

# **NAIKUN WIND ENERGY GROUP INC.**

(A Development Stage Company)

## **Management's Discussion & Analysis For the year ended September 30, 2015**

Containing information up to and including January 21, 2016 (the "Report Date")

This Management's Discussion and Analysis ("MD&A") reviews the activities of NaiKun Wind Energy Group Inc. ("Group") and its material subsidiaries: wholly owned NaiKun Wind Development Inc. ("Devco"), NaiKun Wind Operating Inc. ("OpCo"), and 50% owned NaiKun Wind Generating Inc. ("Genco"), (collectively the "Company" or "NaiKun Wind"). For a more complete understanding of the Company's financial condition and results of operations, this MD&A should be read together with the audited consolidated financial statements for the years ended September 30, 2015 and 2014 and the accompanying notes. The above-mentioned documents along with additional information and disclosure relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website, [www.naikun.ca](http://www.naikun.ca).

### ***Forward-Looking Information and Report Date***

This MD&A contains certain forward-looking information. Investors are cautioned that all information, other than historical facts included herein, including without limitation, data regarding future plans and objectives of the Company, is forward-looking information based on management's expectations, assumptions and estimates. Although the Company believes these underlying estimates and assumptions to be reasonable, they are difficult to predict and actual results may differ materially from those in the forward-looking statements.

Forward-looking information can be subject to significant risks and uncertainties, and estimates and assumptions can prove to be inaccurate. There are many factors that could result in materially different outcomes than the forward-looking information contained herein including, but not limited to, the state of capital and financial markets, the general economy, the political climate, the commodity markets, foreign exchange fluctuations, the energy sector, electricity demand, technology, environmental factors, community relations and First Nations. Investors should be aware that there can be no assurance that forward-looking information will prove to be accurate and future events and actual results could differ materially from those anticipated.

The information herein is only provided as of the date of this MD&A, January 21, 2016 (the "Report Date").

### ***Description and Overview of Business***

NaiKun Wind Energy Group Inc. is a British Columbia-based renewable energy company with a current focus on an offshore wind energy project. Headquartered in Vancouver, it is a Tier 2 listed company that trades on the TSX Venture Exchange (TSX-V:NKW). It is developing a 400 MW offshore wind project in the Haida Energy Field which is located in Hecate Strait off the north coast of British Columbia (the "NaiKun Wind Project" or the "Phase 1 Project"). NaiKun Wind was a registered proponent in the Clean Power Call RFP (the "CPC") issued by British Columbia Hydro and Power Authority ("BC Hydro") on June 11, 2008. On March 31, 2010, BC Hydro advised NaiKun Wind that its proposal to build and operate the Phase 1 Project was no longer under consideration

for a contract award in the Clean Power Call. The Company is exploring how it can advance the Phase 1 Project and how the Haida Energy Field can fit into the Province's clean energy plans.

## ***NaiKun Wind Project***

The Company holds an investigative license ("IUP") from the Government of British Columbia which provides the Company with the ability to develop wind energy projects in a 550 km<sup>2</sup> area off the north east coast of Haida Gwaii in British Columbia's Hecate Strait. The proposed site for the Phase 1 Project is a 100 km<sup>2</sup> area within the permit area. The IUP also includes two transmission corridors that would connect the NaiKun Wind Project to Haida Gwaii and the mainland power grid, and includes the license of occupancy for the Company's Met Mast. The IUP was renewed May 9, 2013 for a five year term expiring May 2018.

The area's wind resource is the best in British Columbia and among the best in the world. This is due to consistent and high wind speeds, with mean annual wind speeds exceeding 10.0 meters/second (rated as a top level Class 7) . The wind is the strongest and most consistent in the fall and winter when electricity demand is the highest. Other characteristics that make Hecate Strait an ideal location for offshore wind projects include its flat sedimentary seabed, relatively shallow waters, access to BC Hydro's power grid, and its proximity to the potential for increasing electricity demand in the Northwest.

