

---

# **NAIKUN WIND ENERGY GROUP INC.**

Audited Consolidated Financial Statements

**For the years ended September 2018 and 2017**

---





## MANAGEMENT'S REPORT

To the Shareholders of

### **NaiKun Wind Energy Group Inc. (the "Company")**

The preparation and presentation of the Company's consolidated financial statements as at September 30, 2018 and 2017 is the responsibility of management. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and where appropriate include managements best estimates and judgments.

Management is responsible for installing and maintaining a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded, transactions are authorized and financial information is reliable.

Independent auditors are appointed by the Company's shareholders to give an opinion on the financial statements based upon their scope of examination as outlined in their Auditor's Report.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility with the assistance of the Audit Committee. The Audit Committee meets with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the financial statements be presented to the Board of Directors for approval.

**Signed: "Wilbur J. Lang"**

Wilbur J. Lang - Chief Financial Officer



KPMG LLP  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada  
Telephone (604) 691-3000  
Fax (604) 691-3031

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of NaiKun Wind Energy Group Inc.

We have audited the accompanying consolidated financial statements of NaiKun Wind Energy Group Inc., which comprise the consolidated statements of financial position as at September 30, 2018 and September 30, 2017, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NaiKun Wind Energy Group Inc. as at September 30, 2018 and September 30, 2017 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2(a) in the consolidated financial statements which indicates that NaiKun Wind Energy Group Inc. has negative working capital and a shareholders' deficiency at September 30, 2018 and has sustained a loss from operations and negative cash flows from operations for the years ended September 30, 2018 and 2017. These conditions, along with other matters as set forth in Note 2(a) in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about NaiKun Wind Energy Group Inc.'s ability to continue as a going concern.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

January 24, 2019  
Vancouver, Canada

**NAIKUN WIND ENERGY GROUP INC.**  
**Consolidated Statements of Financial Position**

	September 30, 2018	September 30, 2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 91,045	\$ 413,641
Accounts receivable	4,753	33,899
Investment (note 13)	117,000	258,000
Prepaid expenses and other	8,898	8,898
	221,696	714,438
Non-current assets		
Deposit - Natural Resources Canada - Metmast	360,000	360,000
<b>Total assets</b>	<b>\$ 581,696</b>	<b>\$ 1,074,438</b>
<b>Liabilities</b>		
Current Liabilities		
Bank overdraft	\$ -	\$ 21,097
Accounts payable and accrued liabilities (note 8)	81,422	66,854
Deferred compensation payable (note 8)	605,000	385,000
	686,422	472,951
Non-Current Liabilities		
Asset retirement obligation (note 5)	400,000	400,000
<b>Total liabilities</b>	<b>1,086,422</b>	<b>872,951</b>
<b>Shareholders' Equity (Deficiency)</b>		
Share capital (note 6(a))	46,933,789	46,892,696
Contributed surplus	2,447,761	2,348,203
Deficit	(49,886,276)	(49,039,412)
<b>Total shareholders' equity (deficiency)</b>	<b>(504,726)</b>	<b>201,487</b>
<b>Total liabilities &amp; shareholders' equity (deficiency)</b>	<b>\$ 581,696</b>	<b>\$ 1,074,438</b>

Nature of operations and going concern (notes 1 & 2(a))  
 Commitments (note 9)  
 Contingent liabilities (note 10)  
 Subsequent events (notes 1, 9, and 14)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors and authorized for issue on January 24, 2019.

Director: "Dave Rehn"

Director: "Michael O'Connor"

**NAIKUN WIND ENERGY GROUP INC.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the years ended September 30, 2018 and 2017**

	September 30, 2018	September 30, 2017
<b>Expenses</b>		
Compensation	\$ 594,420	\$ 523,338
Office and administration	123,443	135,364
Public and community relations	171,878	207,480
Professional fees	44,534	48,030
Travel	53,640	52,620
<b>Loss before the following:</b>	(987,915)	(966,832)
<b>Other Income</b>		
Other income (note 9)	280,000	35,000
Investment income	2,051	4,741
Fair value gain (loss) on financial instruments (note 13)	(141,000)	45,000
	141,051	84,741
<b>Loss and comprehensive loss for the period</b>	<b>\$ (846,864)</b>	<b>\$ (882,091)</b>
<b>Loss per share, basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b>64,703,095</b>	<b>64,232,704</b>

The accompanying notes are an integral part of these consolidated financial statements.

