

## **NaiKun Wind Energy Group Inc.**

### **Management's Discussion & Analysis For the quarter ended December 31, 2006**

**February 28, 2007**

This Management's Discussion and Analysis ("MD&A") reviews the activities of NaiKun Wind Energy Group Inc. ("NaiKun" or the "company") and compares the financial results for the quarter ended December 31, 2006 with those of the quarter ended December 31, 2005 and the year ended September 30, 2005. For a more complete understanding of the company's financial condition and results of operations, this MD&A should be read together with the audited financial statements and the accompanying notes for all relevant periods, copies of which are filed on the SEDAR website.

The company prepares its financial statements in accordance with Canadian generally accepted accounting principles, and these statements are filed with the relevant regulatory authorities in Canada. All monetary amounts are in Canadian dollars unless otherwise stated.

#### **Forward-Looking Information and Report Date**

This MD&A contains certain forward-looking information. All information, other than historical facts included herein, including without limitation data regarding future plans and objectives of Uniterre, is forward-looking information that involves various risks and uncertainties. There can be no assurance that such information will prove to be accurate and future events and actual results could differ materially from those anticipated in any forward-looking information.

The forward-looking information is only provided as of the date of this MD&A, February 28, 2007 (the "Report Date").

#### **Description and Overview of Business**

Beginning in fiscal 2003 and continuing to date, the main focus of the company has been directed towards the development of renewable wind energy projects off the northwest coast of British Columbia (the "NaiKun Wind Farm"). To better reflect the main focus, effective November 3, 2006, the company changed its name to NaiKun Wind Energy Group Inc. Management continues to examine prospects for additional wind development both in British Columbia and elsewhere in Canada.

Historically, the company was a junior natural resources company that had focused its efforts on the exploration, development and acquisition of petroleum and natural gas assets and mineral interests. The company will continue to generate revenue from its producing wells, but has no further plans to explore, develop, or acquire existing or new properties. During fiscal 2006, the company continued its divestment of its non-producing oil and gas assets and mineral interests, and wrote-down its remaining property interests and deferred development expenditures to nil.

In the first quarter of 2007, the company continued with its efforts to develop the NaiKun Wind Farm project. The previously issued permits from the Council of the Haida Nation and the federal and provincial governments for the development of the project and the installation of a wind measurement mast have been extended. The company continues to work closely with the representatives of the Haida Nation and has committed to provide assistance to the Haida in resolving certain on island power problems.

In August and September 2006, the company successfully raised \$3,000,000 for continued development of the project through the issuance of 1,880 debenture units and 2,240,000 flow-through units. Each debenture unit consists of one debenture with a principal amount of \$1,000, bearing interest at 8% per annum payable semi-annually in cash or shares at the option of the Company, maturing on March 22, 2009. Additionally, each debenture unit consists of 1,000 warrants each exercisable into one common share for 24 months from the closing at an exercise price of \$0.55 per common share. Each flow-through unit consists of a 1 common share at \$0.50 per share and a ½ share purchase warrant. One whole warrant entitles the holder to acquire one common share for a period of two years at a price of \$0.55 per share, expiring in September 2008.

On December 1, 2006, the Haida Investment Society, which represents the Council of the Haida Nation and the Haida people, exercised its share purchase warrants previously issued by the company and acquired 860,193 common shares of the company at \$0.25 per share for cash proceeds of \$215,048. The exercise of the warrants provides the Haida people with participation in the ownership of the company.

During fiscal 2006, significant changes took place in the process by which the Government of British Columbia interacts with BC Hydro. In this time period the Government of British Columbia received the report of the BC Progress Board which highlighted the size of the shortfall of generation in the Province as well as the need for the extended forward planning for additional generation. Subsequently, the British Columbia Cabinet rejected BC Hydro's position on Site C (a large dam site on the Peace River) and took control of the preparation of the Integrated Electricity Plan for the Province of British Columbia endorsed the need for wind power in the Province.

These changes have been further emphasized by the Speech from the Throne by Gordon Campbell's government whereby the Government of British Columbia committed the Province to a net zero emissions policy for electrical generation, a requirement that 90% of all new generation be from clean or renewable sources and the requirement of 100% carbon sequestration for all coal fired electrical generating facilities. These new policies were confirmed by the issuance of the new Energy Plan on February 27, 2009.

The company, in conjunction with other wind developers in the province, continues to work with BC Hydro and the British Columbia Transmission Corporation to ensure that wind becomes a preferred option for future energy purchases by BC Hydro. Additionally, the company continues to examine more closely the possibility of selling power from the project to purchasers outside of the province.

