

WINDFLOW TECHNOLOGY LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 31ST DECEMBER 2004

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WINDFLOW TECHNOLOGY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE SIX MONTH PERIOD ENDED 31ST DECEMBER 2004

Twelve Months to 30th June 2004		Six Months to 31st Dec 2004		Six Months to 31st Dec 2003	
Group		Group	Parent	Group	Parent
\$		\$	\$	\$	\$
	Notes				
	Operating Revenue				
	1				
18,387	Consultancy Fees Received	25,847	21,146	23,216	23,216
36,341	Sales and Benefits	20,142		-	-
62,165	Grants received	11,700	11,700	26,957	26,957
177,533	Interest received	71,913	71,840	75,314	75,314
294,426		129,602	104,686	125,487	125,487
	Operating Expenses				
	2				
150,076	Amortisation of Licences & Wind Rights	75,038	75,038	75,038	75,038
32,364	Cost of Sales	16,333	24	(2,319)	(1,230)
-	Cost of Sales Adjustment	(103,460)	(52,097)	-	-
85,388	Engineering Costs	128,394	131,511	147,756	147,756
597,240	Research and Development Costs	274,718	274,308	49,117	49,117
96,966	Marketing Costs	108,370	106,858	26,361	26,361
535,067	General and Administration Costs	336,394	184,868	263,315	263,315
287,685	Depreciation	124,783	124,783	123,445	123,445
1,784,786		960,570	845,293	682,713	683,802
-	Share of Associate Deficit	4,266	-	-	-
1,784,786		964,836	845,293	682,713	683,802
(1,490,360)	Net Deficit	(835,234)	(740,607)	(557,226)	(558,315)

WINDFLOW TECHNOLOGY LIMITED
CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
 FOR THE PERIOD ENDED 31ST DECEMBER 2004

Twelve Months to 30th June 2004		Six Months to 31st Dec 2004		Six Months to 31st Dec 2003	
Group		Group	Parent	Group	Parent
\$		\$	\$	\$	\$
	Notes				
2,143,434	Equity at Beginning of Year	5,651,996	5,757,064	2,143,434	2,144,818
(1,490,360)	Net Deficit	(835,234)	(740,607)	(557,226)	(558,315)
4,998,922	Contributions from Owners Ordinary Shares Issued during the Year	-		4,998,922	4,998,922
5,651,996	Equity at End of Year	4,816,762	5,016,457	6,585,130	6,585,425

WINDFLOW TECHNOLOGY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT THE 31ST DECEMBER 2004

As At 30th June 2004	Group	As At to 31st Dec 2004		As At to 31st Dec 2003	
		Group	Parent	Group	Parent
\$	\$	\$	\$	\$	\$
	Shareholders' Equity				
8,980,763	Share Capital	8	8,980,763	8,980,763	8,980,763
(3,328,767)	Retained Earnings Account	9	(4,164,001)	(2,395,633)	(2,395,338)
5,651,996	Total Shareholders' Equity		4,816,762	6,585,130	6,585,425
	Current Liabilities	11			
327,820	Accounts Payable		430,783	145,351	124,362
327,820	Total Current Liabilities		430,783	145,351	124,362
5,979,816	Total Equity and Liabilities		5,247,545	6,730,481	6,709,787
	Current Assets	12			
270,975	Cash on Hand and at Bank		71,681	110,564	70,540
2,621,583	Term Deposits		1,171,835	4,250,000	4,250,000
9,821	Interest Accrued		5,284	-	-
49,168	Accounts Receivable		76,628	115,592	109,157
356,965	Prepayments		634,680	16,522	15,529
105,999	GST Refund		120,350	27,189	20,203
423,196	Work in Progress and Stock on Hand		1,119,692	95,897	95,897
44	Other Assets		29	-	-
3,837,751	Total Current Assets		3,200,179	4,615,764	4,561,326
	Non Current Assets				
1,256,318	Fixed Assets	13	1,151,540	1,146,328	1,042,915
765,450	Intangible Assets	14	691,412	854,940	840,488
-	Resource Consent		160,204	-	-
-	Shares - Wind Blades Ltd		-	-	22,375
-	Investment - Associate	15	734	-	-
120,297	Advances to Subsidiaries		-	-	17,783
	Advance to Joint Venture		43,476	113,449	224,900
2,142,065	Total Non Current Assets		2,047,366	2,114,717	2,148,461
5,979,816	Total Assets		5,247,545	6,730,481	6,709,787

