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# **NAIKUN WIND ENERGY GROUP INC.**

Audited Consolidated Financial Statements

**For the years ended September 2016 and 2015**

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## 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, 2016 and 2015 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 Professional Accountants**  
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## **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, 2016 and September 30, 2015, 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, 2016 and September 30, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that NaiKun Wind Energy Group Inc. has sustained a loss and has negative cash flows from operations for the year ended September 30, 2016. These conditions, along with other matters as set forth in Note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about NaiKun Wind Energy Group Inc.'s ability to continue as a going concern.

*KPMG LLP*

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Chartered Professional Accountants

January 23, 2017  
Vancouver, Canada

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

	September 30, 2016	September 30, 2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 913,529	\$ 871,844
Accounts receivable	4,445	7,046
Share subscription receivable (note 6(a))	100,000	-
Investment (note 13)	213,000	-
Prepaid expenses and other	8,873	8,899
	<u>1,239,847</u>	<u>887,789</u>
Non-current assets		
Rent deposit	-	4,237
Deposit - Natural Resources Canada - Metmast	360,000	360,000
	<u>360,000</u>	<u>364,237</u>
<b>Total assets</b>	<u>\$ 1,599,847</u>	<u>\$ 1,252,026</u>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 251,919	\$ 150,772
Non-Current Liabilities		
Asset retirement obligation (note 5)	400,000	400,000
<b>Total liabilities</b>	<u>651,919</u>	<u>550,772</u>
<b>Shareholders' Equity</b>		
Share capital (note 6(a))	46,856,548	46,317,080
Contributed surplus	2,248,701	2,080,578
Deficit	(48,157,321)	(47,696,404)
<b>Total shareholders' equity</b>	<u>947,928</u>	<u>701,254</u>
<b>Total liabilities &amp; shareholders' equity</b>	<u>\$ 1,599,847</u>	<u>\$ 1,252,026</u>

Nature of operations and going concern (notes 1 & 2)  
 Commitments (note 9)  
 Contingent liabilities (note 10)  
 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 23, 2017.

Director: "Dave Rehn"

Director: "Michael O'Connor"

**NAIKUN WIND ENERGY GROUP INC.**  
**Consolidated Statements of Comprehensive Loss**  
**For the years ended September 30, 2016 and 2015**

	September 30, 2016	September 30, 2015
<b>Expenses</b>		
Compensation	\$ 583,630	\$ 846,233
Engineering and development costs	-	14,519
Office and administration	147,769	155,759
Public and community relations	161,919	419,823
Professional fees	59,902	48,356
Travel	23,264	66,663
<b>Loss before the following:</b>	(976,484)	(1,551,353)
<b>Other Revenues</b>		
Investment income	2,567	16,240
Gain on sale of assets (Note 13)	513,000	-
	515,567	16,240
<b>Loss and comprehensive loss for the year</b>	<b>\$ (460,917)</b>	<b>\$ (1,535,113)</b>
<b>Loss per share, basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of shares outstanding</b>	<b>55,121,456</b>	<b>53,554,627</b>

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

**NAIKUN WIND ENERGY GROUP INC.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the years ended September 30, 2016 and 2015**

	Number of Shares (Note 6 and 8)	Share Capital (Note 6 and 8)	Contributed Surplus	Deficit	Total Equity
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	-	-	-	(1,535,113)	(1,535,113)
Share based portion of compensation	793,307	87,002	-	-	87,002
Share based compensation expense		-	12,750	-	12,750
Balance, September 30, 2015	53,909,088	46,317,080	2,080,578	(47,696,404)	701,254
Total comprehensive loss for the year	-	-	-	(460,917)	(460,917)
Share based portion of compensation	917,195	66,876	-	-	66,876
Share based compensation expense	-	-	5,250	-	5,250
Private Placement - September 2016	9,078,069	472,592	162,873	-	635,465
Share issuance costs	71,428	-	-	-	-
Balance, September 30, 2016	63,975,780	\$ 46,856,548	\$ 2,248,701	\$ (48,157,321)	\$ 947,928

