

---

## **NAIKUN WIND ENERGY GROUP INC.**

Condensed Consolidated Interim Financial Statements  
Unaudited - Prepared by Management

**For the nine months ended June 2019 and 2018**

---



## **NOTICE**

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors. The Company's independent auditors have not performed a review of these financial statements.

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

(Unaudited - Prepared by Management without Auditor's Review)

	June 30, 2019	September 30, 2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 156,978	\$ 91,045
Accounts receivable	2,717	4,753
Investment	-	117,000
Prepaid expenses and other	19,353	8,898
	179,048	221,696
Non-current assets		
Deposit - Natural Resources Canada - Metmast	360,000	360,000
<b>Total assets</b>	<b>\$ 539,048</b>	<b>\$ 581,696</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 85,063	\$ 81,422
Short term loan	300,000	-
Deferred compensation payable (note 8)	770,000	605,000
	1,155,063	686,422
Non-Current Liabilities		
Asset retirement obligation	400,000	400,000
<b>Total liabilities</b>	<b>1,555,063</b>	<b>1,086,422</b>
<b>Shareholders' Equity (Deficiency)</b>		
Share capital (note 5(a))	47,191,523	46,933,789
Contributed surplus	2,565,886	2,447,761
Deficit	(50,773,424)	(49,886,276)
<b>Total shareholders' equity (deficiency)</b>	<b>(1,016,015)</b>	<b>(504,726)</b>
<b>Total liabilities &amp; shareholders' equity (deficiency)</b>	<b>\$ 539,048</b>	<b>\$ 581,696</b>

Nature of operations and going concern (notes 1 &amp; 2(a))

Contingent liabilities (note 8)

Subsequent events (notes 9)

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

Approved by the Board of Directors and authorized for issue on August 28, 2019.

Director: "Dave Rehn"

Director: "Michael O'Connor"

**NAIKUN WIND ENERGY GROUP INC.****Unaudited Condensed Consolidated Interim Statements of Loss and Comprehensive Loss****For the nine months ended June 30, 2019 and 2018**

(Unaudited - Prepared by Management without Auditor's Review)

	3 months ended June 30,		9 months ended June 30,	
	2019	2018	2019	2018
<b>Expenses</b>				
Compensation	\$ 143,811	\$ 148,845	\$ 444,815	\$ 471,372
Consultant	17,500	-	52,500	-
Interest	10,323	-	10,323	-
Office and administration	35,418	30,619	101,368	98,170
Public and community relations	60,805	38,801	168,593	117,788
Professional fees	16,928	7,000	67,223	37,394
Travel	9,793	21,677	37,050	45,535
<b>Loss before the following:</b>	<b>(294,578)</b>	<b>(246,942)</b>	<b>(881,872)</b>	<b>(770,259)</b>
<b>Other Income</b>				
Other income	-	70,000	-	280,000
Investment income	4	477	37	1,819
Fair value gain (loss) on financial instruments	-	(49,500)	(5,313)	(121,500)
	4	20,977	(5,276)	160,319
<b>Loss and comprehensive loss for the period</b>	<b>\$ (294,574)</b>	<b>\$ (225,965)</b>	<b>\$ (887,148)</b>	<b>\$ (609,940)</b>
<b>Loss per share, basic and diluted</b>	<b>\$ (0.004)</b>	<b>\$ (0.003)</b>	<b>\$ (0.014)</b>	<b>\$ (0.009)</b>
<b>Weighted average number of shares outstanding</b>	<b>66,038,094</b>	<b>64,767,454</b>	<b>65,406,047</b>	<b>64,636,325</b>

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

**NAIKUN WIND ENERGY GROUP INC.****Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)****For the nine months ended June 30, 2019 and 2018**

(Unaudited - Prepared by Management without Auditor's Review)

	Number of Common Shares (Note 5 & 6)	Share Capital (Note 5 & 6)	Contributed Surplus	Deficit	Total Shareholders' Equity (Deficiency)
Balance, September 30, 2017	64,435,597	\$ 46,892,696	\$ 2,348,203	\$ (49,039,412)	\$ 201,487
Total comprehensive loss for the year	-	-	-	(609,940)	(609,940)
Share based portion of compensation	357,033	30,312	-	-	30,312
Share based compensation expense	-	-	99,558	-	99,558
Balance, June 30, 2018	64,792,630	46,923,008	2,447,761	(49,649,352)	(278,583)
Total comprehensive loss for the year	-	-	-	(236,924)	(236,924)
Share based portion of compensation	126,839	10,781	-	-	10,781
Share based compensation expense	-	-	-	-	-
Balance, September 30, 2018	64,919,469	46,933,789	2,447,761	(49,886,276)	(504,726)
Total comprehensive loss for the year	-	-	-	(887,148)	(887,148)
Share based portion of compensation	441,292	32,344	-	-	32,344
Share based compensation expense	-	-	118,125	-	118,125
Warrants exercised	2,253,902	225,390	-	-	225,390
Balance, June 30, 2019	67,614,663	\$ 47,191,523	\$ 2,565,886	\$ (50,773,424)	\$ (1,016,015)

