
NAIKUN WIND ENERGY GROUP INC.

(A Development Stage Company)

Interim Consolidated Financial Statements

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

For the three and six months ended March 31, 2008 and 2007

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

(A Development Stage Company)

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

	March 31, 2008	September 30, 2007
Assets		
Current		
Cash and cash equivalents	\$ 32,611,061	\$ 36,711,648
Commodity tax recoverable	663,847	421,691
Prepaid expenses and other	62,302	5,379
Loans receivable	152,606	-
	<u>33,489,816</u>	<u>37,138,718</u>
Rent deposit	21,563	12,851
Property, Plant and Equipment (Note 3)	<u>2,489,269</u>	<u>2,567,876</u>
	<u>\$ 36,000,648</u>	<u>\$ 39,719,445</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 853,039	\$ 2,137,007
Future Income Tax Liability (Note 7)	4,290,000	465,700
Shareholders' Equity		
Share Capital (Note 4)	44,748,003	47,260,341
Contributed Surplus (Note 5)	1,666,801	750,614
Deficit	<u>(15,557,195)</u>	<u>(10,894,217)</u>
	<u>30,857,609</u>	<u>37,116,738</u>
	<u>\$ 36,000,648</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 and six months ended March 31

Period from

October 1, 2004

to March 31,

2008

	Three months ended March 31,		Six months ended March 31,		
	2008	2007	2008	2007	
General, Administrative and Engineering Expenses (Notes 6 and 8)					
Consulting	\$ 165,417	\$ -	\$ 191,195	\$ -	\$ 849,038
Depreciation and amortization	54,435	169,876	102,844	198,430	431,597
Engineering and development costs	869,000	582,556	1,643,119	822,713	5,220,913
Interest on debentures	-	31,693	-	72,898	261,328
Office and administration	270,873	9,200	477,462	233,109	1,481,279
Public relations	189,251	57,660	361,668	97,652	872,829
Professional fees	383,575	85,813	530,349	109,522	1,511,763
Salaries and wages	383,510	-	579,183	-	579,183
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	53,844	92,533	55,310	167,470	279,580
Travel	121,046	64,518	242,834	99,491	773,248
Loss before the following:	(2,490,954)	(1,093,849)	(5,497,703)	(2,307,285)	(14,122,497)
Other Revenues (Expenses)					
Petroleum and natural gas sales, net	26,331	24,441	52,287	50,359	914,672
Foreign exchange gain (loss)	(3,424)	(557)	(4,318)	7,205	(43,334)
Investment income	366,345	41,901	786,756	52,610	1,193,899
Gain on sale of investments	-	500,000	-	500,000	510,609
Write down of deferred expenditures	-	-	-	-	(516,427)
Gain on sale of resource property interests	-	-	-	-	420,753
	389,251	565,785	834,724	610,174	2,480,171
Net Loss and Comprehensive Loss	(2,101,702)	(528,064)	(4,662,978)	(1,697,111)	(11,642,325)
Deficit, beginning of period	(13,455,493)	(6,995,695)	(10,894,217)	(5,826,648)	(3,914,870)
Deficit, end of period	\$ (15,557,195)	\$ (7,523,759)	\$ (15,557,195)	\$ (7,523,759)	\$ (15,557,195)
Loss per common share	\$ (0.06)	\$ (0.03)	\$ (0.13)	\$ (0.11)	
Weighted average number of shares outstanding	35,967,383	16,090,051	35,682,424	15,435,969	

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 and six months ended March 31

Period from
October 1, 2004
to March 31,
2008

	Three months ended March 31,		Six months ended March 31,		
	2008	2007	2008	2007	2008
Cash flows from operating activities					
Loss for the period	\$ (2,101,702)	\$ (528,064)	\$ (4,662,978)	\$ (1,697,111)	\$ (11,642,325)
Items not affecting cash					
Depreciation and amortization	54,435	169,876	102,844	198,430	431,597
Interest on debentures payable	-	31,693	-	72,898	72,898
(Gain) on disposal of investments	-	(500,000)	-	(500,000)	(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 oil and gas properties	-	-	-	-	(420,573)
	(2,047,267)	(826,495)	(3,246,398)	(1,419,783)	(9,712,548)
Changes in non-cash working capital, net	285,827	(27,707)	(1,735,653)	132,540	(467,466)
	(1,761,440)	(854,202)	(4,982,051)	(1,287,243)	(10,180,014)
Cash flows from investing activities					
Rent deposit and other receivables	(8,712)	-	(8,712)	-	691,288
Proceeds on sale of investments	-	500,000	-	500,000	544,852
Purchase of property, plant and equipment	(6,755)	(15,724)	(24,237)	(55,595)	(2,699,743)
Proceeds on sale of oil and gas properties	-	-	-	-	493,016
	(15,467)	484,276	(32,949)	444,405	(970,587)
Cash flows from financing activities					
Proceeds on issuance of convertible debentures	-	-	-	-	1,691,570
Proceeds on issuance of common shares (net)	(3,484,755)	5,309,403	(2,909,887)	5,587,601	37,419,234
Future income tax liability	3,824,300	-	3,824,300	-	4,290,000
Receipt of share subscription receivable	-	-	-	1,120,000	-
	339,545	5,309,403	914,413	6,707,601	43,400,804
Increase in cash and cash equivalents during the period	(1,437,362)	4,939,477	(4,100,587)	5,864,763	32,250,203
Cash and cash equivalents, beginning of period	34,048,423	2,748,290	36,711,648	1,823,004	360,858
Cash and cash equivalents, end of period	\$ 32,611,061	\$ 7,687,767	\$ 32,611,061	\$ 7,687,767	\$ 32,611,061
Supplemental cash flow information:					
State income tax paid	\$ -	\$ -	\$ -	\$ -	\$ 4,942
Investment income received	\$ 366,345	\$ -	\$ 786,756	\$ -	\$ 773,488

