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# **NAIKUN WIND ENERGY GROUP INC.**

Condensed Consolidated Interim Financial Statements  
Unaudited - Prepared by Management

**For the three months ended December 2014 and 2013**

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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**

(Unaudited - Prepared by Management without Auditor's Review)

	December 31, 2014	September 30, 2014
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,909,090	\$ 2,564,861
Accounts receivable	11,191	18,759
Prepaid expenses and other	10,005	9,112
	<u>1,930,286</u>	<u>2,592,732</u>
Non-current assets		
Rent deposit	4,237	4,237
Deposit - Natural Resources Canada - Metmast	360,000	360,000
	<u>364,237</u>	<u>364,237</u>
<b>Total assets</b>	<u>\$ 2,294,523</u>	<u>\$ 2,956,969</u>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 140,586	\$ 420,354
Non-Current Liabilities		
Asset retirement obligation	400,000	400,000
<b>Total liabilities</b>	<u>540,586</u>	<u>820,354</u>
<b>Shareholders' Equity</b>		
Share capital (note 4(a))	46,251,016	46,230,078
Contributed surplus (note 4(d))	2,067,828	2,067,828
Deficit	(46,564,907)	(46,161,291)
<b>Total shareholders' equity</b>	<u>1,753,937</u>	<u>2,136,615</u>
<b>Total liabilities &amp; equity</b>	<u>\$ 2,294,523</u>	<u>\$ 2,956,969</u>

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

Contingent liabilities (Note 5)

Subsequent events (Note 6)

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

Approved by the Board of Directors and authorized for issue on February 27, 2015.

Director: "Dave Rehn"

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, 2014 and 2013**

	Number of Shares (Note 7(a))	Share Capital (Note 7(a))	Contributed Surplus (Note 7(c))	Deficit	Total Equity
Balance, September 30, 2013	42,054,194	\$ 45,837,202	\$ 1,668,828	\$ (44,381,348)	\$ 3,124,682
Total comprehensive loss for the year	-	-	-	(360,156)	(360,156)
Share based portion of compensation	270,223	22,969	-	-	22,969
Share based compensation expense	-	-	-	-	-
Balance, December 31, 2013	42,324,417	45,860,171	1,668,828	(44,741,504)	2,787,495
Total comprehensive loss for the year	-	-	-	(1,419,787)	(1,419,787)
Share based portion of compensation	791,364	68,907	-	-	68,907
Private Placement - July 14, 2014	10,000,000	301,000	399,000	-	700,000
Balance, September 30, 2014	53,115,781	46,230,078	2,067,828	(46,161,291)	2,136,615
Total comprehensive loss for the year	-	-	-	(403,616)	(403,616)
Share based portion of compensation	-	20,938	-	-	20,938
Balance, December 31, 2014	53,115,781	\$ 46,251,016	\$ 2,067,828	\$ (46,564,907)	\$ 1,753,937

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, 2014 and 2013**

	<b>3 months ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Expenses</b>		
Compensation	\$ 204,495	\$ 210,219
Engineering and development costs	33,269	22,185
Office and administration	37,019	53,329
Public and community relations	116,438	69,359
Professional fees	6,999	8,795
Travel	12,301	6,911
<b>Loss before the following:</b>	<b>(410,521)</b>	<b>(370,798)</b>
<b>Other Revenues</b>		
Miscellaneous recovery	-	-
Investment income	6,905	10,642
	<b>6,905</b>	<b>10,642</b>
<b>Loss and comprehensive loss for the period</b>	<b>\$ (403,616)</b>	<b>\$ (360,156)</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>44,914,540</b>	<b>42,283,296</b>

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

**NAIKUN WIND ENERGY GROUP INC.****Unaudited Condensed Consolidated Interim Statements of Cash Flows  
For the three months ended December 31, 2014 and 2013**

	<b>3 months ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Cash flows provided by (used in)		
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (403,616)	\$ (360,156)
Items not affecting cash		
Share-based compensation	20,938	22,969
Asset retirement obligation (note 6)	-	-
Changes in non-cash working capital		
Receivables	7,568	7,759
Prepaid expenses and other	(893)	(1,364)
Accounts payable and accrued liabilities	(279,768)	(81,856)
<b>Net cash used in operating activities</b>	<b>(655,771)</b>	<b>(412,648)</b>
<b>INVESTING ACTIVITIES</b>		
Deposit - Natural Resources Canada - Metmast	-	-
Rent deposit	-	7,444
Proceeds of Private Placement (note 7(c))	-	-
<b>Net cash from investing activities</b>	<b>-</b>	<b>7,444</b>
<b>Decrease in cash and cash equivalents</b>	<b>(655,771)</b>	<b>(405,204)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,564,861</b>	<b>3,703,263</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,909,090</b>	<b>\$ 3,298,059</b>

