
NAIKUN WIND ENERGY GROUP INC.

(A Development Stage Company)

Interim Consolidated Financial Statements

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

For the three months ended December 31, 2007 and 2006

NAIKUN WIND ENERGY GROUP INC.**Interim Consolidated Balance Sheet**

(A Development Stage Company)

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

	December 31, 2007	September 30, 2007
Assets		
Current		
Cash and cash equivalents	\$ 34,048,423	\$ 36,711,648
Commodity tax recoverable	615,215	421,691
Loans receivable	100,000	-
Prepaid expenses and other	64,249	5,379
	<u>34,827,887</u>	<u>37,138,718</u>
Rent deposit	12,851	12,851
Property, Plant and Equipment (Note 3)	<u>2,536,950</u>	<u>2,567,876</u>
	<u>\$ 37,377,687</u>	<u>\$ 39,719,445</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 467,921	\$ 2,137,007
Future income tax liability	<u>465,700</u>	<u>465,700</u>
	933,621	2,602,707
Commitments (Note 9)		
Shareholders' Equity		
Share Capital (Note 4)	48,098,375	47,260,341
Contributed Surplus (Note 5)	1,801,184	750,614
Deficit	<u>(13,455,493)</u>	<u>(10,894,217)</u>
	<u>36,444,066</u>	<u>37,116,738</u>
	<u>\$ 37,377,687</u>	<u>\$ 39,719,445</u>

Approved by the Board:

Director: "Graham Wilson"

Director: "Michael Altman"

NAIKUN WIND ENERGY GROUP INC.**Interim Consolidated Statement of Loss and Deficit**

(A Development Stage Company)

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

For the three months ended December 31**Period from****October 1, 2004****Three months ended December 31,****to December 31,****2007****2006****2007****General, Administrative and****Engineering Expenses (Notes 6 and 8)**

Consulting	\$ 25,778	\$ 25,000	\$ 683,621
Depletion and amortization	48,409	5,000	167,310
Engineering and development costs	774,119	215,157	4,351,913
Insurance	20,980	3,418	40,722
Interest on debentures	-	64,759	261,328
Office and administration	185,610	220,491	1,169,685
Public relations	172,417	39,992	683,578
Professional fees	146,774	23,709	1,128,188
Salaries and wages	195,673	-	195,673
Stock-based compensation (Note 4)	-	506,000	548,000
Transmission rights (Note 4c)(iv))	1,313,736	-	1,313,736
Transfer agent fees and shareholder costs	1,466	74,937	225,736
Travel	121,788	34,973	652,202

Loss before the following:(3,006,749) (1,213,436) (11,421,691)**Other Revenues (Expenses)**

Petroleum and natural gas sales, net	25,956	25,918	678,489
Foreign exchange gain (loss)	(894)	7,762	(39,910)
Investment income	420,411	10,709	827,554
Gain on sale of investments	-	-	510,609
Write down of deferred expenditures	-	-	(516,427)
Gain on sale of resource property interests	-	-	420,753

445,473 44,389 1,881,068**Net Loss and Comprehensive Loss**(2,561,276) (1,169,047) (9,540,623)**Deficit, beginning of period**(10,894,217) (5,826,648) (3,870,870)

Adjustment to the prior period

- - (44,000)**Deficit, end of period**\$ (13,455,493) \$ (6,995,695) \$ (13,455,493)**Loss per common share**\$ (0.07) \$ (0.08)**Weighted average number of shares outstanding - basic and diluted**35,300,021 14,389,189

NAIKUN WIND ENERGY GROUP INC.**Interim Consolidated Statement of Cash Flows**

(A Development Stage Company)

