
NAIKUN WIND ENERGY GROUP INC.

(A Development Stage Company)

Consolidated Financial Statements

(Expressed in Canadian Dollars)

September 30, 2008 and 2007



AUDITOR'S REPORT

To the Shareholders of

Naikun Wind Energy Group Inc.

We have audited the Consolidated Balance Sheets of Naikun Wind Energy Group Inc. as at September 30, 2008 and 2007 and the Consolidated Statements of Loss and comprehensive loss and Deficit and Cash Flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and 2007 and the results of its operations based on statement of net loss and comprehensive loss and deficit and cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Burnaby, B.C.
December 26, 2008

KANESTER JOHAL
Chartered Accountants



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, 2008 and 2007 is the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on current information available.

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: "Doug King"

Doug King – Chief Financial Officer

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

(A Development Stage Company)

(Expressed in Canadian Dollars)

	September 30, 2008	September 30, 2007
Assets		
Current		
Cash and cash equivalents	\$ 27,942,637	\$ 36,711,648
Receivables	274,588	421,691
Prepaid expenses and other	69,088	5,379
Loans receivable	150,000	-
	<u>28,436,313</u>	<u>37,138,718</u>
Rent deposit	21,563	12,851
Long term loan receivable (Note 10)	732,000	-
Property, Plant and Equipment (Note 4)	<u>2,807,688</u>	<u>2,567,876</u>
	<u>\$ 31,997,564</u>	<u>\$ 39,719,445</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 4,580,228	\$ 2,137,007
Asset Retirement Obligation (Note 5)	822,702	-
Future Income Tax Liability (Note 9)	<u>4,010,000</u>	<u>465,700</u>
	9,412,930	2,602,707
Shareholders' Equity		
Share Capital (Note 6)	48,080,674	47,260,341
Contributed Surplus (Note 7)	1,585,828	750,614
Deficit	<u>(27,081,868)</u>	<u>(10,894,217)</u>
	<u>22,584,634</u>	<u>37,116,738</u>
	<u>\$ 31,997,564</u>	<u>\$ 39,719,445</u>

Commitments and Contingent Liabilities (Notes 11 and 12)

Subsequent Events (Note 15)

Approved by the Board:

Director: "Paul Taylor"

Director: "Graham Wilson"

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

(A Development Stage Company)

(Expressed in Canadian Dollars)

For the years ended September 30, 2008 and 2007

	Year ended September 30,		Period from
	2008	2007	October 1, 2004
			to September 30,
			2008
General, Administrative and Engineering Expenses (Notes 8 and 10)			
Consulting	\$ 53,266	\$ -	\$ 711,109
Depreciation and amortization	652,313	206,112	981,066
Engineering and development costs	5,825,787	2,881,187	9,403,581
Interest on debentures	-	72,898	261,328
Office and administration	1,024,533	525,176	2,252,620
Public and community relations	555,589	185,173	1,066,750
Professional fees	747,518	396,556	1,728,932
Compensation (Note 12)	6,778,691	984,484	6,778,691
Stock-based compensation (Note 6)	-	506,000	548,000
Transmission rights (Note 6c(iv))	1,313,736	-	1,313,736
Travel	654,074	304,935	1,184,488
Loss before the following:	<u>(17,605,507)</u>	<u>(6,062,521)</u>	<u>(26,230,301)</u>
Other Revenues (Expenses)			
Petroleum and natural gas sales, net	121,527	71,294	983,912
Foreign exchange gain (loss)	14,402	(17,257)	(24,614)
Investment income	1,281,927	389,843	1,689,070
Gain on sale of investments	-	551,072	510,609
Write down of deferred expenditures	-	-	(516,427)
Gain on sale of resource property interests	-	-	420,753
	<u>1,417,856</u>	<u>994,952</u>	<u>3,063,303</u>
Net Loss and Comprehensive Loss	<u>(16,187,651)</u>	<u>(5,067,569)</u>	<u>(23,166,998)</u>
Deficit, beginning of year	<u>(10,894,217)</u>	<u>(5,826,648)</u>	<u>(3,914,870)</u>
Deficit, end of year	<u>\$ (27,081,868)</u>	<u>\$ (10,894,217)</u>	<u>\$ (27,081,868)</u>
Loss per common share	<u>\$ (0.44)</u>	<u>\$ (0.25)</u>	
Weighted average number of shares outstanding	<u>36,763,805</u>	<u>20,405,558</u>	