Signed for and on behalf of the Board as at the

Director

Director

Barrie Leay Geoff Henderson

Dated 27 April, 2004

WINDFLOW TECHNOLOGY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31ST DECEMBER 2004

Twelve Months to 30th June 2004	Group	Six Months to 31st Dec 2004		Six Months to 31st Dec 2003	
		Group	Parent	Group	Parent
\$	\$	\$	\$	\$	\$
		Cash flows from operating activities			
		<i>Cash was provided from:</i>			
16,388	Receipts from consulting fees	8,500	8,500	24,411	21,606
59,165	Funding Received	11,700	11,700	26,956	26,956
36,652	Other Income	21,513	(4,700)	5,749	5,749
-	Income Tax Refunded	44	-	-	-
161,655	Interest received	70,128	70,054	21,712	21,712
273,860		111,885	85,554	78,828	76,023
		<i>Cash was disbursed to:</i>			
1,227,849	Payments to suppliers	1,096,062	877,059	332,485	355,008
427,780	Payments to employees	245,451	222,350	156,840	152,849
140,035	Payments Reimbursements to JV Partner	225,886	451,771	-	-
-	Interest paid	-	-	-	-
72,990	Net GST	24,321	13,543	5,623	-
44	Income Tax	29	-	-	-
1,868,698		1,591,749	1,564,723	494,948	507,857
(1,594,838)	Net Cash Flows operating activities	(1,479,864)	(1,479,169)	(416,120)	(431,834)
		Cash flows from investing activities			
		<i>Cash was provided from:</i>			
75,791	Sale of Fixed Assets	-	-	151,581	151,581
-	Advances - Joint Venture Partner	78,553	157,107	-	-
525,906	Disbursed from Term Deposit Accounts	1,449,748	1,449,748	-	-
601,697		1,528,301	1,606,855	151,581	151,581
		<i>Cash was disbursed to:</i>			
356,814	Development of the Wind Turbine and associated costs	-	-	-	-
78,958	Purchase of other fixed assets	44,634	40,783	191,824	81,911
-	Resource Consent	114,769	114,769	-	-
127,013	Advance to Joint Venture Partner	-	-	111,848	246,071
-	Advance to Subsidiary Company	-	185,739	-	-
3,130,570	Disbursed to Term Deposit Accounts	-	-	4,233,081	4,233,081
3,693,355		159,403	341,291	4,536,753	4,561,063
(3,091,658)	Net Cash Flows investing activities	1,368,898	1,265,564	(4,385,172)	(4,409,482)
		Cash flows from financing activities			
		<i>Cash was provided from:</i>			
4,998,971	Issue of Shares	-	-	4,975,731	4,953,356
4,998,971		-	-	4,975,731	4,953,356
		<i>Cash was disbursed to:</i>			
134,548	Issue Costs of Equity	88,328	-	156,923	134,548
134,548		88,328	-	156,923	134,548
4,864,423	Net Cash Flows financing activities	(88,328)	-	4,818,808	4,818,808
177,927	Net Increase (Decrease) in cash held	(199,294)	(213,605)	17,516	(22,508)
93,048	Cash at beginning of year	270,975	263,495	93,048	93,048
270,975	Cash at end of year	71,681	49,890	110,564	70,540

WINDFLOW TECHNOLOGY LIMITED
STATEMENT OF ACCOUNTING POLICIES
FOR THE SIX MONTHS ENDED 31ST DECEMBER 2004

REPORTING ENTITY

Windflow Technology Limited is a company registered under the Companies Act 1993.

Windflow Technology Limited is an issuer for the purpose of the Financial Reporting Act 1993. The financial statements of the Company and Group have been prepared in accordance with the Financial Reporting Act 1993.

MEASUREMENT BASE

The accounting principles, recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis, are followed by the group.

NATURE OF BUSINESS

Wind power development.

The Company operates solely within New Zealand.

SPECIFIC ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of the financial performance, financial position and cash flows are set out below:

Basis of Consolidation

The consolidated financial statements are prepared from the financial statements of the Company, its subsidiaries and its joint venture. Subsidiaries are combined using the purchase method. Joint ventures are combined using the proportionate method.

