

NAIKUN WIND ENERGY GROUP INC.

(A Development Stage Company)

Management's Discussion & Analysis For the year ended September 30, 2009

Containing information up to and including January 5, 2010

This Management's Discussion and Analysis ("MD&A") reviews the activities of NaiKun Wind Energy Group Inc. ("Group") and its material subsidiaries: wholly owned NaiKun Wind Development Inc. ("Devco"), NaiKun Wind Operating Inc. ("OpCo"), Austar Resources (U.S.) Corporation ("Austar"), Patriot Energy Company Ltd. ("Patriot"), and 50% owned NaiKun Wind Generating Inc. ("Genco"), (collectively the "Company" or "NaiKun Wind"). 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 for the years ended September 30, 2009 and 2008 and the accompanying notes. The above-mentioned documents along with additional information and disclosure relating to the Company can be found on SEDAR at www.sedar.com or on the Company's website, www.naikun.ca.

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. Investors are cautioned that all information, other than historical facts included herein, including without limitation, data regarding future plans and objectives of the Company, is forward-looking information based on management's expectations, assumptions and estimates. Although the Company believes these underlying estimates and assumptions to be reasonable, they are difficult to predict and actual results may differ materially from those in the forward-looking statements.

Forward-looking information can be subject to significant risks and uncertainties, and estimates and assumptions can prove to be inaccurate. There are many factors that could result in materially different outcomes than the forward-looking information contained herein including, but not limited to, the state of capital and financial markets, the general economy, the political climate, the commodity markets, foreign exchange fluctuations, the energy sector, electricity demand, technology, environmental factors, community relations and First Nations. Investors should be aware that there can be no assurance that forward-looking information will prove to be accurate and future events and actual results could differ materially from those anticipated.

The information herein is only provided as of the date of this MD&A, January 5, 2010 (the "Report Date").

Description and Overview of Business

NaiKun Wind Energy Group Inc. is a British Columbia-based renewable energy company with a current focus on offshore wind energy projects. Headquartered in Vancouver, it is a Tier 1 listed company that trades on the TSX Venture Exchange (TSX-V:NKW). It is currently in the process of

developing an offshore wind project in Hecate Strait off the north coast of British Columbia (the “NaiKun Wind Project” or the “Project”) and is a registered proponent in the Clean Power Call RFP (the “CPC”) issued by British Columbia Hydro and Power Authority (“BC Hydro”) on June 11, 2008. On November 24, 2008, the Company submitted its proposal (the “Proposal”) for Phase 1 of the NaiKun Wind Project (“Phase 1 Project”) to supply up to 396 megawatts of electricity in response to the CPC. In its release, the original CPC schedule indicated that BC Hydro would conduct its final evaluation of proponents and award electricity purchase agreements (“EPA”) between mid-April 2009 and June 2009. As of the Report Date, BC Hydro has not awarded any EPAs and recent developments (discussed below in Project Update) suggest further delays creating uncertainty in terms of BC Hydro’s timing for EPA awards. Upon an EPA award and satisfaction of other defined project milestones, the Company intends to release assets provisionally developed on behalf of Genco, a company jointly owned by ENMAX Green Power Inc. (“ENMAX”), a wholly owned subsidiary of Calgary based ENMAX Energy Corporation, and Group, and transfer any other assets associated with the Phase 1 Project from its wholly owned subsidiary, Devco, to Genco to progress the Project through the construction and operation stages. The Company will also continue to develop future phases of the Project. In addition, the Company will evaluate other development and asset acquisition opportunities in the renewable energy sector.

NaiKun Wind Project

The Company holds an investigative use permit (“IUP”) from the Government of British Columbia and a permit to conduct research from the Haida Power Authority both of which, upon receipt of necessary environmental approvals, provide the Company with the ability to develop wind energy projects in a 550 km² area off the north east coast of Haida Gwaii in British Columbia’s Hecate Strait. The Project will be contained within a 100 km² area within the research area. In addition, the Company holds an IUP from the Government of British Columbia for two transmission corridors that would be used to connect the wind projects to Haida Gwaii and the mainland power grid.

The wind resource in the area is the best in British Columbia and among the best in the world due to the consistent and high wind speeds, rated as a top level Class 7 with mean wind speeds exceeding 9.5 meters/second. Other characteristics that make Hecate Strait an ideal location for offshore wind projects include its flat sedimentary seabed, relatively shallow waters and access to British Columbia Transmission Corporation’s power grid.

