

NAIKUN WIND ENERGY GROUP INC.

(A Development Stage Company)

Management's Discussion & Analysis

For the quarter ended December 31, 2019

Containing information up to and including February 18, 2020

This Management's Discussion and Analysis ("MD&A") reviews the activities of NaiKun Wind Energy Group Inc., (the "Company" or "NaiKun") and its material subsidiaries; the wholly owned NaiKun Wind Development Inc. ("Devco"), and NaiKun Wind Generating Inc. ("Genco"). For a more complete understanding of the Company's financial condition and results of operations, this MD&A should be read together with the Company's condensed consolidated interim financial statements for the three months ended December 31, 2019 and 2018 and the accompanying notes, and the MD&A for the year ended September 30, 2019. 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.

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, February 18, 2020 (the "Report Date").

Description and Overview of Business

NaiKun Wind Energy Group Inc. is a British Columbia ("BC") based renewable energy company with a current focus on an offshore wind energy project. Headquartered in Vancouver, it is a Tier 2 listed company that trades on the TSX Venture Exchange (TSX-V:NKW). It is developing a 400 MW offshore wind project located in Hecate Strait off the north coast of British Columbia (the "NaiKun Wind Project" or the "Project"). NaiKun was a registered proponent in the Clean Power Call RFP (the "CPC"). On March 31, 2010, BC Hydro advised NaiKun Wind that its proposal to build and operate the Project was no longer under consideration for a contract. The Company is exploring how it can advance the first phase of the project and how it can fit into the provincial government's

clean energy plans like CleanBC. Currently the Company is negotiating with an energy company with extensive experience in developing offshore wind projects.

NaiKun Wind Project

The Company has applied to renew the investigative use permits (“IUPs”) from the Government of British Columbia which provides the Company with the ability to develop wind energy projects within an area in British Columbia’s Hecate Strait. The proposed site for the first phase is less than 40% of the permit area. The IUPs also include two transmission corridors that would connect the NaiKun Wind Project to Haida Gwaii and the mainland power grid, and includes the license of occupancy for the Company’s Met Mast.

The area’s wind resource is the best in British Columbia and among the best in the world. This is due to the strong, consistent and high wind speeds, with mean annual wind speeds exceeding 10.0 meters/second (rated as a Class 7 resource). The wind is the strongest and most consistent in the fall and winter when electricity demand in BC is the highest. Other characteristics that make Hecate Strait an ideal location for offshore wind projects include its flat sedimentary seabed, relatively shallow waters, access to BC Hydro’s power grid, and its proximity to the increasing electricity demand in Northern British Columbia.

The energy potential of the area in Hecate Strait is well in excess of 2,000 megawatts (“MW”), enough to power more than 900,000 homes. If an Energy Purchase Agreement (EPA) is acquired, the Project would take approximately three years for finalization of supplier agreements, financial close on debt and equity, and construction.

The development schedules for subsequent phases are also subject to environmental and other approvals, First Nations engagement, and other factors.

In March 2011, NaiKun received a Federal screening decision from the Canadian Environmental Assessment Agency (CEAA). The decision concluded the harmonized environmental assessment review process and confirmed that the Project, which could be Canada’s first offshore wind energy project, can be constructed with no significant adverse environmental, social or health effects. Responsible federal agencies are now authorized to issue the required construction and operating permits, including a Navigable Water Protection Act Approval and Fisheries Act Authorization. This Federal approval was in addition to the Environmental Assessment Certificate issued by the Government of British Columbia in December 2009. The Provincial Environmental Assessment Certificate was extended on December 9, 2014 for a five-year period, and expired in December 2019. NaiKun’s Phase 1 and possible future phases have the potential to provide BC with a significant and scalable resource that is complementary to the aims and objectives of the Government in British Columbia.

