



WINDFLOW TECHNOLOGY LTD **ANNUAL REPORT 2009**





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## a global leader in wind turbine technology innovation

### HIGHLIGHTS

The financial year to 30th June 2009 was a very busy one for Windflow and we are pleased to report on the many milestones achieved during this period:

- **Receiving, in September 2008, the order from NZ Windfarms for the 32 turbines (Stage 4) required to complete its Te Rere Hau wind farm.**
- **Completing production, delivery, installation and commissioning of 45 turbines for Stages 2 and 3 of the Te Rere Hau wind farm, giving substantial and growing revenue for a second year**
- **Raising \$10.6 million of new equity including \$7.1 million from state-owned electricity generator/retailer Mighty River Power, who became a cornerstone shareholder in October 2008.**
- **Managing the resource consent process under the Resource Management Act ("RMA") on behalf of Mighty River Power for the Long Gully wind farm in Wellington.**
- **Substantially completing the calculations and other documents required for IEC Type Certification for the Windflow 500. These documents are currently being reviewed by Lloyds Register who, once satisfied that all the requirements have been met, will then issue the Class 1A Design Evaluation Conformity Statement and the overall Type Certificate for future production of the Windflow 500.**

The directors are pleased to report that the second six months of the year have shown an improved result relative to the first. The net result for the parent company for the second six months of the year was a net loss of \$0.372 million compared to a net loss of \$1.082 million for the first six months. For the full year there was an overall net loss of \$1.453 million. Windflow is making a gross profit from the sale of its turbines, with the net result being dependent on the number of turbines produced.

At the same time the directors and management are well aware that completing the transition to net profitability will require ongoing orders for turbines. As a result there has been a strong focus on achieving good technical performance of the turbines at Te Rere Hau while completing the IEC Type Certification work.

## FINANCIAL RESULTS

The Consolidated Results for the Windflow Group of companies for the year to 30th June, 2009 are set out in the Financial Statements section of this report.

Windflow would like to highlight the strong balance sheet and sound cash position that existed at that date – due in part to the successful capital raising that took place in the first half of 2008/09. At balance date Windflow held \$11.727 million of cash deposits and had no long-term debt.

Windflow has continued to produce turbines at a positive gross production margin in the second half of the year. However this has not yet produced a net profit, although the net loss is significantly reduced relative to the first half.

Consolidated revenue for the year was \$29.522 million (compared with \$10.991 million for the 07/08 year). Direct production costs including turbine costs were \$26.169 million (compared with \$10.235 million for the 07/08 year) resulting in a gross profit of \$3.353 million for the period (compared with \$0.756 million for the 07/08 year).

The consolidated result is that we have recorded a loss of \$1.233 million (compared with \$2.044 million last year).

IEC expenses capitalised for the year were \$1.229 million, taking the total amount recorded as an intangible asset to \$2.493 million.

At year end total equity (net assets) stood at \$16.265 million (\$7.274 million last year).

The directors are pleased with the growth in revenue for the 2009 year, reflecting the transformation of the business to continuous manufacturing at the Christchurch factory, and at other supplier factories around New Zealand.

The financial statements for the year to June 2009 have been audited. The auditor has commented on two issues that are currently unresolved, which raise matters of Fundamental Uncertainty:

- Windflow's main customer, NZ Windfarms Ltd, has placed unconditional orders for turbines but has been withholding payments since mid-August and asserts it has a contractual right to do so (an assertion which Windflow does not accept). NZ Windfarms is now withholding \$4.075 million. If NZ Windfarms continues to withhold then Windflow will need to take steps to conserve its remaining cash until NZ Windfarms resumes payment.
- NZ Windfarms has released its own Annual Report in which it stated that "*while the [NZ Windfarms] Board is confident in the Company's ability to continue as a going concern, there is uncertainty with respect to achieving the operational cash flows predicted and the raising of additional funding prior to utilisation of available cash resources. Accordingly, there is uncertainty as to whether the Company can continue as a going concern and therefore whether it will be able to pay its debts as and when they become due and payable*". If NZ Windfarms can not raise additional funding then Windflow could have major cash flow issues.

Windflow's financial statements have been prepared using the assumption that Windflow is a going concern. If the going concern assumption were not appropriate, then the amounts at which items are recorded in the financial statements could change significantly. Windflow's directors believe that the going concern assumption is appropriate because:

- (a) Windflow has obtained an independent review of the contractual position with NZ Windfarms which review has given the directors comfort over Windflow's position and,
- (b) The NZ Windfarms Board has expressed confidence in NZ Windfarms' ability to continue as a going concern.

Total revenue in the New Year to 30th June 2010 is expected to exceed the revenue for the year to 30th June 2009, based on confirmed orders for the remainder of the Te Rere Hau project. In addition there are prospects for further turbine sales. However it is uncertain as to whether the revenue will reach our general target for healthy profitability. This is because of a number of factors which have created uncertainty about the immediate prospects for turbine sales. The factors include:

- a) Delays in obtaining resource consents for a number of prospective sites for the Windflow 500, including Mt Cass (declined by Hurunui District Council but currently being appealed), Long Gully and the Te Rere Hau extension
- b) Delays in completing the final documentation for IEC Type Certification
- c) Policy uncertainty about the price of carbon in the New Zealand economy
- d) Electricity market uncertainty as the industry faces another round of structural reforms
- e) General economic uncertainty because of the current recession.

Furthermore as discussed above, and also below under the heading "Significant events since balance date", there are some further uncertainties about the revenue for the remainder of the Te Rere Hau project.

Windflow reported last year that it was facing greater than anticipated manufacturing costs largely due to the increased cost of raw materials worldwide. A benefit of the current recession is that these costs have settled back down, enabling Windflow's costs of production to reduce appreciably.

In the case of Te Rere Hau, where the selling price of the last two batches of turbines was fixed in 2007, this reduction in raw material costs will improve the prospects that the last turbines for Te Rere Hau (Stage 4) will generate a gross profit. However there are other factors which create uncertainty about the profitability of the Stage 4 build, which are discussed below under the heading "Significant Events Since Balance Date".

## CAPITAL ISSUES

The second stage options exercise, which closed on 30th September 2008, raised \$2.6 million. A further \$580,000 was raised through private placements in early October 2008 despite weaker conditions generally on the New Zealand share market.

State-owned electricity generator/retailer Mighty River Power became a cornerstone shareholder in October 2008, investing over \$7.1 million for a 19.95% holding.

Some of these funds have been applied to working capital, costs associated with the ramping up of production, and turbine development. At year end most of the funds were held at bank.

## IEC TYPE CERTIFICATION OF THE WINDFLOW 500

The calculations and other documents required for IEC Type Certification for the latest revision of the Windflow 500 were substantially completed by the end of June 2009, and fully completed and submitted by the end of July 2009. These documents are currently being reviewed by Lloyds Register. As expected Lloyds Register has requested that additional information be provided to them and Windflow is working on providing that information. When Lloyds Register is satisfied that all the requirements have been met, it will issue the Class 1A Design Evaluation Conformity Statement, along with the other two outstanding requirements for Type Certification, being the Manufacturing Evaluation Conformity Statement and the Type Testing Conformity Statement.

The fourth requirement for IEC Type Certification has already been met, being the ISO 9001 accreditation of the Quality Systems which Windflow applies to its engineering and business processes. Windflow received its ISO 9001:2003 certificate in June 2008 and in April 2009 was one of the first companies in New Zealand to have this updated to the latest version of ISO 9001:2008.

Once Lloyds Register is satisfied that all four requirements have been met, it will then issue the Type Certificate for future production of the Windflow 500 in accordance with IEC Standard WT-01:2001.

The very rigorous disciplines of IEC Type Certification have added a significant amount of time to the original timetable for the work. Whilst the directors would have liked to have seen this work finished sooner, they are pleased by the additional intellectual property that it has created. They are also pleased that, whilst it has been time consuming, the rigour involved in the process has allowed Windflow to test thoroughly the reliability and safety of the many individual components of the turbine (for example the blades) to standards and conditions well beyond any the turbine will likely experience in service.



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## RESEARCH AND DEVELOPMENT

Windflow is making steady progress in the development and testing of a wind-diesel variant of the Windflow 500 for island nations and isolated regions that rely on diesel for electricity generation. On completing the mechanical design work required for IEC certification, we have begun the development of a 60 Hz variant planned for the North American market. Development work on the low speed variant has been placed on hold to enable Windflow's engineering resources to be concentrated on the other projects which have a greater short term benefit. Our other R&D activity is focused on building and protecting Windflow's proprietary know-how in the torque-limiting gearbox and our teeter control system, the two core technologies which differentiate the Windflow 500.

## MARKETING

Windflow continues to work with wind farm developers and consultants in New Zealand to evaluate the Windflow 500 turbine for their potential projects. An increasing number of potential projects are being brought to our attention and we have a number of New Zealand sites currently under investigation. Although our current focus is New Zealand, we are also investigating other markets for the Windflow 500 turbine and variants going forward.

Windflow has been increasing its market development activity in South America and the USA. These regions will continue to be the main focus for Windflow with the possible addition of Australia as their renewable energy policies are confirmed. Over the last year Windflow has participated in wind energy conferences in New Zealand and the US and progressed discussions with potential South American customers and partners.

Our South America plans took a further positive step in June 2009 when we signed an agreement with Ingenieria Seawind Sudamerica Ltda (Seawind) based in Santiago, Chile to be our exclusive reseller for the sale, installation and maintenance of Windflow 500 wind turbines in Chile and Argentina. Chile and Argentina are emerging wind energy markets, with 50 Hz power supply (the same as New Zealand), many Class 1 wind sites and logistical constraints which favour a mid-size turbine such as the Windflow 500. We have been working with Seawind on proposals for several projects, and although it may take some time to enter these markets, working with a local company will be a great benefit.

Windflow has also continued to host visits to the Christchurch manufacturing facilities, Gebbies Pass wind turbine and Te Rere Hau wind farm to give industry, shareholders and the public an insight into turbine production and operation.

Our New Zealand-made Windflow 500 blades and nacelles were proudly on display in Wellington in March alongside the NZ Wind Energy Association conference, at which Windflow had a strong marketing presence. The growing track record at Te Rere Hau and progress toward IEC certification has been helping the marketing effort in New Zealand and other markets.

## TE RERE HAU WIND FARM

With all 97 turbines now ordered, the Te Rere Hau wind farm continues to grow and be our key site for the Windflow 500 turbine. The new electrical line, which has the capacity to take the full consented wind farm output of 48.5 MW when completed, became operational in November 2008. Prior to then only the five original turbines (installed in 2006) could operate, although 20 new turbines had been erected and were awaiting the power connection in order for commissioning to be completed, and for generation of power to commence. Since then turbines have been installed and commissioned at an average rate of about five per month so that the total number commissioned at time of writing (12 months later) stands at 63.

While there have been some issues to be addressed (as would be expected with a first substantial commercial production run) Windflow has been attending to these as they arise. In contrast to calendar year 2008 when availability was above the warranted level of 95%, these issues have reduced turbine availability to below 95% for the first half of calendar year 2009. While the availability has improved in recent months, it is possible that at the end of calendar year 2009 Windflow will need to compensate NZ Windfarms (pursuant to the availability warranty), so that NZ Windfarms income is restored to what it would have been if availability had been 95%. As set out above, this is attributed to non-recurring first-year issues. If triggered, it would involve a payment by Windflow of a few tens of thousands of dollars in January 2010.

