
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, 2009 and 2008



NOTICE OF NO AUDITOR REVIEW OF

INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

(A Development Stage Company)

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

	December 31, 2009	September 30, 2009
Assets		
Current		
Cash and cash equivalents	\$ 11,518,433	\$ 14,289,150
Amounts receivable	132,320	213,238
Prepaid expenses and other	132,926	19,127
Share purchase loans receivable (Note 5(b))	61,279	231,621
	<u>11,844,958</u>	<u>14,753,136</u>
Rent deposit	22,123	22,323
Long term loan receivable (Note 5(c))	732,000	732,000
Property, plant and equipment	1,960,730	2,134,086
	<u>\$ 14,559,811</u>	<u>\$ 17,641,545</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 5(a) and (d))	\$ 485,768	\$ 2,077,989
Asset retirement obligation	874,636	863,838
	<u>1,360,404</u>	<u>2,941,827</u>
Non-controlling interest	-	36,513
	<u>-</u>	<u>36,513</u>
Shareholders' Equity		
Share capital (Note 3)	48,080,674	48,080,674
Contributed surplus	1,585,828	1,585,828
Deficit	(36,467,095)	(35,003,297)
	<u>13,199,407</u>	<u>14,663,205</u>
	<u>\$ 14,559,811</u>	<u>\$ 17,641,545</u>

Contingent Liabilities (Note 6)

Subsequent Events (Note 5(b))

Approved by the Board:

Director: "Graham Wilson"

Director: "Paul Taylor"

NAIKUN WIND ENERGY GROUP INC.**Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit
For the three months ended December 31, 2009 and 2008**

(A Development Stage Company)

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

	2009	2008	Cumulative from October 1, 2004 to Dec 31, 2009
		Restated (Note 7)	
General, Administrative and Engineering Expenses (Note 4)			
Accretion	\$ 10,798	\$ 10,284	\$ 91,110
Compensation	852,965	1,051,779	12,224,793
Depreciation and amortization	173,355	174,945	1,818,568
Engineering and development costs	356,875	1,929,205	15,333,786
Interest (Note 7)	-	2,059	419,405
Office and administration	138,874	215,811	3,228,847
Public and community relations	33,719	199,062	1,618,339
Professional fees	28,000	228,252	2,124,591
Stock-based compensation	-	-	548,000
Transmission rights (Note 3(c))	-	-	1,313,736
Travel	42,260	91,972	1,702,173
Loss before the following:	<u>(1,636,846)</u>	<u>(3,903,369)</u>	<u>(40,423,348)</u>
Other Revenues (Expenses)			
Petroleum and natural gas sales, net	11,796	14,021	1,044,811
Foreign exchange gain (loss)	(1,577)	8,951	(26,057)
Investment income	34,283	179,529	2,036,751
Gain on sale of investments	-	-	510,609
Write down of deferred expenditures	-	-	(516,427)
Gain on sale of resource property interests	-	-	420,753
	<u>44,502</u>	<u>202,501</u>	<u>3,470,440</u>
Net loss before the following items	(1,592,344)	(3,700,868)	(36,952,908)
Future income tax recovery	-	-	4,010,000
Non controlling interest	128,545	-	390,682
Loss and Comprehensive Loss	(1,463,799)	(3,700,868)	(32,552,226)
Deficit, beginning of period	<u>(35,003,296)</u>	<u>(23,228,634)</u>	<u>(3,914,870)</u>
Deficit, end of period	<u>\$ (36,467,095)</u>	<u>\$ (26,929,502)</u>	<u>\$ (36,467,096)</u>
Loss per common share, basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>	
Weighted average number of shares outstanding	<u>39,332,501</u>	<u>39,332,501</u>	

NAIKUN WIND ENERGY GROUP INC.
Interim Consolidated Statements of Cash Flows
For the three months ended December 31, 2009 and 2008
(A Development Stage Company)
(Unaudited - Prepared by Management without Auditor's Review)