All significant inter company transactions are eliminated on consolidation.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. The subsidiaries of the Company are N Z Windfarms Limited and Pacific Windfarms Ltd both of which are 100% owned by the Company.

Windflow Technology Limited has interests in two companies which are not subsidiaries being Windblades Limited with a 50% shareholding – (see note 14 for more detail) and Windpower Otago Limited with a 20% shareholding.

In the Company's financial statements, the advance to the joint venture is recognised at cost or fair value if there is a permanent diminution in value.

Revenue Recognition

Revenues are recognised when services are performed.

STATEMENT OF ACCOUNTING POLICIES
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

Investment Revenue

Interest revenue from investments and fixed deposits is recognised on an accruals basis.

Stock on Hand

Stock of component parts has been valued at lower of cost and market value.

Work in Progress

Work in Progress has been valued at the lower of cost and net realisable value. Work in progress includes wind blades at various stages of completion, these are valued at cost.

Goods and Services Tax

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

Taxation

Taxation recognised in the Statement of Financial Performance for the period is based on the accounting result, adjusted for timing differences between accounting and income taxation rules.

Any income tax expenses charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

A deferred tax benefit relating to tax losses is recognised only if there is a virtual certainty of realisation.

There is no deferred tax asset or liability as at the 31st December 2004.

STATEMENT OF ACCOUNTING POLICIES
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

Valuation of Assets

Receivables

Receivables are stated at their estimated realisable value.

Fixed Assets

The Company has the following classes of fixed assets:

Wind Turbine and Associated Assets
Motor Vehicle
Office Equipment

All fixed assets are recorded at cost.
Depreciation is provided for on a straight line basis on all tangible fixed assets at depreciation rates calculated to allocate the assets cost less estimated residual value, over their estimated useful lives.

No depreciation is charged on part constructed assets.

Major depreciation periods are:

Wind Turbine and Associated Assets (Commenced on completion, 1 ST July 2003)	10.0	years
Motor Vehicle	4.6	years
Office Equipment	2.8 to 8.3	years

STATEMENT OF ACCOUNTING POLICIES
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

Intangibles

1. Research and Development Costs

Research expenditure is recognised in the statement of financial performance in the period in which it is incurred.

Development costs are deferred where future benefits are expected to exceed those costs, otherwise such costs are recognised in the statement of financial performance in the period in which they are incurred.

Development expenditure, recognised as an asset, is stated at cost and amortised in the statement of financial performance over the period of expected benefits.

All other development expenditure is recognised in the statement of financial performance as incurred.

2. Licences

The licences were acquired by the Company in 2002 following the acquisition of Wind Torque Limited. In 2002 the Directors put, what was in their opinion, a fair value on the licences. A summary of the terms and conditions in regard to the acquisition of this intellectual property was listed under clauses 7 and 11, note 17.4 of the Prospectus, dated 9th July 2001. Refer also to the Prospectus dated 28th July 2003 Statement of Accounting Policies, subheading "Licences" on page 21.

The originally determined fair value of the Licences has been amortised to the Statement of Financial Performance on a straight line basis over their estimated useful lives, this has been determined to be 8 years and the write off to be one eighth, per financial period.

Refer also to Note 14 "Intangible Assets" of these Financial Statements.

Employee Entitlements

A liability for annual leave and long service leave is accrued and recognised in the statement of financial position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

A share option plan to the benefit of employees of the Company is in existence. (Refer Note 8).

Foreign Currency Transactions

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction.

Changes in Accounting Policies

A prior period adjustment has been included within these half year accounts, the change in accounting policies is in regard to the valuation of the wind blades held as work in progress. The wind blades have been valued at lower of cost but from the period 1st July 2004 this now includes depreciation on the wind blade moulds as part of that cost. There have been no other material changes in accounting policies.