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

(A Development Stage Company)

(Expressed in Canadian Dollars)

For the years ended September 30, 2008 and 2007

	Year ended September 30,		Period from
	2008	2007	October 1, 2004 to September 30, 2008
Cash (used in) provided by:			
OPERATING ACTIVITIES			
Loss for the period	\$ (16,187,651)	\$ (5,067,569)	\$ (23,166,998)
Items not affecting cash			
Depreciation and amortization	652,313	206,112	981,066
Interest on debentures payable	-	72,898	72,898
(Gain) on disposal of investments	-	(551,072)	(510,609)
Stock-based compensation	-	506,000	548,000
Transmission rights (Note 6c(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)
	(14,221,602)	(4,833,631)	(20,687,752)
Changes in non-cash working capital, net	2,376,615	1,690,379	4,110,502
	(11,844,987)	(3,143,252)	(16,577,250)
INVESTING ACTIVITIES			
Rent deposit and other receivables	(8,712)	-	691,288
Long term loan receivable	(732,000)	-	(732,000)
Proceeds on sale of investments	-	512,072	544,852
Purchase of property, plant and equipment	(69,423)	(2,560,239)	(2,744,929)
Proceeds on sale of oil and gas properties	-	-	493,016
	(810,135)	(2,048,167)	(1,747,773)
FINANCING ACTIVITIES			
Proceeds on issuance of convertible debentures	-	-	1,691,570
Proceeds on issuance of common shares (net)	3,886,111	38,960,063	44,215,232
Receipt of share subscription receivable	-	1,120,000	-
	3,886,111	40,080,063	45,906,802
Increase/(decrease) in cash and cash equivalents during the year	(8,769,011)	34,888,644	27,581,779
Cash and cash equivalents, beginning of year	36,711,648	1,823,004	360,858
Cash and cash equivalents, end of year	\$ 27,942,637	\$ 36,711,648	\$ 27,942,637
Supplemental cash flow information:			
State income tax paid	\$ -	\$ 4,271	\$ 4,942
Investment income received	\$ 1,281,927	\$ 389,843	\$ 1,689,070

NAIKUN WIND ENERGY GROUP INC.

Notes to Consolidated Financial Statements

(A Development Stage Company)

(Expressed in Canadian Dollars)

September 30, 2008

1. Nature and Continuation of Operations

NaiKun Wind Energy Group Inc. ("Group" or the "Company") is incorporated under the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange. The Company's primary business is the development of wind energy projects. The Company is currently developing a project (the "NaiKun Wind Project") in the Hecate Strait and is a registered proponent in the Clean Energy Call issued by BC Hydro Power and Authority ("BC Hydro"). Upon achievement of certain milestones, the Company intends to involve strategic partners in the construction and operation of the NaiKun Wind Project and continue to develop future phases.

The Company is considered to be in the development stage as it has yet to earn revenue from the sale of wind energy. 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. While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, management recognizes that economic and market variables affect this assumption and that many of these variables are beyond the Company's control. Management is of the opinion that it has raised sufficient capital to complete the development stages of Phase 1 of the NaiKun Wind Project. Subject to a successful award in the Clean Energy Call, additional financing will be required to secure major supply agreements and commence the construction stage. Management is of the opinion that additional financing will be available at that time. If the going concern assumption is not appropriate for these financial statements, adjustments affecting the carrying value of assets, liabilities, reported net losses and balance sheet classifications may be required, and such adjustments could be material.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: NaiKun Wind Development Inc. ("Devco"); Patriot Energy Company Ltd. ("Patriot"); and Austar Resources (U.S.) Corporation ("Austar"). All inter-company transactions and balances have been eliminated upon consolidation.