## LONG GULLY

At the end of June 2008, Windflow announced a conditional agreement under which it would construct a wind farm at Long Gully, near Wellington, for Mighty River Power Ltd, using the Windflow 500 turbine. Long Gully is within 30 minutes of the Wellington CBD, and is behind the suburb of Brooklyn. The first substantial condition is the obtaining of a resource consent for the project under the RMA.

Since then, Windflow has managed the resource consent process for an application for up to 25 turbines. The hearing took place in August 2009. The consent hearing took less than seven days of oral submissions, and the formal closing of the hearing (after the commissioners received supplementary information) was Friday 18th September.

If built, this wind farm will become a showcase of the type of embedded generation that use of the Windflow turbine makes possible.

See under the heading 'Significant Events Since Balance Date' for further comment on this topic.



**If built, Long Gully will become a showcase of the type of embedded generation that use of the Windflow turbine makes possible.**



## PROJECT PIPELINE

In addition to working towards completion of the Te Rere Hau wind farm and progressing the consenting of the Long Gully wind farm discussed above, Windflow has been working towards several other potential wind farm opportunities mainly in New Zealand.

The challenge of consenting wind farms in New Zealand however has seen several potential projects for the Windflow turbine delayed, declined or abandoned over the year.

In June 2009, NZ Windfarms applied for consent for up to 56 Windflow 500 turbines for the Te Rere Hau extension and the consent hearing is (at time of writing) still in progress after starting in mid-October. In March, NZ Windfarms pulled out of the proposed 50 turbine Maungatua wind farm near Dunedin citing resource consent issues. Mainpower's Mt Cass site in the Hurunui District, which included an option for up to 83 Windflow 500 turbines, was declined consent in April 2009, although Mainpower has since appealed the decision to the Environment Court with new layouts to reduce ecological effects.

In addition to working with wind farm developers and consultants in New Zealand to evaluate the Windflow 500 turbine for their projects, Windflow is also performing feasibility studies for and looking to secure sites that offer an economic wind farm proposition using Windflow 500 turbines. These include mid-size distributed generation projects which would not require large transmission lines and may attract less opposition and therefore may be able to be brought on-line more quickly than some larger projects.

## SIGNIFICANT EVENTS SINCE BALANCE DATE

### Withholding of payments by NZ Windfarms Ltd

Since 17th August, NZ Windfarms has been withholding payments because of their concerns that the turbines do not meet the requirements of the supply contract. Windflow disagrees and is confident of its position that it is meeting its contractual requirements, and that the turbines meet the contractual requirements and the required duty at TRH. NZ Windfarms are now withholding \$4.075 million and if they continue to withhold Windflow will need to take steps to preserve its cash position until NZ Windfarms resumes payment. Windflow has initiated a legal process to recover the amounts owing to it by NZ Windfarms and this will shortly result in a High Court hearing unless NZ Windfarms makes the required payment.

### Delay to Te Rere Hau Stage 4

NZ Windfarms has advised it wishes to delay Stage 4 and preferably use the turbines at the extension site which has higher wind speeds but which is subject to consent. To date an agreement has not been reached on this matter and the parties continue to work towards a solution.

While this matter is unresolved it creates some additional risk for Windflow about the overall costs and profitability of the Stage 4 build. If a resolution is agreed that involves the relocation of some or all of the stage 4 turbines to the extension site, it is likely to enhance the success of Te Rere Hau for our customer.

**Long Gully Windfarm:**

A consent was granted for Long Gully Windfarm on October 9th 2009 and the consent is currently in its Appeal Period. To date two appeals have been lodged.

**OUTLOOK**

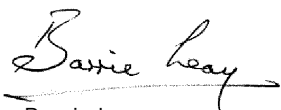
Following the election of the National government in October 2008, Windflow has been engaging in a series of discussions with relevant Ministers. Changes to “streamline and simplify” the RMA, the review of the Emissions Trading Scheme (ETS), and the new focus on securing base load supply of energy for industry are all issues on which we have made submissions and are watching carefully for implications for the company. The Government recently announced a target of between 10 – 20% reduction in 1990 levels of greenhouse gases by 2020. Finalising the ETS, streamlining the RMA process and the proposed National Policy Statement for Renewable Electricity will all help provide some certainty for the industry going forward.

Since the “Wall Street meltdown” we have been highlighting that every Windflow turbine sold represents ten jobs in New Zealand and the flow-on effects of these on the local economy should not be underestimated. The exchange rate movements during the year have put Windflow, as the only turbine manufacturer in Australasia, in a stronger competitive position in the New Zealand market as imported turbines become more expensive, and may help our market entry in certain export markets.

The focus of the new USA administration on renewable energy is also creating opportunities which we are exploring, and global calls to stimulate economies by investing in renewable energy infrastructure and climate change reduction measures match our philosophy on global warming and climate change

While the economic climate appears to be on the rise, these are very challenging times. We are confident we can weather these recessionary times and the challenging situation with NZ Windfarms, and emerge in better condition than most. We are certainly in good heart and optimistic that we are in a strong position to continue to grow the company and build our market share as the economic climate improves.

We thank all our shareholders for their continuing strong commitment to Windflow Technology, and our staff for continuing to resolve the challenges which constantly arise in a rapidly growing, leading edge, technology company.



Barrie Leay  
CHAIRMAN



Geoff Henderson  
CHIEF EXECUTIVE  
AND DIRECTOR

9th November 2009



**We have been highlighting that every Windflow turbine sold represents ten jobs in New Zealand and the flow-on effects of these on the local economy should not be underestimated.**

PKF Goldsmith Fox Audit  
Chartered Accountants



**Audit Report**  
**To the Shareholders of Windflow Technology Limited**

We have audited the financial statements on pages 8 to 34. The financial statements provide information about the past financial performance and financial position of the Company and Group as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 14 to 19.

**Directors' Responsibilities**

The Board of Directors is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Windflow Technology Limited and group as at 30 June 2009 and the results of operations and cash flows for the year ended on that date.

**Auditor's Responsibilities**

It is our responsibility to express to you an independent opinion on the financial statements presented by the Board of Directors.

**Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the company and group circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Windflow Technology Limited or any of its subsidiaries.

**Fundamental Uncertainty**

The financial statements have been prepared on a going concern basis, the validity of which depends on future funding being available from operational cash flows

In forming our unqualified opinion, we have considered the adequacy of the disclosures in Note 28 of the financial statements concerning the significant events after balance date, specifically:

- the ability of NZ Windfarms Limited to fund the contracted purchases, and;
- the extent to which NZ Windfarms Limited withhold payments asserting a right to 'set off' against unquantified damages that they may seek as a result of the Te Rere Hau turbine design not matching IEC certification.

The financial statements have been prepared on a going concern basis, the validity of which depends on the successful resolution of the dispute regarding IEC certification within a timeframe that does not cause significant disruption to the continued operation of the company. The financial statements do not include any adjustments that would result from a failure to receive the cash flows within the timeframe. If the necessary cash flows cannot be achieved within the time frame set, the company may be unable to continue in operational existence for the foreseeable future and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business, and at amounts which could differ significantly from the amount at which they are currently recorded in the Balance Sheets. In addition, the company may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

**Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements on pages 8 to 34:
  - comply with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the financial position of the Company and Group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 9 November 2009 and our unqualified opinion is expressed as at that date.

*PKF Goldsmith Fox Audit*  
Christchurch  
New Zealand

## INCOME STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2009

	Notes	This Year		Last Year	
		Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
Operating Revenue	1	29,522	29,419	10,991	10,870
Cost of Sales		26,169	26,870	10,235	10,517
<b>Gross Profit from Operations</b>		<b>3,353</b>	<b>2,549</b>	<b>756</b>	<b>353</b>
Add:-					
Other Revenue		2,080	2,084	1,117	1,108
Less:-					
Depreciation		659	634	558	509
Amortisation of Licences and Patents		146	146	116	116
General and Administration Costs		2,380	1,825	2,028	1,625
Engineering Costs		769	769	-	-
Research and Development Costs		473	473	768	768
Marketing Costs		431	431	447	447
Windfarm Development Operations & Maintenance		1,808	1,808	-	-
<b>Operating Expenses</b>	2	<b>6,666</b>	<b>6,086</b>	<b>3,917</b>	<b>3,465</b>
<b>Net Deficit for the period</b>		<b>(1,233)</b>	<b>(1,453)</b>	<b>(2,044)</b>	<b>(2,004)</b>
Net Deficit comprises:					
Parent Interest		(1,453)	(1,453)	(2,044)	(2,004)
Subsidiary Interest		128	-	-	-
Associate Interest		92	-	-	-
<b>Net Deficit for the period</b>		<b>(1,233)</b>	<b>(1,453)</b>	<b>(2,044)</b>	<b>(2,004)</b>
Earnings per Share - Basic	4	(0.10)		(0.24)	
Earnings per Share - Diluted		(0.10)		(0.23)	

## STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2009

	Notes	This Year		Last Year	
		Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>Equity at Beginning of Year</b>		7,274	7,394	4,648	4,784
Net Deficit comprises:					
Parent interests		(1,453)	(1,453)	(2,044)	(2,004)
Subsidiary Interests		128	-	-	-
Associate Interests		92	-	-	-
<b>Total Net Deficit</b>		<b>(1,233)</b>	<b>(1,453)</b>	<b>(2,044)</b>	<b>(2,004)</b>
Contributions from Owners					
Ordinary shares issued during the Year		10,594	10,594	5,274	5,274
Employee share options exercised		20	20	150	150
Revaluation of shares - NZ Windfarms Ltd		(390)	(390)	(810)	(810)
Acquisition of Minority Interest		-	-	56	-
<b>Equity at End of Year</b>		<b>16,265</b>	<b>16,165</b>	<b>7,274</b>	<b>7,394</b>
Equity at end of year comprises:					
Parent interests		16,165	16,165	7,330	7,394
Subsidiary Interests		(2)	-	(56)	-
Associate Interests		102	-	-	-
		<b>16,265</b>	<b>16,165</b>	<b>7,274</b>	<b>7,394</b>

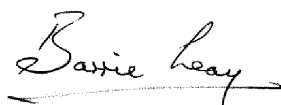
## BALANCE SHEETS

FOR THE YEAR ENDED 30TH JUNE 2009

	Notes	This Year		Last Year	
		Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>Current Assets</b>					
Cash on Hand and at Bank	12	11,727	11,656	5,442	5,370
Interest Accrued		470	470	11	11
Trade and other receivables	13	1,067	1,063	6,591	6,591
Prepayments and Accruals		437	430	165	148
Retentions Sale of Turbines		3,193	3,193	-	-
Stock Prepaid		3,905	3,905	4,827	2,605
Work in Progress and Stock on Hand		6,350	6,072	1,062	3,150
Tax Refund due	5	27	26	-	-
<b>Total Current Assets</b>		<b>27,176</b>	<b>26,815</b>	<b>18,098</b>	<b>17,875</b>
<b>Non-Current Assets</b>					
Property, Plant & Equipment	16	1,004	793	1,162	1,057
Intangible Assets	17	2,751	2,646	1,661	1,556
Advances to Associates					
Advance to Windpower Otago Ltd		26	26	26	26
Advance to Wind Gears Ltd		230	230	-	-
Advances to Subsidiary					
Advance to Wind Blades Ltd		-	482	-	482
Investments					
Shares - NZ Windfarms Ltd		2,400	2,400	2,790	2,790
Subsidiaries					
Shares - Wind Blades Ltd		-	90	-	90
Associates					
Shares - Associate Companies	18	92	5	-	5
<b>Total Non Current Assets</b>		<b>6,503</b>	<b>6,672</b>	<b>5,639</b>	<b>6,006</b>
<b>Total Assets</b>		<b>33,679</b>	<b>33,487</b>	<b>23,737</b>	<b>23,881</b>