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

For the three months ended December 31

	Three months ended December 31		Period from
	2007	2006	October 1, 2004 to December 31, 2007
Cash flows from operating activities			
Loss for the period	\$ (2,561,276)	\$ (1,169,047)	\$ (9,540,623)
Items not affecting cash			
Depreciation, depletion and amortization	48,409	5,000	188,732
Amortization of financing costs	-	23,554	188,430
Interest on debentures payable	-	-	72,898
(Gain) on disposal of investments	-	-	(510,609)
Stock-based compensation	-	506,000	548,000
Transmission rights (Note 4c)(iv))	1,313,736	-	1,313,736
Change in asset retirement obligation and write-down of resource property	-	-	(21,519)
Write-off of deferred expenditures	-	-	516,247
Gain on sale of petroleum and natural gas properties	-	-	(420,573)
	(1,199,132)	(634,493)	(7,665,282)
Changes in non-cash working capital, net	(2,021,479)	160,247	(287,592)
	(3,220,611)	(474,246)	(7,952,874)
Cash flows from investing activities			
Abandonment costs	-	-	16,500
Long term receivable	-	-	700,000
Proceeds on sale of investments	-	-	544,852
Purchase of property, plant and equipment	(17,482)	(39,871)	(2,692,988)
Proceeds on sale of petroleum and natural gas properties	-	-	486,516
	(17,482)	(39,871)	(945,120)
Cash flows from financing activities			
Proceeds on issuance of convertible debentures	-	-	1,691,570
Proceeds on issuance of common shares	574,868	1,398,198	40,903,989
	574,868	1,398,198	42,595,559
Increase in cash and cash equivalents during the period	(2,663,225)	884,081	33,697,565
Cash and cash equivalents, beginning of period	36,711,648	1,823,004	360,858
Cash and cash equivalents, end of period	\$ 34,048,423	\$ 2,707,085	\$ 34,058,423
Supplemental cash flow information:			
State income tax paid	\$ -	\$ -	\$ 4,942
Investment income received	\$ 420,411	\$ -	\$ 827,554

NAIKUN WIND ENERGY GROUP INC.

Notes to Consolidated Financial Statements

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December 31, 2007

1. Nature and Continuance of Operations

Prior to 2004, NaiKun Wind Energy Group Inc. ("Group" or the "Company"), formerly Uiterre Resources Ltd. ("Uiterre"), was primarily a junior natural resource company focusing on exploration, development and acquisition of petroleum and natural gas assets and mineral interests. In fiscal 2004, the Company changed its focus to renewable energy projects and is currently in the development stages of building and operating a wind energy project in the Hecate Strait (the "NaiKun Wind Project"). To better portray this shift, the name of the Company was changed from Uiterre to Group in November 2006.

As per the Statement of Loss, the Company has incurred a net loss for the three months ended December 31, 2007 and has accumulated losses since October 1, 2004 which approximate the total costs incurred by the Company in the development of the NaiKun Wind Project. Management is of the opinion that it has raised sufficient capital to complete the development stages of Phase 1 of the NaiKun Wind Project and that additional financing will be available when needed for the construction stage.

These financial statements have been prepared in accordance with generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities. Certain information and footnote disclosure normally included in audited consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read together with the Company's audited consolidated financial statements and the accompanying notes for the year ended September 30, 2007. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented. The Company's ability to continue as a going concern is dependant upon the Company achieving profitable results and attracting sufficient capital to continue to develop its wind energy projects.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of NaiKun Wind Energy Group Inc. and its wholly-owned subsidiaries: NaiKun Wind Development Inc. ("Devco"); NaiKun Wind Operating Inc. ("Opco"); NaiKun Wind Transmission Inc. ("Transco"); Patriot Energy Company Ltd. ("Patriot"); Uiterre Resources Ltd. ("URL"); and Austar Resources (U.S.) Corporation

Group, Opco, Transco, Patriot and URL are each incorporated in British Columbia. Devco was originally incorporated in British Columbia but was continued under the Canada Business Corporations Act and is now extra-provincially registered in British Columbia. Austar was incorporated in Texas. Uiterre was formerly the name of Group. After Group changed its name, it incorporated a new subsidiary named URL

In addition, Group is a 50% shareholder in NaiKun Wind Generating Inc., currently an inactive company.

Cash and Cash Equivalents

Cash and cash equivalents include cash, short-term deposits with Canadian chartered banks and Bankers Acceptances. Short-term deposits and Bankers Acceptances have maturity dates of less than three months.

Wind Energy Project

Since inception, the NaiKun Wind Project has not earned revenues and is considered to be in the development stage. To date, costs for consulting, research, engineering and administration have been expensed (see Note 6 for a summary of project expenses). Certain expenditures for wind measuring equipment and/or related structural support have been capitalized (Note 3).

Property, Plant and Equipment

Office and wind measuring equipment is stated at cost and amortized on a straight-line basis over the estimated useful lives.

Deferred Financing Costs

The Company nets costs related to the issuance of debt instruments against the liability and amortizes these costs over the term of the debt instrument along with the interest expense. As of December 31, 2007, the Company does not have any debt instruments outstanding, but has recorded interest expense for prior periods in accordance with this policy.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes for the current year. Future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. A valuation allowance is recognized to the extent it is more likely than not that these future income taxes will not be recognized.