The Company has also incorporated the following wholly owned subsidiaries: NaiKun Wind Operating Inc., NaiKun Wind Transmission Inc., NaiKun Wind Transmission Operating Inc., NaiKun Wind Generating (II) Inc., NaiKun Wind Generating (III) Inc., NaiKun Wind Generating (IV) Inc., NaiKun Wind Generating (V) Inc., Haidalink Inc., and Uiterre Resources Ltd. The Company also owns 50% of the issued and outstanding shares of NaiKun Wind Generating Inc. ("Genco") None of these companies have completed any financial transactions as at September 30, 2008. It is the Company's intent to include the accounts of each of these companies on a proportionate consolidation basis when applicable.

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.

NaiKun Wind 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. Certain expenditures for wind measuring equipment and related structural support have been capitalized (Note 4).

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 using the following methods:

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

Asset Retirement Obligation

The Company recognizes asset retirement obligations for the future costs associated with removal and abandonment of its wind measuring equipment. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred or when a reasonable estimate of the fair value can be made, and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined from discussion and analysis with engineering consultants and management estimates and is described further in Note 5.

NAIKUN WIND ENERGY GROUP INC.

Notes to Consolidated Financial Statements

(A Development Stage Company)

(Expressed in Canadian Dollars)

September 30, 2008

Long-Lived Assets

Long-lived assets are reviewed for possible impairment resulting from events or circumstances that affect its fair value. Where the carrying value of the asset exceeds the undiscounted cash flows expected from the use and/or disposition of the asset, an adjustment for the difference is recorded as an impairment loss. As at September 30, 2008, management is of the opinion that the expected net cash flows from the NaiKun Wind Project are in excess of the carrying value of the wind measuring equipment and consequently, an impairment loss has not been recorded.

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 share capital.

Share Issue Costs

Costs associated with the issuance of share capital are charged directly to share capital.

Stock Based Compensation

The Company has a stock-based compensation plan (see Note 6(b)), and has also issued warrants to third parties to progress the NaiKun Wind Project (see Note 6(c)iv). Warrants or options issued under these plans are 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. Significant areas requiring the use of management estimates relate to the determination of impairment of its long-lived assets, asset retirement obligations, amortization, future income tax valuation allowance and the determination of stock based compensation.

NAIKUN WIND ENERGY GROUP INC.

Notes to Consolidated Financial Statements

(A Development Stage Company)

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Revenue Recognition

Royalty payments from the Company's oil and gas interests are recorded as income when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Interest earned on the Company's cash and cash equivalent balances is recorded as interest income on an accrual basis.

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 6(b) and 6(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.

3. Changes in Accounting Pronouncements

During the year ended September 30, 2008, the Company adopted a number of new sections from the Canadian Institute of Chartered Accountants Handbook: Section 1506 - Accounting Changes, Section 1530 - Comprehensive Income, Section 1400 - General Standards of Financial Presentation, Section 1535 - Capital Disclosures, Section 3862 - Financial Instruments (Disclosures) and Section 3863 - Financial Instruments (Presentation)

Accounting Changes

Section 1506 relates to changes in accounting policies, changes in accounting estimates and errors. Under this revised standard, voluntary changes in accounting policy are only made 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.

Comprehensive Income

Section 1530 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 has reviewed its financial instruments and its transactions which would require the recognition of comprehensive income and has not found any material items. Consequently, the Statement of Comprehensive Income has been combined with the Statement of Loss and Deficit.

General Standards of Financial Presentation

Section 1400 requires additional disclosure on the Company's assessment of its ability to continue as a going concern. The Company has provided this disclosure in Note 1.