**NAIKUN WIND ENERGY GROUP INC.****Consolidated Statements of Changes in Shareholders' Equity (Deficiency)****For the years ended September 30, 2018 and 2017**

	Number of Common Shares (Note 6 & 8)	Share Capital (Note 6 & 8)	Contributed Surplus	Deficit	Total Shareholders' Equity (Deficiency)
Balance, September 30, 2016	63,975,780	\$ 46,856,548	\$ 2,248,701	\$ (48,157,321)	\$ 947,928
Total comprehensive loss for the year	-	-	-	(882,091)	(882,091)
Share based portion of compensation	459,817	36,148	-	-	36,148
Share based compensation expense	-	-	99,502	-	99,502
Balance, September 30, 2017	64,435,597	46,892,696	2,348,203	(49,039,412)	201,487
Total comprehensive loss for the year	-	-	-	(846,864)	(846,864)
Share based portion of compensation	483,872	41,093	-	-	41,093
Share based compensation expense	-	-	99,558	-	99,558
Balance, September 30, 2018	64,919,469	\$ 46,933,789	\$ 2,447,761	\$ (49,886,276)	\$ (504,726)

The accompanying notes are an integral part of these consolidated financial statements.

**NAIKUN WIND ENERGY GROUP INC.**  
**Consolidated Statements of Cash Flows**  
**For the years ended September 30, 2018 and 2017**

	September 30, 2018	September 30, 2017
Cash flows provided by (used in)		
OPERATING ACTIVITIES		
Loss for the year	\$ (846,864)	\$ (882,091)
Items not affecting cash		
Share-based compensation (notes 6(b) and 8)	140,651	135,650
Unrealized fair value loss (gain) on financial instruments	141,000	(45,000)
Changes in non-cash working capital		
Bank overdraft	(21,097)	21,097
Receivables	29,146	(29,454)
Prepaid expenses and other	-	(25)
Accounts payable and accrued liabilities	14,568	(20,065)
Deferred compensation payable	220,000	220,000
Net cash used in operating activities	(322,596)	(599,888)
FINANCING ACTIVITIES		
Share subscription receivable	-	100,000
Net cash from financing activities	-	100,000
<b>Decrease in cash and cash equivalents</b>	(322,596)	(499,888)
<b>Cash and cash equivalents, beginning of year</b>	413,641	913,529
<b>Cash and cash equivalents, end of year</b>	\$ 91,045	\$ 413,641

The accompanying notes are an integral part of these consolidated financial statements.



**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2018 and 2017**

---

**1. Corporate Information**

NaiKun Wind Energy Group Inc. ("NaiKun Wind" or the "Company") is incorporated under the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange. The Company's registered office is at Suite 570, 355 Burrard Street, Vancouver, BC, V6C 2G8. The Company's primary business is the development of renewable energy projects. The Company is currently developing a project (the "NaiKun Wind Project") on the north coast of British Columbia in Hecate Strait. As the Company is in the development phase, it has not generated any revenue from the sale of wind energy.

On March 31, 2010, NaiKun Wind learned that its offshore wind energy project was no longer under consideration in BC Hydro's Clean Power Call procurement process. Following that decision, the Board directed a review of the alternatives open to the Company. These were broad ranging and included continuing to advance the wind project, business combinations, joint ventures, and the sale of all or part of the Company. The Board and Management were assisted in this review by Cormark Securities and Energy+Environmental Economics (E3). 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 cautions that there can be no assurance that these strategic efforts will ultimately result in an offshore wind project being completed.

**2. Basis of presentation and going concern**

**(a) Going concern**

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to realize, in the foreseeable future, its assets and discharge its liabilities in the normal course of business as they come due. The Company has recurring operating losses, negative cash flow from operations, working capital deficiency of \$464,726, and a shareholders' deficiency of \$504,726 which includes an accumulated deficit of \$49,886,276 (2017 - \$49,039,412). The Company also expects to incur losses in future years until it is able to sell or find a strategic partner for its project and the timing of such events cannot be predicted with certainty.