The energy potential of the area within the IUP is 2,000 megawatts ("MW"), enough to power more than 900,000 homes. If an Energy Purchase Agreement (EPA) is acquired, the Phase 1 Project would take approximately three years for finalization of supplier agreements, financial close on debt and equity, and construction. The receipt and timing of such an EPA for the initial phase is subject to the overall energy requirements in B.C, in particular, the demand for electricity in the northwest.

The development schedules for any subsequent phases are also subject to environmental and other approvals, First Nations engagement, and other factors. Development of these phases requires securing strategic and/or financial partners. The Phase 1 Project is dependent on getting an EPA, which is the Company's key business focus.

In March 2011, NaiKun received a Federal screening decision from the Canadian Environmental Assessment Agency (CEAA). The decision concluded the harmonized environmental assessment review process and confirmed that the NaiKun Phase 1 Project, which could be Canada's first offshore wind energy project, can be constructed with no significant adverse environmental, social or health effects. Responsible federal agencies are now authorized to issue the required construction and operating permits, including a Navigable Water Protection Act Approval and Fisheries Act Authorization. This Federal approval is in addition to the Environmental Assessment Certificate issued by the Government of British Columbia in December 2009. The Provincial Environmental Assessment Certificate was extended on December 9, 2014 for a five year period, expiring in December 2019. The Council of the Haida Nation commissioned an independent evaluation of the NaiKun Wind Energy Project and in August 2011 released the resulting report authored by Dr. Thomas I. Gunton and Chris T. Joseph. This report referenced the extensive environmental reviews undertaken by the federal and provincial governments as well as by Rescan. The report concluded that with the implementation of specified mitigation measures, the project is unlikely to have any significant adverse environmental risks.

NaiKun's Phase 1 Project, and prospective subsequent phases, has the potential to provide B.C with a significant and scalable resource that is complementary to the aims of the Clean Energy Act (CEA). In addition, the B.C. North Coast region, where the Phase 1 Project is located, is home to other

renewable energy resources, all of which have the potential to be a much-needed strong economic foundation.

NaiKun continues to work with First Nations, Northern Communities, BC Hydro and the Government of B.C. to move the project forward.

## ***Outlook***

The significant wind energy resource in the Haida Energy Field situated in Northwest B.C.'s Hecate Strait provides an opportunity to supply renewable energy for the increasing requirements in the northwest.

Consequently, the Company is working on strategies for advancing the project. NaiKun Wind, in cooperation with First Nations, key suppliers, and contractors is working to develop a practical cost-effective strategy for development of the project that meets the Province's renewable and clean energy strategy, power procurement plans and economic development program.

The cost per megawatt and the energy production of offshore wind have significantly improved over the past few years. Turbines are larger, less expensive, technologically advanced and more productive. Foundation design and supply is more efficient with erection rates nearly double those of 2008/2009. Interest rates have dropped considerably over this same period. With the reduced capital and operating costs, improved energy production from the new turbines, and the substantial energy demand forecast in the region, the NaiKun Project is well positioned to help meet the electrical demand in the Northwest.

Renewable energy has a very low carbon footprint and will help meet future provincial and federal Green House Gas targets.

The Haida Energy Field is a remarkable world-class wind resource that is permitted and can be developed in a short time frame to meet the power needs in northwest BC and Alberta. The NaiKun Project can be developed affordably to augment the power supply. In 2013, NaiKun commissioned the KPMG World Infrastructure Group to review the project. This report confirmed the Company's Phase 1 Project can be developed for an affordable cost. These costs continue to improve with advances in technology. NaiKun asserts that renewable energy should be part of a balanced solution for the northwest.

Haida Gwaii is the largest land mass in British Columbia that is not connected to the BC Hydro grid. Six communities on Haida Gwaii represent 10% of the communities, identified by the province's Climate Leadership Team, that are still on diesel generation. The Climate Leadership Team recommended that all these communities should be taken off diesel generation. The development of the Haida Energy Field would include a transmission line that would connect Haida Gwaii with the mainland BC Hydro grid. This would effectively bring cost-effective, reliable, green power to Haida Gwaii which would in turn facilitate a vibrant on-island economy.