Outlook

The significant wind energy resource in Northwest BC’s Hecate Strait provides an opportunity to supply renewable energy for the increasing requirements in the provinces of BC and Alberta and the western USA. When the Company was unsuccessful in the 2010 Clean Power Call it was determined that the best interest of the shareholders would be served by continuing to advance the wind project, reducing the day to day costs of operating the Company, and continuing to look for partnerships and business opportunities in the renewable energy field. The Company’s efforts since that time have seen substantial refinement and development of the project that are associated with

the remarkable improvements in offshore wind technology, associated lower costs, and expansion of the industry from a European base with a relatively small number of competitors to a low-cost world-wide industry that continues to see technology improvements and lower costs. The generation costs per megawatt and the energy production of offshore wind have significantly improved over the past few years. Electricity prices in Europe, based on recent projects, are now in the low €60/MW range. In November 2017, a project was awarded to a large utility in Europe which had an initial price of US\$ 53/MW with the long-term price projected at US\$ 40/MW. More recently the 800 MW offshore wind project in Massachusetts was awarded to Vineyard Wind LLC and included electricity pricing of US\$ 65/MW. In 2019, offshore wind contracts were awarded in the North Sea (UK) for £39.65 and £41.61. These prices make offshore competitive with any long-term energy prices and costs will continue to drop with the advent of larger and more efficient turbines, other improvements in the industry, and supply of major components from Asia. The significant projections for offshore wind development in Asia demonstrate the speed of the world-wide development of offshore wind. Research from global natural resources consultancy Wood Mackenzie indicates Asia-Pacific's offshore wind capacity will rise 20-fold to 43 GW by 2027. Wood Mackenzie project that East Asia needs around US\$37 billion in investments to meet the mammoth growth in offshore wind capacity over the next five years. The development of a strong supply chain from Asia will further reduce the costs of offshore wind in BC.

At the same time as the industry has progressed to a low-cost world-wide energy developer, the profile of the Naikun project has changed from a local project in British Columbia to a well-known world ranked wind resource.

BC Government Climate Action Plans and Renewable Energy “Road Map”

In the summer of 2017, the NDP party, with the support of the BC Green Party, formed government in BC. Both parties are strongly committed to a low carbon economy, a renewable energy future for BC, and significant advances in the Province's Climate Change Strategy; all of which bode well for Naikun's strong, affordable wind resource.

The wind resource in Hecate Strait is a remarkable utility scale world-class wind resource that is permitted and can be developed in a brief time frame to meet the power needs in BC, Alberta and the western USA.

Haida Gwaii is the largest land mass in British Columbia that is not connected to the BC Hydro grid. Six communities on Haida Gwaii represent 10% of the communities that are still on diesel generation. The development of the wind development project would include a transmission line that would connect Haida Gwaii with the mainland BC Hydro grid. This would effectively bring cost-effective, reliable, green power to Haida Gwaii which would in turn facilitate the growth of a vibrant on-island renewable energy economy that could augment the forestry, fishery and cultural initiatives on Haida Gwaii.

The BC Government policy announcements (Clean BC) make it clear that to achieve the Paris Accord Climate Action objectives and provinces GHG targets, BC must electrify most energy consuming uses and also must convert most carbon-based fuel industries to electricity. Couple these aggressive policy commitments with the likelihood that British Columbia will not build another new Hydro Dam or large gas generation facility, it is clear that future energy supply must come from utility scale renewable resources like Naikun's wind project.

Northwest BC is a Unique Region supplied by a single HVAC Transmission Line

The Naikun Wind resource is located in the northwest region of BC, a unique part of the province serviced by one 600km long HVAC transmission line with a finite capacity. Additional electrical power for this part of the province must be provided locally or via a new multi-billion dollar transmission line that would take up to a decade to approve and complete. Providing electrical power locally is by far the most practical and cost-effective alternative for the fast growing commercial and industrial demand in the region. The Naikun wind project is the only large-scale project in the region that can meet the demand for power in the region.

Energy, there are compelling reasons for the project to proceed to the development stage ...”

New Partnership Engagement

Since October 2018 Naikun has engaged numerous parties to partner in the development of the first phase. To assist with the search for a partner to develop the offshore wind project, the Company engaged the services of PricewaterhouseCoopers (PwC).

On July 8, 2019 the Company signed an indicative agreement with a major offshore wind development company to develop the wind project in Hecate Strait and the parties are currently working to negotiate and sign a definitive agreement.

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, 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 (“EPA”)

A significant milestone and risk factor for the Company is an award of an EPA from BC Hydro or a similar purchaser of electricity. The Company continues to advance the Project, demonstrating how the wind energy field will meet the Provincial Governments’ clean energy plans (Clean BC). NaiKun is optimistic about the proposed plans of the Provincial and Federal Governments to proceed with a significant renewable energy program in the near future. Given the scale, cost, and availability of the resource and a potential new partnership, the Company is optimistic the first phase of the NaiKun wind project can become part of these programs in the near future.