	Notes	This Year		Last Year	
		Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>Shareholders' Equity</b>					
Contributed Capital	7	28,400	28,400	17,785	17,785
Retained Earnings Account	9	(13,688)	(13,788)	(12,455)	(12,335)
		14,712	14,612	5,330	5,450
Revaluation Reserve	8	1,553	1,553	1,944	1,944
<b>Total Shareholders' Equity</b>		<b>16,265</b>	<b>16,165</b>	<b>7,274</b>	<b>7,394</b>
<b>Current Liabilities</b>					
Progress Payments Held		11,764	11,764	13,150	13,150
Trade and other payables	14	3,436	3,361	2,981	3,005
GST Payable		17	-	-	-
Provisions	11	2,197	2,197	332	332
<b>Total Current Liabilities</b>		<b>17,414</b>	<b>17,322</b>	<b>16,463</b>	<b>16,487</b>
<b>Total Equity and Liabilities</b>		<b>33,679</b>	<b>33,487</b>	<b>23,737</b>	<b>23,881</b>

Signed for and on behalf of the Board  
Date 9th November 2009



Barrie Leay  
Chairman



Keith McConnell  
Director

## CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2009

	Notes	This Year		Last Year	
		Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>Cash Flows from operating activities</b>	22				
<i>Cash was provided from:</i>					
Receipts from Consulting Fees		900	900	221	221
Sales (Part) of Turbines		32,710	32,710	15,356	15,356
Funding Received		42	42	74	69
Other Income		64	16	495	258
Interest Received		669	668	536	532
		34,385	34,336	16,682	16,436
<i>Cash was disbursed to:</i>					
Payments to suppliers		32,342	33,035	13,729	14,202
Payments to employees		4,067	3,458	2,393	1,825
Foreign Currency Losses		29	29	-	-
Income Tax Paid		-	-	2	-
Marketing Expenses		209	209	270	270
Development Expenses		203	203	197	197
Interest paid		-	-	1	1
		36,850	36,934	16,592	16,495
<b>Net Cash Flows from operating activities</b>		<b>(2,465)</b>	<b>(2,598)</b>	<b>90</b>	<b>(59)</b>
<b>Cash Flows from investing activities</b>					
<i>Cash was provided from:</i>					
Sale of Fixed Assets		13	13	-	-
Sale of Shares in Associate		-	-	30	30
		13	13	30	30
<i>Cash was disbursed to:</i>					
Acquisition of Intangible Assets		1,235	1,235	1,514	1,514
Purchase of Property, Plant and Equipment		642	508	809	747
		1,877	1,743	2,323	2,261
<b>Net Cash Flows from investing activities</b>		<b>(1,864)</b>	<b>(1,730)</b>	<b>(2,293)</b>	<b>(2,231)</b>

	Notes	This Year		Last Year	
		Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>Cash Flows from financing activities</b>					
<i>Cash was provided from:</i>					
Issue of Shares		10,614	10,614	5,552	5,552
Advance from Subsidiary		-	-	(63)	-
		10,614	10,614	5,489	5,552
<i>Cash was disbursed to:</i>					
Advance to Subsidiary		-	-	-	-
Investment in Associates		-	-	5	5
		-	-	5	5
<b>Net Cash Flows from financing activities</b>		<b>10,614</b>	<b>10,614</b>	<b>5,484</b>	<b>5,547</b>
Net Increase (Decrease) in cash held		6,285	6,286	3,281	3,257
Cash at beginning of year		5,442	5,370	2,161	2,113
Cash at end of year		11,727	11,656	5,442	5,370

## STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30TH JUNE 2009

### REPORTING ENTITY

Windflow Technology Ltd (the "Company") is a company incorporated and domiciled in New Zealand. The Company, its subsidiaries and associates comprise the Windflow Technology Group (the Group).

The Company is an issuer for the purpose of the Financial Reporting Act 1993. The Financial Statements of the Company and the Group have been prepared in accordance with the Financial Reporting Act 1993 and Companies Act 1993.

The Financial Statements comprise the Consolidated Financial Statements of the Group and the separate Financial Statements of the Parent Company.

These statements were approved by the Board of Directors on the 9th November 2009.

### NATURE OF BUSINESS

The Company is profit oriented and undertakes wind turbine development and manufacture, and operates solely within New Zealand.

### FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in thousands of New Zealand dollars, which is the Group's functional and presentation currency.

### MEASUREMENT BASE

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the Windflow Technology Group, except for investments in listed companies which are at market value.

### STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other Financial Reporting Standards as applicable for profit orientated entities. The financial statements comply with International Financial Reporting Standards ('IFRS').

#### Critical Judgements in Applying Accounting Policies

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reviewed on an on-going basis. The results of these actions form the basis of making the judgements about carrying values of assets and liabilities of the Company and Group. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates, and assumptions are made:

- Contract revenue recognition. Refer relevant accounting policy.
- Capitalised development costs. Refer relevant accounting policy.
- Maintenance warranty. Refer relevant accounting policy.
- Estimation of useful lives of assets. Refer relevant accounting policy.
- Impairment of intangibles with indefinite useful lives. Refer relevant accounting policy.

### SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below:

#### Basis of Consolidation

The Consolidated Financial Statements have been prepared from the financial statements which include the Company and its subsidiaries accounted for using the purchase method.

All significant inter company transactions have been eliminated on consolidation.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. In the Parent Company's separate Financial Statements, investments in subsidiaries have been stated at cost less any adjustment for impairment.

Associate companies are companies in which the Group has significant influence, but not control, over the financial and operating policies of the entity so as to obtain benefit from its activities, Associated companies have been reflected in the Consolidated Financial Statements using the equity method, which shows the Group's share of retained surpluses in the Consolidated Income Statement, and its share of post acquisition increases or decreases in net assets in the Consolidated Balance Sheet. Where the Group's share of losses exceed its interest in an associate, the carrying amount of the interest is reduced to nil and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of the investee.

#### **New Accounting Standards and Interpretations**

The following standards, interpretations and amendments to published standards that are applicable to the Group but are not yet effective, and therefore have not been adopted by the Group, are:

<b>STANDARD</b>	<b>Revised/Amended Standards, and impact</b>	<b>APPLICATION DATE OF STANDARD</b>	<b>APPLICATION DATE FOR GROUP</b>
NZ IAS 1	Presentation of Financial Statements (revised) This revised standard requires a number of changes to the presentation and disclosures in financial statements. This standard will affect the presentation of the Groups financial Statements, but will not affect recognition or measurement of any balances within the financial statements.	1st January 2009	1st July 2009
NZ IFRS 8	Operating Segments The standard replaces NZ IAS 14, and adopts a management reporting approach to presentation of segment information. This will have an impact on disclosure only.	1st January 2009	1st July 2009
NZ IFRS 3	Business Combinations (revised) Includes a number of amendments including the requirement that all costs relating to a business combination must be expensed and subsequent re-measurement of the business combination, if there is a loss of control of subsidiary, must be put through the income statement. Impact is dependent on acquisition activity.	1st July 2009	1st July 2009
NZ IAS 27	Consolidated and Separate Financial Statements (Revised) Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction. As no change in ownership structure of subsidiaries is anticipated the standard is not expected to impact on the Group accounts.	1st July 2009	1st July 2009
NZ IFRS 2	Share-based payment - Vesting Conditions and Cancellations The amendment includes a number of updates including the revised definitions of 'vest' and 'vesting conditions' and requirements in respect of the treatment of non-vesting conditions and cancellations. The impacts are not expected to be material to the Group.	1st January 2009	1st July 2009

#### **Revenue Recognition**

Operating Revenues are recognised by reference to the stage of completion of the contract. Contract revenue is matched with contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. Foreseeable losses on a contract are recognised in the Income Statement immediately.

#### **Investment Revenue**

Investment revenue from investments and deposits is recognised on an accrual basis using the effective interest method.

#### **Foreign Currencies**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the rates ruling at the Balance Sheet date. Any differences are taken to the Income Statement.

**Stock on Hand**

Stocks of component parts are recognised at lower of cost determined on a first-in first-out basis and net realisable value. Provision has been made for any obsolete stock on hand and has been expensed in the Income Statement.

Work in Progress includes the cost of direct materials, components, direct labour and direct manufacturing costs.

**Prepaid Stock**

Prepaid stock comprises deposits paid to suppliers and goods paid for but not on hand at the factory site. Typically such items include gearbox components, tower steel and nacelle claddings. These amounts are brought to account as "prepaid stock" in the Balance Sheet.

**Goods and Services Tax (GST)**

The Financial Statements have been prepared on a GST exclusive basis; except that all receivables and payables have been shown GST inclusive to the extent that GST is payable or receivable on the transaction that gave rise to the payable or receivable.

**Financial Instruments**

Financial instruments are recognised within the Balance Sheet when the Group becomes party to a financial contract. They include cash and bank deposits, receivables, payables and investment in others. The valuation and recognition method adopted for each of these instruments is disclosed in the policy statement associated with each particular item.

**Cash and Cash Equivalents**

Cash includes bank balances, demand deposits and other highly liquid investments readily convertible into cash as part of the Group's day-to-day cash management.

**Trade and Other Receivables**

Trade receivables, which generally have 30 to 60 day terms are measured at fair value, which approximates fair value at balance date. Collectibility of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect the receivable.

**Trade and Other Payables**

Trade and other payables are carried at amortised cost. Due to their short term nature they are not discounted.

**Investments in Listed Companies**

Shares in listed companies are designated as available-for-sale financial assets and are initially recorded at cost and subsequently revalued to fair value by reference to published price quotations from an active market. Any revaluation surplus arising on the revaluation of an investment is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for the asset is recognised in the Income Statement in the period it arises. Revaluation surpluses which reverse previous revaluation deficits recorded in the Income Statement are recognised as revenue in the Income Statement in the period it arises.

**Derivative Financial Instruments and Hedging**

The Group uses derivative financial instruments to hedge its risk associated with foreign currency fluctuations. Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and subsequently re-measured to their fair value at balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument or not.

**Fair Value Hedge**

Changes in the fair value of cash flow hedges are recorded in the income statement, together with any changes in the fair value of the hedged liability that are attributable to the hedged risk.

**Cash flow Hedge**

The effective portion of changes in the fair value of derivatives that are designated as qualifying as cash flow hedges is recognised in equity in the cash flow hedge reserve. Any ineffective portion is designated as a fair value hedge with the gain or loss recognised immediately in the income statement.

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## Taxation

Taxation recognised in the Income Statement for the period includes both the current year's provision and the income tax effect of:

- Taxable temporary differences, except those arising from initial recognition of goodwill and other assets that are not depreciated; and
- Deductible temporary differences to the extent that it is probable that they will be utilised.

Tax effect accounting is applied on a comprehensive basis to all timing differences using the liability method.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable there will be future taxable profits available against which the temporary differences and losses can be utilised.

## Property, Plant and Equipment

The Group has the following classes of property, plant and equipment:

- Wind Turbine and Associated Assets
- Plant
- Motor Vehicles
- Leasehold Improvements
- Office Equipment
- Assets under Construction

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment.

Depreciation is provided on a straight line basis on all property, plant and equipment at depreciation rates calculated to allocate the asset's cost, less the residual value, over its estimated useful life.

No depreciation is charged on partially constructed assets.

Major depreciation periods are:

Wind Turbine and Associated Assets	7	years
Motor Vehicles	5	years
Leasehold Improvements	12	years
Office Equipment	2 to 12	years
Equipment and Tooling	1 to 14	years
Blade Moulds	amortised over 50 pairs of blades	

Repairs and maintenance costs are recognised in the Income Statement in the period they are incurred.