Obtaining an EPA is critical for the NaiKun project to proceed and NaiKun continues to pursue partnering, joint venture and business combination opportunities that would result in the initiation of the project. However, offshore wind power is more expensive than other conventional sources and consideration must be given to the environmental and other benefits associated with wind based electricity.

## ***Risks and Uncertainties***

The Company's future and growth is dependent on a number of risk factors common to other companies in the renewable energy sector and in particular, wind energy companies. Some factors that may have a material impact on the Company's future include, but are not limited to:

### **Electricity Purchase Agreement**

A significant milestone and risk factor for the Company is an award of an EPA from BC Hydro or a similar purchaser of electricity. The Company is exploring how to advance the Phase 1 Project and how the Haida Energy Field can fit into the Province's clean energy plans. The timing of an EPA is subject to the overall energy requirements in B.C., arising from the Clean Energy Act and BC Hydro's Integrated Resource Planning process, and in the Western Electricity Coordinating Council and Western Renewable Energy Zones.

There is currently no formal process either underway or scheduled to award EPAs in B.C. However, BC Hydro has submitted its 2013 Integrated Resource Plan ("IRP") to the Government of B.C. That plan recognizes the need for power to support the planned growth in the northwest. The new demand in the northwest region of B.C. will have to be provided locally as the 500KV line, which connects this region to the electric grid, has insufficient capacity and is limited on its expansion possibility. Meanwhile the supply/demand energy gap in the province is projected to grow in the northwest. Since 2011, the northwest region of B.C. has seen interest from a number of project proponents. If one or more of these projects proceed, the cumulative electricity demand is anticipated to be significant. In addition, there is significant new demand at the Port of Prince Rupert, the new NW Transmission line and the mining development that it services, and the Rio Tinto Alcan smelter, which could cumulatively result in an additional demand over the next decade. NaiKun is the largest permitted source of electricity in the northwest and is encouraged by this change in the regional power demand outlook. However the Company cannot predict when or if the project will proceed.

### **Capital Resources**

Due to the delay in receiving an EPA for the Phase 1 Project, the Company has substantially reduced its activity level and cost structure so that its existing resources can sustain a focus on the wind energy project through fiscal 2016. Prior to executing an EPA, the Company will need to raise additional equity at the Project level and likely at the Company level to fund contributions to equipment deposits and project security. The availability and possible dilutive effect of additional equity will be subject to market conditions at the time of the equity financing.

### **Project Financing**

The availability and cost of project equity and debt are beyond the Company's control and subject to market conditions at the time the NaiKun Wind Project advances to the construction stage.

### **Contracting Parties**

The Company's current and future contractual arrangements with various parties (e.g., consultants, suppliers, First Nations, strategic partners, management, etc.) for the

development, construction and operation of the Project are another risk factor. The Company's and other parties' ability to fulfill obligations can have a material impact on future success. The Company would include technical and financial capacity and credit-worthiness assessments in its contracting strategies. The Company would also need to either sell the project in part or full, or enter into an agreement with a strategic partner. The Company may not be able to sell a portion at a reasonable price nor to secure an appropriate partnership.

### **Wind Resource and Weather**

Long-term historical wind data obtained from Environment Canada at or around the site for the NaiKun Wind Project, along with data received from the Met Mast, indicate this is a world-class, affordable wind resource. However, wind speeds are unpredictable, may vary over time and may or may not continue at the historical trend due to changes in weather patterns. Prior to construction, the measured wind speeds affect the ability to finance the Project and during operations, affect the Project and Company profitability. During construction, the weather and marine environment at the Project site can cause scheduling delays resulting in material cost overruns or a delay in the operation start date. Where possible, the Company would incorporate insurance, contracting and scheduling strategies to manage this risk.