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, 2016 and 2015**

	September 30, 2016	September 30, 2015
Cash flows provided by (used in)		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (460,917)	\$ (1,535,113)
Items not affecting cash		
Share-based compensation	72,126	99,752
Gain on sale of asset	(513,000)	-
Changes in non-cash working capital		
Receivables	2,601	11,713
Prepaid expenses and other	26	213
Accounts payable and accrued liabilities	101,147	(269,582)
<b>Net cash used in operating activities</b>	<b>(798,017)</b>	<b>(1,693,017)</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of assets (note 13)	300,000	-
Rent deposit	4,237	-
<b>Net cash from investing activities</b>	<b>304,237</b>	<b>-</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds of private placement (note 6(a))	635,465	-
Share subscription receivable	(100,000)	-
<b>Net cash from financing activities</b>	<b>535,465</b>	<b>-</b>
<b>Increase(decrease) in cash and cash equivalents</b>	<b>41,685</b>	<b>(1,693,017)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>871,844</b>	<b>2,564,861</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 913,529</b>	<b>\$ 871,844</b>

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, 2016 and 2015**

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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 570, 355 Burrard Street, Vancouver, BC, V6C 2G8. 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.

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 and going concern**

**(a) Going concern**

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern. The Company has recurring operating losses, negative cash flow from operations, and an accumulated deficit of \$48,157,321 (2015 - \$47,696,404). The Company also expects to incur losses in future years until it is able to sell or find a strategic partner for its project and the timing of such events cannot be predicted with certainty.

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 completed a private placement and sold certain of its crown claims in September 2016 raising sufficient funds to maintain the operations of the Company for approximately two years based on managements estimate. The Company may need to raise additional 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. These factors cast significant doubt on the Company's ability to continue as a going concern. If the going concern assumption is not appropriate for these financial statements, adjustments affecting the carrying values of assets, liabilities, reported net losses and statement of financial position 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 applicable for the Company's year ended September 30, 2016 as issued and outstanding as of January 23, 2017, 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, except for the Company's investment in shares of Barkerville Gold Mines Ltd. (note13) which is recorded at fair value.

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2016 and 2015**

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**(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, the Company's ability to utilize tax losses, and the allocation of private placement proceeds between share capital and warrants. A discussion of these estimates is provided in the relevant accounting policy notes. Significant judgment is applied in the determination of the Company's ability to continue as a going concern. Management assesses its ability to continue as a going concern taking into account its forecast cash requirements, its budgeted non-discretionary expenditures and its available cash and cash equivalents.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated 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 and its subsidiaries 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 statement of financial position. Non-monetary assets and liabilities are translated using the historical rate on the date that the fair value was determined.

**c) Cash and cash equivalents**

Cash and cash equivalents 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.

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2016 and 2015**

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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

All items of property, plant and equipment have been fully amortized and written-off in prior years.

**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.

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2016 and 2015**

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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.

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 6(b) and 6(c), 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 statement of financial position 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. With the exception of investments 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.

The Company has classified its investments in marketable securities as a financial asset at fair value through profit or loss. Financial assets classified as fair value through profit or loss are subsequently re-measured at fair value at each reporting date with changes in fair value recognized in profit or loss for the period.

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.

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2016 and 2015**

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**(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 profit or loss over the period to maturity using the effective interest method.

Financial liabilities include accounts payable and accrued liabilities.

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 costs. If an equity instrument is comprised of a common share and a share purchase warrant, the gross proceeds are allocated between share capital for the common share component, and contributed surplus, for the warrant component, on a relative fair value basis where the value of the warrants is estimated using a Black-Scholes valuation model.

**(iv) Fair value measurements**

The fair value of financial instruments that are measured subsequent to initial recognition at their fair value, is measured within a 'fair value hierarchy' which has the following levels:

- (i) Level 1: quoted price (unadjusted) in active markets for identical assets or liabilities
- (ii) Level 2: valuation techniques using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie: as prices) or indirectly (ie: derived from prices)
- (iii) Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

**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 pronouncement may have an impact on the Company. The Company has not yet completed its assessment of the impact of such pronouncements on its financial statements.

**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 and is effective for years commencing on or after 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. The Company intends to adopt IFRS 9 in its consolidated financial statements for the year commencing October 1, 2018

**IFRS 15 Revenue from Contracts with Customers** is effective for years commencing on or after January 1, 2018, 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 judgmental 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, 2018.

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2016 and 2015**

**IFRS 16 Leases** was issued in January 2016. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue for Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on October 1, 2019.

