
NAIKUN WIND ENERGY GROUP INC.

(A Development Stage Company)

Audited Consolidated Financial Statements

For the years ended September 30, 2009 and 2008





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, 2009 and 2008 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



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of NaiKun Wind Energy Group Inc. as at September 30, 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year 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 financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at and for the year ended September 30, 2008, prior to the adjustments in accounting for the renunciation of flow-through share expenditures, as described in Note 14 to the financial statements, were audited by another firm of chartered accountants who expressed an opinion without reservation on those statements in their audit report dated December 26, 2008. We have audited the adjustments to the September 30, 2008 financial statements as described in Note 14 to the consolidated financial statements and, in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

January 5, 2010

NAIKUN WIND ENERGY GROUP INC.
Consolidated Balance Sheet
as at September 30, 2009 and 2008
(A Development Stage Company)

	2009	2008
		Restated (Note 14)
Assets		
Current		
Cash and cash equivalents	\$ 14,289,150	\$ 27,942,637
Amounts receivable	213,238	274,588
Prepaid expenses and other	19,127	69,088
Share purchase loans receivable (Note 9(b))	231,621	-
Other loan receivable	-	150,000
	<u>14,753,136</u>	<u>28,436,313</u>
Rent deposit	22,323	21,563
Long term loan receivable (Note 9(c))	732,000	732,000
Property, plant and equipment (Note 3)	<u>2,134,086</u>	<u>2,807,688</u>
	<u>\$ 17,641,545</u>	<u>\$ 31,997,564</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 9(a) and (d))	\$ 2,077,989	\$ 4,736,994
Asset retirement obligation (Note 4)	<u>863,838</u>	<u>822,702</u>
	<u>2,941,827</u>	<u>5,559,696</u>
Non-controlling interest	<u>36,513</u>	<u>-</u>
Shareholders' Equity		
Share capital (Note 5)	48,080,674	48,080,674
Contributed surplus (Note 6)	1,585,828	1,585,828
Deficit	<u>(35,003,297)</u>	<u>(23,228,634)</u>
	<u>14,663,205</u>	<u>26,437,868</u>
	<u>\$ 17,641,545</u>	<u>\$ 31,997,564</u>

Contingent Liabilities (Note 11)
Subsequent Events (Notes 5(c), 9(b) and 9(d))

Approved by the Board:

Director: "Graham Wilson"

Director: "Paul Taylor"

NAIKUN WIND ENERGY GROUP INC.**Consolidated Statements of Loss, Comprehensive Loss and Deficit****For the years ended September 30, 2009 and 2008**

(A Development Stage Company)

	2009	2008	Cumulative from October 1, 2004 to Sept 30, 2009
		Restated (Note 14)	
General, Administrative and Engineering Expenses (Note 7)			
Accretion (Note 4)	\$ 41,136	\$ 39,176	\$ 80,312
Compensation	4,593,137	6,831,957	11,371,828
Depreciation and amortization	703,323	613,137	1,645,213
Engineering and development costs	4,862,221	5,825,787	14,976,911
Interest (Note 14)	1,311	156,766	419,405
Office and administration	837,353	1,024,533	3,089,973
Public and community relations	517,870	555,589	1,584,620
Professional fees	367,659	747,518	2,096,591
Stock-based compensation (Note 5(b))	-	-	548,000
Transmission rights (Note 5(c))	-	1,313,736	1,313,736
Travel	475,425	654,074	1,659,913
Loss before the following:	<u>(12,399,435)</u>	<u>(17,762,273)</u>	<u>(38,786,502)</u>
Other Revenues (Expenses)			
Petroleum and natural gas sales, net	49,103	121,527	1,033,015
Foreign exchange gain (loss)	134	14,402	(24,480)
Investment income	313,398	1,281,927	2,002,468
Gain on sale of investments	-	-	510,609
Write down of deferred expenditures	-	-	(516,427)
Gain on sale of resource property interests	-	-	420,753
	<u>362,635</u>	<u>1,417,856</u>	<u>3,425,938</u>
Net loss before the following items	(12,036,800)	(16,344,417)	(35,360,564)
Future income tax recovery (Notes 8 and 14)	-	3,544,300	4,010,000
Non controlling interest	262,137	-	262,137
Loss and Comprehensive Loss	(11,774,663)	(12,800,117)	(31,088,427)
Deficit, beginning of period, as previously stated	(23,228,634)	(10,894,217)	(3,914,870)
Adjustments for future income tax recovery (Note 14)	-	465,700	-
Deficit, beginning of period, as restated	(23,228,634)	(10,428,517)	(3,914,870)
Deficit, end of period	<u>\$ (35,003,297)</u>	<u>\$ (23,228,634)</u>	<u>\$ (35,003,297)</u>
Loss per common share, basic and diluted	<u>\$ (0.30)</u>	<u>\$ (0.35)</u>	
Weighted average number of shares outstanding	<u>39,332,501</u>	<u>36,763,805</u>	