The potential of the area within the IUPs is 1,750 megawatts (“MW”), enough to power over 500,000 homes. The currently assumed timeframe to fully develop this world-class energy resource within the approved IUP is approximately 10 years. The Company’s approach would see the wind resource developed over 5 phases, with full production of the 396 MW Phase 1 currently scheduled for 2014 and subsequent phases of each between 300 to 400 MW. The Company is in the conceptual stage of development for Phase 2. Following the commercial and environmental confirmation of Phase 1, the Company would begin the regulatory and commercial evaluation of this subsequent phase. The specific development schedules for Phases 2 through 5 are subject to overall power requirements in BC, the Western Electricity Coordinating Council and Western Renewable Energy Zones, environmental approvals, First Nations consultation and approvals along with other factors which would include securing strategic and financial partners.

The Company's key business focus includes being a renewable energy developer, an equity owner of renewable energy projects and the operator of renewable energy projects. The Company's long-term revenue plan is built on optimizing these multiple income streams.

Beyond developing the wind potential of Hecate Strait, the Company explores renewable energy options in British Columbia and other jurisdictions that might be consistent with its corporate objectives and capabilities.

Project Update

Phase 1 (396 MW)

Overview

A key milestone for the Company and the Phase 1 Project was the submission of the Proposal into the CPC on November 24, 2008 to develop up to 396 MW of offshore wind capacity. Since the submission of the Proposal, there have been several positive developments related to the CPC, of particular importance being BC Hydro's announcement on November 17, 2009, that 47 proposals including the NaiKun Wind Project are advancing to the next stage. Other significant milestones include the formation of several strategic partnerships with key suppliers and First Nations and receipt, on December 10, 2009, of provincial environmental approvals for the Phase 1 Project.

Clean Power Call RFP

Issuance of the CPC in June 2008 marked a key milestone for the BC Energy Plan. The CPC was targeted to acquire "clean" energy from projects using proven technology and had a stated intention of accommodating larger projects with in-service dates of 2016 or earlier. The announced target for the CPC was 5,000 GWh of energy. On December 22, 2008, BC Hydro filed an Evidentiary Update which amended the proposed firm energy "need" from 5,000 GWh to 3,000 GWh. Subsequently on January 12, 2009, BC Hydro in a filing with the BC Utilities Commission indicated that it may award EPAs up to or greater than the original target of 5,000 GWh per year, subject to the cost effectiveness of the projects.

The CPC received 68 proposals for clean energy projects around the province, including 45 hydroelectric projects, 19 wind projects, two projects using waste heat and one each for biogas and biomass. The total capacity of these proposals is 17,000 GWh/year and highlights the availability of a significant renewable energy resource that can be developed by private developers, in many instances working in commercial partnership with First Nations, for BC Hydro to meet domestic needs or to export to other jurisdictions.

The Company's Proposal submitted to BC Hydro on November 24, 2008 in response to the CPC included a number of key features:

- A Significant Contribution to Meeting BC's Growing Energy Needs.
- Complement to BC Hydro's Hydroelectric Assets.
- Strong First Nations and Community Support.
- Strong Public Support.
- A Strong Business Case.
- An Experienced Team.

- Project Scalability and Flexibility.
- An Advanced Stage of Development.

The Company's Proposal offers BC Hydro flexibility to meet future energy needs and positions the Company to successfully deliver a Project that is in the best interests of energy users in British Columbia.

BC Hydro's original timeline indicated CPC-related EPA awards between mid-April 2009 and June 2009. In late May 2009, BC Hydro amended its timeline and indicated it would issue awards within four weeks of receipt of the British Columbia Utilities Commission ("BCUC") decision regarding BC Hydro's 2008 Long Term Acquisition Plan ("LTAP"). On July 27, 2009, the BCUC issued its decision rejecting the LTAP. At the time the Minister of Energy, Mines and Petroleum Resources issued a statement which indicated continued commitment to acquiring a significant and growing supply of clean, renewable energy from power developers. In its Speech from the Throne on August 25, 2009 the Province reaffirmed its commitment to green energy and electricity self-sufficiency as being integral to British Columbia's climate action plan. The Speech from the Throne also outlined plans to phase out the Burrard Thermal generation plant and to establish a Green Energy Advisory Task Force which would be charged with developing a blue print to maximize the Province's clean power potential, including an electricity export policy.