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

# NAIKUN WIND ENERGY GROUP INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Unaudited - Prepared by Management without Auditor's Review)

For the three months ended December 31, 2014 and 2013

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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 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

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 (IAS34), Interim Financial Reporting. These condensed interim financial statements follow the same accounting policies and methods of application as our most recent annual financial statements. Accordingly, these statements should be read in conjunction with our annual IFRS financial statements for the year ended September 30, 2014. The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and effective as of February 27, 2015, the date the Board of Directors approved the financial statements.

### 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 pronouncement may have an impact on the Company.

**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, 2018, with early adoption permitted. IFRS 9 also includes a new general hedge accounting standard which will better align hedge accounting and risk management.

**IFRS 15 Revenue from Contracts with Customers** is effective for years commencing on or after January 1, 2017, and replaces IAS 11, Construction; IAS 18, Revenue; International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers; and Standard Interpretations Committee ("SIC") 31, Revenue - Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue - at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced which may affect the amount and/or timing of revenue recognition. In the absence of revenue, this standard will not have an impact on the financial statements, however the Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing October 1, 2017.

## NAIKUN WIND ENERGY GROUP INC.

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

(Unaudited - Prepared by Management without Auditor's Review)

For the three months ended December 31, 2014 and 2013

#### 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, 2014 and September 30, 2014 is as follows:

	Options Outstanding and Exercisable	Weighted Average Exercise Price
Balance, September 30, 2013	630,000	0.145
Expired	(120,000)	0.145
Balance, September 30, 2014	510,000	0.145
Expired	-	0.145
Balance, December 31, 2014	510,000	\$ 0.145

All outstanding options at December 31, 2014 expire on July 5, 2016.

##### c) Warrants

On April 25, 2014 the Company announced the intention to complete a non-brokered private placement with Mr. Joseph Houssian, a director and insider of the Company. The private placement was for 10,000,000 units at a price of \$0.07 per unit for gross proceeds of \$700,000. Each unit consists of one common share in the capital of the Company and 0.75 common share purchase warrants. Each full common share purchase warrant is exercisable at \$0.10 per share for a period of five years from the date of issuance. The offering was subject to certain conditions including shareholder approval and all necessary approvals of the TSX Venture Exchange and compliance with all applicable regulatory requirements. The shareholders of the Company approved the private placement and the establishment of a control person at the Company's annual and special meeting of shareholders held on June 26, 2014 and the transaction closed on July 14, 2014. The Company has bifurcated the proceeds into the shares and warrants issued and recorded the warrants as contributed surplus.

##### d) Contributed Surplus

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

Balance, September 30, 2013	\$ 1,668,828
Warrants issued as part of private placement	399,000
Balance, September 30, 2014	2,067,828
Balance, December 31, 2014	\$ 2,067,828



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

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

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**For the three months ended December 31, 2014 and 2013**

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#### **e) 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, 2014, 9.2 million (September 30, 2014 - 9.2 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 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 December 31, 2014, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million (2013 - \$4.2 million).

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

Subsequent to December 31, 2014, the Company issued 70,313 common shares at a deemed price of \$0.12 per share to the directors as partial payment of their remuneration. Additionally, the Company issued 104,167 common shares at a deemed price of \$0.12 per share to the Company's CEO as the share portion of his compensation. The above share issuances cover the period of October 1, 2014 to December 31, 2014 and the value ascribed to the shares was based on the Company's stock price on December 31, 2014.

On February 5, 2015 the Company announced the appointment of Mr. Arthur Willms as a director of NaiKun and Chair of the Company's Development Committee. The compensation to Mr. Willms is determined by the approved board compensation and included the granting of 200,000 incentive stock options that are exercisable on or before February 5, 2020 at an exercise price of \$0.135. All options granted are subject to consideration and approval by the TSX Venture Exchange.