NAIKUN WIND ENERGY GROUP INC.
Consolidated Statements of Cash Flows
(A Development Stage Company)
For the years ended September 30, 2009 and 2008

	2009	2008	Cumulative from October 1, 2004 to Sept 30, 2009
		Restated (Note 14)	
Cash (used in) provided by:			
OPERATING ACTIVITIES			
Loss for the period	\$ (11,774,663)	\$ (12,800,117)	\$ (31,088,427)
Items not affecting cash			
Depreciation and amortization	703,323	613,137	1,645,213
Accretion	41,136	39,176	80,312
Interest on debentures payable	-	-	72,898
(Gain) on disposal of investments	-	-	(510,609)
Stock-based compensation	-	-	548,000
Transmission rights (Note 5(c))	-	1,313,736	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	-	(3,544,300)	(4,010,000)
Non controlling interest	(262,137)	-	(262,137)
	(11,292,341)	(14,378,368)	(32,136,859)
Changes in non-cash working capital, net	(2,397,693)	2,533,381	1,869,575
	(13,690,034)	(11,844,987)	(30,267,284)
INVESTING ACTIVITIES			
Share purchase loans receivable	(231,621)	-	(231,621)
Rent deposit and other receivables	(760)	(8,712)	690,528
Long term loan receivable	-	(732,000)	(732,000)
Proceeds on sale of investments	-	-	544,852
Purchase of property, plant and equipment	(29,722)	(69,423)	(2,774,651)
Proceeds on sale of oil and gas properties	-	-	493,016
	(262,103)	(810,135)	(2,009,876)
FINANCING ACTIVITIES			
Advances from non-controlling interest	298,650	-	298,650
Proceeds on issuance of convertible debentures	-	-	1,691,570
Proceeds on issuance of common shares (net)	-	3,886,111	44,215,232
	298,650	3,886,111	46,205,452
Increase/(decrease) in cash and cash equivalents during the period	(13,653,487)	(8,769,011)	13,928,292
Cash and cash equivalents, beginning of period	27,942,637	36,711,648	360,858
Cash and cash equivalents, end of period	\$ 14,289,150	\$ 27,942,637	\$ 14,289,150
Supplemental cash flow information:			
State income tax paid/(received)	\$ -	\$ -	\$ 4,942
Investment income received	\$ 333,089	\$ 1,281,927	\$ 2,022,159
Interest paid	\$ 158,077	\$ -	\$ 419,405

NAIKUN WIND ENERGY GROUP INC.

Notes to Consolidated Financial Statements

(A Development Stage Company)

For the years ended September 30, 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 wind 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 consolidated financial statements include the accounts of the Company and its material wholly-owned subsidiaries: NaiKun Wind Development Inc. ("Devco"); NaiKun Wind Operating Inc. ("Opco"), Patriot Energy Company Ltd. ("Patriot"); Austar Resources (U.S.) Corporation ("Austar") and 50% owned NaiKun Wind Generating Inc. ("Genco"). Genco is a jointly controlled entity that is considered a variable interest entity. Group, as primary beneficiary, consolidates Genco's assets, liabilities and operating losses, with a non-controlling interest recorded to reflect the ownership interest of Genco's other equity holder. All inter-company transactions and balances have been eliminated upon consolidation.

(b) 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 are considered highly liquid and are convertible to cash with less than three months notice.

(c) 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 have been capitalized (Notes 3 and 7).

(d) 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

(e) Asset Retirement Obligation

The Company recognizes its legal obligations associated with the future costs of removal and abandonment of its long-lived assets in the period in which the obligation is incurred. The fair value of the asset retirement obligation ("ARO") is recorded as a liability in the period when those future costs can be reasonably estimated and the carrying value of the related long-lived asset is increased by the corresponding amount. This asset retirement cost is allocated to expense using a systematic and rational method over the useful life of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation. Actual costs incurred upon settlement of the ARO are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in earnings for that period. The Company's ARO policy on its wind measuring equipment is further discussed in Note 4.

NAIKUN WIND ENERGY GROUP INC.