On October 28, 2009 the BC Government provided direction to BC Hydro to end its reliance on Burrard Thermal for electricity needs and to restrict its use for emergency capacity only. This direction will allow BC Hydro to acquire up to 6,000 GWh of clean, renewable replacement energy through the CPC and the Phase 2 Bioenergy Call. On November 02, 2009 Premier Gordon Campbell announced the previously committed review of energy policy with the intent of making BC an international leader in green power development for provincial use and for export.

On November 17, 2009 BC Hydro announced an interim decision on the CPC, with 21 projects being eliminated from further consideration. Of the remaining 47 projects, BC Hydro identified 13 as being the most "cost effective" proposals and indicated that it will pursue contract negotiations with these proponents. The proponents of the other 34 projects will have the opportunity to undertake further discussions regarding pricing and other factors with BC Hydro. The NaiKun Wind proposal is one of the 47 projects advancing to the next phase of the CPC. BC Hydro has also recently released new First Nations consultation criteria requiring that adequate consultation must precede entering into an EPA and the consideration of the EPA by the BCUC.

With the extended process BC Hydro sought relief on December 16, 2009 from the BCUC regarding BC Transmission Corporation's Competitive Electricity Acquisition Processes in relation to the Clean Power Call. On December 24, 2009, the BCUC granted the requested relief which effectively gives BC Hydro until March 31, 2010 to award EPAs to successful proponents.

The Company has been developing the Phase 1 Project with the assistance of ENMAX, which has a 50% equity ownership interest in Genco, the company that will build and own the Phase 1 Project. Genco will also contract with the proposed operator of the generating assets, Haida NaiKun Wind Operating Limited Partnership, a 50:50 partnership between OpCo and the Council of the Haida Nation. The Company plans to secure project financing debt with advice from The Bank of Tokyo-Mitsubishi UFJ ("BTMU"), which has been retained as a project finance advisor to Genco on the Phase 1 Project. BTMU also acts as an advisor to Group on the divestiture of a portion of its holdings in Genco shares.

On August 13, 2009, NaiKun Wind announced that a Memorandum of Understanding had been signed with the Haida Enterprise Corporation ("HaiCo"), acting on behalf of the Haida Nation, to acquire up to 40 per cent of the Project (via shares in Genco) from NaiKun Wind. NaiKun Wind's

target ownership position in Genco is 10%. The acquisition by HaiCo would be consistent with the original objective of bringing in a strategic equity partner that can contribute to the success of the Project. The Haida Nation will be seeking the support of the federal government for the proposed ownership position. The agreement is contingent on the successful conclusion of the environmental assessments being conducted by the Haida Nation and Federal Government. (The Government of British Columbia granted the project a provincial Environmental Assessment Certificate in December 2009). Next steps in this arrangement include the Haida Nation securing the assistance of the federal government and the finalization of a sale and purchase agreement between HaiCo and NaiKun Wind. By acquiring a position in Genco, HaiCo will join ENMAX and Group as project partners. Should HaiCo and the Haida Nation not proceed to acquire an ownership position in Genco, NaiKun Wind will resume marketing to other potential strategic equity partners that have been identified.

Other recent project highlights for Phase 1 of the NaiKun Wind Project included:

- Securing the participation of key engineering consultants, including Offshore Design Engineering (“ODE”) from the United Kingdom. ODE has proven expertise in UK offshore wind construction and operation.
- Signing a letter of intent (“LOI”) with Siemens Wind Power A/S (“Siemens”) regarding the supply of 110 offshore wind turbines, each with a capacity of 3.6 MW. The Company also extended an existing memorandum of understanding with Siemens for the supply of offshore transmission systems to support the Project.
- Signing of a memorandum of understanding with the Prince Rupert Port Authority (the “Port”). This agreement covers important logistical elements for the construction phase of the NaiKun Wind Project, allows NaiKun Wind to develop areas where the submarine transmission cable meets the shoreline and allows for the sub-assembly of equipment related to the NaiKun Wind Project.
- Establishing a landmark partnership between NaiKun Wind and the Council of the Haida Nation. This partnership is a commercial limited partnership which will operate and maintain the NaiKun Wind Project after construction. The agreement formalizes the relationship between the Haida Nation and NaiKun Wind that has been ongoing since 2002. The Haida Nation and OpCo will participate equally in the partnership both in terms of ownership and economic value. OpCo is the designated General Partner.
- Participating directly in the significant dialogue under way in British Columbia about the important role for renewable energy in achieving a sustainable and secure economic future for the Province.
- The recognition of NaiKun Wind’s meteorological station (“Met Mast”) at its project site with an award from the Consulting Engineers of British Columbia. The prestigious engineering award was presented to Sandwell Engineering, the consulting engineers for the Met Mast project. Installation of the Met Mast was and continues to be essential to the wind measurement program that has proven the strength of the wind resource in Hecate Strait
- The formal acceptance of NaiKun Wind’s application for environmental assessment approval by the BC Environmental Assessment Office in May 2009, which initiated a harmonized federal-provincial review. Subsequent to the fiscal year end, the Provincial Government announced on December 10, 2009 that the offshore wind project had been approved and an environmental assessment certificate had been issued. This is a significant milestone for the project. The federal government’s decision on the environmental assessment application is expected in early 2010.