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Flow Through Shares

Resource expenditure deductions for Canadian income tax purposes related to Canadian exploration and development activities funded by flow through share arrangements are renounced to investors in accordance with income tax legislation. The Company follows the accounting prescribed by the CICA Emerging Issues Committee in EIC 146 "Flow through shares". On the date the expenditures are renounced, a future income tax liability and a corresponding reduction in the share capital is recorded. Previously unrecognized future income tax assets may subsequently be recognized to reduce this liability, with the net future income tax amount recorded in current operations.

Stock Based Compensation

The Company has a stock-based compensation plan, as described in Note 4. Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected useful lives of 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 with offsetting amounts recognized as contributed surplus.

In addition, from time to time in connection with public offerings and private placements, the Company issues options and warrants to agents as commissions for financing services. Awards of warrants to agents are also accounted for using the fair value method and recorded as share issue costs with the credit going to contributed surplus when the warrants/options are issued. Consideration received on exercise of the options or warrants is credited to share capital.

Foreign Currency Translation

The Company reports in Canadian dollars and financial instruments denominated in currencies other than the Canadian dollar have been translated as follows:

- Revenue and expense items at the average exchange rate during the period;
- Non-monetary assets and liabilities at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect on the balance sheet date; and
- Monetary assets and liabilities at the exchange rate at the balance sheet date.

Exchange gains and losses are recorded in the Statement of Loss in the period in which they occur.

Revenue Recognition

Revenues from the sale of petroleum and natural gas are recognized at the time ownership transfers and collection is reasonably assured.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the amounts of the revenue and expenses recorded during the reporting periods. Actual results could differ from those estimates and these differences could have a significant impact on the financial statements.

Financial Instruments

The Company has minimal interest rate risk because of the short-term nature of its monetary assets and liabilities.

The Company has minimal exposure to credit risk as its holdings are in short-term Government of Canada treasury notes or Banker Acceptances backed by Canadian Chartered Banks.

The Company has minimal exposure to foreign exchange risk due to the minimal amounts in cash equivalents, receivables and payables denominated in foreign currencies.

Loss Per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss 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 using the treasury stock method, if the Company had positive net earnings. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. As the Company has had a net loss for all periods presented herein, the unexercised stock options and share purchase warrants, disclosed in notes 4(b) and 4(c), have not been included in any calculations of loss per share as their inclusion would have been anti-dilutive.

Comparative Amounts

Certain comparative amounts have been reclassified to conform with current period presentation.

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Changes in Recent Accounting Pronouncements

Accounting Changes, Comprehensive Income, Hedges and Financial Instruments

Section 1506, Accounting Changes, which relates to accounting policies, changes in accounting estimates and errors. Under this revised standard, voluntary changes in accounting policy are made only if they result in the financial statements providing more reliable and relevant information. Adoption of this standard had no impact on the Company's financial statements.

Section 1530, Comprehensive Income, introduces a new financial statement "Statement of Comprehensive Income", which shows the change in value of certain financial instruments and changes in net assets from certain other transactions. The Company currently has no financial instruments or other transaction which would require the recognition of other comprehensive income so the Statement of Comprehensive Income has been combined with the Statement of Loss and Deficit.

Section 3865, Hedges, establishes how hedge accounting may be applied. The Company is not utilizing any hedging strategies.

Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, replace Section 3861 Financial Instruments - Disclosure and Presentation, and require the disclosure of information with regards to the significance of financial instruments for the Company's financial position and performance, and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks.

The Company is required to designate its financial instruments into one of the following five categories: available for sale, loans and receivable, held to maturity, held for trading and all other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The company has designated its financial instruments as follows:

- Cash and cash equivalents are classified as "Held for trading". After its initial fair value measurement, any change in fair value is recorded in net income.
- Accounts receivable are classified as "accounts receivables". After their initial fair value measurement, they are measured at amortized cost. For the Company, the measurement amount generally corresponds to cost.
- Accounts payable and accrued payables are classified as such. Initial measurement is at fair value with any transaction costs added to the fair value amount. Subsequently, they are measured at amortized cost using the effective interest rate method. For the Company, the measurement amount generally corresponds to cost.

These new standards have been applied without restatement of prior period amounts and the company has no opening balance adjustments resulting from the implementation of these new standards.