## Disposals

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement.

## Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and identifiable intangible assets acquired at the time of the acquisition of the equity interest in the subsidiary.

Goodwill is carried at cost less any adjustment for impairment. Goodwill is assessed annually for impairment and to the extent that it is no longer probable that it will be recovered from the future economic benefits of an investment, it is recognised immediately as an expense.

## Intangibles

Intangible assets are recognised if it is probable that the expected future economic benefits relating to the intangible assets will accrue to the Company and the cost is able to be reliably measured.

Intangible assets include patents, licenses and certifications and are amortised equally over their useful lives from the time the patent, license or certification is available or registered.

If an intangible asset is created by the Company it capitalises the direct costs of services consumed, including expert advice, external testing and assessing agencies and consultants associated with the creation of the asset.

Where estimated useful lives or recoverable values have diminished due to market conditions, amortisation is accelerated or the carrying value impaired. Where the life of the intangible asset is finite, the value of the asset is amortised over the determined period.

**Impairments**

The carrying values of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount exceeds its recoverable amount. Impairment losses that directly affect the carrying value of assets are recognised immediately in the income statement.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and 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 of the time value of money and the risks specific to the asset.

Impairment losses are recognised immediately in the Income Statement.

**Receivables**

All receivables are reviewed at each month-end by management and impairments or provisions are made if deemed necessary.

**Non-financial Assets**

The Directors and management have reviewed and have determined that there are no material impairments of non-financial assets at balance date.

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Where inventory is written down below cost, estimates are made of the residual value less cost to sell to determine the net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows;

- Raw Materials – purchase cost on a first in first out basis
- Work-in-Progress – cost of direct materials and labour.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Deferred Tax Assets**

A deferred tax asset is only recognised to the extent that it is probable there will be taxable profit to utilise the temporary differences.

**Progress Payments**

At the time of ordering turbines, customers are requested to pay a deposit calculated on a percentage of the total contract value. This deposit is released and recognised as revenue over the contract period.

**Warranty Provisions**

Each turbine commissioned includes warranty cover. The full warranty cover, which extends for up to five years, is expensed in the Income Statement as a direct manufacturing expense when the turbine is commissioned. As turbines are commissioned, the Company assesses, and makes provision for, the likely expenditure arising from the warranty. Various suppliers will also give warranties to the Company, which may offset the Company's gross cost for any warranty claims but the amount of such recovery is not assessed when the amount of the turbine warranty provisions is evaluated. At the end of each year, the warranty records of all turbines are reviewed and the adequacy of the amounts provided for the remainder of the warranty period are reassessed. The provision will be increased or decreased depending on each individual turbine's history and expected future warranty expenses. Any costs arising from the warranty during a period are charged to warranty expense and any warranty received from suppliers is credited to warranty monies received.

**Retentions**

Retentions represent the final 10% of the selling price of the turbines that have been commissioned during the financial year. These amounts have been included in the Total Revenue calculation and are due and payable one year after each turbine is commissioned.

**Research and Development Costs**

Research costs are recognised in the Income Statement as incurred.

Development costs are capitalised where future economic benefits are expected to exceed those costs; otherwise such costs are recognised in the Income Statement in the period in which they are incurred. Development expenditure, recognised as an intangible asset, is stated at cost and amortised in the Income Statement over the period of expected benefits. All other development expenditure is expenses as incurred.

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## Cash Flow Statement

The following are definitions of the terms used in the Cash Flow Statements:

- (i) Cash comprises cash and demand deposits;
- (ii) Operating activities are the principal revenue producing activities;
- (iii) Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and investments;
- (iv) Financing activities are the activities that result in changes in the size and composition of the contributed equity of the Group.

## Employee Entitlements

A liability for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave is recognised in the Balance Sheet when it is probable that settlement will be required and that these costs are capable of being quantified. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

The Group contributes to defined contribution superannuation for employees. The expense is recognised in the Income Statement when incurred. The Group's legal and constructive liability is limited to these contributions.

An employee share option scheme is offered to employees of the Company (Refer Note 10).

## Reserves

Cash flow hedge reserve;

The cash flow hedge reserve records gains or losses on forward foreign currency cash flow hedges that are recognised directly in equity.

Employee share entitlement reserve;

The employee share entitlement reserve recognises the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee.

Employee share option reserve;

The employee share option reserve recognises the fair value of options granted but not exercised. Amounts are transferred to share capital when the options are exercised by the employee.

## Comparative Figures

The comparative figures shown are for the year ended 30th June 2008. The opening balances for that year have been modified to comply with the requirement of NZ IFRS.

## Changes in Accounting Policies

There have been no changes in accounting policies during the year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2009

	This Year		Last Year	
	Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>1 Revenue</b>				
Operating Revenue:				
Sale of Turbines	29,211	29,119	10,679	10,679
Other	196	185	213	100
Maintenance Fees	115	115	99	91
	29,522	29,419	10,991	10,870
Other Revenue:				
Consultancy Fees	921	921	222	222
Cost Recovery	51	51	187	187
Foreign Currency Gains (Losses)	(32)	(32)	-	-
New Zealand Trade and Enterprise Grant	42	42	74	69
Interest Received	983	982	536	532
Sundry Income	115	120	98	98
	2,080	2,084	1,117	1,108
<b>Total Revenue</b>	<b>31,602</b>	<b>31,503</b>	<b>12,108</b>	<b>11,978</b>
<b>2 Operating Expenses</b>				
Operating Expenses include:				
Amortisation of Licences and Patents	146	146	116	116
Depreciation	659	634	558	509
Research and Development Expense	473	473	768	768
Audit Fees	27	27	16	16
Directors' Fees	188	183	148	148
Rent and Leases	403	202	225	124
Employee Benefit Expense:				
Wages and Salaries	2,753	2,106	1,160	980
Defined Contribution, Superannuation Expense	35	27	9	7
<b>Total Employee Benefit Expense</b>	<b>2,788</b>	<b>2,133</b>	<b>1,169</b>	<b>987</b>
<b>3 Directors' Compensation</b>				
Salaries	311	206	130	130
Directors' Fees	188	183	148	148
Option Conversion	-	-	-	140
	499	389	278	418

	<b>This Year Group (\$)</b>	<b>Last Year Group (\$)</b>
<b>4 Earnings per Share</b>		
The earnings per share are calculated using the net results attributable to shareholders as the numerator.		
Earnings (loss) attributable to the Parent interest	(1,233,576)	(2,044,433)
Weighted average number of shares on issue	11,993,489	8,541,423
Additional shares if all options converted	202,786	290,062
<b>Total potential shares</b>	<b>12,196,275</b>	<b>8,831,485</b>
Earnings per share	(0.10)	(0.24)
Diluted earnings per share	(0.10)	(0.23)

	<b>This Year</b>		<b>Last Year</b>	
	<b>Group (\$,000)</b>	<b>Parent (\$,000)</b>	<b>Group (\$,000)</b>	<b>Parent (\$,000)</b>
<b>5 Taxation</b>				
Operating Deficit	(1,233)	(1,453)	(2,044)	(2,004)
Prima Facie Taxation Expense at 30% 2008 – 33%	(370)	(436)	(675)	(661)
Add Back Permanent Differences:				
Non Deductible Entertainment & Legal Fees	66	66	-	-
Amortisation of Intangibles	44	44	25	25
	110	110	25	25
Add Back Temporary Differences:				
IEC Certification Expenditure	(368)	(368)	(417)	(417)
	(368)	(368)	(417)	(417)
Income Tax Expense (Benefit)	(628)	(694)	(1,067)	(1,053)
Deferred Tax Asset not Recognised:				
Deferred Tax (Benefit) at Beginning of Year	(3,612)	(3,552)	(2,906)	(2,854)
Tax Loss for the Year at 30% (2008 – 33%)	(628)	(694)	(1,067)	(1,053)
Adjustment for Change in Tax Rate	-	-	361	355
<b>Deferred Tax (Benefit) at End of Year</b>	<b>(4,240)</b>	<b>(4,246)</b>	<b>(3,612)</b>	<b>(3,552)</b>
There is no income tax payable for the period.				
Resident Withholding Tax (RWT) on Interest received to be refunded	26	26	2	-

## NOTES TO THE FINANCIAL STATEMENTS Continued

FOR THE YEAR ENDED 30TH JUNE 2009

	This Year		Last Year	
	Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>6 Imputation Credit Account</b>				
Balance at Beginning of Year	2	-	24	24
Resident Withholding Tax Paid	26	26	2	-
Refunds Received During Year	-	-	(24)	(24)
Balance at End of Year	28	26	2	-
<b>7 Contributed Capital</b>				
Balance at Beginning of Year	17,785	17,785	12,361	12,361
Ordinary Shares Issued	10,615	10,615	5,424	5,424
Total Share Capital	28,400	28,400	17,785	17,785
		<b>Number of Shares (in units)</b>		
Balance at Beginning of Year	8,541,423	8,541,423	6,721,867	6,721,687
Shares Issued During Year:				
Employee Options converted	9,430	9,430	4,736	4,736
Rights Issue	-	-	1,550,923	1,550,923
Placements	2,650,062	2,650,062	130,000	130,000
Options Arising from Rights Issue	792,574	792,574	-	-
Purchase of Wind Blades Ltd	-	-	21,000	21,000
Options exercised arising from the purchase of the TLG Licence	-	-	65,727	65,727
Purchase of US Patent	-	-	47,170	47,170
Total Shares on Issue	11,993,489	11,993,489	8,541,423	8,541,423

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up. The shares have no par value.

	This Year		Last Year	
	Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>8 Revaluation Reserve:</b>				
The 3,000,000 shares in NZ Windfarms Ltd have been revalued to the fair value of \$0.80 (2008: \$ 0.93) per share				
Balance at Beginning of Year	1,944	1,944	2,754	2,754
Revaluation of NZ Windfarms Ltd Shares	(390)	(390)	(810)	(810)
Balance at End of Year	1,554	1,554	1,944	1,944
<b>9 Retained Earnings Account</b>				
Balance at Beginning of Year	(12,455)	(12,335)	(10,411)	(10,331)
Net Deficit	(1,233)	(1,453)	(2,044)	(2,004)
Balance at End of Year	(13,688)	(13,788)	(12,455)	(12,335)

## Movement in Equity Accounts (\$'000's):

	Share Capital	Revaluation Reserve	Retained Earnings	Total Equity
<b>Group</b>				
Balance at 1st July 2007	12,361	2,754	(10,411)	4,704
Total recognised income and expenses			(2,044)	(2,044)
Ordinary Shares issued	5,424			5,424
Share revaluation		(810)		(810)
Balance at 30th June 2008	17,785	1,944	(12,455)	7,274
Balance at 1st July 2008	17,785	1,944	(12,455)	7,274
Total recognised income and expenses			(1,233)	(1,233)
Share Investment Revaluation Reserve		(390)		(390)
Ordinary Shares issued	10,615			10,615
<b>Balance at 30th June 2009</b>	<b>28,400</b>	<b>1,554</b>	<b>(13,688)</b>	<b>16,265</b>

<b>Parent</b>				
Balance at 1st July 2007	12,361	2,754	(10,331)	4,784
Total recognised income and expenses			(2,004)	(2,004)
Ordinary Shares issued	5,424			5,424
Share Investment Revaluation Reserve		(810)		(810)
Balance at 30th June 2008	17,785	1,944	(12,335)	7,394
Balance at 1st July 2008	17,785	1,944	(12,335)	7,394
Total recognised income and expenses			(1,453)	(1,453)
Share Investment Revaluation Reserve		(390)		(390)
Ordinary Shares issued	10,615			10,615
<b>Balance at 30th June 2009</b>	<b>28,400</b>	<b>1,554</b>	<b>(13,788)</b>	<b>16,165</b>

**10 Share Option Plans**

The company entered into a share option plan with Mr G Henderson, the Chief Executive Officer and a director, on the 20th January 2002. This put into effect the terms of the Licence Agreement as outlined in the Prospectus, dated 9th July 2001. In 2008, there were 355,679 options outstanding with a weighted average exercise price of \$2.19, and contractual maturity of 30/04/09. At 30th June 2009 all options issued previously had lapsed and there were no options outstanding.