- The Haida Nation has also undertaken an environmental review which is separate from the review being managed by the BC Environmental Assessment Office, although a decision has not yet been announced.
- In November 2009, NaiKun announced the selection of the marine contractor for the project. The company has signed a Letter of Intent with MT Højgaard of Denmark covering the design, supply and installation of wind turbine foundations, scour protection and inter-array cables. MT Højgaard is a leading marine contractor for offshore wind energy projects in Europe.
- From inception to September 30, 2009, the Company has expensed approximately \$38.8 million on the development stages of the NaiKun Wind Project, comprised of \$15.0 million for engineering, research and development including environmental assessment costs of \$4.8 million, \$11.4 million for compensation, \$3.1 million for office and administration, \$2.1 million for professional fees, \$1.6 million for depreciation and amortization, \$1.6 million for public and community relations, \$1.7 million for travel, \$1.3 million in stock based transmission rights, \$0.5 million in stock based compensation and \$0.4 million in interest. In addition, the Company has capitalized \$3.3 million in costs relating to the construction and installation of the Met Mast, which includes an asset retirement obligation (“ARO”) in regards to the future costs associated with removal of the Met Mast.

Phase 2 (400 MW)

The Company is in the conceptual stage of development for a 400 MW Phase 2 of the Project, the evaluation of which would begin upon commercial and environmental confirmation of the similar sized Phase 1. The development of this potential 400 MW would be contingent on, among other things, First Nations’ consultations and appropriate environmental approvals and securing an off-take agreement with BC Hydro or another creditworthy purchaser. In addition, construction of the incremental 400 MW would be contingent upon the availability of cost-effective transmission capacity and the commitment of project partners and financing. The Company believes that the option to develop Phase 2 of the Project may be attractive to energy companies looking for renewable energy options. The Company further believes that the scalability of the Project differentiates the Company from most other energy projects in the western renewable energy market.

Outlook

In the new fiscal year there will be a number of important milestones for the Company and the Phase 1 Project. The most prominent would be a potential EPA from BC Hydro. In addition, the Company will finalize its equity partners for Genco, and plan the remaining elements of the technical work program that will lead to the detailed design for the project.

Future key milestones in 2010 include the finalization of the financing plan, along with the securing of key supplier agreements for major project equipment and components. The timeline would also see environmental approvals and permits issued from the federal government and the Haida Nation.

Risks and Uncertainties

The Company’s future and growth is dependent on a number of risk factors common to other companies in the renewable energy sector and in particular, wind energy companies. Some factors that may have a material impact on the Company’s future include, but are not limited to:

Electricity Purchase Agreement

A significant milestone and risk factor for the Company is the award of an EPA from BC Hydro. The Company's current business plan assumes a successful EPA award. Not receiving an EPA would require the Company to significantly alter its strategic plan and such a shift could materially affect the Company's future development program. The Company has defined cash management plans as required to sustain operations and development options in the event of extended delay in receiving an EPA.

Financing

Although the Company has raised sufficient capital to complete the development stages of the Project, it will need to obtain additional financing for the Project before commencing the construction stage. Financing will be obtained from strategic partners who will provide project equity and from project financing which will be the source for the required debt. The Company is working with an international financial advisor with specific experience in offshore wind projects to refine and execute the financing plan.

Contracting Parties

The Company's current and future contractual arrangements with various parties (e.g., consultants, suppliers, First Nations, strategic partners, management, etc.) for the development, construction and operation of the Project is another risk factor. The Company's ability to fulfill its obligations as well as the ability and likelihood of the other parties to fulfill their obligations can have a material impact on the future success of the Company. The Company will include technical and financial capacity and credit-worthiness assessments in its contracting strategies.