Apart from the change in policy in regard to the valuation of the wind blades all policies have been applied on bases consistent with those used in previous interim and annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004

	31 st December 2004		31 st December 2003	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
1. Operating Revenue				
Operating Revenue includes:				
Consultancy Fees	25,847	21,146	23,216	23,216
Sales and Benefits	20,142	-	-	-
Grants Received	11,700	11,700	26,957	26,957
Interest Received – Term deposits	71,913	71,840	75,314	75,314
	-----	-----	-----	-----
	129,602	104,686	125,487	125,487
2. Operating Expenses				
Operating Expenses include:				
Amortisation of Licences and Wind Rights	75,038	75,038	75,038	75,038
Research and Development Costs	274,718	274,308	49,117	49,117
Audit Fees	6,825	6,825	4,000	4,000
Directors' Fees	31,750	31,750	39,975	39,975
Interest – Bank overdraft	13	13	-	-
Rent and Leases	11,192	11,192	5,460	5,460
3. Cost of Sales Adjustment				
Prior to this period the stock of wind blades have been valued at cost but this has not included the depreciation of the wind blade moulds as part of that valuation. As from the 1 st July 2004 depreciation has been included within the cost of the valuation of wind blades. This adjustment incorporates the change in the cost of sales if the prior period valuation at 30 th June 2004 had included this cost classification.				
Cost of Sales Adjustment	(103,460)	(52,097)	-	-
4. Prospectus Costs				
Total costs	8,400	8,400	83,757	83,757
5. Income / (Deficit) from Associated Company				
At 31 st December 2004 the Company held a 20% shareholding in Windpower Otago Limited				
Share of net deficit of associated company	4,266	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

	31 st December 2004		31 st December 2003	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
6. Taxation				
Operating Deficit	835,234	740,607	557,226	558,315
Prima facie taxation expense at 33%	-	-	-	-
Plus taxation effect of permanent differences				
Amortisation of Intangibles	75,038	75,038	75,038	75,038
Share Issue Costs	8,400	8,400	83,757	83,757
	-----	-----	-----	-----
	83,438	83,438	158,795	158,795
	-----	-----	-----	-----
	918,672	824,045	716,021	717,110
Losses brought forward	2,458,283	2,360,204	1,208,743	1,207,359
	-----	-----	-----	-----
Deficit and losses carried forward for taxation purposes	3,376,955	3,184,249	1,924,764	1,924,469
	-----	-----	-----	-----

There is no income tax payable for the period.

7. Imputation Credit Account

Balance at beginning of period	-	-	-	-
Income Tax refunded during the year	-	-	-	-
	-----	-----	-----	-----
Income tax payments during the year:				
Resident Withholding Tax paid	-	-	-	-
	-----	-----	-----	-----
Balance at end of period	-	-	-	-
	-----	-----	-----	-----

8. Share Capital

Balance at beginning of period	8,980,763	8,980,763	3,981,841	3,981,841
Ordinary Shares Issued	-	-	4,998,922	4,998,922
	-----	-----	-----	-----
Total Share Capital	8,980,763	8,980,763	8,980,763	8,980,763
	-----	-----	-----	-----
Number of shares on issue	5,238,231	5,238,231	5,238,231	5,238,231

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

	31 st December 2004		31 st December 2003	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
9. Retained Earnings Account				
Balance at beginning of the period	(3,328,767)	(3,223,699)	(1,838,407)	(1,837,023)
Net Deficit for the period	(835,234)	(740,607)	(557,226)	(558,315)
Balance at end of period	(4,164,001)	(3,964,306)	(2,395,633)	(2,395,338)

10. Share Option Plan

The Company entered into a share option plan with Mr G Henderson, the Executive Director on the 20th January 2002.

This put in to effect the terms of the Licence Agreement as outlined in the prospectus, dated 9th July 2001, and as summarised below.

The agreement transferring the TLG Licence from Wind Torque Limited to Windflow Technology Limited provided that a royalty was payable to Mr G Henderson for each of the first 100 wind turbines 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 to 20% of the Windflow Technology Limited shares on issue.

Each option to purchase shares will lapse if not exercised within six months of issue. The option price is \$1.00, or if a market price for Windflow Technology Limited 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 31st December 2004 no turbines had been sold or retained by the Company (other than the prototype / demonstration turbine at Gebbies Pass) and therefore no royalty payments have been made to Mr G Henderson nor any options issued to him.

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 selection of the participants and the number of shares comprised in options shall be determined by the Directors. Any offer of an option shall be at a price equal to the market price at the date of the resolution by the Directors to make an offer.