**Arrangement with Supplier**

In 2005 Windflow entered into an agreement with Bremca Industries Ltd which enabled that company to subscribe to 1,000 fully paid ordinary shares in Windflow for each set of panels unconditionally ordered up to a maximum of 100 sets of panels. The issue price of the shares is set at 95% of the prevailing market price on the date that the order for each component becomes unconditional. Payment is to be made in cash. During the year Bremca purchased an additional 48,000 (2008 44,000) shares at the discounted price of \$2.565 (prevailing market price \$2.70). At 30th June 2009 Bremca had taken up a total of 98,000 options. There are a further 2,000 shares Bremca are able to take up.

**Employee Share Options**

The Company, on the 19th December 2002, entered into a share option plan for the benefit of all employees of the Company who have attained the age of twenty years and who have been employed by the Company for at least one year. The scheme is designed to align participant's interests with those of shareholders by increasing the value of the Company's shares. The selection of the participants and the number of shares are determined by the Directors. Any offer of an option is at a price equal to the market price at the date of the resolution by the Directors to make an offer.

Movements in share options issued during the year:

	Year of Issue					Total
	2009	2008	2007	2006	2005 (WAEP)	
Exercise price	\$1.83	\$2.94	\$3.90	\$2.48	\$2.27	
Expiry Date	20/6/2012	20/6/2011	20/6/2010	20/7/2009	(i)	
Balance at 1st July 2008	-	34,400	15,015	16,823	13,656	<b>79,894</b>
Granted during year	136,548	-	-	-	-	<b>136,548</b>
Exercised during the year (i)	-	-	-	-	9,430	<b>9,430</b>
Lapsed during the year	-	-	-	-	4,226	<b>4,226</b>
<b>Total</b>	<b>136,548</b>	<b>34,400</b>	<b>15,015</b>	<b>16,823</b>	-	<b>202,786</b>

(i) **Share Options Outstanding**

The weighted average remaining contractual life for the share options outstanding at the 30th June 2009 is 2.39 years (2008: 2.26 years). The range of exercise prices for options outstanding at the end of the year was \$1.83 - \$3.90 (2008: \$2.08 - \$3.90)

(ii) **Fair Value of Option Granted**

The fair value of options, calculated using the Black-Scholes model, granted during the year was 0.77 cents (2008: \$1.12) per option or \$41,322 (2008: \$16,125) in aggregate.

**11 Provisions**

Deferred Maintenance Provision

	This Year		Last Year	
	Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
Balance at Beginning of Year	-	-	27	27
Amount deducted from Deferred Maintenance Provisions no Longer Required	-	-	27	27
Balance at End of Year	-	-	-	-

Warranty Provision

Balance at Beginning of Year	332	332	449	449
Amounts Added to Warranty Provision After Assessment of Each Turbine's History and Expected Claims	2,200	2,200	-	-
	2,532	2,532	449	449
Amount Deducted From Warranty Provision for Warranty Provisions Elapsed	335	335	117	117
Balance at End of Year	2,197	2,197	332	332

## NOTES TO THE FINANCIAL STATEMENTS Continued

FOR THE YEAR ENDED 30TH JUNE 2009

	This Year		Last Year	
	Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>12 Cash on Hand and at Bank</b>				
Trading Accounts Balances	528	457	379	307
Term Deposits Maturing Within Six Months	11,144	11,144	5,043	5,043
Term Deposits Maturing Within One Year	-	-	20	20
	11,672	11,601	5,442	5,370
Deposits held as security	55	55	-	-
	11,727	11,656	5,442	5,370
<p>The Company has \$15,000 and \$40,000 deposited as security with a financial institution. These serve as security in respect of the NZAX and for the company credit cards respectively. In addition there is an amount of \$144,000 deposited as security against a forward cover contract.</p>				
<b>13 Trade and Other Receivables</b>				
Accounts Receivable	1,067	1,063	6,591	6,591
Prepayments	437	430	165	148
<p>In 2008 no allowance for doubtful debts was made, balances past due at balance date \$ Nil</p>				
<b>14 Trade and Other Payables</b>				
Trade Payables	1,816	1,603	2,516	2,368
Employee Entitlements	328	328	110	110
Sundry Creditors and Accruals	752	751	355	355
Related party payables:				
Associates	540	540	-	-
Subsidiaries	-	139	-	172
Carrying amount of trade and other payables	3,436	3,361	2,981	3,005

### 15 Government Grants

During the year under review the Company received a grant from New Zealand Trade and Enterprise. This represented a 50% reimbursement for international market development costs incurred during the financial year.

**16 Property, Plant & Equipment – Parent – 2009 (\$000's)**

<b>COST</b>	<b>Office Equipment</b>	<b>Plant (Site Distribution, etc)</b>	<b>Leasehold Improvements</b>	<b>Motor Vehicles</b>	<b>Components for Gebbies Pass WF500</b>	<b>Equipment</b>	<b>Assets under Construction</b>	<b>Total</b>
Balance 1st July 2007	231	34	-	31	973	628	-	<b>1,897</b>
Additions	178	-	27	28	-	401	112	<b>746</b>
Disposals / Transfers	-	-	-	5	-	-	-	<b>5</b>
<b>Balance at 30th June 2008</b>	<b>409</b>	<b>34</b>	<b>27</b>	<b>54</b>	<b>973</b>	<b>1,029</b>	<b>112</b>	<b>2,638</b>
Balance at 1st July 2008	409	34	27	54	973	1,029	112	<b>2,638</b>
Additions	106	-	85	104	5	320	1	<b>621</b>
Disposals / Transfers	77	-	3	16	-	419	112	<b>627</b>
<b>Balance at 30th June 2009</b>	<b>438</b>	<b>34</b>	<b>109</b>	<b>142</b>	<b>978</b>	<b>930</b>	<b>1</b>	<b>2,632</b>

**ACCUMULATED DEPRECIATION AND IMPAIRMENT**

Balance 1st July 2007	163	4	-	12	648	247	-	<b>1,074</b>
Depreciation for year	72	-	1	10	146	280	-	<b>509</b>
Disposals	-	-	-	2	-	-	-	<b>2</b>
<b>Balance at 30th June 2008</b>	<b>235</b>	<b>4</b>	<b>1</b>	<b>20</b>	<b>794</b>	<b>527</b>	<b>-</b>	<b>1,581</b>
Balance at 1st July 2008	235	4	1	20	794	527	-	<b>1,581</b>
Depreciation for Year	107	1	7	23	144	351	-	<b>633</b>
Disposals	56	-	-	10	-	309	-	<b>375</b>
<b>Balance at 30th June 2009</b>	<b>286</b>	<b>5</b>	<b>8</b>	<b>33</b>	<b>938</b>	<b>569</b>	<b>-</b>	<b>1,839</b>

**CARRYING AMOUNTS**

At 1st July 2007	68	30	-	19	325	381	-	<b>823</b>
At 30th June 2008	174	30	26	34	179	502	112	<b>1,057</b>
<b>At 30th June 2009</b>	<b>152</b>	<b>29</b>	<b>101</b>	<b>109</b>	<b>40</b>	<b>361</b>	<b>1</b>	<b>793</b>

**Property, Plant & Equipment – Group - (\$ 000's)**

<b>COST</b>	<b>Office Equipment</b>	<b>Plant (Site Distribution, etc)</b>	<b>Leasehold Improvements</b>	<b>Motor Vehicles</b>	<b>Components for Gebbies Pass WF500</b>	<b>Equipment</b>	<b>Assets under Construction</b>	<b>Total</b>
Balance 1st July 2007	231	34	-	31	973	736	-	<b>2,005</b>
Additions	178	-	60	28	-	592	112	<b>970</b>
Disposals / Transfers	-	-	-	5	-	161	-	<b>166</b>
<b>Balance at 30th June 2008</b>	<b>409</b>	<b>34</b>	<b>60</b>	<b>54</b>	<b>973</b>	<b>1,167</b>	<b>112</b>	<b>2,809</b>
Balance at 1st July 2008	409	34	60	54	973	1,167	112	<b>2,809</b>
Additions	106	-	87	104	5	453	1	<b>756</b>
Disposals / Transfers	77	-	3	16	-	440	112	<b>648</b>
<b>Balance at 30th June 2009</b>	<b>438</b>	<b>34</b>	<b>144</b>	<b>142</b>	<b>978</b>	<b>1,180</b>	<b>1</b>	<b>2,917</b>

**ACCUMULATED DEPRECIATION AND IMPAIRMENT**

Balance 1st July 2007	163	4	-	12	648	303	-	<b>1,130</b>
Depreciation for Year	72	-	1	10	146	329	-	<b>558</b>
Disposals	-	-	-	2	-	39	-	<b>41</b>
<b>Balance at 30th June 2008</b>	<b>235</b>	<b>4</b>	<b>1</b>	<b>20</b>	<b>794</b>	<b>593</b>	<b>-</b>	<b>1,647</b>
Balance at 1st July 2008	235	4	1	20	794	593	-	<b>1,647</b>
Depreciation for Year	107	1	11	23	144	373	-	<b>659</b>
Disposals	58	-	-	10	-	325	-	<b>393</b>
<b>Balance at 30th June 2009</b>	<b>284</b>	<b>5</b>	<b>12</b>	<b>33</b>	<b>938</b>	<b>641</b>	<b>-</b>	<b>1,913</b>

**CARRYING AMOUNTS**

At 1st July 2007	68	30	-	19	325	433	-	<b>8,75</b>
At 30th June 2008	174	30	59	34	179	574	112	<b>1,162</b>
<b>At 30th June 2009</b>	<b>154</b>	<b>29</b>	<b>132</b>	<b>109</b>	<b>40</b>	<b>539</b>	<b>1</b>	<b>1,004</b>

**17 Intangible Assets**

COST	GROUP (\$'000's)				PARENT (\$'000's)		
	Licenses and Patent	IEC Certification Costs	Goodwill on Acquisition	Total	Licenses and Patent	IEC Certification Costs	Total
Balance 1st July 2007	601	-	-	<b>601</b>	601	-	<b>601</b>
Additions	250	1,264	105	<b>1,619</b>	250	1,264	<b>1,514</b>
Balance 30th June 2008	851	1,264	105	<b>2,220</b>	851	1,264	<b>2,115</b>
Balance 1st July 2008	851	1,264	105	<b>2,220</b>	851	1,264	<b>2,115</b>
Additions	7	1,229	-	<b>1,236</b>	7	1,229	<b>1,236</b>
<b>Balance 30th June 2009</b>	<b>858</b>	<b>2,493</b>	<b>105</b>	<b>3,456</b>	<b>858</b>	<b>2,493</b>	<b>3,351</b>
<b>AMORTISATION AND IMPAIRMENT LOSSES</b>							
Balance 1st July 2007	443	-	-	<b>443</b>	443	-	<b>443</b>
Amortisation for year	117	-	-	<b>117</b>	117	-	<b>116</b>
Balance 30th June 2008	560	-	-	<b>560</b>	560	-	<b>559</b>
Balance at 1st July 2008	560	-	-	<b>560</b>	560	-	<b>559</b>
Amortisation for year	146	-	-	<b>146</b>	146	-	<b>146</b>
<b>Balance 30th June 2009</b>	<b>705</b>	-	-	<b>705</b>	<b>705</b>	-	<b>705</b>
<b>CARRYING AMOUNTS</b>							
At 1st July 2007	158	-	-	<b>158</b>	158	-	<b>158</b>
At 30th June 2008	291	1,264	105	<b>1,660</b>	292	1,264	<b>1,556</b>
<b>At 30th June 2009</b>	<b>153</b>	<b>2,493</b>	<b>105</b>	<b>2,751</b>	<b>153</b>	<b>2,493</b>	<b>2,646</b>

**Patents**

Torque Limiting Gearbox US Patent No. 5,140,170 dated 24th November 2007 was procured for \$250,000 and terminates on the 24th May 2011. This cost is amortised over the remaining period of the patent.