	2009	2008	Cumulative from October 1, 2004 to Dec 31, 2009
		Restated (Note 7)	
Cash (used in) provided by:			
OPERATING ACTIVITIES			
Loss for the period	\$ (1,463,799)	\$ (3,700,868)	\$ (32,552,226)
Items not affecting cash			
Accretion	10,798	10,284	91,110
Depreciation and amortization	173,355	174,945	1,818,568
Interest on debentures payable	-	-	72,898
Gain on disposal of investments	-	-	(510,609)
Stock-based compensation	-	-	548,000
Transmission rights (Note 3(c))	-	-	1,313,736
Write-down of resource property	-	-	(21,519)
Write-off of deferred expenditures	-	-	516,247
Gain on sale of oil and gas properties	-	-	(420,573)
Future income tax recovery	-	-	(4,010,000)
Non controlling interest	(128,545)	-	(390,682)
	(1,408,191)	(3,515,639)	(33,545,050)
Changes in non-cash working capital, net	(1,533,068)	(1,712,176)	336,507
	(2,941,259)	(5,227,815)	(33,208,543)
INVESTING ACTIVITIES			
Share purchase loans receivable	170,342	-	(61,279)
Rent deposit and other receivables	200	-	690,728
Long term loan receivable	-	-	(732,000)
Proceeds on sale of investments	-	-	544,852
Purchase of property, plant and equipment	-	(29,721)	(2,774,651)
Proceeds on sale of oil and gas properties	-	-	493,016
	170,542	(29,721)	(1,839,334)
FINANCING ACTIVITIES			
Advances from non-controlling interest	-	-	298,650
Proceeds on issuance of convertible debentures	-	-	1,691,570
Proceeds on issuance of common shares (net)	-	-	44,215,232
	-	-	46,205,452
Increase/(decrease) in cash and cash equivalents during the period	(2,770,717)	(5,257,536)	11,157,575
Cash and cash equivalents, beginning of period	14,289,150	27,942,637	360,858
Cash and cash equivalents, end of period	\$ 11,518,433	\$ 22,685,101	\$ 11,518,433
Supplemental cash flow information:			
State income tax paid/(received)	\$ -	\$ -	\$ 4,942
Investment income received	\$ 31,917	\$ 179,529	\$ 1,720,987
Interest paid	\$ -	\$ -	\$ 419,405

NAIKUN WIND ENERGY GROUP INC.

Notes to Interim Consolidated Financial Statements

(A Development Stage Company)

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

For the three months ended December 31, 2009 and 2008

1. Nature and Continuance 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 renewable energy projects. The Company is currently developing a project (the "NaiKun Wind Project") on the north coast of British Columbia in 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 Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. 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. 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

(a) Basis of Presentation

The Company prepares its consolidated interim financial statements in accordance with the Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the year ended September 30, 2009. The disclosures contained in these consolidated interim financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly, these consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended September 30, 2009.

(b) Future Standards

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the CICA announced that IFRS will become Canadian accounting standards for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will be required to adopt IFRS during its fiscal year beginning on October 1, 2011 and is currently evaluating the impact and processes required. The Company is currently developing its IFRS conversion plan. The plan will focus on identifying the differences arising from IFRS and the Company's current accounting policies, assessing their impact and, where necessary, analyzing the various alternatives available under IFRS.

(ii) Business Combinations (Section 1582), Consolidated Financial Statements (Section 1601) and Non-Controlling Interests (Section 1602)

In January 2009, the CICA introduced Handbook Section 1582 to replace Section 1581, Business Combinations, and Sections 1601 and 1602 to collectively replace Handbook Section 1600, Consolidated Financial Statements. These standards are effective for business combinations with an acquisition date after October 1, 2011. The adoption of these new standards on the Company's consolidated financial statements will result in the reclassification of non-controlling interest to shareholders' equity.

3. 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	
	Outstanding	Book Value
Balance, September 30, 2009 and December 31, 2009	39,332,501	\$ 48,080,674

b) Stock Options

Expiry Date	Exercise Price	Number Outstanding as at	
		December 31 2009	September 30 2009
November 28, 2011	\$ 0.72	562,500	562,500
		562,500	562,500

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

(A Development Stage Company)

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For the three months ended December 31, 2009 and 2008**Stock Based Compensation**

The Company has a stock option plan ("Option Plan") that provides for the issuance of options to its directors, officers, employees, and consultants. Compensation costs attributable to share options granted to employees, directors or consultants are measured at fair value at the grant date and expensed with a corresponding increase to contributed surplus over the vesting period. The Company did not issue any options during the the three months ended December 31, 2009 and the year ended September 30, 2009.