**5. Asset Retirement Obligation ("ARO")**

The Company has recorded an ARO in regards to its wind measuring equipment installed in Hecate Strait. In fiscal 2013 the Company did an analysis of the methodology of removing this equipment and received an estimate of the related costs from a marine contractor in the region. Based on this analysis the costs are currently estimated to be \$400,000. The settlement of the obligation was expected to occur in fiscal 2013, however, until such time as an Electricity Purchase Agreement is secured, the Company continues to collect important meteorological data to strengthen our understanding of the wind resource.

**6. 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

In September 2016 the Company closed a private placement which raised total gross proceeds of \$635,465. A total of 9,078,069 units were issued at a price of \$0.07 per unit. Each unit consisted of one common share in the capital of the Company and 0.5 common share purchase warrant. Each full common share purchase warrant is exercisable at \$0.15 per common share for a period of three years from the date of issuance. This offering was subject to the approval of the TSX Venture Exchange and compliance will all applicable regulatory requirements. The Company has bifurcated the gross proceeds received between the common shares and warrants issued on a relative fair value basis and recorded the value of the warrants as contributed surplus.

In connection with the private placement a finders' fee of 71,428 common shares was paid. At September 30, 2016, the Company has a share subscription receivable of \$100,000 related to common shares issued at the time of the private placement, and such amount was received subsequent to September 30, 2016.

**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, 2016 and September 30, 2015 is as follows:

	Options Outstanding and Exercisable	Weighted Average Exercise Price
Balance, September 30, 2014	510,000	\$ 0.145
Issued - February 5, 2015	200,000	0.135
Expired	(30,000)	0.145
Balance, September 30, 2015	680,000	0.142
Expired	(480,000)	0.145
Balance, September 30, 2016	200,000	\$ 0.135

All 200,000 outstanding options at September 30, 2016 are exercisable and expire on February 5, 2020.

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2016 and 2015**

**c) Warrants**

As of September 30, 2016 the Company has the following common share purchase warrants outstanding:

Issue date	Warrants outstanding	Exercise price	Expiry date
July 14, 2014	7,500,000	\$0.10	July 14, 2019
September 7, 2016	4,539,035	\$0.15	September 7, 2019

All of the warrants remain outstanding at September 30, 2016.

**d) Warrant Plan**

The Company had a Restricted Warrant Plan (the "Warrant Plan") which had been created to attract and retain a talent pool of professionals during the start up years of the Company when cash resources were limited. The Warrant Plan was approved by the shareholders in 2008 and an Amended and Restated Warrant Plan was approved in 2011. At September 30, 2015 the Warrant Plan had 8.6 million Restricted Warrants outstanding.

During the quarter ending December 31, 2015, holders of Restricted Warrants surrendered their warrants for cancellation and the Company's board of directors approved the cancellation of the Amended & Restated 2011 Warrant Plan. As of September 30, 2016 the outstanding Restricted Warrants is nil.

**7. Income Tax Expense**

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

	September 30, 2016	September 30, 2015
Income (loss) before income taxes	\$ (460,917)	\$ (1,535,113)
Statutory rate	26.00%	26.00%
Expected income tax cost (benefit)	(119,838)	(399,130)
Reconciliation of effective tax rate:		
Permanent differences	19,315	27,071
Change in unrecognized tax benefits	156,664	372,059
Other	(56,141)	-
<b>Income tax expense</b>	<b>\$ -</b>	<b>\$ -</b>

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

	September 30, 2016	September 30, 2015
Non-capital losses and resource deductions	\$ 39,150,000	\$ 37,980,000
Other deductible temporary differences	607,000	607,000
	<b>\$ 39,757,000</b>	<b>\$ 38,587,000</b>

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- c) As at September 30, 2016, the Company has non-capital losses carried forward for Canadian tax purposes totaling approximately \$38,078,000 for which 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	\$
2026	146,000
2027	1,216,000
2028	8,449,000
2029	6,608,000
2030	5,532,000
2031	2,400,000
2032	1,651,000
2033	1,517,000
2034	1,519,000
2035	8,437,000
2036	603,000
	\$ 38,078,000

- d) As at September 30, 2016, the Company had deductible temporary differences related to investments in subsidiaries of \$3,958,000 (2015 - \$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.