Low Noise Gearing Patent No. 538381 dated 10th July 2008 was procured for \$7,348 and terminates on the 5th February 2017. This cost is amortised over the remaining period of the patent.

**Licences**

A 20-year licence to NZ Patent No. 231594, Australian Patent No. 622955 and Intellectual Property were procured in 2002 at a value of \$601,304. The NZ and Australian patents terminate on the 30th November 2009. This cost is amortised over the remaining period of the patents.

**IEC Certification**

These costs, generated both internally and externally, represent the costs to date incurred by the company in order to apply for IEC Certification. The total cost of certification once attained, will be amortised over the period of the certificate.

**Goodwill**

The carrying value of goodwill is subject to an annual impairment test to ensure the carrying value does not exceed the recoverable amount at balance date. The goodwill which Windflow Technology Ltd acquired as part of the acquisition of Wind Blades Ltd was valued at \$105,000 in December 2008. The future profitability of Wind Blades Ltd has been estimated and does not require any impairment of goodwill.

## 18 Subsidiary and Associated Companies

### Subsidiaries

All subsidiaries were incorporated in New Zealand, have a 30th June balance date, and are directly 100% owned by Windflow Technology Ltd.

#### Pacific Windfarms Ltd

Pacific Windfarms Ltd has not traded since incorporation.

#### Wind Blades Ltd

Wind Blades Ltd is involved in the construction of the blades for the Windflow turbine.

#### Windflow Hawaii Ltd

Windflow Hawaii Ltd has not traded since incorporation.

### Associates:

All associates were incorporated in New Zealand, have a 30th June balance date and the shareholdings are directly owned by Windflow Technology Ltd.

#### Windpower Otago Ltd

Windpower Otago Ltd is owned 20% by Windflow Technology Ltd. Windpower Otago Ltd is involved in the development and operation of wind farms. It has not traded for the 2008 nor the 2009 year.

#### Wind Gears Ltd

Wind Gears Ltd is owned 50% by Windflow Technology Ltd. Wind Gears Ltd undertakes the development and construction of gear boxes for the Windflow turbines.

### Investment in Associates

	This Year		Last Year	
	Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
Results of Associates:				
Share of Operating (Deficits)	92	-	(26)	-
	92		(26)	-
Interest in Associates:				
Shares at Cost	5	5	5	5
Share of (deficits)	92	-	(26)	-
Balance at Beginning of Year	5	-	-	5
Balance at End of Year	92	5	-	5

### Details of Associates (\$000's)

2009	Assets	Liabilities	Revenue	Profit	% held
<b>Carrying Amount</b>					
Windpower Otago Ltd	65	72	-	(1)	20%
Wind Gears Ltd	4,176	3,991	4,825	233	50%
<b>2008</b>					
<b>Carrying Amount</b>					
Windpower Otago Ltd	67	74	-	(1)	20%
Wind Gears Ltd	836	880	-	(53)	50%

There are no significant restrictions on the ability of any associate to pay dividends, repay loans or otherwise transfer funds to the investor company.

## 19 Capital Management

When managing capital, the directors' objective is to ensure the entity continues as a going concern, as well as maintaining optimal returns for shareholders and benefits for other stakeholders.

The directors aim to provide a capital structure which

- Provides an efficient and cost effective source of funds;
- The ratio of funds sourced from shareholders and potential external debt is maintained proportionally at a level which does not create a credit or liquidity risk to the Group.

With the parent company being listed on the NZ Stock Exchange, there are continuous disclosure obligations and requirements to inform the shareholders and the market of any matters which affect the capital of the parent company. This includes changes to the capital structure, new share issues, dividend payments and any other significant matters which could affect the credit worthiness or liquidity of the Group.

The Group is not subject to any external capital requirements.

## 20 Financial Instruments

### Credit Risk

To the extent that the Group has a receivable from another party, there is a credit risk in the event of non performance by that counter party. Financial instruments, which potentially subject the Group to credit risk, principally consist of bank balances, receivables, and term deposits.

The Group monitors the credit quality of its investments and manages its exposure to credit risk. The Company has advanced minor amounts to its associated companies which are unsecured. (Refer Note 18).

### Concentrations of Credit Risk

The Group does not have any significant concentrations of non-customer credit risk apart from the above advances and its deposits with New Zealand registered banks. The Group has spread its term deposits so that no one financial institution has a majority of the available funds and funds are held at registered banks.

There is a significant credit risk arising from there being substantially only one customer of the Company. The risk arising from this is closely managed. The Directors are satisfied with the management of this exposure, however refer to Notes 26 and 28 regarding issues with NZ Windfarms Ltd. At this stage in the development of the Company it has not been possible to diversify this credit risk.

### Liquidity Risk

The Group monitors its future cash requirements through rolling cash flow forecasts. At balance date the liquidity risk was considered to be low, however since balance date there has been a significant announcement made by the company's main customer. – refer Note 28.

### Foreign Exchange Risk

The Company has exposure to foreign exchange risk as a result of transactions, in particular purchases of raw materials and components, denominated in foreign currencies, arising from normal trading activities. The Company reviews its exposure and, when appropriate, takes out forward exchange contracts. At balance date the Company had a forward exchange contract (for the purposes of covering committed purchase orders) of Euro 291,977 @ NZ\$0.3941, at balance date the exchange rate was NZ\$0.45/Euro.

The Company's primary foreign exchange exposure is to the New Zealand dollar (NZD) versus the Euro. The Group believes that an overall sensitivity of +/- 10% is reasonably possible given the exchange rate volatility observed on a historical basis (traditionally +/- 20%). If the NZD moved relative to the Euro at balance date it would have had reduced the potential foreign exchange loss.

### Interest Rate Risk

The Group has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates. The Group deposits funds at the best available rate, for the selected term, at a range of registered banks.

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## Credit Facilities

The Group has no credit facilities, other than trade creditors.

## Fair Values

The estimated fair values of financial instruments do not differ from the carrying values.

## Liquidity Risk and Maturity Analysis

The table below analyses the Group's non-derivative financial liability into relevant maturities based on the remaining period at reporting date on contractual maturity date. The amounts disclosed in the table are undiscounted.

	Less than 6 months	6 months to 1 year
Turbine Components	\$5,761,096	\$2,880,548

## 21 Related Party Disclosures

The following information provides the total value of transactions that were entered into with related parties for the current financial year.

### Mr G Henderson; Director and Shareholder

The Company paid or accrued a royalty of \$480,000 (exclusive of GST) (2008: \$320,000) to Mr Henderson arising from the ordering of 48 turbines, pursuant to the Licence Agreement between the Company and Mr Henderson.

The agreement transferring the Torque Limiting Gearbox Licence from Wind Torque Ltd to Windflow Technology Ltd provided that a royalty is payable to Mr G Henderson for each wind turbine that is sold or retained by the Company (other than any turbines retained as demonstration turbines). The amount of the royalty is \$10,000 per turbine plus 10,000 share options of \$1.00 each. The total number of options is limited so that if exercised do not represent more than either 1,000,000 shares in Windflow Technology Ltd or more than 20% of the issued share capital of Windflow Technology Ltd.

Each option to purchase shares shall expire seven months after the end of the calendar quarter. The option price is \$1.00, or if a market price for Windflow Technology Ltd shares has been established at a level which raises concerns for the Directors that the option price is not fair and reasonable to existing shareholders, the option price will be determined as the average market price in the last month of the quarter less one third.

As at 30th June 2009 the Group owed \$nil to Mr Henderson (2008: \$180,000).

### Mr B Leay; Chairman and Shareholder

The Group paid fees of \$2,667 to Mr Leay for services at normal market terms and conditions (2008: \$1,528).

### Mr K McConnell, Director and Shareholder

The Group paid fees of \$26,583 to Mr McConnell for management services at normal market terms and conditions (2008: \$85,464).

As at 30th June 2009 the Group owed \$1,601 to Mr McConnell which also includes director's related expenses (2008: \$4,053).

### Mr H Kelly, Director and Shareholder

The Group paid fees of \$6,068 to Mr Kelly for management services at normal market terms and conditions (2008: \$8,951).

As at 30th June 2009 the Group owed \$569 to Mr Kelly which was for director's related expenses (2008: \$3,049).

### Mrs C Parlane, Director and Shareholder

The Group paid fees of \$2,973 to Mrs Parlane for management services at normal market terms and conditions (2008: nil).

As at 30th June 2009 the Group owed \$1,161 to Mrs Parlane which was for director's related expenses (2008: nil).

**Associated Companies**

Related Party		Purchases from related parties (\$,000)	Advances to related parties (\$,000)
<b>Consolidated</b>			
Wind Gears Ltd	2009	4,760	230
	2008	-	-
Windpower Otago Ltd	2009	-	26
	2008	-	26

**Parent**

Wind Blades Ltd	2009	2,194	-
	2008	1,464	-
Wind Gears Ltd	2009	4,760	230
	2008	-	-
Windpower Otago Ltd	2009	-	26
	2008	-	26

**Windpower Otago Ltd**

Windflow Technology Ltd has advanced funds to that company to assist in initial set up costs and as at balance date these totalled \$25,902 (30th June 2008: \$25,902).

The advance is interest free and repayable upon demand.

**Wind Gears Ltd**

Windflow Technology Ltd sold a "test rig" to Wind Gears Ltd for \$230,000. This amount is disclosed as an "Advance to Associate" in the Balance Sheet of the Company.

Transactions between related parties are on normal commercial terms and conditions. There are no guarantees given or received apart from the normal warranty terms that are in force in a normal commercial contract.

**Key Management Personnel Compensation**

	This Year		Last Year	
	Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
Compensation:				
Short Term Employee Benefits	1,112	1,032	623	623
Share Based Payments	-	-	-	-

Key management personnel are classified as any persons, including the Directors, who have the authority and responsibility for planning, directing and controlling the activities of the Group.

	This Year		Last Year	
	Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
<b>22 Reconciliation of Reported Deficit with Cash Flows from Operating Activities</b>				
Net Deficit	(1,233)	(1,453)	(2,044)	(2,004)
Less Non Cash Items and non operating items:				
Amortisation of Licences & Patent	146	146	116	116
Depreciation	659	634	558	509
	805	780	674	625
Cash Flow from Operations before working capital changes	(428)	(673)	(1,370)	(1,379)
Movements in Working Capital:				
Increase (Decrease) in accounts payable excluding asset purchases	(456)	(436)	2,147	2,011
Increase (Decrease) in Progress payments held	(1,376)	(1,376)	6,598	6,598
Increase (Decrease) in Provisions	2,130	2,110	(117)	(117)
Decrease (Increase) in accounts receivable & interest accrued	5,770	5,740	(2,816)	(2,817)
Decrease (Increase) in Stock & WIP	(4,470)	(4,326)	(4,139)	(4,165)
Decrease (Increase) in Prepayments	(409)	(417)	(57)	(41)
Decrease (Increase) in Retentions	(3,193)	(3,193)	315	315
Decrease (Increase) in GST receivable	(8)	-	(470)	(464)
Decrease (Increase) in tax refund	(25)	(26)	(1)	-
Net Cash Flows from Operating Activities	(2,465)	(2,597)	90	(59)

## 23 Operating Leases

The Group's minimum operating lease payments follow:

	This Year		Last Year	
	Group (\$,000)	Parent (\$,000)	Group (\$,000)	Parent (\$,000)
Within one year	450	241	364	137
One to five years	1,214	865	1,473	794
More than five years	-	-	208	208

**24 Major Customers**

The Group has only one customer, NZ Windfarms Ltd, and all trading revenue is from that customer.