The weighted average exercise price of options as at December 31, 2009 and September 30, 2009 is as follows:

	December 31, 2009		September 30, 2009	
	Options outstanding and exercisable	Weighted Average Exercise Price	Options outstanding and exercisable	Weighted Average Exercise Price
Balance, beginning and end of period	562,500	\$ 0.72	562,500	\$ 0.72

c) Share Purchase Warrants

Expiry Date	Exercise Price	Number Outstanding as at	
		December 31 2009	September 30 2009
December 4, 2009	\$ 2.66	-	1,000,000

In December 2007, the Company concluded agreements on electricity transmission corridors with two First Nations communities. These agreements included 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. All warrants expired unexercised during the three months ended December 31, 2009.

(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 \$0.63 per share;
- Warrants not exercisable until 30 days after financial close on construction financing for Phase 1 of the NaiKun Wind Project ("Financial Close");
- Warrants expire on the earlier of two years from Financial Close and September 30, 2013.

The Warrant Plan was approved by shareholders at the Company's annual general meeting held on February 6, 2008 and subsequently by the TSX Venture Exchange. A revised Warrant Plan, to increase the exercise price from \$0.60 to \$0.63, was submitted to the TSX Venture Exchange and subsequently approved in October 2008. As at December 31, 2009, 12.0 million (September 30, 2009 - 12.0 million) Warrants have been awarded pursuant to the Warrant Plan.

Due to the uncertainty of the occurrence and timing of the triggering event, warrants granted under this plan are not included in the table above nor in the computation of stock-based compensation.

4. Wind Project Costs Under Development

The NaiKun Wind Project is in the development stage and 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 as at December 31, 2009 aggregate \$40.4 million (2008 - \$30.1 million). Certain expenditures for wind measuring equipment have been capitalized and are reflected in the Consolidated Balance Sheet.

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5. Related Party Transactions

- (a) 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, 2009, \$35,000 of these expenses were included in the Consolidated Statement of Loss (2008 - \$80,000). 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 to by the related parties and which is considered similar to that which would be otherwise negotiated with third parties. As at December 31, 2009, \$31,000 (2008 - \$21,000) was payable to related parties and included in accounts payable and accrued liabilities.
- (b) In November 2008, the Company implemented a 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 full recourse loan for the remaining 75%. The Shares purchased under this program are subject to a one year hold. The loan bears interest at the Canada Revenue Agency prescribed rate for employee and shareholder loans, has a one year term (which was extended by six months in October 2009), 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 31, 2009, the loan receivable amounted to \$61,000. For the three months ended December 31, 2009, \$9,700 was recorded in compensation to reflect the 25% benefit received by the participants of this program (2008 - \$9,700). Subsequent to December 31, 2009, the Company received payment of \$21,500 related to the employee loan receivable.
- (c) On May 14, 2008, the Company advanced \$732,000 for a mortgage loan to a former 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 matures in May 2011. Interest is accrued and paid on a quarterly basis and the entire principal balance is due and payable upon maturity. Interest receivable on this mortgage at December 31, 2009 was \$4,106 (2008 - \$7,050).
- (d) During the year ended September 30, 2008, the Company approved a payout of \$1.44 million from the Company's deferred cash completion bonus plan ("Deferred Plan" - see Note 6) 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 amount represents his entire entitlement under the Deferred Plan, was accrued as Compensation Expense during the year ended September 30, 2008 and was reflected in accounts payable and accrued liabilities as at September 30, 2009 and 2008. In October 2009, the Company paid \$1.39 million of the amount payable following his retirement as non-executive Chair in September 2009.

6. Contingent Liabilities

The Company's Deferred Plan was designed to attract and retain qualified personnel while conserving cash during the Company's development stages. The Deferred Plan deferred payment of the majority of the Company's salary expenses prior to 2009 until Financial Close. Aside from the \$1.44 million discussed in Note 5(d), amounts allocated to the Deferred Plan have not been accrued due to the uncertainty of the occurrence of the triggering events for payment, being Financial Close. As at December 31, 2009, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million.

7. Restatement

The Company has restated the prior year comparative figures relating to the Part XII.6 interest charges associated with the unexpended flow through share expenditures during fiscal 2008 resulting in an adjustment to interest expense of \$2,059 from amounts previously reported for the three months ended December 31, 2008.