As at the 31st December 2004 less than 20,000 options had been issued to employees.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

	31 st December 2004	31 st December 2004	31 st December 2003	31 st December 2003
	Group	Parent	Group	Parent
	\$	\$	\$	\$
11. Current Liabilities				
Current liabilities consist of accounts payable and accruals, which are unpaid as at the period end.				
Trade Payables	406,461	358,762	62,627	41,638
Trade Payables – Asset Purchases	-	-	64,895	64,895
Employee entitlements	24,322	24,322	17,829	17,829
	-----	-----	-----	-----
	430,783	383,084	145,351	124,362
12. Current Assets				
<u>Term Deposits</u>				
Term Deposits maturing within six months	1,171,835	1,171,835	4,250,000	4,250,000
Term Deposits maturing within one year	-	-	-	-
	-----	-----	-----	-----
	1,171,835	1,171,835	4,250,000	4,250,000
<u>Accounts Receivable</u>				
Trade Receivables	76,628	36,565	115,592	109,157
Interest Accrued	5,284	5,284	-	-
	-----	-----	-----	-----
	81,912	41,849	115,592	109,157
<u>Stock on Hand and Work in Progress</u>				
Wind turbine component parts	319,574	319,574	95,897	95,897
Partly completed wind blades	794,929	794,929	-	-
Materials for wind blades	5,189	5,189	-	-
	-----	-----	-----	-----
	1,119,692	1,119,692	95,897	95,897

Refer to the Statement of Accounting Policies and the reference to the Changes in Accounting Policies in regard to the valuation of the wind blades, also Note 3.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

	31 st December 2004		31 st December 2003	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
13. Fixed Assets				
Wind Turbine and Associated Assets				
Site Costs	33,520	33,520	33,520	33,520
Turbine	972,584	972,584	970,358	970,358
Tooling, Equipment, Moulds	486,868	361,368	172,841	69,641
	<u>1,492,972</u>	<u>1,367,472</u>	<u>1,176,719</u>	<u>1,073,519</u>
Total Wind Turbine and Associated Assets	1,492,972	1,367,472	1,176,719	1,073,519
Less Accumulated Depreciation	377,555	316,376	93,899	93,899
	<u>1,115,417</u>	<u>1,051,096</u>	<u>1,082,820</u>	<u>979,620</u>
Motor Vehicles	17,342	17,342	17,342	17,342
Less Accumulated Depreciation	10,020	10,020	6,274	6,274
	<u>7,322</u>	<u>7,322</u>	<u>11,068</u>	<u>11,068</u>
Office Equipment	137,081	136,858	123,758	123,535
Less Accumulated Depreciation	108,280	108,225	71,318	71,308
	<u>28,801</u>	<u>28,633</u>	<u>52,440</u>	<u>52,227</u>
Total Fixed Assets	<u>1,151,540</u>	<u>1,087,051</u>	<u>1,146,328</u>	<u>1,042,915</u>
14. Intangible Assets				
Fair value of licences and wind rights, as determined by the Directors, at the time of inclusion within the July 2001 Prospectus	1,201,609	1,201,609	1,215,061	1,200,609
Less Accumulated Amortisation	510,197	510,197	360,121	360,121
	<u>691,412</u>	<u>691,412</u>	<u>854,940</u>	<u>840,488</u>
The ownership of the licences and wind rights were transferred from the subsidiary company, Wind Torque Limited, since liquidated, on the 20th January 2002 to Windflow Technology Limited by way of an agreement between the Company, its subsidiary and Mr G Henderson.				
Intangibles are being amortised over 8 years from date of purchase.				
15 Investment in Associated Company				
Investment at commencement of period	-	-	-	-
Purchase of Investment	5,000	5,000	-	-
Less net deficit	4,266	-	-	-
	<u>734</u>	<u>5,000</u>	<u>-</u>	<u>-</u>
Investment in associated company	734	5,000	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

16. Acquisition and Liquidation of a Subsidiary

On the 26th September 2001 the Company acquired 100% of the shares of Wind Torque Limited. Wind Torque Limited, at that time, was the beneficial owner of a patent licence and wind rights over a property in the North Island.

The ownership of the licences and wind rights were transferred from the subsidiary company, Wind Torque Limited, on the 20th January 2002 to Windflow Technology Limited by way of an agreement between the Company, its subsidiary and Mr G Henderson.

The liquidation of Wind Torque Limited was completed on the 15th June 2004.

