
September 30, 2013	-	-	-

6. Asset Retirement Obligation ("ARO")

The Company has recorded an ARO in regards to its wind measuring equipment installed in Hecate Strait. The Company has recently done an analysis of the methodology of removing this equipment and has received an estimate of the related costs from a marine contractor in the region. Based on this analysis the estimated costs have been reduced to \$400,000 (2012 - \$1,000,000). As the net asset value of the related asset was zero, this reduction resulted in a \$600,000 credit to Asset retirement obligation on the Consolidated Statement of Comprehensive Loss. During the year ended September 30, 2013, an accretion expense of nil (2012 - \$9,903) was recorded in the statement of loss. The settlement of the obligation was expected to occur in fiscal 2013, however, until such time as an Electricity Purchase Agreement is secured, we will continue to collect important meteorological data to strengthen our understanding of the wind resource.

7. Share Capital

a) Authorized Capital

Authorized: 100,000,000 common shares of no par value
20,000,000 first preferred shares of no par value

b) Stock Options

The Company has a stock option plan ("Option Plan") that provides for the issuance of options to its directors, officers, employees, and consultants. Compensation costs attributable to share options granted to employees, directors or consultants are measured at fair value at the grant date and expensed with a corresponding increase to contributed surplus over the vesting period.

The weighted average exercise price of options outstanding as at September 30, 2012 and September 30, 2013 is as follows:

	Options Outstanding and Exercisable	Weighted Average Exercise Price
Balance, September 30, 2011	880,000	\$ 0.18
Expired	(140,000)	0.35
Balance, September 30, 2012	740,000	0.145
Expired	(110,000)	0.145
Balance, September 30, 2013	630,000	\$ 0.145

All outstanding options at September 30, 2013 expire on July 5, 2016.

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

c) Contributed Surplus

The Company's contributed surplus is comprised of the following:

Balance, September 30, 2012	1,665,370
Options awarded July 5, 2011 - vested portion Q1 2013	3,458
Balance, September 30, 2013	\$ 1,668,828

d) Warrant Plan

The Company's Warrant Plan (formerly the Restricted Stock Unit ("RSU") Plan) was created to attract and retain a talent pool of professionals during the start-up years when cash resources were limited and to defer the majority of its initial compensation expenses until commercial success is achieved.

The Warrant Plan was approved by shareholders at the Company's annual general meeting held on February 6, 2008 and subsequently by the TSX Venture Exchange. A revised Warrant Plan, to increase the exercise price from \$0.60 to \$0.63, was submitted to the TSX Venture Exchange and subsequently approved in October 2008. The Amended and Restated 2011 Warrant Plan, conditionally approved by the TSX Venture Exchange, was approved by disinterested shareholders at the Company's annual general meeting held on March 16, 2011. As at September 30, 2013, 9.2 million (September 30, 2012 - 9.6 million) warrants are outstanding pursuant to the Amended and Restated 2011 Warrant Plan.

The main components of the Amended and Restated 2011 Warrant Plan are:

- maximum number of warrants to be granted reduced from 15.0 million to 10.5 million;
- one warrant entitles the holder to acquire one common share at a price of \$0.63 per share;
- warrants not exercisable until 30 days after financial close on construction financing for Phase 1 of the NaiKun Wind Project ("Financial Close");
- warrants expire 90 days after a warrant holder ceases to have ongoing active involvement with the Corporation;
- upon death of a warrant holder, warrants will be exercisable by a Qualified Successor until the earlier of a period not more than one year following the date of such death and the Expiry Date of the Warrant;
- warrants expire on the earlier of two years from Financial Close or September 30, 2016.

Due to the uncertainty of the occurrence and timing of the triggering event, warrants granted under this plan are not included in the stock option table above nor in the computation of stock-based compensation.

8. Income Tax Expense

a) A reconciliation of income taxes at statutory rates to actual income taxes is as follow:

	September 30, September 30,	
	2013	2012
Income (loss) before income taxes	\$ (1,152,255)	\$ (2,378,374)
Statutory rate	25.50%	25.38%
Expected income tax cost (benefit)	(293,825)	(603,512)
Reconciliation of effective tax rate:		
Difference between statutory tax rates	2,556	6,472
Permanent differences	25,660	21,935
Change in unrecognized tax benefits	262,906	603,720
Other	2,703	(28,615)
Income tax expense	\$ -	\$ -

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

- b) Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	September 30, 2013	September 30, 2012
Non-capital losses	\$ 28,025,000	\$ 26,460,000
Other deductible temporary differences	6,093,324	6,606,000
	<u>\$ 34,118,324</u>	<u>\$ 33,066,000</u>

- c) As at September 30, 2013, the Company has non-capital losses carried forward for Canadian tax purposes totaling approximately \$28,025,000 (2012 - \$26,460,000) for which nil (2012 - nil) have been recognized as deferred tax assets. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in relevant jurisdictions. The gross amount of tax losses carried forward expire as follows:

Expiry date	\$
2014	\$ 214,000
2015	333,000
2026	146,000
2027	1,215,000
2028	8,449,000
2029	6,558,000
2030	5,532,000
2031	2,396,000
2032	1,617,000
2033	1,565,000
	<u>\$ 28,025,000</u>

- d) As at September 30, 2013, the Company had deductible temporary differences related to investments in subsidiaries of \$3,958,000 (2012 - \$3,958,000) that have not been recognized because the Company controls the timing of the reversal of the temporary differences and it is uncertain as to whether taxable profit will be available against which the temporary differences can be utilized.