During this fiscal period, the company expended some \$493,000 on the NaiKun Wind Farm project. The primary expense of \$215,157 was for engineering fees in connection with data gathering and the analysis thereof and preliminary design work for the construction of the wind

farm. Management and consulting fees of some \$192,000 were paid in connection with services necessary for the development of the project including environmental services, data analysis and preparation for bidding to acquire an Electricity Purchase agreement from BC Hydro. Additional costs were incurred in the payment of fees to lawyers and accountants in connection with the preparation of the debenture and flow-through unit documentation and the related income tax and accounting issues. Costs for public relations, communications, administrative management and consulting were expended in furthering the cause of wind energy in British Columbia generally, with a focus on obtaining a power purchase agreement with BC Hydro for the NaiKun Wind Farm project. The company's energy consultants continue to monitor the present and future cost of electricity and natural gas, and the ongoing electricity market to assess the project's economic viability. Additionally, the company's consultants continue to assess the evolving technological alternatives for turbines, foundations, and cabling. Travel costs of \$34,973 were expended in the quarter for meetings with First Nations and other regional communities, site inspections, and travel by representatives of the Company to meet with equipment and service suppliers in Europe.

Up to December 31, 2006, the company has invested more than \$2,921,000 in the NaiKun Wind Farm project. Management believes that the entitlements being earned in this project by these expenditures are of significant present value and future value.

The company continues to earn oil and gas revenues from its operating wells in the United States and Canada. The price for hydrocarbons in the quarter declined from previous highs and when added to the continued disposition of these assets by the Company to focus on its core business resulted in a reduced cash flow. For the quarter ended December 31, 2006, oil and gas revenues were \$35,532 before expenses resulting in a gross margin of \$24,418.

Due to the substantial expenditures on the NaiKun Wind farm project, the company suffered a net loss of \$1,169,047 for the quarter of December 31, 2006. Of this loss some \$506,000 is non cash resulting from the Company's stock compensation plan.

The company's petroleum, natural gas and mineral interests are in Canada and the United States. Management continues to deemphasize the company's involvement in the mining industry and continues to seek methods of generating value from its remaining mineral assets. Management is of the view that the company has the best opportunity of success by focusing on wind power.

Subsequent to the end of the quarter, the Company announced that it had executed an engagement agreement with Northern Securities for a firm underwriting by way of a private placement of no less than \$3,000,000. The placement will consist of flow through shares at \$1.70 per share and non-flow through units at \$1.40 with each non-flow through unit being comprised of one common share and ½ share purchase warrant. One whole warrant and \$1.80 will acquire one additional common share. The warrants will expire May 30, 2008. Northern Securities will receive a commission of 8% and broker warrants for 8%.

## **Selected Annual Information**

The following table sets forth selected financial information for the company for the years ended December 31, 2006, December 31, 2005 and September 30, 2006. This information should be read in conjunction with those financial statements and the notes thereto.

	Quarter Ended December 31, <u>2006</u>	Quarter Ended December 31, <u>2005</u>
a) Total Revenue:	\$54,003	\$68,797
b) Net Loss:	\$1,169,047	\$48,815

  

	Quarter Ended December 31, <u>2006</u>	Year Ended September 31, <u>2006</u>
a) Total Assets:	\$3,077,521	\$3,262,639
b) Total Liabilities:	\$2,231,324	\$2,031,593

*Net Sales or Total Revenues*

The primary source of revenues continues to be the sale of petroleum and gas from its existing wells in Canada and the United States.

*Net Loss*

The company continues to suffer losses as it develops the NaiKun Wind Farm project and expenses all project costs. In the quarter, the loss was increased substantially because of the increase in expenditures on the project

*Total Assets*

The increase in total assets in the quarter is primarily from the issuance of debenture and flow-through units generating nearly \$3 million in cash.

*Total Liabilities*

The increase in total liabilities in fiscal 2006 is primarily from the issuance of debenture units of \$1,880,000.

**Results of Operations**

The company reported a loss of \$1,169,047 and cash outflows from operations of \$474,246 for the period ended December 31, 2006, compared with a loss of \$48,815 and cash outflows from operations of \$70,683 for the same period 2005. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going-concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business.

For the quarter total revenues were \$54,003 in 2006 as compared to \$68,797 in 2005 primarily from the sale of petroleum and natural gas properties..

Expenses consist primarily of general and administrative expenses. General and administrative expenses for the quarter ended December 31, 2006 totaled \$1,211,936 compared to \$130,191 for the same period ended December 31, 2005. The increase in expenditures on the development of the NaiKun project and the stock compensation expense are the reason for this change

### Summary of Quarterly Results

The following table summarizes information derived from the company's financial statements for each of the eight most recently completed quarters:

Three Months Ended	Revenues	General & Administrative Expenses - \$	Net Income (Loss) - \$	Basic Earnings (Loss) per share - \$	Fully Diluted Earnings (Loss) per share - \$
31-Dec-06	35,532	1,211,936	(-1,169,047)	(0.08)	(0.08)
30-Sep-06	46,938	154,153	(524,995)	(0.06)	(0.06)
30-June-06	40,349	53,785	(29,845)	(0.00)	(0.00)
31-Mar-06	82,089	131,753	(48,485)	(0.01)	(0.01)
31-Dec-05	68,797	130,191	(48,815)	(0.01)	(0.01)
30-Sep-05	74,321	173,674	(79,514)	(0.01)	(0.01)
30-Jun-05	67,368	101,733	(49,594)	(0.01)	(0.01)
31-Mar-05	28,090	99,598	11,975	0.00	0.00

### Liquidity

As at December 31, 2006, the company had \$2,707,085 in cash and cash equivalents compared to \$1,823,004 at the end of September 30, 2006, with working capital of \$2,500,947 at December 31, 2006 compared to working capital of \$2,919,113 as at September 30, 2006. The increase in cash is a result of the receipt of the proceeds of the flow through offering.