### ***Financial Summary***

The following summarizes selected financial information for the years ended September 30, 2015, 2014, and 2013.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Loss and comprehensive loss	\$1,535,113	\$1,779,943	\$1,152,255
Loss per common share	<u>\$0.03</u>	<u>\$0.04</u>	<u>\$0.03</u>

The following summarizes the total assets and total liabilities as at September 30, 2015, 2014, and 2013.

	September 30, <u>2015</u>	September 30, <u>2014</u>	September 30, <u>2013</u>
Total Assets	\$1,252,026	\$2,956,969	\$3,738,048
Total Liabilities	\$550,772	\$820,354	\$613,366

The loss and the decrease in total assets during the year ended September 30, 2015 are primarily due to the Company's expenditures on the Phase 1 Project, all of which were expensed in the period incurred.

## ***Summary of Quarterly Results***

The following table summarizes information derived from the Company's financial statements for each of the eight most recently completed quarters. For more detail information, refer to the consolidated financial statements for the applicable periods.

Quarter ended	Revenues - \$	General, Administrative & Engineering Expenses - \$	Net Profit/( Loss) - \$	Basic and Diluted Loss per share - \$
30-Sep-15	Nil	389,147	(387,027)	(0.01)
30-Jun-15	Nil	322,347	(319,313)	(0.01)
31-Mar-15	Nil	429,337	(425,156)	(0.01)
31-Dec-14	Nil	410,522	(403,617)	(0.01)
30-Sep-14	Nil	675,125	(668,437)	(0.01)
30-Jun-14	Nil	404,791	(397,421)	(0.01)
31-Mar-14	Nil	363,034	(353,929)	(0.01)
31-Dec-13	Nil	370,798	(360,156)	(0.01)

The level of expenditures and loss varies from period to period depending on the level of activity related to the development of the NaiKun Wind Project. During 2010 the Company undertook a restructuring focused on reducing costs, the full impact of which is reflected in the expenses and net loss for all the above reported quarters. During the quarter ending September 30, 2014, the Company advanced the engineering on the project, specifically on its understanding of the wind resource, and advanced the profile of the project to Government, BC Hydro and First Nations, resulting in the reported increase in expenses. For the quarters ending December 31, 2014 and March 31, 2015 the expenses are slightly higher than the same periods last year due to fees paid to consultants who are helping to advance the profile of the project to Government, BC Hydro and First nations.

## ***Results of Operations***

The Company reported a loss of \$1,535,113 for the year ended September 30, 2015 compared with a loss of \$1,779,943 for the same period last year. Cash used in operations for the year ended September 30, 2015 was \$1,693,017 compared to \$1,485,846 for the same period last year.

General, administrative and engineering expenses ("GA&E") for the year ended September 30, 2015 totaled \$1,551,353 (2014 - \$1,813,748) of which \$14,519 (2014 - \$165,456) related to engineering, research and development, \$419,823 (2014 - \$431,709) related to public and community relations, \$48,356 (2014 - \$80,223) related to professional fees, \$155,759 (2014 - \$185,149) for office and administrative expenses and \$66,663 (2014 - \$40,782) related to travel. Compensation expense for the year ended September 30, 2015, which is also included in GA&E, amounted to \$846,223 (2014 - \$910,429). Overall costs are very similar to the same period last year as the Company maintains tight control on expenditures while pursuing avenues to move its project forward. During the latter part of the year ending September 30, 2014, the Company incurred costs in advancing the engineering on the project. Similar costs were not incurred in the year ended September 30, 2015.

During the year ended September 30, 2015, the Company recorded investment income of \$16,240 (2014 - \$33,593). The decline in investment income is attributable to the lower average cash balance.