**8. 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, 2016, \$8,100 of these expenses were included in the consolidated statements of comprehensive loss (2015 - \$57,420). 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. As at September 30, 2016, nil (2015 - \$4,050) was payable to related party consultants or companies and included in accounts payable and accrued liabilities.

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

	2016	2015
Wages and benefits	\$ 513,307	\$ 673,622
Share-based	66,876	87,002
	\$ 580,183	\$ 760,624

During the year ended September 30, 2016 the Company issued 917,195 common shares (2015 - 793,307 common shares) with a fair value of \$66,876 (2015 - \$87,002) to directors and officers as part of their annual compensation.

As at September 30, 2016 \$165,000 (2015 - nil) was payable to the Company's CEO and included in accounts payable and accrued liabilities.

**9. Commitments**

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.



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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.

**10. 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, 2016, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million (2015 - \$4.2 million).

To preserve cash the Company entered into agreements with several consultants and the CEO to defer all or a portion of their retainer, fees, or compensation, the payment of which is triggered by a future success event. Accumulated amounts have not been accrued due to the uncertainty of the occurrence of a future success event.

As at September 30, 2016, the remaining unpaid, unaccrued balance of these deferred retainer and fee amounts for consultants is \$279,200 (2015 - nil) and for CEO compensation, the amount is \$165,000 (2015 - nil).

**11. Financial Risk Management and Fair Values**

The Company's exposure to risk on its financial instruments arises primarily from its cash and cash equivalents and its investments in marketable securities 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. Given the Company's cash balance, the Company's exposure to interest rate risk is not significant.
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.
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, 2016 and 2015.
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. All of the Company's accounts payable and accrued liabilities are due within 1 year.

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Equity Price Risk                      The Company is exposed to equity price risk as it holds marketable Canadian securities as investments (see note 13) that are classified as fair value through profit or loss. A 10% decrease in the value of the underlying securities would result in a loss of approximately \$21,000 based on investment value at September 30, 2016.

The fair value of the Company's cash and cash equivalents, accounts receivable, share subscription receivable, deposits, accounts payable, and accrued liabilities approximate their carrying amounts due to the short-term maturities and ability for prompt liquidation of these instruments. The carrying value of the Company's investment in Canadian marketable securities is based on the quoted market price of the related shares in a publicly traded company, which is considered Level 1 of the fair value hierarchy.

**12. 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, 2015. 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.

**13. Investment**

During the year ended September 30, 2016, the Company sold its interest in 14 crown grant mineral claims to Barkerville Gold Mines Ltd. ("Barkerville"), in exchange for \$300,000 cash and 300,000 common shares of Barkerville resulting in a gain on sale of assets of \$513,000. The common shares are recorded at fair value through profit and loss.

On October 18, 2006, Uniterre Resources Ltd. changed its name to NaiKun Wind Energy Group Inc. as the Company's focus turned to developing the Hecate Strait wind project. Previously the Company was involved in certain mining interests which were held at nil value on the Company's statement of financial position. The claims that were sold to Barkerville were part of these holdings.

**14. Subsequent Events**

Subsequent to September 30, 2016, the Company issued 116,424 common shares at a deemed price of \$0.085 per share and 92,107 shares at a deemed price of \$0.095 to directors as full payment of their remuneration. These share issuances covers the period of July 1, 2016 to September 30 2016. and October 1, 2016 to December 31, 2016, and the value ascribed to the shares was based on the Company's stock price on September 30, 2016 and December 31, 2016 respectively.

Subsequent to September 30, 2016, the Company held its Annual General and Special Meeting of Shareholders on October 7, 2016. Shareholders approved the amendment to the Company's Articles whereby the maximum number of issued and outstanding shares be increased from 100,000,000 common shares to an unlimited number of common shares. Shareholders also approved the Company's New Stock Option Plan to replace the existing Old Stock Option Plan. The New Stock Option Plan increased the maximum number of common shares that may be reserved for issuance to 10% of the total number of issued and outstanding common shares on the date the stock options are granted. In addition, the New Stock Option Plan imposes limited on the number of stock options that can be granted to individuals, consultants and insiders in any 12 month period. Upon approval of the New Stock Option Plan, the Company issued a total of 1,400,000 stock options to consultants at an exercise price of \$0.10 and a total of 450,000 stock options to Company officers at an exercise price of \$0.10.