Financial Instruments

Section 3862 and Section 3863, replace Section 3861, and 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.

Financial Instruments must be classified into one of the following five categories: Held for Trading, Loans and Receivable, Held to Maturity, Available for Sale and Other Financial Liabilities. All financial instruments are initially measured at fair value. Measurement in subsequent periods depends on the classification as follows:

Classification	Measurement in subsequent periods:
Held for Trading	recognized in net income (loss)
Loans and Receivables	measured at amortized cost using the effective interest method.
Held to Maturity	measured at amortized cost using the effective interest method.
Available for Sale	recognized in comprehensive income (loss) until investment is disposed and then recorded in net income (loss)
Other Financial Liabilities	measured at amortized cost using the effective interest method.

NAIKUN WIND ENERGY GROUP INC.

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The Company has designated its financial instruments as follows:

- Cash and cash equivalents are classified as "Held for trading".
- Receivables are classified as "Loans and Receivables".
- Accounts payable and accrued payables are classified as "Other Financial Liabilities".

The new disclosure standard increases the requirements to define and describe the risks associated with financial instruments and how these risks are managed. (See Note 13)

Capital Disclosures

Section 1535 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. The Company's capital management objectives and policies are described in detail in Note 14.

New accounting standards not yet adopted

Goodwill and Intangible Assets

Section 3064, Goodwill and Intangible Assets, will be replacing Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, and is effective for fiscal years beginning on or after October 1, 2008. Section 3064 establishes new standards for the recognition, measurement, presentation and disclosure of intangible assets. The Company is evaluating the impact of the adoption of this new section but currently does not expect it to have a material impact on the consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In early 2008, the CICA announced that International Financial Reporting Standards ("IFRS") will become Canadian accounting standards for publicly accountable enterprises on January 1, 2011. The Company will be required to adopt IFRS for its year ended September 30, 2011 and is currently evaluating the impact and processes required. During the next fiscal year ended September 30, 2009, the Company will formulate a schedule and involve the necessary consultants to develop a strategy for the Company to meet the requirements of IFRS.

4. Property, Plant and Equipment

	Cost	Accumulated Amortization	Net Book Value Sept 30, 2008	Net Book Value Sept 30, 2007
Wind measuring equipment	\$ 3,283,144	\$ 578,276	\$ 2,704,868	\$ 2,499,618
Office equipment	171,385	68,565	102,820	68,258
	<u>\$ 3,454,529</u>	<u>\$ 646,841</u>	<u>\$ 2,807,688</u>	<u>\$ 2,567,876</u>

5. Asset Retirement Obligation

The asset retirement obligation relates to reclamation and closure costs relating to the Company's wind measuring equipment. The asset retirement obligation is calculated as the net present value of the estimated future cash flows which are required to satisfy the obligation of approximately \$1,000,000 and are discounted over the estimated useful life of the asset using a credit adjusted risk-free rate of 5%. The settlement of the obligation is expected to occur in 2013.

6. 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
(a)(i) Share for share exchange with subsidiary	3,210,000		3,210,000	-

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

(A Development Stage Company)

(Expressed in Canadian Dollars)

September 30, 2008

	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
(a)(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
(a)(iii)	Issue of flow through shares at \$1.70 per share	735,295	735,295	1,056,189
(a)(iii)	Issue of common shares at \$1.40 per share	1,964,284	1,964,284	2,323,609
(a)(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
(a)(v)	Issue of flow through shares at \$3.85 per share	2,600,000	2,600,000	9,365,634
(a)(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 9)			(465,700)

Balance, September 30, 2007	34,911,448	4,808	34,906,640	\$ 47,260,341
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(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	2,115,613	2,115,613	1,163,587
(b)(iv)	Exercise of options at \$0.50 per share	447,527	447,527	333,288
(b)(v)	Exercise of options at \$0.72 per share	450,000	450,000	542,003
	Exercise of warrants at \$1.70 per share	56,714	56,714	96,414
(b)(vi)	Exercise of options at \$1.40 per share	146,167	146,167	330,499
	Exercise of warrants at \$1.80 per share	1,009,840	1,009,840	1,817,712
	Tax benefit of flow-through shares (see Note 9)			(3,544,300)

Balance, September 30, 2008	39,337,309	4,808	39,332,501	\$ 48,080,674
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- (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.