**25 Seasonality or Cyclicity of Interim Operations**

The operations are not subject to seasonal fluctuations but are subject to the effects of the timely completion of the batches of turbines ordered.

**26 Contingent Liabilities**

The ongoing dispute the Company has with its client, NZ Windfarms Ltd, over the status of the turbines supplied to the Te Rere Hau wind farm has been carefully considered by the Board. NZ Windfarms Ltd has referred to possible claims for mitigation or remediation it may make in the future. The Company has strongly refuted any claim for reparation and reasserts its stated position that the turbines have been ordered, supplied and operated in accordance with the sale and purchase agreement between the two parties. The Directors have sought expert legal and engineering counsel on this matter and, given the advice received and current lack of any quantified formal claim for damages consider that the situation does not require a specific provision for contingent liability. (2008: nil)

**27 Commitments**

Capital Commitments as at balance date totalled \$22,679. (2008: \$120,000).

Contractual Commitments as at balance date totalled \$8.64million. (2008: \$7.67 million). Contractual Maturity page 31.

**28 Significant Events after Balance Date**

The financial statements have been prepared using the going concern assumption. The continued operations of the Group are dependent on the ability to fund future activities from operational cash flows and funding.

Whilst the budgets and plans prepared by the Group indicate sufficient cash generation from operations to meet its obligations for at least 12 months from the date this report was approved by the directors, these budgets and plans are dependent on continued payment from its sole client, NZ Windfarms Ltd.

NZ Windfarms Ltd annual report for year ended June 2009 revealed that it intends to seek further funding as it had insufficient cash generation from operations to meet its obligations in the 12 months following the approval of its financial report. On achieving further funding NZ Windfarms Ltd believes it will have sufficient cash to meet its obligations in this period. The NZ Windfarms Ltd Board of Directors has expressed confidence in NZ Windfarms Ltd ability to continue as a going concern.

Based on the information set out above, the Windflow Technology Ltd Board of Directors considers the "Going Concern" assumption to be a valid basis on which to prepare the financial statements. This conclusion was reached giving due regard to circumstances likely to affect the company within a 12 month period from the date these financial reports were approved, and to circumstances which may occur beyond that date which may affect the assumption of a going concern basis.

Having reached the conclusion that the "Going Concern" assumption is valid there remains an element of uncertainty over the cash expected to be generated from operations (based on the ability of NZ Windfarms Ltd to meet its commitments) and subsequent possibility that the Company may have insufficient cash reserves to meet its own obligations. Should the Company be placed in a position where it is unable to continue in normal operations or meet its commitments as they fall due, then adjustments may be required to reflect the need for assets to be realised or liabilities met at values materially different from those recorded in the financial statements.

These financial statements do not include provision for losses that may occur as a result of the Company ceasing to be a going concern.

NZ Windfarms Ltd have recently begun withholding payments from Windflow Technology Ltd asserting a right to 'set off' against unquantified damages that they may seek as a result of Te Rere Hau turbine designs differing from the final IEC Certification design (refer contingent liabilities note). The total withheld is now \$4,075,009 and discussions are continuing between the Company and its client with a view to resolution. If NZ Windfarms Ltd were to continue to withhold future payments then the Company would need to take steps to conserve its cash including delaying payments to suppliers until NZ Windfarms Ltd resumes payment. The Directors have taken expert advice on this matter and believe the withholding of payment to be in breach of the Sales and Purchase Agreement between the two parties and believe that the Company will receive the monies due to it.

NZ Windfarms Ltd have recently requested an unquantified delay to the order for the final 32 WF500 turbines for the Te Rere Hau wind farm as they attempt to obtain a resource consent to place the turbines on an adjoining extension area. Any such variation to the Sale and Purchase Agreement between the parties would only be agreed to by Windflow Technology Ltd on the basis of it suffering no financial harm compared to performance of the existing contract.

## INTRODUCTION

The Board of Directors is elected by the shareholders and is responsible for the corporate governance of the Company. The Board is the final body responsible for the decision making within the Company and has the requirement to work to enhance the value of the Company in the interests of the Company and its shareholders.

Corporate Governance encompasses the requirement for the Board to discharge such responsibilities, to be accountable to the shareholders and other stakeholders for the performance of the Company and to ensure that the Company is compliant with laws and standards.

The Board establishes the objectives of the Company and is engaged in ongoing strategic planning in order to meet these objectives. It provides an oversight of compliance and risk, it measures and monitors management performance and it sets in place the policy framework within which the Company operates.

The Board monitors financial results and compares them to the budgets and annual plans at the regular monthly meetings.

The following headings reflect the corporate governance principles recommended by the New Zealand Securities Commission in February 2004.

Reference has also been made to the Corporate Governance Best Practice Code (the NZX code).

## BOARD COMPOSITION AND MEMBERSHIP

As at the 30th June 2009 the Board comprised six Directors. This included a non-executive Chairman, and executive Director (the Chief Executive Officer) and four non-executive Directors.

The Board has a broad base of energy, engineering, financial, legal and other skills, experience and expertise to meet its objectives.

The details and background of the Directors are detailed elsewhere within this Annual Report.

The Chairman is elected by the Board of Directors and it is his role to manage the Board in the most effective manner and to provide a conduit between the Board and the Chief Executive Officer. He has no significant external commitments that conflict with this role.

Procedures for the operation of the Board, including the appointment and removal of Directors, are governed by the Company's Constitution.

The Board held twelve face to face meetings during the financial period ended 30th June 2009. In addition to these formal meetings the Board met on other occasions both in person and by phone conference, to discuss specific issues.

### Chief Executive Officer Performance Review

The Board is responsible for the evaluation of the Chief Executive Officer against his key performance objectives and is responsible for the setting of these objectives on a periodic basis and ensuring that they are an appropriate measure.

### Directors' Shareholdings as at the 30th June 2009

There is a Share Option Plan with Mr G Henderson, the Chief Executive Officer, which relates to any royalties payable under the TLG licence. This is detailed within Note 21 of the Notes to the Financial Statements (page 31).

Directors' disclosure of their shareholdings pursuant to Section 148 of the Companies Act 1993 and the NZAX listing rule are shown as at 30th June, 2009 in the list below.

Director	Shares Held		
	Beneficially	Interest of Associated Persons	Non-Beneficially
Barrie Leay	4,976		
Geoff Henderson	496,681	387,004	
Heugh Kelly	30,625		
Keith McConnell	9,958		
Caroline Parlane	7,500		
Ian Fraser	0		

### Independence of Directors

To be "independent" a Director must, in the opinion of the Board, be removed from any relationship or business that could interfere materially or be reasonably perceived to interfere materially with the exercise of his or her independent judgement.

It has been determined by the Board that of the six Directors all Directors were independent apart from Mr Geoff Henderson and Mr Heugh Kelly. Mr Henderson is the Chief Executive Officer and Mr Kelly has provided legal advice on behalf of the Company on a fee paying basis.

All Directors are required to immediately advise if any new relationships would interfere with such independence and so enable the Board to consider and determine the materiality of the relationship.

### Board Committees

There is an audit committee consisting of Keith McConnell (Chairman), Ian Fraser and Caroline Parlane. Geoff Henderson also attends the meetings but in his capacity as Chief Executive Officer. This audit committee meets monthly on the same day as board meetings in order to review the financial reports with the CEO and the company's accountants. In addition to these scheduled meetings the audit committee also meets on other occasions – for example around the time of the production of the company's Annual and Half-Yearly accounts.

There is also a procurement committee consisting of Heugh Kelly (Chairman), and Geoff Henderson. The procurement committee meets monthly with the Production Manager prior to the meetings of the audit committee and the Board. The purpose of the committee is to review procurement contracts with suppliers especially as many of these are for substantial sums of money.

At this stage no other Board Committees have been established to assist in the execution of the Board's responsibilities. All such matters are conducted at the regular full Board meetings.

## ETHICAL STANDARDS

### Code of Ethics

The Company expects all its employees and Directors to maintain high ethical standards.

The Directors support the principles set out in the "Codes of Proper Practice for Directors" issued by the Institute of Directors in New Zealand. Whilst recognizing that the Code expresses principles and does not purport to determine the detailed course of conduct by Directors on any particular matter, the Directors are committed to the highest standards of behaviour and accountability.

### Interests Register

In accordance with the Companies Act 1993 the Company maintains an Interest Register in which the particulars of certain transactions and matters involving Directors are recorded. The following table summarises the Directors' interests in entities with which the Company has, or may in future have, transactions:

Director	Directorship or shareholding (at 30/6/2009)
Barrie Leay	Aquaflow Bionomic Corporation Ltd NZ Windfarms Ltd Marahau Investments Ltd
Geoff Henderson	Aeolian Property Company Ltd Henderson Inventions (Partnership) Pacific Windfarms Ltd Wind Blades Ltd NZ Windfarms Ltd Windpower Otago Ltd Windflow Hawaii Ltd
Heugh Kelly	Wind Gears Ltd
Keith McConnell	A H Gears Ltd Wind Blades Ltd Wind Gears Ltd Industrial Research Ltd
Caroline Parlane	Aquaflow Bionomic Corporation Ltd Marahau Investments Ltd
Ian Fraser	Beca Group Ltd Transpower New Zealand Ltd

### Conflicts of Interest

If conflicts of interest do exist at law then the policy of the Board is that Directors must declare their interest and do not exercise their right to vote in respect of such matters.

### Insider Trading

Directors and employees of the Company are subject to the limitations on their ability to buy or sell Windflow Technology Ltd shares under the NZAX Listing Rules and the Securities Markets Act 1988. No one at Windflow Technology is permitted to, directly or through other persons or entities, buy or sell Windflow Technology shares or advise someone else to buy or sell Windflow Technology shares on the basis of inside information about the Company, its joint venture partners and subsidiaries.

## AUDIT GOVERNANCE AND INDEPENDENCE

The Board approved the reappointment of PKF Goldsmith Fox Audit as Auditors for the year ended 30th June 2009. Shareholders approved the Board setting the remuneration of the Auditors at the Annual Meeting in October 2008.

The work of the external Auditors is limited to audit and related work only and the Company is committed to auditor independence. The Board annually reviews the independence and objectivity of the external Auditors. No employees, Partners or Directors of the Audit firm hold shares in the Company.

Representatives of the Company's external Auditors, PKF Goldsmith Fox Audit will be invited to the Annual Meeting.

## DIRECTORS REMUNERATION

The current annual Directors' fees paid to all Directors within the parent company total \$199,500 per annum, each Director receiving \$27,500, the Chairman of the Board of Directors receiving \$55,000, the Chairman of the Audit sub-committee receiving an additional \$5,000 and any director who is a member of the Audit sub-committee receiving an additional \$2,000.

The remuneration of the Chief Executive Officer as at the 30th June 2009 was \$230,405.