Capital Disclosures

Section 1535, Capital Disclosures, requires Companies to disclose information about its objectives, policies and processes for managing its capital. The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business. The Company's capital consists of its common shares.

3. Property, Plant and Equipment

	Cost	Accumulated Amortization	Net Book Value Dec. 31, 2007	Net Book Value Sept 30, 2007
Wind measuring equipment	\$ 2,499,618	41,660	\$ 2,457,958	2,499,618
Office equipment	119,442	40,450	78,992	68,258
	<u>\$ 2,619,060</u>	<u>\$ 82,110</u>	<u>\$ 2,536,950</u>	<u>\$ 2,567,876</u>

4. Share Capital

a) Authorized and Issued

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

Issued and outstanding:

	Common Shares			
	Issued	Held in Treasury	Outstanding	Book Value
Balance, September 30, 2006	11,115,815	4,808	11,111,007	6,978,244
(i) Share for share exchange with subsidiary	3,210,000		3,210,000	-
Exercise of options at \$0.13 per share	355,000		355,000	77,160

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	Exercise of options at \$0.15 per share	250,000	250,000	62,900
	Exercise of warrants at \$0.25 per share	860,193	860,193	215,048
(ii)	Conversion of debentures	3,760,000	3,760,000	1,684,204
	Conversion of interest payable	58,886	58,886	72,898
	Private placement at \$0.55 per share	27,273	27,273	15,000
	Exercise of warrants at \$0.55 per share	1,060,386	1,060,386	583,212
	Exercise of broker options at \$0.50 per share	152,473	152,473	113,547
	Exercise of options at \$0.20 per share	100,000	100,000	33,820
(iii)	Issue of flow through shares at \$1.70 per share	735,295	735,295	1,056,189
(iii)	Issue of common shares at \$1.40 per share	1,964,284	1,964,284	2,323,609
(iv)	Private placement at \$1.37 per share	1,097,562	1,097,562	1,500,000
	Exercise of warrants at \$1.70 per share	2,110	2,110	3,587
	Exercise of warrants at \$1.80 per share	43,055	43,055	77,499
	Exercise of broker options at \$1.40 per share	6,520	6,520	14,742
	Private placement at \$3.38 per share	6,596	6,596	22,294
(v)	Issue of flow through shares at \$3.85 per share	2,600,000	2,600,000	9,365,634
(v)	Issue of common shares at \$3.35 per share	7,506,000	7,506,000	23,526,453
	Tax benefit of flow-through shares (see Note 7)			(465,700)
Balance, September 30, 2007		34,911,448	4,808	34,906,640 \$ 47,260,341
(b)(i)	Exercise of options at \$0.42 per share	100,000	100,000	57,790
	Exercise of warrants at \$0.55 per share	180,750	180,750	99,413
(b)(iii)	Exercise of options at \$0.50 per share	309,027	309,027	230,142
	Exercise of warrants at \$1.70 per share	1,506	1,506	2,560
(b)(iv)	Exercise of options at \$1.40 per share	2,540	2,540	5,743
	Exercise of warrants at \$1.80 per share	11,570	11,570	20,826
(b)(ii)	Exercise of options at \$0.72 per share	350,000	350,000	421,560
Balance, December 31, 2007		35,866,841	4,808	35,862,033 \$ 48,098,375

- (i) 3,210,000 common shares issued to directors and officers of the Company under the terms of a share exchange agreement for all of the issued and outstanding shares of NaiKun Wind Development Inc. held by those directors and
- (ii) 3,760,000 common shares issued upon conversion of debentures payable at a conversion price of \$0.50 per share (see Note 7). Financing costs of \$48,957 and the fair value of broker options (\$146,839) were deducted from the gross proceeds.
- (iii) in March 2007, the Company raised \$4,000,000 through the sale of 735,295 Flow-Through shares at a price of \$1.70 per share and 1,964,284 Units at \$1.40 per unit. Each Unit is comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$1.80 per common share until May 30, 2008. Financing costs of \$488,723 and the fair value of broker options (\$131,479) were deducted on a pro-rata basis from the total amount raised.
- (iv) 1,097,562 common shares issued to ENMAX Corporation for \$1,500,000.
- (v) In August 2007, the Company raised \$35,155,100 through the sale of 2,600,000 Flow-Through shares at a price of \$3.85 per share and 7,506,000 Common Shares at a price of \$3.35 per share. Commissions and legal costs of \$2,263,013 were deducted pro-rata from the total amount raised.