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

(A Development Stage Company)

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September 30, 2008**b) Stock Options**

Exercise price and Expiry date	September 30 2007	Granted	Exercised	September 30 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	-	447,527	-
(v) \$0.72, November 28, 2011	1,012,500	-	450,000	562,500
(vi) \$1.40, May 30, 2008	146,167	-	146,167	-
	<u>1,806,194</u>	<u>-</u>	<u>1,243,694</u>	<u>562,500</u>

(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 had an exercise price of \$0.55 and an expiry date of September 22, 2008. During the year ended September 30, 2008, the Company issued 447,527 shares on exercise of these options for gross proceeds of \$246,140 (estimated fair value \$333,288);

(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 an expiry date of May 30, 2008. The accompanying warrants had an exercise price of \$1.80 and an expiry date of May 30, 2008. During the year ended September 30, 2008, the Company issued 146,167 common shares on exercise of these options for gross proceeds of \$204,634 (estimated fair value \$330,499).

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 year ended September 30, 2008.

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

	September 30, 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	(1,243,694)	0.65	(863,993)	0.22
Balance at end of period	562,500	\$ 0.72	1,806,194	\$ 0.67

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September 30, 2008**c) Share Purchase Warrants**

Exercise price and Expiry date	September 30 2006	Granted	Exercised	September 30 2007
\$0.25, November 26, 2006	860,193		860,193	-
(i) \$0.55, September 22, 2008	3,000,000	76,237	1,060,386	2,015,851
(ii) \$1.80, May 30, 2008	-	985,402	43,055	942,347
(iii) \$1.70, May 30, 2008	-	58,824	2,110	56,714
	3,860,193	1,120,463	1,965,744	3,014,912

Exercise price and Expiry date	September 30 2007	Granted	Exercised/ Expired	September 30 2008
(i) \$0.55, September 22, 2008	2,015,851	223,764	2,239,615	-
(ii) \$1.80, May 30, 2008	942,347	73,084	1,015,431	-
(iii) \$1.70, May 30, 2008	56,714	-	56,714	-
(iv) \$2.66, December 4, 2009	-	1,000,000	-	1,000,000
	3,014,912	1,296,848	3,311,760	1,000,000

- (i) the Company issued 3,000,000 share purchase warrants with an exercise price of \$0.55 and an expiry date of September 22, 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 year ended September 30, 2008, 447,527 of these broker options were exercised resulting in the issuance of 223,764 warrants. At expiration, 124,002 warrants had not been exercised.
- (ii) the Company issued 982,142 share purchase warrants in conjunction with the Unit financing in March 2007. These warrants had 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 year ended September 30, 2008, 146,167 of these broker options were exercised resulting in the issuance of 73,084 warrants. At expiration, 5,591 warrants had not been exercised.
- (iii) the Company issued 58,824 flow through compensation warrants in conjunction with the flow through financing in March 2007. These warrants had an exercise price of \$1.70 and an expiry date of May 30, 2008. All of these warrants were exercised into common shares before expiration.
- (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 with an exercise price of \$2.66 and an expiry date of December 4, 2009. 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 during the year ended September 30, 2008 as Transmission Rights.

(d) Warrant Plan

The Company's Warrant Plan (formerly the Restricted Stock Unit ("RSU") Plan) was created to attract and retain a talent pool of professionals during the start-up years when cash resources were limited and to defer the majority of its initial compensation expenses until commercial success is achieved.