## ***Liquidity***

As at September 30, 2015, the Company had \$0.9 million in cash and cash equivalents compared to \$2.6 million as at September 30, 2014. Of that balance, \$0.9 million was held in guaranteed investment certificate ("GIC") issued by Manulife Bank. As at the Report Date, the entire balance is redeemable in full with interest at the Company's option. Working capital as at September 30, 2015 was \$0.7 million vs. \$2.2 million as at September 30, 2014. The decrease in cash and cash equivalents and working capital during the year ended September 30, 2015 is a result of the expenditures related to the advancement of the NaiKun Wind Project and the ongoing overhead and administration to maintain the Company. During the quarter ending March 31, 2014 the Company made a deposit with Natural Resources Canada (NRC) as part of the Met Mast license renewal. This deposit is held by NRC to ensure the retirement obligation is fulfilled when the Met Mast is decommissioned.

The Company currently has cash in place to maintain operations through fiscal 2016 and is currently considering various options to extend operations for at least another two years. The Company believes it will still be some time before there is clarity on the development plans for the northwest, and until those plans are understood there is uncertainty as to the future demand for electricity and the role that the NaiKun project could play in meeting that demand.

The Company's ability to continue as a going concern is dependent on its ability to obtain additional financing or an investment by a strategic partner in order to meet its planned business objectives and be able to advance the offshore wind project. The Company may need to raise funds through grants, strategic collaborations, public or private equity, debt financing, or other funding sources. The funding may not be available on acceptable terms, or at all, and may be dilutive to shareholder interests. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company may need to curtail operations.

## ***Capital Resources***

During the year ended September 30, 2015, the Company issued 339,159 common shares at an average deemed price of \$0.114 per share to directors as partial payment of their remuneration and 454,148 common shares at an average deemed price of \$0.114 to the Company's CEO as the share portion of his compensation. As at September 30, 2015 the Company had 53,909,088 common shares issued and outstanding. Subsequent to September 30, 2015, the Company issued 116,322 shares at a deemed price of \$0.09 per share to directors as partial payment of their remuneration and 138,889 common shares at a deemed price of \$0.09 per share to the Company's CEO as the share portion of his compensation. This subsequent issuance covers compensation for the period of July 1, 2015 to September 30, 2015 and the value ascribed to the shares was based on the Company's stock price on September 30, 2015. As at the Report Date, the Company had 54,164,299 common shares issued and outstanding.

As at September 30, 2015, the Company had the following options and warrants outstanding:

Description	Exercise Price	Expiry Date	Number Outstanding
Restricted Warrants	\$0.63	September 30, 2016	8,606,890
Stock Options	\$0.145	July 5, 2016	480,000
Stock Options	\$0.135	February 5, 2020	200,000
Warrants	\$0.10	July 14, 2019	7,500,000

As of the Report Date, the Company had 680,000 stock options, and 7,500,000 warrants outstanding. Subsequent to September 30, 2015, all unit holders of Restricted Warrants have surrendered their warrants for cancellation and the Company's board of directors has approved the cancellation of the Amended & Restated 2011 Warrant Plan. As of report date the outstanding Restricted Warrants is nil.

### ***Commitments***

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 and arrangement of project financing.

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 would 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 Electric 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.

### ***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 event for payment, that being Financial Close.

As at September 30, 2015, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million.

### ***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, 2015, \$57,420 of these expenses were included in the audited consolidated statements of comprehensive loss (2014 - \$81,270). 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, 2015, \$4,050 (2014 - \$9,810) was payable to related parties and included in accounts payable and accrued liabilities.

### ***Internal Controls and Procedures over Financial Reporting***

Disclosure controls and procedures (“DC&P”) are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting (“ICFR”) are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

TSX Venture listed companies are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in National Instrument 52-109. In particular, the certifying officers (the Chief Executive Officer and Chief Financial Officer) do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP. The issuer’s certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in National Instrument 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### ***Approval***

The board of directors of the Company has approved the disclosure contained in this MD&A.

### ***Additional Information***

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) under *NaiKun Wind Energy Group Inc.* or at [www.naikun.ca](http://www.naikun.ca).

Dated January 21, 2016