However, the Company cannot predict when or if the Project will proceed, or if an EPA will be awarded.

Capital Resources

Due to the delay in receiving an EPA for the Project, the Company has substantially reduced its activity level and cash expenditures. On November 21, 2018, to provide near term funding, the Company sold its common shares in Barkerville Gold Mine for \$111,687 and, on January 24, 2019, entered into a loan agreement with one of the Company’s directors to provide

financing of \$300,000. During the year ended September 30, 2019, 3,651,308 outstanding warrants, that were to expire on September 7, 2019, were repriced from an exercise price of \$0.15 per common share to \$0.10 per common share with 3,382,937 of such warrants being exercised prior to expiry. Total proceeds of \$389,831 was raised from a total of 3,726,386 warrants being exercised. During the three months ending December 31, 2019, \$300,750 was raised from the exercise of 2,700,000 options and 250,000 warrants. Subsequent to December 31, 2019 2,750,000 warrants were exercised, the proceeds of which were used to repay the Company's short term loan. With the current resources and with the anticipated participation of a new partner, the Company expects to be adequately financed into the near future.

Prior to executing an EPA, the Company will need to raise additional equity at the Project level and likely at the Company level to fund contributions for equipment deposits and Project security. The availability and possible dilutive effect of additional equity will be subject to market conditions at the time of any equity financing.

Project Financing

The availability and cost of project equity and debt are beyond the Company's control and subject to market conditions at the time the NaiKun Wind Project advances to the construction stage.

Contracting Parties

The Company engaged in discussions with a number of energy companies with proven capabilities in financing, building, and operating offshore wind projects around the world. To assist in the successful search for a leading partner, the Company retained the services of PricewaterhouseCoopers. On July 8, 2019, the Company signed an indicative agreement with a major offshore development company to develop the wind project in Hecate Strait and the two parties are currently working to negotiate and sign a definitive agreement. The Company's current and future contractual arrangements with various parties for the development, construction and operation of the Project are another risk factor. The Company's and other parties' ability to fulfill obligations can have a material impact on future success. The Company would include technical and financial capacity and credit-worthiness assessments in its contracting strategies. The Company would also need to either sell the Project in part or in whole, or enter into an agreement with a strategic partner in order to fund future contractual arrangements. The Company may not be able to sell a portion at a reasonable price nor to secure an appropriate partnership.

Wind Resource and Weather

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 this is a world-class, affordable wind resource. However, wind speeds may vary over time and may or may not continue at the historical trend due to changes in weather patterns. The 20 plus years of correlated data indicate the resource may be growing stronger over time, however, this is not assured. During construction, the weather and marine environment at the Project site can cause scheduling delays resulting in cost overruns or a delay in the operation start date. Where possible, the Company would incorporate their extensive experience to manage this risk.

Financial Summary

The following summarizes selected financial information for the years ended September 30, 2019, 2018, and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Loss and comprehensive loss	\$264,863	\$234,587	\$209,131
Loss per common share	<u>\$0.004</u>	<u>\$0.004</u>	<u>\$0.003</u>

The following summarizes the total assets and total liabilities as at September 30, 2019, 2018, and 2017.

	December 31, <u>2019</u>	September 30, <u>2019</u>	September 30, <u>2018</u>
Total Assets	\$576,513	\$609,440	\$581,696
Total Liabilities	\$1,752,425	\$1,832,020	\$1,086,422

The loss and the decrease in total assets during the three months ended December 31, 2019 is primarily due to the Company's expenditures on the Project and administration, all of which were expensed in the period incurred.

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. For more detail information, refer to the consolidated financial statements for the applicable periods.

Quarter ended	Revenues - \$	Project, general and administrative expenses - \$	Net loss - \$	Basic and diluted loss per share - \$
31-Dec-19	Nil	264,937	264,863	0.00
30-Sep-19	Nil	420,078	368,162	0.00
30-Jun-19	Nil	294,578	294,574	0.00
31-Mar-19	Nil	358,020	357,987	0.00
31-Dec-18	Nil	229,274	234,587	0.00
30-Sep-18	Nil	217,656	236,924	0.00
30-Jun-18	Nil	246,942	225,965	0.00
31-Mar-18	Nil	241,441	174,844	0.00

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. Net loss during the earliest of the two years in this reporting period are consistent and lower than the current year due to the income received under the Orsted agreement which terminated in October 2018. Costs in the year ended September 30, 2019 are higher primarily due to interest and borrowing costs of \$40,281, and consulting and

professional services of \$202,054 incurred in identifying and negotiating agreements with a potential partner to further the development of the Company's wind project. The costs in the three months ended December 31, 2019 are slightly higher than the same quarter last year due to continued work on the negotiations and legal agreements on the pending agreement with a major offshore wind development company.