NAIKUN WIND ENERGY GROUP INC.

Notes to Consolidated Financial Statements

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March 31, 2008

1. Nature and Continuance of Operations

Prior to 2004, NaiKun Wind Energy Group Inc. ("Group" or the "Company"), formerly Uniterre Resources Ltd. ("Uniterre"), 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 Uniterre to Group in November 2006.

As per the Statement of Loss, the Company has incurred a net loss for the three and six months ended March 31, 2008 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"); Uniterre Resources Ltd. ("URL"); and Austar Resources (U.S.) Corporation

Group, Opco, Transco, and URL were each incorporated in British Columbia. Patriot was incorporated in Alberta. 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. Uniterre 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 their estimated useful lives

Wind measuring equipment	15 years straight line
Office equipment	3 - 5 years straight line

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.

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.

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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.

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 on its financial instruments 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. 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 using the treasury stock method. 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.

Changes in Recent Accounting Pronouncements

Accounting Changes, Comprehensive Income, Hedges and Financial Instruments

Section 1506, Accounting Changes, 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.

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Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, replace Section 3861 Financial Instruments - Disclosure and Presentation, require the disclosure of information with regards to the significance of financial instruments for the Company's financial position and performance, 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 "loans and receivable". 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 "financial liabilities". 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 (i) its objectives, policies and processes for managing its capital, (ii) what the Company regards as capital (iii) its compliance with any capital requirements; and (iv) the consequences of non-compliance, where applicable. See Note 10.

3. Property, Plant and Equipment

	Cost	Accumulated Amortization	Net Book Value Mar. 31, 2008	Net Book Value Sept 30, 2007
Wind measuring equipment	\$ 2,499,618	83,321	\$ 2,416,297	2,499,618
Office equipment	126,199	53,228	72,972	68,258
	\$ 2,625,817	\$ 136,548	\$ 2,489,269	\$ 2,567,876

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:

	Issued	Common Shares		Book Value
		Held in Treasury	Outstanding	
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
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

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March 31, 2008

(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 \$0.13 per share	50,000		50,000	10,870
(b)(ii) Exercise of options at \$0.15 per share	50,000		50,000	12,470
(b)(iii) Exercise of options at \$0.42 per share	100,000		100,000	57,790
Exercise of warrants at \$0.55 per share	217,900		217,900	119,845
(b)(iv) Exercise of options at \$0.50 per share	413,827		413,827	308,192
(b)(v) Exercise of options at \$0.72 per share	450,000		450,000	542,003
Exercise of warrants at \$1.70 per share	26,212		26,212	44,560
(b)(vi) Exercise of options at \$1.40 per share	61,711		61,711	139,534
Exercise of warrants at \$1.80 per share	42,610		42,610	76,698
Tax benefit of flow-through shares (see Note 7)				(3,824,300)
Balance, March 31, 2008	36,323,708	4,808	36,318,900	\$ 44,748,003

- (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 officers.
- (ii) 3,760,000 common shares issued upon conversion of debentures payable at a conversion price of \$0.50 per share. 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	March 31, 2008
(i) \$0.13, December 9, 2011	50,000	-	50,000	-
(ii) \$0.15, September 9, 2009	50,000	-	50,000	-
(iii) \$0.42, October 16, 2007	100,000	-	100,000	-
(iv) \$0.50, September 22, 2008	447,527	-	413,827	33,700
(v) \$0.72, November 28, 2011	1,012,500	-	450,000	562,500
(vi) \$1.40, May 30, 2008	146,167	-	61,711	84,456
	1,806,194	-	1,125,538	680,656

- (i) 50,000 options were exercised into common shares at a price of \$0.13 per share for cash proceeds of \$6,500 (estimated fair value \$10,870)
- (ii) 50,000 options were exercised into common shares at a price of \$0.15 per share for cash proceeds of \$7,500 (estimated fair value \$12,470);
- (iii) 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);
- (iv) 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 six months ended March 31, 2008, the Company issued 413,827 shares on exercise of these options for gross proceeds of \$206,914 (estimated fair value \$308,192);

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- (v) 450,000 options were exercised into common shares at a price of \$0.72 per share for cash proceeds of \$324,000 (estimated fair value \$542,003);
- (vi) 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 six months ended March 31, 2008, the Company issued 61,711 common shares on exercise of these options for gross proceeds of \$86,395 (estimated fair value \$139,534).