Wind Resource and Weather

Although long-term historical wind data obtained from Environment Canada at or around the site for the NaiKun Wind Project, along with data received from the Met Mast, indicate the wind resource as being world-class in nature and supportive of the project economics, wind speeds are unpredictable, may vary over time and may or may not continue at the historical trend due to changes in weather patterns. Prior to construction, the measured wind speeds affect the financeability of the Project and during operations, affect the profitability of the Project and the Company. During construction, the weather and marine environment at the Project site can cause scheduling delays resulting in material cost overruns or a delay in the operation start date. Where possible, the Company will incorporate insurance, contracting and scheduling strategies to manage this risk.

Financial Summary

The following summarizes selected financial information for the years ended September 30, 2009, 2008 and 2007 and the cumulative data from October 1, 2004 to September 30, 2009.

	<u>2009</u>	Year ended September 30 <u>2008</u> (Restated)	<u>2007</u> (Restated)	October 1, 2004 to September 30 <u>2009</u>
Loss and comprehensive loss	\$(11,774,663)	\$(12,800,117)	\$(4,601,869)	\$(31,088,427)
Loss per common share	<u>\$0.30</u>	<u>\$0.35</u>	<u>\$0.25</u>	

The following summarizes the total assets and total liabilities as at September 30, 2009, 2008 and 2007.

	September 30 <u>2009</u>	September 30 <u>2008</u> (Restated)	September 30 <u>2007</u> (Restated)
Total Assets	\$17,641,545	\$31,997,564	\$37,719,445
Total Liabilities	\$2,941,827	\$5,559,696	\$2,137,007

Net Loss and the decrease in *Total Assets* during the year ended September 30, 2009 are primarily due to the Company's expenditures on the NaiKun Wind Project, virtually all of which were expensed in the period incurred.

Restatement

The Company has restated the prior year comparative figures relating to the accounting for the tax implications of the renunciated flow through share expenditures. During the years ending September 30, 2008 and 2007, 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 years ended September 30, 2008 and 2007. 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 years ending September 30, 2008, the Company has recorded a future income tax recovery of \$3.5 million (2007 - \$0.5 million) and an interest expense of \$0.2 million (2007 - nil) related to the restatement.

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:

Quarter ended	Revenues - \$	General, Administrative & Engineering Expenses - \$	Net Income (Loss) - \$	Basic Earnings (Loss) per share - \$	Fully Diluted Earnings (Loss) per share - \$
30-Sep-09	Nil	2,254,710	(2,214,787)	(0.06)	(0.06)
30-Jun-09	Nil	2,710,676	(2,678,432)	(0.07)	(0.07)
31-Mar-09*	Nil	3,373,914	(3,285,947)	(0.08)	(0.08)
31-Dec-08*	Nil	3,903,369	(3,700,868)	(0.09)	(0.09)
30-Sep-08*	Nil	7,304,740	(7,022,339)	(0.19)	(0.19)
30-Jun-08*	Nil	4,901,049	(4,600,319)	(0.13)	(0.13)
31-Mar-08*	Nil	2,549,375	1,383,817	0.04	0.04
31-Dec-07	Nil	3,006,750	(2,561,276)	(0.07)	(0.07)

* see Restatement note on preceding page

The level of expenditures and loss varies from period to period depending on the level of activity related to the development of the NaiKun Wind Project. During the three months ended September 30, 2009, the Company's expenses and net loss decreased compared with previous quarters as the majority of activities related to securing environmental approvals and work related to securing an EPA with BC Hydro have been completed.

Result of Operations

The Company reported a loss of \$11,774,663 for the year ended September 30, 2009 compared with a loss of \$12,800,117 for the year ended September 30, 2008. The reported loss has decreased from the same period last year as the majority of activities related to securing environmental approvals and work related to securing an EPA with BC Hydro have been completed. Cash outflows from operations amounted to \$13,690,034 compared with an outflow of \$11,844,987 for the year ended September 30, 2008. This increase, despite the decrease in reported loss, is due to the significant reduction in accounts payable and accrued liabilities from September 30, 2008. 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.