17. Joint Venture Agreement

On the 7th November 2003 Windflow Technology Limited entered into an agreement with Tait and Brooking Contractors Limited to produce blades for Wind Turbines.

The Agreement determined the incorporation of a Company to be named Wind Blades Limited with fifty percent of the shareholding to be held by Windflow Technology Limited, fifty percent of the shareholding to be held by Tait and Brooking Contractors Limited.

The Company was incorporated on the 17th November 2003, and has a 30th June balance date.

The directors consider that Windflow Technology Limited exercises insufficient influence over Wind Blades Limited to consider it a subsidiary. The fifty per cent holding of Windflow Technology Limited in Wind Blades Limited has been consolidated within these financial statements as a joint venture.

18. Commitments

Capital Commitments as at balance date totalled \$1,604,457. These are for costs associated with the construction of the wind turbines and application for resource consent. (31st December 2003 nil)

19. Contingent Liabilities

As at the 31st December 2004 no contingent liabilities existed. (31st December 2003 nil.)

The cost of restoring the entire gearbox, hub and blade assembly, due to the mishap on the 10th March 2005, has yet to be determined.

No other matters are in dispute and the previous noise negotiations and adjustments have been resolved and no additional costs are anticipated in this regard.

20. Comparative Figures

The comparatives are for the six month period ended 31st December 2003.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

21. Unaudited

The Financial Statements for the current period and the previous six month period are unaudited

22. Financial Instruments

Credit Risk

To the extent that the Company 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 Company to credit risk, principally consist of bank balances, receivables, and term deposits.

The Company monitors the credit quality of its investments and manages its exposure to credit risk.

Concentrations of credit risk

The Company does not have any significant concentrations of credit risk apart from its deposits with a large and reputable bank.

Currency Risk

The Company has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities.

Such activities are not of a material nature.

Interest Rate Risk

The Company has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates.

Credit Facilities

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

Fair Values

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

23. Significant Events After Balance Date

In February 2005, the subsidiary Company, NZ Windfarms Ltd was granted a resource consent for the proposed construction of the Te Rere Hau wind farm in the Manawatu. This is subject to appeal. The initial batch of six wind turbines is under construction by Windflow Technology Limited, one will be used to repair the turbine at Gebbies Pass, the other five for sale to NZ Windfarms Ltd, and commitments have been made to external suppliers totalling \$ 3.1 million in this regard.

NZ Windfarms Limited has continued its progression towards an initial public offering with the ongoing construction of an appropriate Prospectus.

Testing of the Gebbies Pass Turbine, in order to complete the certification program, has continued since balance date.

In February 2005 Windflow Technology Limited was awarded a government grant to develop and prove the advantages of its "synchronous, synchronised generation system".

On the 10th March 2005, unusual wind shifts at Gebbies Pass caused loads on the prototype's rotor which exceeded the tensile strength of the gearbox holding down bolts. The entire gearbox, hub and blade assembly was ripped off its mounting and fell to the ground. The Company is analysing the data and once the underlying causes have been identified new modifications may be required. These modifications will be included while refurbishing the prototype, the full impact of this event is still being assessed.

There were no other significant events after balance date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31ST DECEMBER 2004 (Continued)

24. Related Party Disclosures

All related party transactions are at normal market terms and conditions.
No related party debts have been written off or forgiven.

The Company paid project management fees and fees for services related to the Stage 2 prospectus issue to two Directors, Messrs B Leay \$3,556 (2003 \$nil) and K McConnell \$10,844 (2003 \$51,313), and the fees were charged on normal terms.

The amount outstanding at balance date, and included with Accounts Payable is \$nil (2003 \$nil).