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 six months ended March 31, 2008.

The weighted average exercise price of options as at March 31, 2008 and September 30, 2007 is as follows:

	March 31, 2008		September 30, 2007	
	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price
Balance, beginning of fiscal year	1,806,194	\$ 0.67	805,000	\$ 0.15
Granted	-	-	1,865,187	0.69
Exercised	(1,125,538)	0.60	(863,993)	0.22
Balance at end of period	680,656	\$ 0.79	1,806,194	\$ 0.67

c) Share Purchase Warrants

Exercise price and Expiry date	September 30 2007	Granted	Exercised	March 31, 2008
(i) \$0.55, September 30, 2008	2,015,851	206,914	217,900	2,004,865
(ii) \$1.80, May 30, 2008	942,347	30,856	42,610	930,593
(iii) \$1.70, May 30, 2008	56,714	-	26,212	30,502
(iv) \$2.66, December 4, 2009	-	1,000,000	-	1,000,000
	3,014,912	1,237,770	286,722	3,965,960

- (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 six months ended March 31, 2008, 413,827 of these broker options were exercised resulting in the issuance of 206,914 warrants.
- (ii) the Company issued 982,142 share purchase warrants in conjunction 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 six months ended March 31, 2008, 61,711 of these broker options were exercised resulting in the issuance of 30,856 warrants.
- (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.

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March 31, 2008

(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 Warrant Plan are:

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

The Warrant Plan was approved by shareholders at the Annual General Meeting held on February 6, 2008. As at March 31, 2008, 13.8 million Warrants have been awarded.

Due to the uncertainty of the occurrence and timing of the triggering event, Warrants granted 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:

	March 31, 2008	September 30, 2007
Balance, beginning of period	\$ 750,614	\$ 79,450
Stock-based compensation (Note 4)	-	506,000
Fair value of broker options	-	278,318
Fair value of warrants issued for transmission rights	1,313,736	-
Stock options exercised, transfer to share capital	(397,549)	(113,154)
Balance, end of period	\$ 1,666,801	\$ 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:

	Six months ended March 31, 2008	2007	Cumulative to March 31, 2008
Expenses			
Amortization	\$ 85,638	\$ -	\$ 85,638
Consulting	110,407	43,023	549,077
Engineering and research	1,643,119	822,713	6,179,352
Insurance	60,720	-	68,003
Office expenses	187,166	77,580	325,435
Professional fees	80,493	-	597,487
Public relations & communications	278,464	114,003	743,310
Rent	87,816	-	219,737
Salaries	377,206	-	377,206
Transmission rights	1,313,736	-	1,313,736
Travel	174,145	74,455	637,758
	\$ 4,398,910	\$ 1,131,774	\$ 11,096,739

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 March 31, 2008, the Company has renounced \$12.63 million (\$1.37 million as at September 30, 2007) in flow through expenditures, to subscribers, resulting in a future tax liability of \$4.29 million (\$465,700 as at September 30, 2007).

NAIKUN WIND ENERGY GROUP INC.

Notes to Consolidated Financial Statements

(A Development Stage Company)

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

March 31, 2008

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 six months ended March 31, 2008, \$295,000 of these expenses were included in the Consolidated Statement of Loss (2007 - \$230,000). 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 March 31, 2008, 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. Capital Management

The Company's capital management objectives are to maintain investor, creditor and market confidence in order to sustain ongoing development activities in the wind energy sector. The Company includes cash and cash equivalent balances as capital. The Company's investment policy restricts its capital investments to:

- securities with maturities of 90 days or less from date of acquisition; and
- issued by the Government of Canada; or
- Bankers Acceptances issued by a Canadian chartered bank, subject to a \$10 million limit from any one bank.

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.

11. Subsequent Events

Subsequent to March 31, 2008, the Company issued 837,649 common shares for gross proceeds of \$828,205 through the exercise of various options and warrants.

Subsequent to March 31, 2008, the Company's HR and Compensation Committee approved a mortgage loan to a Company director, who is also a senior officer of one of the Company's subsidiaries to purchase a home. The loan is secured by the property, bears interest at the Bank of Montreal prime rate and has a term to maturity of three (3) years. On May 14, 2008, the Company advanced \$732,000 pursuant to this loan.