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 offshore wind project. The Company will need to raise additional funds through grants, strategic collaborations, public or private equity, debt financing, or other funding sources. Subsequent to September 30, 2018 the Company sold its shares in Barkerville Gold Mine for \$111,687 (note 14), and entered into a loan agreement dated January 24, 2019 with a director for \$300,000 (note 14) to provide near term funding. The Company is currently engaged in discussions with a number of parties who are interested in partnering with NaiKun Wind in the development of the wind resource. Additional funding will be required and 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. These factors may cast significant doubt on the Company's ability to continue as a going concern. If the going concern assumption is not appropriate for these financial statements, adjustments affecting the carrying values of assets, liabilities, reported net losses and statement of financial position classifications may be required and such adjustments could be material.

**(b) Statement of compliance**

These consolidated financial statement have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The policies applied in these consolidated financial statements are based on IFRS applicable for the Company's year ended September 30, 2018 as issued and outstanding as of January 24, 2019, the date the Board of Directors approved the financial statements.

These consolidated financial statements are stated in Canadian dollars and were prepared under the historical cost convention, except for the Company's investment in shares of Barkerville Gold Mines Ltd. (note 13) which is recorded at fair value.

**(c) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting periods. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future period affected.

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2018 and 2017**

---

Areas requiring the use of management estimates relate to the amount of asset retirement obligations, the determination of share compensation expense associated with stock options, and the Company's ability to utilize tax losses. A discussion of these estimates is provided in the relevant accounting policy notes. Significant judgment is applied in the determination of the Company's ability to continue as a going concern as discussed in note 2(a). Management assesses its ability to continue as a going concern taking into account its forecast cash requirements, its budgeted non-discretionary expenditures, its available cash and cash equivalents, and expected sources of financing.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by NaiKun Wind and its subsidiaries.

**a) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: NaiKun Wind Development Inc.("Devco"); NaiKun Wind Operating Inc.("Opco"); and 50% owned NaiKun Wind Generating Inc.("Genco"). Genco is an inactive company with no material assets or liabilities (note 14). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated upon consolidation. For partly owned subsidiaries, the interest attributable to non-controlling shareholders is reflected in non-controlling interest.

**b) Foreign currency translation**

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. Foreign exchange gains and losses resulting from the settlements of such transactions are recognized in the income statement. At each financial reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary assets and liabilities are translated using the historical rate on the date that the fair value was determined.

**c) Cash and cash equivalents**

Cash and cash equivalents include short term investments that are readily convertible into cash with original maturities of three months or less. Bank overdraft represents cheques issued in excess of funds on deposit with an individual financial institution.

**d) Property, plant, and equipment**

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use, along with borrowing costs and the future cost of dismantling and removing the asset. Such cost includes the cost of replacing part of the plant and equipment, significant overhauls, and borrowing costs for long-term construction projects if the recognition criteria are met. The cost of replacing a part of an item of property, plant, and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company. All other repair and maintenance costs are recognized in the statement of comprehensive loss as incurred.

Residual values, useful lives and methods of depreciation are reviewed at each period year end and adjusted prospectively, if appropriate. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate major components.

The estimated useful lives and depreciation methods for the current and comparative periods are as follows:

Wind measuring equipment	5 years straight line
Office equipment	3 - 5 years straight line

All items of property, plant and equipment have been fully amortized or written-off in prior years.

**e) Asset retirement obligations**

The Company recognizes its legal and constructive 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. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in that period. Changes in estimates of the liability are reflected as a change in the related asset unless the asset has been reduced to zero, in which case, any excess amount would be included in the statement of comprehensive loss. Significant judgments and estimates are involved in forming expectations of the amount and timing of these obligations.

**f) Impairment of non-financial assets**

Non-financial assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments to the time value of money and the risks specific to the asset, for which the estimated of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss.

**g) Income taxes**

Tax expense comprises current and deferred tax. Tax expense is recognized in income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future, or on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

**h) Interest income**

Interest earned on the Company's cash and cash equivalent balances is recorded as investment income on an accrual basis.

**i) Loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. If the Company had reported positive earnings, diluted earnings per share would be calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. As the Company has had a net loss for all periods presented herein, the unexercised stock options and share purchase warrants, disclosed in notes 6(b) and 6(c), have not been included in any calculations of loss per share as their inclusion would have been anti-dilutive.