The 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;

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- Warrants not exercisable until occurrence of the triggering event (financial close on construction financing for Phase 1 of the NaiKun Wind Project);
- Warrants expire on the earlier of two years from the triggering event and September 30, 2013.

The Warrant Plan was approved by shareholders at the Annual General Meeting held on February 6, 2008. As at September 30, 2008, 11.3 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 6(c) nor in the computation of stock-based compensation.

A notice to cancel the Warrant Plan was issued to all participants subsequent to September 30, 2008 and a new plan was subsequently created (see Note 15).

7. Contributed Surplus

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

	September 30 2008	September 30 2007
Balance, beginning of period	\$ 750,614	\$ 79,450
Stock-based compensation (Note 6(b))	-	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	(478,522)	(113,154)
Balance, end of period	\$ 1,585,828	\$ 750,614

8. 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. The cumulative expenses on the project to date aggregate \$26 million (2007 - \$8.5 million). Certain expenditures for wind measuring equipment and related structural support have been capitalized and are reflected in the Consolidated Balance Sheet (see Note 4).

9. Income Taxes

Current income taxes

The provision for income taxes differs from the results which would be obtained by applying the combined Federal and Provincial rate of approximately 31.75% (2007-34%) to the loss before income taxes. This difference results from the following items:

	2008	2007
Expected income tax expense (recovery)	\$ (5,142,200)	\$ (1,580,000)
Increase (decrease) resulting from:		
Non-deductible expenses	438,500	179,000
Financing costs	(192,400)	(142,000)
Non-taxable capital gain	-	87,000
Temporary differences	2,803,600	1,234,000
Adjustment from tax rate reduction	85,200	-
Tax Benefits not recognized	2,007,300	222,000
Provision for income taxes	\$ -	\$ -

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The issuance of flow through shares requires the renunciation of development expenditures in an amount of equal value to the shares issued. In accordance with income tax legislation, the Company must incur these development expenditures in the year of renunciation or in the subsequent year. As of September 30, 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 \$4.01 million (2007 - \$0.47 million).

Future income taxes

The significant components of the Company's future income taxes are as follows:

	2008	2007
Non-capital losses	\$ 3,034,200	\$ 999,800
Resource deductions	401,100	1,983,000
Financing Costs	608,100	807,000
Total net future tax assets	4,043,400	3,789,800
Valuation allowance	(4,043,400)	(3,789,800)
Net future income tax assets	-	-
Renounced wind development expenditures	12,629,550	1,369,550
Net future income tax liability	\$ 4,010,000	\$ 465,700

The Company has non-capital losses for income tax purposes of approximately \$9,505,700 which can be used to reduce taxable income in future years and will expire in varying amounts commencing in 2009 if not fully utilized. The losses expire as follows:

Expiry Date September 30	\$
2009	519,600
2013	391,800
2014	214,600
2015	345,000
2026	220,200
2027	1,281,300
2028	6,533,200

The Company has resource pools of approximately \$1,263,000 (2007 - \$6,018,000) available to offset future taxable income. The tax benefit of these amounts is available for carry forward indefinitely.

10. 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 year, \$565,702 of these expenses were included in the Consolidated Statement of Loss (2007 - \$828,900). These transactions with related parties are in the normal course of operations and have been measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties and which is considered similar to those that would be otherwise negotiated with third parties.

On May 14, 2008, the Company advanced \$732,000 for 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 long term loan receivable is secured by the property, bears interest at the Bank of Montreal prime rate and has a term to maturity of three (3) years. Interest is accrued and paid on a quarterly basis and the entire principal balance is due and payable upon maturity.