Notes to Consolidated Financial Statements

(A Development Stage Company)

For the years ended September 30, 2009 and 2008

(f) Long-Lived Assets

Long-lived assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Where the carrying value of the asset exceeds the undiscounted cash flows expected from the use and/or disposition of the asset, an impairment loss is recognized by the amount that the carrying amount of the asset exceeds its fair value. As at September 30, 2009, there are no indications of impairment, and consequently, an impairment loss has not been recorded.

(g) Income Taxes

The Company follows the asset and 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 tax assets and liabilities 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. Future tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect of a change in income tax rates on future tax assets and liabilities is recognized in net income in the year in which the change occurs. A valuation allowance is recognized to the extent it is more likely than not that these future income tax assets will not be recognized.

(h) Flow Through Shares

A portion of the Company's development activities are financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through shares issued, the tax benefits of the related expenditures are renounced to the share subscribers. The Company recognizes the foregone tax benefits to the Company and share capital is reduced for the tax benefits renounced to the subscribers. The tax effect of the renouncement is recorded upon filing of the renouncement documents provided that corresponding development expenditures are incurred or there is reasonable assurance that they will be incurred within the permitted time frame. When previously unrecognized future income tax assets exist, they are recognized to offset any resultant future income tax liability arising from the renunciation and a corresponding future income tax recovery is recognized.

(i) Share Issue Costs

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

(j) Stock Based Compensation

The Company has a stock-based compensation plan (see Note 5(b)), and has also issued warrants to third parties to progress the NaiKun Wind Project (see Note 5(c)). 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 over the vesting period 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 options or 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. Cash received on the exercise of options or warrants is recorded in share capital and the related compensation included in contributed surplus is transferred to share capital to recognize the total consideration for shares issued.

(k) Foreign Currency Translation

The Company's measurement currency is the Canadian dollar 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.

(l) 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, measurement of asset retirement obligations, amortization rates of asset useful lives, measurement of future income tax valuation allowance and the valuation of stock based compensation.

NAIKUN WIND ENERGY GROUP INC.
Notes to Consolidated Financial Statements
(A Development Stage Company)
For the years ended September 30, 2009 and 2008

(m) 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 investment income on an accrual basis.

(n) 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 5(b), 5(c) and 5(d), have not been included in any calculations of loss per share as their inclusion would have been anti-dilutive.

(o) Financial Instruments

The Company classifies all financial instruments as either held-to-maturity, available for sale, held for trading or loans and receivable. Financial assets held to maturity, loans and receivable and financial liabilities, are measured at amortized cost. Available for sale financial instruments are measured at fair value with unrealized gains or losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of loss. The Company has classified its cash and cash equivalents as held for trading, receivables and loans receivable as loans and receivables and its accounts payable and accrued liabilities as other financial liabilities.

(p) Comparative Amounts

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

(q) Adoption of New Accounting Standards

Goodwill and Intangible Assets (Section 3064)

Effective October 1, 2008, the Company adopted the new CICA Handbook Section 3064, Goodwill and Intangible Assets. This section replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets and also provides additional guidance with respect to development expenditures. Management has assessed that the adoption of this new standard, which conforms to IFRS, does not currently impact the Company's financial statements.

(r) 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 current business combinations would have no impact on the consolidated financial statements.

3. Property, Plant and Equipment

as at September 30, 2009	Cost	Accumulated Amortization	Net Book Value
Wind measuring equipment	\$ 3,283,144	\$ 1,234,905	\$ 2,048,239
Office equipment	201,106	115,259	85,847
	<u>\$ 3,484,250</u>	<u>\$ 1,350,164</u>	<u>\$ 2,134,086</u>

as at September 30, 2008	Cost	Accumulated Amortization	Net Book Value
Wind measuring equipment	\$ 3,283,144	\$ 578,276	\$ 2,704,868
Office equipment	171,385	68,565	102,820
	<u>\$ 3,454,529</u>	<u>\$ 646,841</u>	<u>\$ 2,807,688</u>

NAIKUN WIND ENERGY GROUP INC.

Notes to Consolidated Financial Statements

(A Development Stage Company)

For the years ended September 30, 2009 and 2008

4. Asset Retirement Obligation

The Company has recorded an ARO in regards to its wind measuring equipment installed in Hecate Strait. Through discussions with engineering consultants and management analysis, the future abandonment costs are estimated to be approximately \$1 million. Based on this estimate, an estimated useful life of the wind measuring equipment of 5 years and a credit adjusted risk-free rate of 5%, the net present value of these future costs was calculated to determine the ARO of \$863,838 (2008 - \$822,702). During the year ended September 30, 2009, an accretion expense of \$41,136 (2008 - \$39,176) was recorded in the statement of loss. The settlement of the obligation is currently expected to occur in 2013.