**j) Share based payments**

Compensation expense for stock options granted to employees or consultants is measured at fair value, using the Black-Scholes valuation model, factoring in amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of the stock options, the fair value of the Company's stock and the risk-free interest rate. The estimated fair values of stock-based compensation are charged to expense over the vesting period with offsetting amounts recognized as contributed surplus. The value assigned to stock options shown on the statement of financial position as contributed surplus is subsequently reduced if the options are exercised, and the amount so reduced is then credited to share capital. Any values assigned to stock options that have expired remain in contributed surplus.

**k) Financial instruments**

**i) Financial assets**

Management determines the classification of its financial assets at initial recognition. With the exception of investments the Company classified its financial assets as loans and receivables based on the purpose for which the asset was acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date, and are initially carried at fair value and subsequently at amortized cost, using the effective interest method, less any impairment. Loans and receivables are comprised of cash and cash equivalents, amounts receivable, and deposits.

The Company has classified its investments in marketable securities as a financial asset at fair value through profit or loss. Financial assets classified as fair value through profit or loss are subsequently re-measured at fair value at each reporting date with changes in fair value recognized in profit or loss for the period.

All financial assets are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Gains or losses related to impairment or de-recognition are recognized in profit and loss in the period such gain or loss is incurred.

**(ii) Financial liabilities**

The Company's financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost, using the effective interest method. Any difference between the amounts originally received, net of transactions costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities include bank overdraft, accounts payable, and accrued liabilities, and deferred compensation payable.

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

**(iii) Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received net of direct issuance costs. If an equity instrument is comprised of a common share and a share purchase warrant, the gross proceeds are allocated between share capital for the common share component, and contributed surplus, for the warrant component, on a relative fair value basis where the value of the warrants is estimated using a Black-Scholes valuation model.

**(iv) Fair value measurements**

The fair value of financial instruments that are measured subsequent to initial recognition at their fair value, is measured within a 'fair value hierarchy' which has the following levels:

- (i) Level 1: quoted price (unadjusted) in active markets for identical assets or liabilities
- (ii) Level 2: valuation techniques using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie: as prices) or indirectly (ie: derived from prices)
- (iii) Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

#### **4. Recent accounting pronouncements**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following pronouncement may have an impact on the Company.

**IFRS 9 Financial instruments** brings together the classification, measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities, amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment and includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company will adopt IFRS 9 on October 1, 2018. Aside from changes in terminology to describe financial instruments and certain additional disclosure requirements, it is not anticipated that there will be any material impact on the Company's consolidated financial statements arising from the adoption of IFRS 9.

**IFRS 15 Revenue from Contracts with Customers** is effective for years commencing on or after January 1, 2018, and replaces IAS 11, Construction; IAS 18, Revenue; International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers; and Standard Interpretations Committee ("SIC") 31, Revenue - Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue - at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced which may affect the amount and/or timing of revenue recognition. In the absence of revenue, this standard will not have an impact on the financial statements, however the Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing October 1, 2018.

**IFRS 16 Leases** was issued in January 2016. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 *Leases* and introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months. A lessee is required to recognize a right-of-use asset representing the right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on October 1, 2019 and has not yet completed its assessment of the impact of the new standard on its financial instruments and it will depend on the leases in place at adoption.

#### **5. Asset Retirement Obligation ("ARO")**

The Company has recorded an ARO in regards to its wind measuring equipment installed in Hecate Strait. In fiscal 2013 the Company did an analysis of the methodology of removing this equipment and received an estimate of the related costs from a marine contractor in the region. Based on this analysis the costs are currently estimated to be \$400,000. The settlement of the obligation was expected to occur in fiscal 2013, however, until such time as an Electricity Purchase Agreement is secured, the Company continues to collect important meteorological data to strengthen the Company's understanding of the wind resource and remains obligated to remove such equipment at a future undetermined date.

#### **6. Share Capital**

##### **a) Authorized Capital**

Authorized:	Unlimited common shares of no par value
	20,000,000 first preferred shares of no par value (none of which have been issued)

##### **b) Stock Options**

The Company has a stock option plan ("Option Plan") that provides for the issuance of options to its directors, officers, employees, and consultants. Compensation costs attributable to share options granted to employees, directors or consultants are measured at fair value at the grant date and expensed with a corresponding increase to contributed surplus over the vesting period.