The accounts payable and accrued liabilities increased to \$289,324 at December 31, 2006 from \$89,593 at September 30, 2005. Total liabilities have increased to \$2,231,324 at December 31, 2006 from \$2,031,593 at September 30, 2006 from the issuance of \$1,880,000 debenture units.

## **Off Balance Sheet Arrangements**

The company has no off-balance sheet financing.

## **Capital Resources and Non-Controlling Interest**

During the quarter the Company issued the following shares:

- October - 3,210,000 common shares to directors and officers of the Company under the terms of a share exchange agreement for all of the issued and outstanding shares of Nai Kun Wind. Development Inc. held by those directors and officers.
- November - 210,000 common shares to directors of the Company upon exercise of stock options at \$0.13 per share for cash proceeds of \$27,300.
- December - 860,193 common shares upon exercise of warrants at \$0.25 per share for cash proceeds of \$215,048.
- December – 200,000 common shares to a director of the Company upon exercise of stock options at \$0.15 per share for cash proceeds of \$30,000.
- December - 45,000 common shares to a director of the Company upon exercise of stock options at \$0.13 per share for cash proceeds of \$5,850.

Subsequent to quarter end the following shares were issued:

January 2007 - 100,000 common shares to a consultant upon exercise of stock options at \$0.20 per share for cash proceeds of \$20,000; 27,273 common shares to a public relations firm at \$0.55 per share for cash proceeds of \$15,000; 200,000 common shares on the conversion of debentures at \$0.50 per share;

February 2007 – 250,000 common shares on the conversion of debentures at \$0.50 per share; 125,000 common shares on the exercise of warrants issued in connection with the private placement in September 2006 at \$0.55 per share for net proceeds of \$68,750; and 4,996 common shares issued on the exercise of a compensation option at \$0.50 per share for cash proceeds of \$2,998.

As at December 31, 2006, the company had 15,641,028 common shares issued and outstanding.

As at December 31, 2006, the company has 200,000 shares under option at an exercise price of \$0.13 expiring March 25, 2009; 50,000 shares under option at a price of \$0.15 expiring September 9, 2009; 100,000 shares under option at an exercise price of \$0.20 expiring December 24, 2009; 100,000 shares under option at a price of \$0.42 expiring October 16, 2008; and 1,012,500 shares under option at a price of \$0.72. As at December 31, 2006, the company had 1,462,500 share options outstanding.

During 2006 the Company granted 3,000,000 share purchase warrants comprising of the following:

- 1,880,000 warrants issued with the debenture units entitling the holder to acquire up to 1,880,000 common shares for a period of two years at a price of \$0.55 per share (expiring in September 2008) and,
- 1,120,000 share purchase warrants issued with the flow-through units entitling the holder to acquire up to 1,120,000 common shares for a period of two years at a price of \$0.50 per share (expiring in September 2008).

As of the date of this MD&A, no further share activity had taken place.

### **Transactions with Related Parties**

The company has no employees and obtains certain legal, management and administrative services and rents space from companies controlled by officers or directors. For the financial quarter ended December 31, 2006, \$118, 803 of these expenses was charged to consolidated operations.

These transactions with related parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

### **Financial Instruments**

The company's financial instruments consist of cash, accounts receivable, prepaid expenses, investments and other assets, accounts payable and accrued liabilities. It is managements' opinion that the company is not exposed to significant interest, currency risk or credit risk arising from these financial instruments.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and acting Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and acting Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and acting Chief Financial Officer has concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), are effective to ensure that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules. In conducting the evaluation it has become apparent that management relies upon certain informal procedures and communication. Management intends to formalize its procedures, but due to its small staff the Company will continue to rely on an active Board and management with open lines of communication to maintain the effectiveness of the Company's disclosure controls and procedures. There is a possibility that lapses in the disclosure controls and procedures could occur and mistakes could

happen, and if should such should occur, the Company will take whatever steps necessary to minimize the consequences there of.

### **Internal Controls and Procedures over Financial Reporting**

Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. During the process of management's review and evaluation of the design of the Company's internal control over financial reporting, it was determined that certain weaknesses existed in internal controls over financial reporting. In addition, the Company has not fully completed its review and evaluation of the design of internal control over financial reporting as envisioned under 52-109. The Company expects to complete its assessment in Fiscal 2007. As is indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring which exists. The Company is taking steps to augment and improve the design of procedure and controls impacting these areas of weakness over internal control over financial reporting. It should be noted that a control system, no matter how well conceived or operated, can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met.

### **Approval**

The Board of Directors of the company has approved the disclosure contained in this MD&A.

### **Additional Information**

Additional information relating to Uniterre can be found on SEDAR at [www.sedar.com](http://www.sedar.com). under its new name *Naikun Wind Energy Group Inc.*

Dated February 28, 2007