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# **NAIKUN WIND ENERGY GROUP INC.**

Condensed Consolidated Interim Financial Statements  
Unaudited - Prepared by Management

**For the three months ended December 2012 and 2011**

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## **NOTICE**

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors. The Company's independent auditors have not performed a review of these financial statements.

**NAIKUN WIND ENERGY GROUP INC.****Unaudited Condensed Consolidated Interim Statements of Financial Position**

	December 31, 2012	September 30, 2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,922,762	\$ 5,259,639
Accounts receivable	17,868	27,137
Prepaid expenses and other	10,311	9,088
	<u>4,950,941</u>	<u>5,295,864</u>
Non-current assets		
Rent deposit	7,444	7,444
Property, plant and equipment	65,291	86,726
	<u>72,735</u>	<u>94,170</u>
<b>Total assets</b>	<u>\$ 5,023,676</u>	<u>\$ 5,390,034</u>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 146,813	\$ 208,431
Non-Current Liabilities		
Asset retirement obligation	<u>1,000,000</u>	<u>1,000,000</u>
<b>Total liabilities</b>	<u>1,146,813</u>	<u>1,208,431</u>
<b>Shareholders' Equity</b>		
Share capital (Note 4(a))	45,768,295	45,745,326
Contributed surplus	1,668,828	1,665,370
Deficit	<u>(43,560,260)</u>	<u>(43,229,093)</u>
<b>Total shareholders' equity</b>	<u>3,876,863</u>	<u>4,181,603</u>
<b>Total liabilities &amp; equity</b>	<u>\$ 5,023,676</u>	<u>\$ 5,390,034</u>

Nature and continuance of operations (Note 1 &amp; 2)

Contingent liabilities (Note 5)

Subsequent events (Note 6)

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

Approved by the Board of Directors and authorized for issue on February 8, 2013.

Director: "Graham Wilson"

Director: "Michael O'Connor"

**NAIKUN WIND ENERGY GROUP INC.****Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Equity  
For the three months ended December 31, 2012 and 2011**

	Number of Shares	Share Capital	Contributed Surplus	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				(584,829)	(584,829)
Share based portion of compensation	214,018	23,542			23,542
Share based compensation expense			19,021		19,021
Balance, December 31, 2011	40,214,223	45,676,419	1,644,620	(41,435,548)	5,885,491
Total comprehensive loss for the period				(1,793,545)	(1,793,545)
Share based portion of compensation	736,185	68,907			68,907
Share based compensation expense			20,750		20,750
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				(331,167)	(331,167)
Share based portion of compensation	306,252	22,969			22,969
Share based compensation expense			3,458		3,458
Balance, December 31, 2012	41,256,660	\$ 45,768,295	\$ 1,668,828	\$ (43,560,260)	\$ 3,876,863

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

**NAIKUN WIND ENERGY GROUP INC.****Unaudited Condensed Consolidated Interim Statements of Comprehensive Loss  
For the three months ended December 31, 2012 and 2011**

	3 months ended December 31,	
	2012	2011
<b>Expenses</b>		
Accretion	\$ -	\$ 2,476
Compensation	223,526	301,388
Depreciation and amortization	21,435	166,360
Engineering and development costs	12,930	12,597
Office and administration	46,411	88,975
Public and community relations	19,461	49,224
Professional fees	11,980	14,803
Share based compensation expense	3,458	19,021
Travel	8,966	11,521
<b>Loss before the following:</b>	<b>(348,167)</b>	<b>(666,365)</b>
<b>Other Revenues</b>		
Petroleum and natural gas sales, net	-	59,346
Foreign exchange gain (loss)	-	(598)
Investment income	17,000	22,788
	17,000	81,536
<b>Loss and comprehensive loss for the period</b>	<b>(331,167)</b>	<b>(584,829)</b>
<b>Loss per share, basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b>41,210,056</b>	<b>40,009,510</b>

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

**NAIKUN WIND ENERGY GROUP INC.****Unaudited Condensed Consolidated Interim Statements of Cash Flows  
For the three months ended December 31, 2012 and 2011**

	December 31, 2012	December 31, 2011
Cash flows provided by (used in)		
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (331,167)	\$ (584,829)
Items not affecting cash		
Accretion	-	2,476
Depreciation and amortization	21,435	166,360
Share-based compensation	26,427	42,563
Changes in non-cash working capital		
Receivables	9,269	(3,313)
Prepaid expenses	(1,223)	10,511
Accounts payable and accrued liabilities	(61,618)	(12,923)
<b>Net cash used in operating activities</b>	<b>(336,877)</b>	<b>(379,155)</b>
<b>INVESTING ACTIVITIES</b>		
Rent deposit	-	25,908
<b>Net cash from investing activities</b>	<b>-</b>	<b>25,908</b>
<b>Decrease in cash and cash equivalents</b>	<b>(336,877)</b>	<b>(353,247)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>5,259,639</b>	<b>6,753,874</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,922,762</b>	<b>\$ 6,400,627</b>

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

# **NAIKUN WIND ENERGY GROUP INC.**

## **Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

**For the three months ended December 31, 2012 and 2011**

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### **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 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, to continue to pursue an electric purchase agreement for 3 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. Statement of compliance**

These condensed consolidated interim financial statement have been prepared in accordance with International Accounting Standards 34 (IAS34), Interim Financial Reporting, on a basis consistent with the significant accounting policies and methods of application disclosed in note 3 of audited consolidated financial statements for the year ended September 30, 2012. Accordingly, these statements should be read in conjunction with our annual IFRS financial statements for the year ended September 30, 2012. The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as of February 8, 2013, 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.

### **3. 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.

# NAIKUN WIND ENERGY GROUP INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended December 31, 2012 and 2011

### 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.

## 4. 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 December 31, 2012 and September 30, 2012 is as follows:

	Options Outstanding and Exercisable	Weighted Average Exercise Price
Balance, October 1, 2011	880,000	\$ 0.18
Issued	-	-
Exercised	-	-
Expired	(140,000)	0.35
Balance, September 30, 2012	740,000	0.145
Issued	-	-
Exercised	-	-
Expired	-	-
Balance, December 31, 2012	740,000	\$ 0.145

All outstanding options at December 31, 2012 expire on July 5, 2016.

## **NAIKUN WIND ENERGY GROUP INC.**

### **Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

**For the three months ended December 31, 2012 and 2011**

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#### **c) 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 December 31, 2012, 9.6 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.

#### **5. Contingent Liabilities**

The Company's 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 December 31, 2012, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million (2011 - \$4.2 million).

#### **6. Subsequent Events**

Subsequent to December 31, 2012, the Company issued 130,862 common shares at a deemed price of \$0.08 per share to the directors as partial payment of their remuneration. Additionally, the Company issued 156,250 common shares at a deemed price of \$0.08 to the Company's CEO as the share portion of his compensation. The above share issuances cover the period of October 1, 2012 to December 31, 2012 and price was based on the Company's stock price on December 31, 2012.