b) Stock Options

Options price and Expiry date	September 30 2007	Granted	Exercised	December 31 2007
\$0.15, September 9, 2009	50,000			50,000
\$0.13, December 9, 2011	50,000			50,000
(i) \$0.42, October 16, 2007	100,000		100,000	-
(ii) \$0.72, November 28, 2011	1,012,500		350,000	662,500
(iii) \$0.50, September 22, 2008	447,527		309,027	138,500
(iv) \$1.40, May 30, 2008	146,167		2,540	143,627
	1,806,194	-	761,567	1,044,627

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- (i) 100,000 options were exercised into common shares at a price of \$0.42 per share for cash proceeds of \$42,000 (estimated fair value \$57,790)
- (ii) 350,000 options were exercised into common shares at a price of \$0.72 per share for cash proceeds of \$252,000 (estimated fair value \$421,560)
- (iii) Upon completion of the convertible debenture and Flow-Through share issue in September 2006, the Company granted options to the broker. These options entitle the holder to purchase a common share and one-half of one share purchase warrant at a price of \$0.50 at any time up to September 22, 2008. The warrants have an exercise price of \$0.55 and an expiry date of September 22, 2008. During the three months ended December 31, 2007, the Company issued 309,027 shares on exercise of these options for gross proceeds of \$154,514 (estimated fair value \$230,142)
- (iv) Upon completion of the Flow-Through share and Unit issue in March 2007, the Company granted options to parties involved in the financing. These options entitle the holder to purchase a common share and one-half of one share purchase warrant at a price of \$1.40 and expire on May 30, 2008. The accompanying warrants have an exercise price of \$1.80 and an expiry date of May 30, 2008. During the three months ended December 31, 2007, the Company issued 2,540 common shares on exercise of these options for gross proceeds of \$3,556 (estimated fair value \$5,743)

Stock Based Compensation

The Company has stock option plans that provide 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. The Company did not issue any options during the three months ended December 31, 2007.

The weighted average exercise price of options as at December 31, 2007 and September 30, 2007 is as follows:

	December 31, 2007		September 30, 2007	
	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price
Balance, beginning of period	1,806,194	\$ 0.67	805,000	\$ 0.15
Granted	-	-	1,865,187	0.69
Exercised	(761,567)	0.59	(863,993)	0.22
Balance at end of period	1,044,627	\$ 0.73	1,806,194	\$ 0.67

c) Share Purchase Warrants

Exercise price and Expiry date	September 30 2007		December 31 2007	
	Granted	Exercised	Granted	Exercised
(i) \$0.55, September 30, 2008	2,015,851	154,514	180,750	1,989,615
(ii) \$1.80, May 30, 2008	942,347	1,270	11,570	932,047
(iii) \$1.70, May 30, 2008	56,714	-	1,506	55,208
(iv) \$2.66, December 4, 2009	-	1,000,000	-	1,000,000
	3,014,912	1,155,784	193,826	3,976,870

- (i) the Company issued 3,000,000 warrants with an exercise price of \$0.55 and an expiry date of September 30, 2008 in conjunction with a debenture and flow through share financing completed in September 2006. Broker options were also issued during this financing that, upon exercise, provide one-half of one share purchase warrant with the same exercise price and expiry date. During the three months ended December 31, 2007, 309,027 of these broker options were exercised resulting in the issuance of 154,514 warrants.
- (ii) 982,142 share purchase warrants issued with the Unit financing in March 2007. These warrants have an exercise price of \$1.80 and an expiry date of May 30, 2008. Broker options were also issued during this financing that, upon exercise, provide one-half of one share purchase warrant with the same exercise price and expiry date. During the three months ended December 31, 2007, 2,540 of these broker options were exercised resulting in the issuance of 1,270 warrants.

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- (iii) Upon completion of the flow through financing in March 2007, the Company granted 58,824 flow through compensation warrants to purchase common shares. These warrants have an expiry date of May 30, 2008 and an exercise price of \$1.70.
- (iv) In December 2007, the Company concluded agreements on electricity transmission corridors with two First Nations communities. These agreements include the granting of 1,000,000 warrants to purchase common shares. These warrants have an expiry date of December 4, 2009 and an exercise price of \$2.66. The fair value of these warrants at the date of granting was estimated to be \$1,313,736 using the Black-Scholes option pricing model using a risk free interest rate of 3.54%, an expected life of twenty-four months and an expected volatility of 42%. The fair value was expensed in the period as Transmission Rights.