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

**NAIKUN WIND ENERGY GROUP INC.****Unaudited Condensed Consolidated Interim Statements of Cash Flows****For the nine months ended June 30, 2019 and 2018**

(Unaudited - Prepared by Management without Auditor's Review)

	<b>9 months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Cash flows provided by (used in)		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (887,148)	\$ (609,940)
Items not affecting cash		
Share-based compensation (notes 5(b))	375,859	129,870
Fair value loss (gain) on financial instruments	5,313	121,500
Changes in non-cash working capital		
Bank overdraft	-	(21,097)
Receivables	2,038	32,612
Prepaid expenses and other	(10,457)	(10,392)
Accounts payable and accrued liabilities	3,641	13,306
Deferred compensation payable	165,000	165,000
<b>Net cash used in operating activities</b>	<b>(345,754)</b>	<b>(179,141)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from sale of financial instruments	111,687	-
Proceeds from short term loan	300,000	-
<b>Net cash from financing activities</b>	<b>411,687</b>	<b>-</b>
<b>Decrease in cash and cash equivalents</b>	<b>65,933</b>	<b>(179,141)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>91,045</b>	<b>413,641</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 156,978</b>	<b>\$ 234,500</b>

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

## **NAIKUN WIND ENERGY GROUP INC.**

### **Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

(Unaudited - Prepared by Management without Auditor's Review)

**For the nine months ended June 30, 2019 and 2018**

---

#### **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**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 (IAS34), Interim Financial Reporting. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as our most recent annual financial statements. Accordingly, these statements should be read in conjunction with our annual IFRS financial statements for the year ended September 30, 2018. This is the first set of the Company's financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in note 3. These statements follow the same accounting policies and methods of their application as the most recent annual financial statements, except for those related to the application of IFRS 15 and IFRS 9.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and effective as of August 28, 2019, the date the Board of Directors approved the financial statements.

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 may need to raise funds through grants, strategic collaborations, public or private equity, debt financing, or other funding sources. In the three months ending December 31, 2018 the Company sold its shares in Barkerville Gold Mine for \$111,687 and on January 24, 2019 entered into a loan agreement with a director for \$300,000 to provide near term funding (note 7). The Company has been engaged in discussions with a number of parties who were interested in partnering with NaiKun Wind in the development of the wind resource. The Company has signed an indicative agreement with a major offshore wind development company and the parties are currently working to negotiate and sign a definitive agreement in the next few weeks. 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 balance sheet classifications may be required and such adjustments could be material.

#### **3. Significant accounting policies**

**IFRS 9 Financial Instruments** was issued by the IASB on July 24, 2014. 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 related to financial liabilities, and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 includes a new general hedge accounting standard which aligns hedge accounting most closely with risk management. The new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. There is no impact on the Company's financial instrument measurement policies or cash flows as a result of the adoption of this standard. Please refer to note 4 for more information.

## NAIKUN WIND ENERGY GROUP INC.

### Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Unaudited - Prepared by Management without Auditor's Review)

For the nine months ended June 30, 2019 and 2018

**IFRS 15 Revenue from Contracts with Customers** was issued by the IASB on May 28, 2014. IFRS 15 replaces IAS11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and 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 recognized.

**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.

#### 4. Changes in significant accounting policies

Except as described below, the account policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ended September 30, 2018. The changes in accounting policies are also expected to be reflected in the Company's condensed consolidated interim financial statements and consolidated financial statements in the subsequent periods for the remainder of the year ended September 30, 2019.

The Company has initially adopted IFRS 15 Revenue from Contract with Customers and IFRS 9 Financial Instruments from October 1, 2018. The effect of initially adopting these standards is mainly attributed to the following:

- IFRS 15 has no impact on the Company's financials as it is in a development phase and no revenues are generated.
- IFRS 9 reclassifies certain financial assets and financial liabilities.

IFRS 9 Financial Instruments:

IFRS 9 sets out requirements for recognizing and measuring financial assets and financial liabilities and replaces IAS 39 Financial Instruments: Recognition and Measurement

The Company has adopted IFRS 9 with the effect of initially applying this standard recognized at the date of initial application (i.e. October 1, 2017). The impact of IFRS 9 on the classification and measurement of financial assets and liabilities is set out below.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale. Under IFRS 9, on initial recognition, the classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics, IFRS 9 replaces classification categories applicable under IAS 39 with amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL).

The following table below explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at October 1, 2018.