At the Company's October 7, 2016 Annual General and Special Meeting of Shareholders, shareholders approved the New Stock Option Plan to replace the existing Old Stock Option Plan. The New Stock Option Plan increased the maximum number of common shares that may be reserved for issuance to 10% of the total number of issued and outstanding common shares on the date the stock options are granted.

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2018 and 2017**

	Options Outstanding and Exercisable	Expiry Date	Weighted Average Exercise Price
Balance, September 30, 2016	200,000	5-Feb-2020	\$ 0.135
Issued - October 7, 2016	1,400,000	2-Jan-2021	0.100
Issued - October 7, 2016	450,000	6-Oct-2026	0.100
Forfeited	(100,000)	2-Jan-2021	0.100
Balance, September 30, 2017	1,950,000		\$ 0.103
Issued - December 5, 2017	1,400,000	1-Nov-2027	0.095
Balance, September 30, 2018	3,350,000		\$ 0.100

Stock options granted during the year ending September 30, 2018 were issued at an exercise price of \$0.095 with an expiry date of November 1, 2027. All stock options granted during the year ended September 30, 2018 vested 50% at time of issue and 50% in 180 days. Stock options granted during the year ended September 30, 2017 were issued at an exercise price of \$0.10 with 1,400,000 options having an expiry date of January 2, 2021 and 450,000 options having an expiry date of October 6, 2026. Stock options granted during the year ended September 30, 2017 vested 25% at time of issue and 25% per quarter thereafter.

Compensation costs attributable to stock options granted to employees, directors, and consultants are measured at fair value at the grant date, using the Black-Scholes formula, and are expensed with a corresponding increase to contributed surplus over the vesting period. The inputs used in the measurement of the fair values at grant date were as follows.

	2018 Employees/Directors 1,400,000 stock options	2017 Employees 450,000 stock options	2017 Consultants 1,400,000 stock options
Fair Value at grant date	\$0.071	\$0.076	\$0.05
Share price at grant date	\$0.095	\$0.09	\$0.09
Exercise price	\$0.095	\$0.10	\$0.10
Expected volatility (weighted-average)	71.0%	71.1%	71.9%
Expected life in years	9.91	9.75	4.89
Risk-free interest rate	0.76%	0.76%	0.76%

During the year ended September 30, 2018, share compensation expense associated with stock options was \$99,558 and was recorded in compensation expense. During the year ended September 30, 2017, share based compensation expense associated with stock options was \$99,502 with \$69,952 recorded in public and community relations for consultants and \$29,550 recorded in compensation expense.

**c) Warrants**

As of September 30, 2018 and 2017 the Company has the following common share purchase warrants outstanding:

Issue date	Warrants outstanding	Exercise price	Expiry date
July 14, 2014	7,500,000	\$0.10	July 14, 2019
September 7, 2016	4,539,035	\$0.15	September 7, 2019

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2018 and 2017**

**7. Income Tax Expense**

- a) A reconciliation of income taxes at statutory rates to actual income taxes is as follow:

	September 30, 2018	September 30, 2017
Income (loss) before income taxes	\$ (846,864)	\$ (882,091)
Statutory rate	26.67%	26.00%
Expected income tax expense (recovery)	(225,858)	(229,344)
Reconciliation of effective tax rate:		
Change in statutory tax rates	(137,778)	(405,017)
Permanent differences	37,930	35,833
Change in unrecognized tax benefits	327,267	604,767
Other	(1,561)	(6,239)
Income tax expense	\$ -	\$ -

- b) Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	September 30, 2018	September 30, 2017
Non-capital losses and resource deductions	\$ 39,920,000	\$ 39,574,000
Other deductible temporary differences	1,315,000	956,000
	<u>\$ 41,235,000</u>	<u>\$ 40,530,000</u>

- c) As at September 30, 2018, the Company has non-capital losses carried forward for Canadian tax purposes totaling approximately \$38,631,000, (2017 - \$38,285,000) for which nil have been recognized as deferred tax assets. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in relevant jurisdictions. The gross amount of tax losses carried forward expire as follows:

Expiry date	\$
2026	146,000
2027	1,216,000
2028	8,449,000
2029	6,608,000
2030	5,532,000
2031	2,400,000
2032	1,651,000
2033	1,517,000
2034	1,519,000
2035	8,437,000
2036	238,000
2037	572,000
2038	346,000
	<u>\$ 38,631,000</u>

- d) As at September 30, 2018, the Company had deductible temporary differences related to investments in subsidiaries of \$3,958,000 (2017 - \$3,958,000) that have not been recognized because the Company controls the timing of the reversal of the temporary differences and it is uncertain as to whether taxable profit will be available against which the temporary differences can be utilized.

**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2018 and 2017**

**8. Related Party Transactions**

Key management compensation to the Chief Executive Officer ("CEO"), Chief Financial Officer, and the Board of Directors for the years ending September 30, 2018 and 2017 are as follows:

	2018	2017
Wages and benefits	\$453,769	\$457,640
Share-based compensation	140,651	65,698
	<u>\$594,420</u>	<u>\$523,338</u>

During the year ended September 30, 2018 the Company issued 483,872 common shares (2017 - 459,817 common shares) with a fair value of \$41,093 (2017 - \$36,148) to directors as their annual compensation. On December 5, 2017, 1,400,000 stock options (2017 - 450,000) with a fair value of \$99,558 (2017 - \$29,550) were issued to officers and directors and were recorded in compensation expense.

As at September 30, 2018 \$10,781 (2017 - \$8,750) in directors remuneration was accrued in accounts payable and accrued liabilities and was subsequently paid by issuance of common shares of the Company (note 14).

As at September 30, 2018 \$605,000 (2017 - \$385,000) was payable to the Company's CEO and included in current liabilities (note 10).

**9. 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.

In September 2017 NaiKun Wind reached a non-binding agreement with Orsted Energy ("Orsted"), previously DE Wind Power U.S.LLC ("DONG Energy"), to exclusively negotiate the terms of a Joint Development Agreement ("JDA") to define how the NaiKun Wind Project will be developed and the future collaboration, financial and partnership frameworks between the parties. In connection with the agreement, Orsted contributed to the Company a monthly fee of \$35,000 from September 2017 through May 2018 which has been recorded in other income. Under the agreement either the Company or Orsted could, at any time after January 1, 2018, terminate the letter agreement by providing the other party written notice. Subsequent to September 30, 2018, the Company's relationship with Orsted was terminated as discussed in note 14.

**10. Contingent Liabilities**

The Company's deferred compensation plan ("Deferred Plan") was designed to attract and retain qualified personnel while conserving cash during the Company's development stage. 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 events for payment, being financial close. As at September 30, 2018, the remaining unpaid, unaccrued balance in the Deferred Plan amounted to approximately \$4.2 million (2017 - \$4.2 million).

To preserve cash the Company entered into agreements with several consultants 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. As at September 30, 2018, the remaining unpaid, unaccrued balance of these deferred retainer and fee amounts for consultants is \$650,350 (2017 - \$563,150).

The Company also entered into an agreement with its CEO to defer \$220,000 per annum of his compensation. As at September 30, 2018, the total accumulated accrued amount of this deferral, which commenced January 1, 2016, is \$605,000 (2017 - \$385,000). In addition, a matching amount is contingently payable and triggered by a future Success Event. This contingent portion has not been accrued due to the uncertainty of the occurrence of a future Success Event.



**NAIKUN WIND ENERGY GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2018 and 2017**

---

**11. Financial Risk Management and Fair Values**

The Company's exposure to risk on its financial instruments arises primarily from its cash and cash equivalents and its investments in marketable securities holdings. The Company's intent is to minimize and manage these risks through the following:

Interest Rate Risk	The Company maintains an investment policy where all cash deposits and short term investments must be convertible to cash within three months. Given the Company's cash balance, the Company's exposure to interest rate risk is not significant.
Currency Rate Risk	Most of the Company's expenditures are currently in Canadian dollars and to minimize currency rate risk, it maintains its cash and cash equivalents in Canadian dollar denominated accounts. The Company does engage suppliers in the US and Europe, but the terms of those engagements are short thereby minimizing the Company's exposure to fluctuations in foreign exchange rates. Therefore, the Company's exposure to currency risk is not significant.
Credit Risk	The Company's credit risk arises from its cash and cash equivalents, amounts receivable and deposits. The carrying amount of these assets represents the Company's maximum exposure to credit risk. The Company manages its credit risk by restricting its deposits to Government of Canada treasury notes or short term instruments guaranteed by a Canadian chartered bank. Holdings with banks are limited to \$5 million with any one bank. The Company has not incurred any credit losses during the years ended September 30, 2018 and 2017.
Liquidity Risk	The Company manages liquidity risk by continually monitoring actual and projected cash flows and by ensuring that all cash and cash equivalents are convertible to cash with less than 3 months notice. All of the Company's accounts payable and accrued liabilities are potentially due within 1 year (see Note 2(a)).
Equity Price Risk	The Company is exposed to equity price risk as it holds marketable Canadian securities as investments (see note 13) that are classified as fair value through profit or loss. A 10% decrease in the value of the underlying securities would result in a loss of approximately \$12,000 based on the investment value at September 30, 2018.

The fair value of the Company's cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, and deferred compensation payable approximate their carrying amounts due to the short-term maturities and/or ability for prompt liquidation of these instruments. The carrying value of the Company's investment in Canadian marketable securities is based on the quoted market price of the related shares in a publicly traded company, which is considered Level 1 of the fair value hierarchy.

**12. Capital Management**

The Company's capital management objectives are to safeguard its assets and maintain investor, creditor and market confidence in order to sustain ongoing development activities in the wind energy sector. The Company's capital management objectives have not changed from September 30, 2017. The Company includes all shareholders' equity balances as capital.

The Company currently has no debt and is not subject to externally imposed capital restrictions. To complete the development of its wind project, the Company intends to raise additional capital when necessary by either selling portions of its project(s), issuing additional equity and/or borrowing funds (see note 2(a)).

**13. Investment**

During the year ended September 30, 2016, the Company sold its interest in 14 crown grant mineral claims to Barkerville Gold Mines Ltd. ("Barkerville"), in exchange for \$300,000 cash and 300,000 common shares of Barkerville resulting in a gain on sale of assets of \$513,000. The common shares are recorded at fair value through profit and loss. As at September 30, 2018 the market value of this investment had decreased from the value at September 30, 2017 and accordingly the Company recorded a revaluation loss of \$141,000 during the year ended September 30, 2018. During the year ended September 30, 2017 the Company recorded revaluation gain of \$43,000.

**14. Subsequent Events**

Subsequent to September 30, 2018, the Company issued 126,839 common shares, at a fair value of \$0.085 per common share, and 134,766 common shares at a fair value of \$0.08 per common share to directors as full payment of their remuneration. These share issuances cover remuneration for the period of July 1, 2018 to September 30, 2018, and October 1, 2018 to December 31, 2018 respectively, and the value ascribed to the shares was based on the Company's stock price on September 30, 2018 and December 31, 2018 respectively.

Subsequent to September 30, 2018 the partnership negotiations with Orsted Energy were mutually terminated.

Subsequent to September 30, 2018, to provide near term funding of the Company's activities, the Company sold its common shares in Barkerville for \$111,687, and entered into a loan agreement dated January 24, 2019 with one of the Company's directors ("Lender") to provide financing of \$300,000. The terms of the loan include an interest rate of 8% per annum and a maturity date of July 31, 2019. Concurrently with entering into the loan agreement, the Company and the Lender entered into a general security agreement pursuant to which the Company grants the Lender a general security interest in all of the Company's present and after-acquired property and a floating charge over all present and future land, interests in land, and real property as security for the loan indebtedness. In connection with the loan, the Company will issue the Lender 3,000,000 non-transferrable warrants to purchase common shares in the capital of the Company at an exercise price of \$0.10 per common share which will vest immediately and be exercisable for one year from the date of issuance.

Subsequent to September 30, 2018 the Company concluded an agreement with Enmax Generation Portfolio Inc. ("ENMAX") to terminate the Asset Purchase Option Agreement between ENMAX, the Company, and the Company's affiliates. Additionally, for the amount of \$1.00, the Company purchased the common shares that ENMAX held in Genco, thereby giving the Company 100% ownership of Genco.