(d) Warrant Plan (formerly Restricted Stock Unit ("RSU") 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 scarce and to defer the majority of its compensation expenses until commercial success is achieved.

The main components of the RSU Plan are:

- maximum number of RSUs to be granted capped at 15 million;
- one RSU entitles the holder to acquire one common share at a price of \$0.60 per share;
- RSUs not exercisable until occurrence of the triggering event (financial close on construction financing for Phase 1 of the NaiKun Wind Project);

As at December 31, 2007, 12.7 million RSUs under this plan have been granted and approximately 7.6 million of those have vested.

Due to the uncertainty of the occurrence and timing of the triggering event, RSUs under this plan are not included in Note 4(c) nor the computation of stock-based compensation.

5. Contributed Surplus

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

	December 31 2007	September 30 2007
Balance, beginning of period	\$ 750,614	\$ 79,450
Stock-based compensation (Note 4)	1,313,736	784,318
Stock options exercised, transfer to share capital	(263,166)	(113,154)
Balance, end of period	\$ 1,801,184	\$ 750,614

6. Wind Project Costs Under Development

The NaiKun Wind Project is in the development stage and as indicated in Note 2, development costs relating to administration, engineering, consulting and research have been expensed and accordingly, are reflected in the Consolidated Statement of Loss. Certain expenditures for wind measuring equipment and related structural support have been capitalized and are reflected in the Consolidated Balance Sheet (see Note 3). To date, the following costs have been incurred and expensed that are specific to the NaiKun Wind Project:

	Three months ended December 31, 2007	Three months ended December 31, 2006	Cumulative to December 31, 2007
Expenses			
Administrative management	\$ 32,450	\$ 30,994	\$ 471,120
Amortization	42,673	-	42,673
Engineering and research	774,119	387,976	5,310,352
Insurance	20,980	-	28,263
Office expenses	63,778	15,641	202,047
Professional fees	8,375	-	525,369
Public relations & communications	121,982	23,390	586,828
Rent	43,260	-	175,181
Salaries	97,195	-	97,195
Travel	87,302	34,973	550,915

NAIKUN WIND ENERGY GROUP INC.**Notes to Consolidated Financial Statements**

(A Development Stage Company)

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

December 31, 2007

\$ 1,292,114 \$ 492,974 \$ 7,989,943

7. Income Taxes

The issuance of flow through shares requires the renunciation of resource expenditures in an amount of equal value to the shares issued. In accordance with income tax legislation, the Company must incur these resource expenditures in the year of renunciation or in the subsequent year. As of December 31, 2007, the Company has renounced \$1,369,550 (2006- \$ Nil) in flow through expenditures, to subscribers, resulting in a future tax liability of \$465,700 (2006 - \$ Nil).

The Company has non-capital losses for income tax purposes of approximately \$2,894,600 which can be used to reduce taxable income in futures years and will expire in varying amounts commencing in 2008 if not fully utilized. The losses expire as follows:

<u>Expiry Date</u>	<u>\$</u>
2008	50,800
2009	519,600
2013	391,800
2014	214,500
2015	342,800
2026	208,400
2027	1,166,700

8. Related Party Transactions

The Company utilizes certain management, legal and administrative services from various consultants and companies, some of which are controlled by officers, directors and others. During the three months ended December 31, 2007, \$152,500 of these expenses were included in the Consolidated Statement of Loss (\$171,500 - 2006). 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 by the related parties and which is considered similar to those negotiable with third parties.

9. Contingent Liabilities

The Company's deferred compensation plan includes a deferred cash bonus plan ("Bonus Plan") that was designed to attract and retain qualified personnel while conserving cash during the Company's development stages. The Bonus Plan defers payment of the majority of the Company's salary expenses until completion of the development stage of Phase 1 of the Company's wind energy project. The triggering event marking completion of the development stage is defined as financial close on the construction financing for the project. As at December 31, 2007, approximately \$6.5 million has been allocated under the Bonus Plan. This amount has not been accrued due to the uncertainty of occurrence and timing of the triggering event.

10. Subsequent Event

Subsequent to December 31, 2007, the Company has issued 203,955 common shares for gross proceeds of \$89,970 through the exercise of various options and warrants.