General, administrative and engineering expenses for the year ended September 30, 2009 totaled \$12,399,435 (2008 - \$17,762,273) of which \$4,862,221 (2008 - \$5,825,787) related to engineering, research and development, \$517,870 (2008 - \$555,589) related to public and community relations, \$367,659 (2008 - \$747,518) related to professional fees and \$475,425 (2008 - \$654,074) related to travel. Each of these expense categories have declined significantly from the prior year as the majority of the activities related to securing environmental approvals and work related to securing an EPA with BC Hydro on Phase 1 Project have been completed. Compensation expense for the

year ended September 30, 2009 declined to \$4,593,137 (2008 - \$6,831,957) due to the one-time costs incurred in 2008 associated with the hiring of key personnel in senior management and other ancillary staff members and a retirement payment (see Related Party Transactions). Office and administrative expenses have remained relatively flat at \$837,353 (2008 - \$1,024,533) reflecting the ongoing overhead and administration costs required to maintain the Company and its operations in its current state. Non-cash expenses included depletion and amortization of \$703,323 (2008 – \$613,137) and accretion of \$41,136 (2008 - \$39,176).

During the year ended September 30, 2009, the Company recorded investment income of \$313,398 (2008 - \$1,281,927). The decline in investment income is attributable to the lower average cash balance and the significant decline in interest rates over the last year. The Company's net petroleum and natural gas sales amounted to \$49,103 during the year ended September 30, 2009 compared with \$121,527 for the previous year. This decrease is attributable to reduced activity and the decline of oil prices.

During the year ended September 30, 2009, the Company recorded a future income tax recovery of nil (2008 - \$3,544,300). The significant decline is attributable to the flow through financing completed in August 2007. The tax benefits of the related expenditures were renounced to the subscribers during the fiscal year ended September 30, 2008 resulting in the recognition of a future income tax recovery. There have been no further flow through financings since August 2007 and consequently, no further income tax recoveries have been recognized during the current fiscal year.

Liquidity

As at September 30, 2009, the Company had \$14.3 million in cash and cash equivalents compared to \$27.9 million as at September 30, 2008. Of that balance, approximately \$13.9 million was held in guaranteed investment certificates ("GICs") issued by HSBC Bank Canada and Canadian Imperial Bank of Commerce. The terms on these GICs include a minimum 30 day holding period to avoid interest penalties and a one year guarantee on the interest rate. As at September 30, 2009, the minimum hold period has lapsed on all GICs and the entire balance is redeemable in full with interest at the Company's option. In accordance with the Company's investment policy on its cash holdings, the Company does not hold more than \$10 million with any single issuer and does not have any cash or short term investments with maturity dates beyond 6 months. Working capital as at September 30, 2009 was \$12.7 million vs \$23.7 million as at September 30, 2008. The decrease in cash and cash equivalents and working capital during the year ended September 30, 2009 is primarily a result of the expenditures related to the advancement of the NaiKun Wind Project and the ongoing overhead and administration to maintain the Company.

Capital Resources

During the year ended September 30, 2009, the Company did not issue any common shares and, as at September 30, 2009 and January 5, 2010, had 39,332,501 common shares issued and outstanding.

As at September 30, 2009, the Company had the following options and warrants outstanding:

Description	Exercise Price	Expiry Date	Number Outstanding
Restricted Warrants	\$0.63	September 30, 2013*	12,000,000
Stock Options	\$0.72	November 28, 2011	562,500
Warrants	\$2.66	December 4, 2009	1,000,000

*or 2 years after close of construction financing ("Financial Close") on Phase 1 of the NaiKun Wind Project (whichever is earlier).

Subsequent to September 30, 2009, 1,000,000 warrants exercisable at \$2.66 expired unexercised.

Commitments

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.

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.

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 was initially set up to defer payment of the majority of the Company's salary expenses prior to 2008 until Financial Close. As at September 30, 2009, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million (see also Related Party Transactions). This amount would become payable upon close of project financing on the Phase 1 Project.

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 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.

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.

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).

During the year ended September 30, 2008, the Company approved a payout of \$1.44 million 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. 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 paid out \$1.39 million of the amount payable.

Significant Accounting Policies

(a) 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 (See Audited Financial Statement Notes 3 and 7).

(b) 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 the Audited Financial Statements - Note 4.

(c) 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 recognized.

(d) 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 recorded.

(e) 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.

Accounting Changes

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 accounting.

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.

Internal Controls and Procedures over Financial Reporting

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended 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.

TSX Venture listed companies are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in National Instrument 52-109. In particular, the certifying officers (the Chief Executive Officer and Chief Financial Officer) do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in National Instrument 52-109 may result in

additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Approval

The board of directors of the Company has approved the disclosure contained in this MD&A.

Additional Information

Additional information relating to the Company can be found on SEDAR at www.sedar.com under *NaiKun Wind Energy Group Inc.* or at www.naikun.ca.

Dated January 5, 2010