9. Related Party Transactions

The Company utilized certain management, legal and administrative services from various consultants and companies, some of which are controlled by officers, directors, and others. During the year ended September 30, 2013, \$74,000 of these expenses were included in the consolidated statements of comprehensive loss (2012 - \$181,005). These transactions with related parties are in the normal course of operations and have been measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties and which is considered similar to that which would be otherwise negotiated with third parties. As at September 30, 2013, \$5,310 (2012 - \$10,500) was payable to related parties and included in accounts payable and accrued liabilities.

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

Key management compensation to the Chief Executive Officer, Chief Financial Officer, and the Board of Directors are as follows:

	2013	2012
Wages and benefits	\$ 668,392	\$ 670,975
Share-based	91,876	92,449
	<u>\$ 760,268</u>	<u>\$ 763,424</u>

10. Commitments

The minimum annual net lease payments for the next year on the Company's premises are as follows:

2014	<u>\$ 46,607</u>
	<u>\$ 46,607</u>

The Company is party to an asset transfer agreement between Devco, a wholly owned subsidiary, and Genco, an entity owned 50% by the Company and 50% by ENMAX Green Power Inc. Upon completion of certain project milestones, Genco will have the option to purchase the rights to the NaiKun Wind Project from Devco and progress the Project through to the construction and operation phases. One of these milestones was the award of an Electricity Purchase Agreement under the BC Hydro June 11, 2008 Clean Power Call. Since this milestone cannot be fulfilled, the conditions of the asset transfer agreement cannot be satisfied.

The Company has signed a number of agreements in principle with various First Nations to partner on the operations and maintenance of the generation and transmission assets of the NaiKun Wind Project. These agreements and commitments are contingent on a number of project milestones, the most significant being an EPA award and arrangement of project financing.

11. Contingent Liabilities

The Company's deferred compensation plan ("Deferred Plan") was designed to attract and retain qualified personnel while conserving cash during the Company's development stages. The Deferred Plan deferred payment of the majority of the Company's salary expenses prior to 2009 until Financial Close. Amounts allocated to the Deferred Plan have not been accrued due to the uncertainty of the occurrence of the triggering events for payment, being Financial Close.

As at September 30, 2013, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million (2012 - \$4.2 million).

12. Financial Risk Management

The Company's exposure to risk on its financial instruments arises primarily from its cash and cash equivalent holdings. The Company's intent is to minimize and manage these risks through the following:

Interest Rate Risk	The Company maintains an investment policy where all cash deposits and short term investments must be convertible to cash within three months. At September 30, 2013, a 50 basis point change in the interest rate would result in an increase/decrease of approximately \$17,000 of investment income per annum.
Currency Rate Risk	Most of the Company's expenditures are currently in Canadian dollars and to minimize currency rate risk, it maintains over 97% of its cash and cash equivalents in Canadian dollar denominated accounts. The Company does engage suppliers in the US and Europe, but the terms of those engagements are short thereby minimizing the Company's exposure to fluctuations in foreign exchange rates. Therefore, the Company's exposure to currency risk is not significant

NAIKUN WIND ENERGY GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

Credit Risk	The Company's credit risk arises from its cash and cash equivalents, amounts receivable and rent deposits. The carrying amount of these assets represents the Company's maximum exposure to credit risk. The Company manages its credit risk by restricting its deposits to Government of Canada treasury notes or short term instruments guaranteed by a Canadian chartered bank. Holdings with banks are limited to \$5 million with any one bank. The Company has not incurred any credit losses during the years ended September 30, 2013 and 2012. All of the Company's accounts payable and accrued liabilities are due within 1 year.
Liquidity Risk	The Company manages liquidity risk by continually monitoring actual and projected cash flows and by ensuring that all cash and cash equivalents are convertible to cash with less than 3 months notice.

13. Capital Management

The Company's capital management objectives are to safeguard its assets and maintain investor, creditor and market confidence in order to sustain ongoing development activities in the wind energy sector. The Company's capital management objectives have not changed from September 30, 2012. The Company includes all shareholders' equity balances as capital.

The Company currently has no debt and is not subject to externally imposed capital restrictions. To complete the development of its projects, the Company intends to raise additional capital when necessary by either selling portions of its project(s), issuing additional equity and/or borrowing funds.

14. Subsequent Events

Subsequent to September 30, 2013, the Company issued 123,164 common shares at a deemed price of \$0.085 per share to the directors as partial payment of their remuneration. Additionally, the Company issued 147,059 common shares at a deemed price of \$0.085 to the Company's CEO as the share portion of his compensation. The above share issuances cover the period of July 1, 2013 to September 30, 2013 and the value ascribed to the shares was based on the Company's stock price on September 30, 2013.