Results of Operations

The Company reported a loss of \$264,863 for the three months ended December 31, 2019 compared with a loss of \$234,587 for the same period last year. Cash used in operations for the three months ended December 31, 2019 was \$329,620 compared to \$167,774 for the same period last year.

Project, general and administrative expenses ("PG&A") for the three months ended December 31, 2019 totaled \$264,937 (2018 - \$229,274) of which \$28,025 (2018 - \$48,938) related to public and community relations, \$12,500 related to consultant fees (2018 – nil), \$6,050 related to interest expense (2018 – nil), \$38,443 (2018 - \$21,589) related to professional fees, \$27,894 (2018 - \$27,774) for office and administrative expenses and \$6,994 (2018 - \$8,551) related to travel. Compensation expense for the three months ended December 31, 2019, which is also included in PG&A, amounted to \$145,031 (2018 - \$122,422). PG&A expenses were higher for the three months ended December 31, 2019 over the same period in the prior year as compensation (\$22,609), legal and tax consulting costs (\$16,854), and consultant fees (\$12,500) are higher related to continued work done to secure a senior partner to assist in developing the project. Additionally, PG&A expenses are higher for the three months ended December 31, 2019 due to interest and borrowing costs of \$6,050 (2018 – nil) related to a loan put in place January 24, 2019. As the Company was busy with securing a senior partner, less efforts were put into Government relations compared to the same period last year (\$20,913).

Liquidity

As at December 31, 2019, the Company had \$204,067 in cash and cash equivalents compared to \$232,937 as at September 30, 2019. Working capital, being current assets less current liabilities, as at December 31, 2019 was \$(1,135,912) vs. \$(1,182,580) as at September 30, 2019. The decrease in cash and cash equivalents and the increase in working capital during the year ended September 30, 2019 is the result of expenditures related to the advancement of the NaiKun Wind Project and the ongoing overhead and administration to maintain the Company, net of funds raised through the exercise of options and warrants, 275,750 and 25,000 respectively.

During the quarter ended March 31, 2014 the Company made a deposit with Natural Resources Canada (NRC) as part of the Met Mast license renewal. This deposit is held by NRC to ensure the retirement obligation is fulfilled when the Met Mast is decommissioned.

On November 21, 2018, to provide near term funding of the Company's activities, the Company sold its common shares in Barkerville for \$111,687. The Company also entered into a loan agreement dated January 24, 2019 with one of the Company's directors to provide financing of \$300,000. On July 8, 2019 the Company signed an indicative offer with a major offshore wind development company and the parties are working to negotiate and sign a definitive agreement. During the year ended September 30, 2019, 3,651,308 outstanding warrants, that were to expire on September 7, 2019, were repriced from an exercise price of \$0.15 per common share to \$0.10 per common share with 3,382,937 of such warrants being exercised prior to expiry. Total proceeds of \$389,831 was raised from a total of 3,726,386 warrants being exercised. During the three months ending

December 31, 2019, \$300,750 was raised from the exercise of 2,700,000 options and 250,000 warrants. Subsequent to December 31, 2019, 2,750,000 warrants were exercised, the proceeds of which were used to repay the Company's short term loan.

The Company believes it will still be some time before there is clarity on the development plans for the northwest region of BC, and until those plans are understood there is uncertainty as to the future demand for electricity and the role that the NaiKun Wind Project could play in meeting that demand.

The Company's ability to continue as a going concern is dependent on its ability to obtain additional financing or an investment by a strategic partner in order to meet its planned business objectives and be able to advance the Project. The Company will need to raise funds through grants, strategic collaborations, public or private equity, debt financing, or other funding sources. The funding may not be available on acceptable terms, or at all, and may be dilutive to shareholder interests. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company would need to curtail operations.