5. 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, 2007	34,906,640	\$ 47,260,341
Issued for cash on exercise of options	1,243,694	1,286,920
Issued for cash on exercise of warrants	3,182,167	3,077,713
Tax benefit of flow-through shares	-	(3,544,300)
Balance, September 30, 2008 and September 30, 2009	39,332,501	\$ 48,080,674

b) Stock Options

Expiry Date	Exercise Price	Number Outstanding as at	
		September 30 2009	September 30 2008
November 28, 2011	\$ 0.72	562,500	562,500
		<u>562,500</u>	<u>562,500</u>

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 years ended September 30, 2009 and 2008.

The weighted average exercise price of options as at September 30, 2009 and September 30, 2008 is as follows:

	September 30, 2009		September 30, 2008	
	Options outstanding and exercisable	Weighted Average Exercise Price	Options outstanding and exercisable	Weighted Average Exercise Price
Balance, beginning of fiscal year	562,500	\$ 0.72	1,806,194	\$ 0.67
Exercised	-	-	(1,243,694)	0.65
Balance at end of fiscal year	562,500	\$ 0.72	562,500	\$ 0.72

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c) Share Purchase Warrants

Expiry Date	Exercise Price	Number Outstanding as at	
		September 30 2009	September 30 2008
December 4, 2009	\$ 2.66	1,000,000	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 subsequent to September 30, 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 September 30, 2009, 12.0 million (2008 - 11.3 million) Warrants have been awarded pursuant to the recently revised and accepted 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.

6. Contributed Surplus

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

	September 30 2009	September 30 2008
Balance, beginning of period	\$ 1,585,828	\$ 750,614
Fair value of warrants issued for transmission rights	-	1,313,736
Stock options exercised, transfer to share capital	-	(478,522)
Balance, end of period	\$ 1,585,828	\$ 1,585,828

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

(A Development Stage Company)

For the years ended September 30, 2009 and 2008**7. 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 to date aggregate \$38.7 million (2008 - \$26.2 million). Certain expenditures for wind measuring equipment have been capitalized and are reflected in the Consolidated Balance Sheet.

8. 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 30.13% (2008 - 31.75%) to the loss before income taxes. This difference results from the following items:

	2009	2008
		Restated (Note 14)
Expected income tax expense (recovery)	\$ (3,547,700)	\$ (5,142,200)
Increase (decrease) resulting from:		
Non-deductible expenses	13,800	438,500
Change resulting from tax rate reduction	604,100	144,000
Change in valuation allowance	2,777,600	1,069,000
Other	152,200	(53,600)
Provision for income taxes	\$ -	\$ (3,544,300)

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 a subsequent year. During the year ended September 30, 2008, the Company renounced \$11.3 million in flow through expenditures to subscribers, resulting in a reduction to share capital, a release of the future income tax valuation allowance and a future income tax recovery of \$3.5 million.

Future income taxes

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

	2009	2008
		Restated (Note 14)
Future income tax assets		
Non-capital losses	\$ 5,901,900	\$ 3,569,400
Resource deductions	170,900	217,000
Financing costs	290,700	561,600
Asset retirement obligation	216,000	261,200
Total future income tax assets	6,579,500	4,609,200
Future income tax liabilities		
Property, plant and equipment	556,800	835,100
Renounced development expenditures not incurred	-	529,000
Total future income tax liabilities	556,800	1,364,100
Net future income tax asset	6,022,700	3,245,100
Valuation allowance	(6,022,700)	(3,245,100)
Net future income tax asset	-	-

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The Company has non-capital losses for income tax purposes of approximately \$20,550,000 which can be used to reduce taxable income in future years and will expire in varying amounts commencing in 2010 if not fully utilized. The losses expire as follows:

<u>Expiry Date</u>	<u>\$</u>
2010	391,800
2014	214,500
2015	305,900
2026	146,300
2027	676,900
2028	8,987,200
2029	9,827,400
	<u>20,550,000</u>

The Company has resource pools of approximately \$0.7 million (2008-\$0.7 million) available to offset future taxable income. The tax benefit of these amounts is available for carry forward indefinitely.