The following table summarises the remuneration paid to the Directors for the period to 30th June 2009. Refer to note 3 on page 20.

Name	Directors Fees	Salary	Other Fees
Barrie Leay	\$55,000		\$2,667
Geoff Henderson	\$27,500	\$194,805	
Heugh Kelly	\$27,500		\$6,068
Keith McConnell	\$32,500		\$26,583
Caroline Parlane	\$29,500		\$2,973
Ian Fraser	\$11,458		

No other benefits were received by the Directors of the Company. Reimbursements of appropriate costs (mainly travel to meetings) were made.

## REPORTING AND DISCLOSURE

Annual and Interim Reports in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the NZAX Listing Rules are communicated on a periodic basis to all shareholders.

A web site is maintained and contains regular updates to shareholders as well as the Annual and Interim Reports.

The Chief Executive Officer and other Senior Officers have conducted regular information meetings and discussions with shareholders and interested persons.

## RISK MANAGEMENT

The Company has a policy of identifying, assessing and managing risks arising from its business direction and also from the strategic environment.

It implements risk management through its business processes of planning, budgeting, investment and project analysis, and operations management.

## SHAREHOLDER RELATIONS

The Board's policy is to ensure that shareholders are informed of all material and strategic developments affecting the Company's state of affairs.

All material disclosures are posted to the Company's web site on a timely basis. Regular media releases are made and copied to shareholders by email.

## COMPANY SECRETARY

The board appointed Terry Moon as Company Secretary, effective as of 21st June 2005 who co-ordinates all the reporting and compliance requirements of the company throughout the financial year.

## OTHER STATUTORY INFORMATION

### EMPLOYEE REMUNERATION

For the period to 30th June 2008, there were 9 employees who earned more than \$100,000.

Remuneration Range NZ\$	Number of Employees
200,001 – 220,000	1
180,001 – 200,000	1
160 001 – 180 000	
140 001 – 160 000	
130,001 – 140,000	
120,001 – 130,000	1
110,001 – 120,000	2
100,000 – 110,000	4

## DIRECTORS INDEMNITY AND INSURANCE

The Company has Directors' & Officers' Liability Insurance to the sum of \$10,000,000 in the aggregate.

## SUBSIDIARIES AND DIRECTORS THEREOF

Windflow has three subsidiary companies. They are Wind Blades Ltd, Windflow Hawaii Ltd and Pacific Windfarms Ltd. The Directors of Wind Blades Ltd are Peter Brooking, Keith McConnell and Geoff Henderson. The sole Director of Windflow Hawaii Ltd and Pacific Windfarms Ltd (which are non-trading), is Geoff Henderson.

## JOINT VENTURE WITH AH GEARS LTD

In June 2008: Windflow Technology formed a Joint Venture with AH Gears (its gearbox manufacturer in Auckland), called Wind Gears Ltd in which Windflow Technology Ltd has a 50% stake. Keith McConnell and Heugh Kelly are the two Windflow Technology Ltd representatives on the Board of Wind Gears Ltd.

## DONATIONS

The Windflow Technology Ltd Directors have decided that no donations to charity will be made until the Company has paid a dividend to its shareholders. Therefore no donations have been made in the financial year being reported on.

## SHAREHOLDER INFORMATION

The ordinary shares of Windflow Technology Ltd are listed on the New Zealand Stock Exchange's Alternative Market (NZAX). The information in the disclosures below has been taken from the Company's register at 30th June 2009.

## TWENTY LARGEST ORDINARY SHAREHOLDERS

Shareholder	Address	Shares	%
Mighty River Power Ltd	Auckland	2,382,496	19.86
Delane Wycoff	Nebraska, USA	700,000	5.84
Geoff Henderson	Christchurch	496,681	4.14
Jennifer Henderson	Christchurch	332,237	2.77
Custodial Services Ltd (3) Account	Tauranga	315,948	2.63
Reda Holdings Ltd	Cayman Islands	241,000	2.01
Simon Stockdale	Nelson	185,239	1.54
David Isles	New York	156,338	1.30
Caroline Stockdale	Nelson	133,738	1.12
New Zealand Central Securities Depository Ltd	Wellington	132,265	1.10
Wolfgang Rehfus	Switzerland	120,000	1.00
Paul Simmons	Christchurch	118,149	0.99
Margaret Simmons	Christchurch	108,149	0.90
Bremca Holdings Ltd	Christchurch	101,000	0.84
Victor Holmes & Christine Holmes	South Auckland	90,694	0.76
Sheila Kolstad	Christchurch	90,000	0.75
Ian Knowles	Wellington	75,000	0.63
Fitzallan Holdings Ltd	Christchurch	73,500	0.61
Geoffrey Robinson & Reihana Robinson	Coromandel	60,000	0.50
Brett Whiston	Manukau	57,126	0.48
	<b>TOTALS</b>	<b>5,969,560</b>	<b>49.77%</b>

## DISTRIBUTION OF SHAREHOLDERS

Holdings Ranges	Number of Holders	Number of Shares	%
1 - 1,000	147	89,925	0.75
1,001 - 5,000	408	1,124,749	9.38
5,001 - 10,000	206	1,546,348	12.89
10,001 - 50,000	160	3,209,564	26.76
50,001 - 100,000	7	499,663	4.17
100,001 - 1,000,000	13	3,140,744	26.19
1,000,001 - and over	1	2,382,496	19.86
<b>Totals</b>	<b>942</b>	<b>11,993,489</b>	<b>100.00</b>

## SUBSTANTIAL SECURITY HOLDERS

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received, the following persons were substantial security holders in the company at 30th June 2009.

Shareholder	Number of shares directly held	%
Mighty River Power Ltd	2,382,496	19.86
Delane Wycoff	700,000	5.84
Henderson Family Interests – made up of	871,981	7.27
• Geoff Henderson	496,681	
• Jenny Henderson	332,237	
• Est. F. M. Henderson & J. M. Henderson	38,114	
• Jean Henderson	3,969	
• Jon Henderson	980	
<b>Totals</b>	<b>3,954,477</b>	<b>32.97</b>

The total number of issued voting securities as at 30th June 2009 was 11,993,489.



**The Directors of Windflow Technology Ltd are:**



**Barrie Leay, Chairman of Directors**

45 Ledbury Rd, Nelson

Barrie Leay was until mid-1997 Executive Director of the Electricity Supply Association of New Zealand. Subsequently he was elected as the founder Chairman of APEC Energy Business Network in the Asia Pacific region, where he has been a leading figure in the reforms of the electricity industries and the establishment of competitive electricity markets in New Zealand and other APEC economies. Barrie is currently Chairman of Aquaflo Bionomic Corporation Ltd, Bio Refineries Ltd, ThePacific.net Ltd, Ecodyne Ltd, ASCE Corporation Ltd, Suntech Power Ltd and several other companies. Barrie was also founder Chairman and a director of NZ Windfarms Ltd until 2008.



**Keith McConnell, Director**

Unit 1,12 Balfour Rd, Auckland

Keith has served as Chief Executive Officer of a number of commercial entities over the last 15 years. These include John Edmond Ltd, Donaghy Downs Pty Ltd, The Power Company Ltd, United Electricity Ltd, Paykel Ltd and most recently Fruehauf Pacific Ltd. His involvement with wind energy first arose during his tenure with The Power Company Ltd where he sponsored a wind testing programme at three sites in Southland. Keith has also been involved in several successful startup ventures (eg Metering Systems Ltd and Supply Solutions), and has a good understanding of the issues involved in such ventures. Keith is an ex-director of NZ Windfarms Ltd.



**Geoff Henderson, Director and Chief Executive Officer**

50 Waiwetu Street, Christchurch

A registered mechanical engineer, Geoff Henderson has been at the forefront of wind power engineering for over twenty years, including working in California and England. He invented the torque limiting gearbox (TLG) system which has been patented in several countries. In 1994 he received the Communications Award from the Institution of Professional Engineers (IPENZ) for his contribution to the engineering profession as a proponent of wind power. Geoff is past-chairman of the Canterbury Branch of IPENZ and in 2005 was elected a Fellow of IPENZ. He is also a director of the Aeolian Property Company Ltd and four companies in which the Company has shares, Wind Blades Ltd, Windpower Otago Ltd, Windflow Hawaii Ltd (non-trading) and Pacific Windfarms Ltd (non-trading).



**Heugh Kelly, Director**

Shegadeens Road, R.D. 1, Wellsford

Heugh Kelly is a barrister and solicitor with over 20 years experience of commercial law. Educated at Auckland Grammar School and the University of Auckland, he has been in practice on his own account since 1984. He is a director of the Environmental Defence Society which is a position he has held since 1981 and was a member of the legal committee of the Maruia Society for some years.



**Caroline Parlane, Director**

17A Putnam St, Wellington

Caroline Parlane was previously Senior Advisor International Relations Energy for the Ministry of Economic Development, being the Government's representative on crucial international bodies such as the International Energy Agency (IEA), and the Energy Working Group of APEC, and is knowledgeable of many aspects of the global energy industry. She has an Honours Degree, a Diploma in Accounting and is a member of the Institute of Directors.



**Ian Fraser, Director**

41 Wadestown Rd, Wellington

Ian Fraser is a Distinguished Fellow of the Institution of Professional Engineers New Zealand (IPENZ), an Executive Director of Beca Group Ltd and a Director of Transpower NZ Ltd. Previous positions include Director and Deputy Chair of Mighty River Power Ltd. He has a long background in professional engineering having been President of the Association of Consulting Engineers (New Zealand), Managing Director of Beca Carter Hollings and Ferner Ltd, and prior to that he held senior management positions in Beca.

<b>Management Team</b>	Chief Executive Officer .....	Geoff Henderson
	Chief Operating Officer .....	Tom Hooper
	Engineering Manager .....	John Arimond
	Production Manager .....	Jules Ganley
	Windfarm Development Manager .....	Warwick Payne
	Windfarm Operations Manager .....	Peter Chadwick
	Quality Manager .....	Tim Armitage
	Accountants .....	Martin Richardson, Nicola Catchpole
	Marketing Manager .....	Sheralee MacDonald
	Company Secretary .....	Terry Moon

**Solicitor**

Guy Mortlock  
Mortlocks  
137 Armagh St  
Christchurch

**Registered Office**

HFk Ltd  
4/567 Wairakei Road  
Christchurch

**Auditor**

PKF Goldsmith Fox Audit  
250 Oxford Terrace  
Christchurch

**Share Registry**

Link Market Services Ltd  
138 Tancred St  
Ashburton

**Bankers**

Bank of New Zealand  
81 Riccarton Rd  
Christchurch

**Insurance Brokers**

Marsh Ltd  
Level 4, 233 Cambridge Terrace  
Christchurch

<b>Principal Suppliers</b>	Blades .....	Wind Blades Ltd of Auckland
	Gearbox .....	Wind Gears Ltd of Auckland
	Electrical Control .....	Bremca Ltd of Christchurch
	Hub .....	Bradken Engineering Ltd of Dunedin
	Generator .....	Cummins Generator Technologies of UK
	Hydraulics .....	Rexroth NZ Ltd of Christchurch
	Nacelle Cladding .....	Cresta Composites of Christchurch
	Pallet .....	Allied Industrial Engineering of Kawerau
	Tower .....	ACME Engineering of Petone



Windflow Technology management team.  
Back row: Jules Ganley, Peter Chadwick, Martin Richardson, Warwick Payne, Tom Hooper.  
Front row: Nicola Catchpole, Geoff Henderson, Sheralee MacDonald, John Arimond.  
Absent: Terry Moon, Tim Armitage.





**Windflow Technology Ltd**

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