Capital Resources

During the three months ended December 31, 2019, the Company issued 53,906 common shares at a fair value of \$0.20 per common share to directors as full payment of their remuneration. Also, during the three months ended December 31, 2019, 2,950,000 common shares were issued upon the exercise of options and warrants at an average price of \$0.102. As at December 31, 2019 the Company had 72,257,389 common shares issued and outstanding. Subsequent to December 31, 2019, the Company issued 74,354 common shares at a fair value of \$0.145 per common share to directors as full payment of their remuneration. This subsequent issuance covered compensation for the period of October 1, 2019 to December 31, 2019. Subsequent to December 31, 2019, 2,750,000 warrants were exercised, the proceeds of which were used to repay the Company's short term loan. As at February 18, 2020, the Company had 75,081,743 common shares issued and outstanding.

As of February 18, 2020, the Company had 2,250,000 stock options outstanding.

Description	Exercise Price	Expiry Date	Number Outstanding
Stock Options	\$0.10	October 6, 2026	100,000
Stock Options	\$0.095	November 1, 2027	1,150,000
Stock Options	\$0.10	January 24, 2029	1,000,000

Commitments

On July 8, 2019 the company has signed an indicative offer with a major offshore wind development company and the two parties are currently working to negotiate and sign a definitive agreement.

The Company entered into a consulting agreement with PricewaterhouseCoopers ("PwC") in relation to assisting in identifying and securing a strategic partner for the NaiKun Wind Project. In exchange for services PwC received fixed monthly fixed monthly fees of \$12,500 and 1,000,000 stock options which PwC will exercise equal to the value of fees up to \$100,000. Additionally, PwC will be entitled to 2% of any proceeds received by NaiKun for a period of 24 months, subject to a maximum fee of \$500,000.

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 associated with the NaiKun Wind Project as defined within the Deferred Plan agreement. Amounts allocated to the Deferred Plan have not been accrued due to the uncertainty of the occurrence of the triggering event for payment, that being financial close. As at September 30, 2019, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million (2018 - \$4.2 million).

To preserve cash, the Company entered into agreements with several consultants and the CEO to defer all or a portion of their retainer, fees, or compensation; the payment of which is triggered by a future Success Event. "Success Event" is defined as the point in time at which an agreement has been announced to undertake the first phase of the NaiKun wind farm, to develop the project(s) on some deferred timeframe or to sell all or part of the Company assets. The agreement to proceed, to develop, or to sell assets may be undertaken by an arms-length third party acceptable to the board of NaiKun that may or may not be partially owned by NaiKun. In order for the deferred retainers and fees to become payable, the Success Event must provide NaiKun shareholders with a significant increase in share value and further, this event must provide NaiKun with sufficient liquidity to pay the outstanding amounts due. The accumulated amounts have not been accrued due to the uncertainty of the occurrence of a future Success Event.

The Company also entered into an agreement with its CEO to defer \$220,000 per annum of his compensation. As at December 31, 2019, the total accumulated accrued amount of this deferral, which commenced January 1, 2016, is \$880,000 (2018 - \$660,000). In addition, a matching amount is contingently payable and triggered by a future Success Event. This portion has not been accrued due to the uncertainty of the occurrence of a future Success Event.

As at December 31, 2019, the remaining unpaid, unaccrued balance of these deferred retainer and fee amounts for consultants is \$672,375 (2018 – \$683,750) and for CEO compensation, the amount is \$880,000 (2018 – \$660,000).

Related Party Transactions

Key management compensation to the Chief Executive Officer, Chief Financial Officer, and the Board of Directors for the three months ended December 31, 2019 are as follows:

	2019	2018
Wages and benefits	\$134,250	\$111,641
Share-based	10,781	10,781
	<u>\$145,031</u>	<u>\$122,422</u>

During the three months ended December 31, 2019 the Company issued 53,906 common shares (2018 – 126,839 common shares) with a fair value of \$10,781 (2018 - \$10,781) to directors as their full quarterly compensation for the period of July 1, 2019 to October 31, 2019.

As at December 31, 2019 \$10,781 (2018 - \$10,781) in directors' remuneration was accrued in accounts payable and accrued liabilities and was subsequently paid by issuance of common shares of the Company.

As at December 31, 2019 \$880,000 (2018 – \$660,000) was payable to the Company's CEO and included in deferred compensation payable.

As at December 31, 2019 the Company accrued \$22,631 in interest costs related to a short term loan from one of the Company's directors. On January 17, 2020 the loan and interest entitlement were paid in full.

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 February 18, 2020