9. 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 year ended September 30, 2009, \$262,500 of these expenses were included in the Consolidated Statement of Loss (2008 - \$565,702). 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 September 30, 2009, \$21,000 (2008 - \$404,250) 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 subsequent to September 30, 2009 has been extended by six months), 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 September 30, 2009, the loan receivable amounted to \$231,621. For the year ended September 30, 2009, approximately \$68,000 was recorded in compensation to reflect the 25% benefit received by the participants of this program. Subsequent to year end, the Company received \$163,130 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 September 30, 2009 was \$4,151 (2008 - \$8,740).
- (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 11) 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. Most of this payment was made following his retirement as non-executive Chair in September 2009, and represents his entire entitlement under the Deferred Plan. The entire amount of \$1.44 million was accrued as Compensation Expense during the year ended September 30, 2008 and is reflected in accounts payable and accrued liabilities as at September 30, 2009 and 2008. Subsequent to September 30, 2009, the Company has paid out \$1.39 million of the amount payable.

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10. Commitments

The minimum annual net lease payments for the next five years on the Company's premises are as follows:

2010	\$	146,103
2011		148,190
2012		6,236
2013		-
2014		-
	\$	<u>300,529</u>

The Company is party to an asset transfer agreement between Devco, a wholly owned subsidiary, and Genco, an entity owned 50% by the Company and 50% by ENMAX Green Power Inc. Upon completion of certain project milestones, Genco will have the option to purchase the rights to the NaiKun Wind Project from Devco and progress the Project through to the construction and operation phases.

The Company has signed a number of agreements in principle with various First Nations to partner on the operations and maintenance of the generation and transmission assets of the NaiKun Wind Project. These agreements and commitments are contingent on a number of project milestones, the most significant being an EPA award and arrangement of project financing.

11. 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 9(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 September 30, 2009, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million (see also Note 9(d)).

12. 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. The Company's financial instruments are cash and cash equivalents, amounts receivable, loan receivables, accounts payable and accrued liabilities, and the carrying value of these instruments approximate their fair values due to the relatively short period to maturity and existence of market rates of interest.

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 must be convertible to cash within three months. At September 30, 2009, a 50 basis point change in the interest rate would result in an increase/decrease of approximately \$70,000 of investment income per annum.

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's credit risk arises from its cash and cash equivalents, amounts receivable, share purchase and other loans receivable and rent deposits. The carrying amount of these assets represents the Company's maximum exposure to credit risk. The Company manages its credit risk by restricting its deposits to Government of Canada treasury notes or short term instruments guaranteed by a Canadian chartered bank. Holdings with banks are limited to \$10 million with any one bank. Share purchase loans are full recourse to the borrower. The long-term mortgage loan receivable is secured by a charge on the property acquired by the borrower. The Company has not incurred any credit losses during the years ended September 30, 2009 and 2008.

Liquidity Risk The Company manages liquidity risk by continually monitoring actual and projected cash flows and by ensuring that all cash and cash equivalents are convertible to cash with less than 3 months notice.

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13. Capital Management

The Company's capital management objectives are to safeguard its assets and maintain investor, creditor and market confidence in order to sustain ongoing development activities in the wind energy sector. The Company's capital management objectives have not changed from September 30, 2008. The Company includes all shareholders' equity balances as capital.

The Company currently has no debt and is not subject to externally imposed capital restrictions. To complete the development of its projects, the Company intends to raise additional capital when necessary by either selling portions of its project(s), issuing additional equity and/or borrowing funds.

14. Restatement

The Company has restated the prior year comparative figures relating to the accounting for the tax implications of the renounced flow through share expenditures. During the preceding year, a future income tax liability was recorded upon the renunciation of the flow through share expenditures, with an offsetting reduction to share capital. The Company has determined that this future income tax liability should have been offset by releasing a portion of its future income tax valuation allowance resulting in a future income tax recovery in the statement of loss for the year ended September 30, 2008. In addition, the Company restated the Part XII.6 interest charges associated with the unexpended flow through share expenditures during fiscal 2008. This interest expense of approximately \$0.2 million was originally recorded at time of payment in March 2009, instead of in the period of accrual from February 2008 through September 2008.

Prior year comparative balances as at September 30, 2008 have been restated to reflect the above changes, resulting in a decrease to the future income tax liability of \$4.0 million, an increase in accounts payable and accrued liabilities of \$0.2 million, and a decrease in deficit of \$3.8 million, as compared to amounts previously reported. For the year ending September 30, 2008, the Company has recorded a future income tax recovery of \$3.5 million and an interest expense of \$0.2 million related to the restatement.