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11. Commitments

The minimum annual net lease payments on the Company's premises are as follows for the twelve (12) months ended September 30:

2009	\$	139,842
2010		146,103
2011		148,190
2012		6,235
	\$	<u>440,370</u>

As at September 30, 2008, the Company has raised \$12.63 million by issuing flow-through shares and has renounced the entire amount. As at September 30, 2008, the Company had incurred resource expenditures totaling approximately \$10.53 million. The Company has an obligation to the flow through investors and Canada Revenue Agency to spend the remaining \$2.1 million on qualifying expenditures as defined by the Canadian Renewable and Conservation Expense program by December 31, 2008 or be subject to penalties and other charges.

12. Contingent Liabilities

The Company's deferred compensation plan includes a deferred cash completion bonus plan ("Deferred Plan") that was designed to attract and retain qualified personnel while conserving cash during the Company's development stages. The Deferred Plan defers payment of the majority of the Company's salary expenses until occurrence of the triggering event (financial close on construction financing for Phase 1 of the NaiKun Wind Project). Aside from the \$1.44 million described below, amounts allocated to the Deferred Plan have not been accrued due to the uncertainty of occurrence and timing of the triggering event. As at September 30, 2008, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.3 million.

During the year ended September 30, 2008, the Company approved a payout from the Deferred Plan to the chairman of the Company in recognition of his contribution to the Company and his transition from being the Chairman, President and CEO of the Company to non-executive Chair and his planned retirement. This payment will be made on his retirement as non-executive Chair in September 2009, amounts to \$1.44 million and represents his entire entitlement under the Deferred Plan. This amount has been accrued as Compensation expense in the Statement of Loss and is included as a current liability.

13. Financial Instruments and Financial Risk Management

a) Fair Value

Canadian generally accepted accounting principles require disclosure on the determination of fair value of the Company's financial assets and liabilities. Since the Company's financial instruments are currently limited to its cash and cash equivalents, receivables, loan receivables, accounts payable and accrued liabilities, and due to the short term nature of these instruments, the Company is of the opinion that cost is the most accurate measure of their fair value.

b) Risks affecting value of Financial Instruments

The Company's exposure to risk on its financial instruments arises primarily from its cash and cash equivalent 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 are limited to a term of three months or less.
Currency Rate Risk	most of the Company's expenditures are currently in Canadian dollars and to minimize currency rate risk, it maintains over 99% 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.
Credit Risk	the Company manages its credit risk by restricting its deposits to Government of Canada treasury notes or Bankers Acceptances guaranteed by a Canadian chartered bank. Holdings in Bankers Acceptances are limited to \$10 million with any one bank.
Liquidity Risk	the Company manages its liquidity risk by restricting the term of any one short term investment to three months or less.

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14. 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 includes cash and cash equivalent balances as capital. The Company's investment policy restricts its capital investments to:

- a) securities with maturities of six months or less from date of acquisition; and
- b) issued by the Government of Canada; or
- c) 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.

15. Subsequent Events

In October 2008, the TSX Venture Exchange accepted the Company's application for a new restricted warrant plan ("New Plan"). The New Plan and the current warrant plan ("Current Plan") described in note 6(d) provide for a combined maximum issuance of 15 million warrants. The terms and conditions of the New Plan are the same as the Current Plan except that the exercise price is \$0.63 (5% higher than the Current Plan) and the restricted period is extended by 30 days.

In November 2008, the Company's Board of Directors approved an employee share purchase loan and benefit program. Company employees who purchase the Company's shares ("Shares") in the open market are eligible to receive a benefit equal to 25% of their purchase and a loan for the remaining 75%. The Shares purchased under this program are subject to a one year hold. The loan bears interest at the CRA prescribed rate, has a one year term, is due and payable if the employee leaves the Company and can be called for repayment at the Company's discretion if the Company's 10 day moving average share price exceeds \$1.50. As at December 22, 2008, the Company has advanced \$315,333 to employees under this program.

In November 2008, the Company submitted a proposal into BC Hydro's Clean Power Call to supply up to 396 megawatts of electricity. BC Hydro is scheduled to award electricity purchase agreements arising from this bid process by June 2009.

In November 2008, the Company finalized the terms and conditions of 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.