	Original classification under IAS 39	New classification under IFRS 9	Balance at September 30, 2018 under IAS 39 and IFRS 9
<b>Financial assets</b>			
Cash	Loans and receivables	Amortized cost	\$ 91,045
Accounts Receivable	Loans and receivables	Amortized cost	4,753
Investment	Fair value through profit and loss	Fair value through profit and loss	117,000
Deposits	Loans and receivables	Amortized cost	360,000
<b>Total financial assets</b>			<b>\$ 572,798</b>



## NAIKUN WIND ENERGY GROUP INC.

### Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Unaudited - Prepared by Management without Auditor's Review)

For the nine months ended June 30, 2019 and 2018

#### Financial liabilities

Accounts payable and accrued liabilities	Amortized cost	Amortized cost \$	81,422
Deferred compensation payable	Amortized cost	Amortized cost	605,000
Asset retirement obligation	Amortized cost	Amortized cost	400,000
Total financial liabilities		\$	1,086,422

#### 5. 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, using the Black-Scholes formula, 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.

	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		\$ 0.104
Issued - December 5, 2017	1,400,000	1-Nov-2027	0.095
Balance, September 30, 2018	3,350,000		\$ 0.100
Issued - January 24, 2019	1,250,000	23-Jan-2029	0.100
Issued - February 22, 2019	1,000,000	22-Feb-2021	0.100
Balance, June 30, 2019	5,600,000		\$ 0.100

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.

	Directos/Officers 1,250,000 stock options	PwC 1,000,000 stock options
Fair value at grant date	\$0.07	\$0.07
Share price at grant date	\$0.07	\$0.07
Exercise price	\$0.10	\$0.10
Expected volatility (weighted-average)	74%	61%
Expected life in years	10	2
Risk-free interest rate	1.92%	1.78%

During the nine months ending June 30, 2019, share based compensation expense associated with stock options was \$118,125 (2017 - \$99,558) with \$52,500 recorded in consultant expense and \$65,625 recorded in compensation expense.

## NAIKUN WIND ENERGY GROUP INC.

### Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Unaudited - Prepared by Management without Auditor's Review)

For the nine months ended June 30, 2019 and 2018

#### c) Warrants

As of June 30, 2019 the Company has the following common share purchase warrants outstanding totalling 12,785,133 (2018 - 12,039,035):

Issue date	Warrants outstanding	Exercise price	Expiry date
July 14, 2014	7,500,000	\$0.10	July 14, 2019
September 7, 2016	798,955	\$0.15	September 7, 2019
September 7, 2016	1,486,178	\$0.10	September 7, 2019
January 24, 2019	3,000,000	\$0.10	January 24, 2020

#### 6. Related Party Transactions

Key management compensation to the Chief Executive Officer ("CEO"), Chief Financial Officer, and the Board of Directors for the three months ending June 30, 2019 and 2018 are as follows:

	2019	2018
Wages and benefits	\$111,155	\$113,175
Share-based compensation	32,656	35,670
	<u>\$143,811</u>	<u>\$148,845</u>

During the three months ended June 30, 2019 the Company issued 179,687 common shares (2018 - 134,766 common shares) with a fair value of \$10,781 (2018 - \$10,781) to directors as their full quarterly compensation. On January 24, 2019, 1,250,000 stock options with a fair value of \$87,500 were issued to officers and directors, of which \$43,750 was expensed in the three months ending March 31, 2019, and \$21,875 in the three months ending June 30, 2019.

As at June 30, 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 June 30, 2019 \$770,000 (2018 - \$550,000) was payable to the Company's CEO and included in current liabilities.

#### 7. Short Term Loan

To provide near term funding of the Company's activities, the Company 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 which has subsequently been extended. 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 issued 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.

#### 8. 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 June 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 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 June 30, 2019, the remaining unpaid, unaccrued balance of these deferred retainer and fee amounts for consultants is \$703,000 (2017 - \$642,750).

## **NAIKUN WIND ENERGY GROUP INC.**

### **Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

(Unaudited - Prepared by Management without Auditor's Review)

**For the nine months ended June 30, 2019 and 2018**

---

The Company also entered into an agreement with its CEO to defer \$220,000 per annum of his compensation. As at June 30, 2019, the total accumulated accrued amount of this deferral, which commenced January 1, 2016, is \$770,000 (2018 - \$550,000). 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.

#### **9. Subsequent Events**

Subsequent to June 30, 2019, the Company issued 179,687 common shares, at a fair value of \$0.06 per common share to directors as full payment of their remuneration. These share issuances cover remuneration for the period of April 1, 2019 to June 30, 2019, and the value ascribed to the shares was based on the Company's stock price on June 30, 2019.

Subsequent to June 30, 2019, the Company signed an indicative offer with a major offshore wind development company to develop its world class wind resource and currently the parties are working to negotiate and sign a definitive agreement in the next few weeks.