	31st December 2004		31st December 2003	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
25. Reconciliation of reported deficit with cash flows from operating activities				
Net Deficit	(835,234)	(740,607)	(557,226)	(558,315)
Less				
<i>Non Cash Items and non operating items:</i>				
Amortisation of Licences & Wind Rights	75,038	75,038	75,038	75,038
Depreciation	124,784	124,784	123,445	123,445
Depreciation included J V Cost of Sales	23,347	-	-	-
Equity Earnings	4,266	-	-	-
Interest Charged	3,161	-	-	-
Issue Costs of Equity	88,328	-	83,757	83,757
	-----	-----	-----	-----
	318,924	199,822	282,240	282,240
	-----	-----	-----	-----
Cash Flow from Operations before working capital changes	(516,310)	(540,785)	(274,986)	(276,075)
<i>Movements in Working Capital Increase (Decrease) in accounts payable excluding asset purchases</i>	37,702	54,093	56,970	27,931
Decrease (Increase) in tax refund	15	-	-	-
Decrease (Increase) in accounts receivable & interest accrued	(22,923)	(26,403)	(108,813)	(102,378)
Decrease (Increase) in Work in Progress	(696,496)	(696,496)	(95,897)	(95,897)
Decrease (Increase) in Prepayments	(277,715)	(277,715)	(12,298)	(11,305)
Decrease (Increase) in GST receivable	(4,137)	8,137	18,904	25,890
	-----	-----	-----	-----
	(963,554)	(938,384)	(141,134)	(155,759)
	-----	-----	-----	-----
Net Cash Flows from Operating Activities	(1,479,864)	(1,479,169)	(416,120)	(431,834)
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

26. Prospective Financial Information

In July 2001 and July 2003 the Company issued prospectuses for the issue of shares. The following information is a comparison of the projected financial statements of Windflow Technology Limited from the 2001 Prospectus for the year ended 30th June 2003 with the actual result from the same period, and from the 2003 Prospectus for the year ended 30th June 2004 with the actual result for the same period.

It is considered appropriate that the comparisons be limited to the years ended 30th June as no projections were completed for any periods ended 31st December.

Statement of Financial Performance

	2003 Proj'ns to 30th June 2004	Actual to 30th June 2004	2001 Proj'ns to 30th June 2003	Actual to 30th June 2003
	\$	\$	\$	\$
Operating Revenue				
Consultancy Fees Received	-	18,387	100,000	17,524
Grants received	-	62,165	-	9,066
Interest received	4,000	177,419	37,000	50,678
Sale of installed Turbines	4,050,000	-	3,876,000	-
Sale of Power	104,000	19,526	100,000	-
	-----	-----	-----	-----
	4,158,000	277,497	4,113,000	77,268
Operating Expenses				
Amortisation of Licences & Wind Rights	183,000	150,076	-	150,076
Cost of Sales	-	53,841	-	-
Engineering Costs	5,468,000	82,271	3,770,000	520,521
Research and Development Costs	526,000	597,138	-	28,694
Marketing Costs	154,000	89,133	290,000	59,227
General and Administration Costs	469,000	441,917	599,000	386,837
Depreciation	127,000	249,798	375,000	30,629
	-----	-----	-----	-----
	6,927,000	1,664,174	5,034,000	1,175,984
	-----	-----	-----	-----
Net Deficit	2,769,000	1,386,677	921,000	1,098,716

Statement of Cash Flows

Opening Balance	165,000	93,048	734,000	140,708
Net cash inflows (outflows) from operating activities	(2,637,000)	(1,540,988)	(734,000)	(751,933)
Net cash inflows (outflows) from investing activities	(450,000)	(2,853,962)	(3,959,000)	637,123
Net cash inflows (outflows) from financing activities	5,335,000	4,565,397	3,925,000	67,150
	-----	-----	-----	-----
Net Increase (Decrease) in cash held	2,248,000	170,447	(768,000)	(47,660)
	-----	-----	-----	-----
Closing Balance	2,413,000	263,495	(34,000)	93,048
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

Statement of Financial Position

	2003 Proj'ns to 30th June 2004 \$	Actual to 30th June 2004 \$	2001 Proj'ns to 30th June 2003 \$	Actual to 30th June 2003 \$
Shareholder' Equity				
Share Capital	9,415,000	8,980,763	-	3,981,841
Retained Earnings Account	(4,661,000)	(3,223,700)	-	(1,837,023)
	<u>4,754,000</u>	<u>5,757,063</u>	<u>-</u>	<u>2,144,818</u>
Current Liabilities				
Accounts Payable	95,000	291,734	-	218,268
Provision for Warranty	203,000	-	-	-
	<u>298,000</u>	<u>291,734</u>	<u>-</u>	<u>218,268</u>
Total Equity and Liabilities	<u>5,052,000</u>	<u>6,048,797</u>	<u>-</u>	<u>2,363,086</u>
Current Assets				
Cash on Hand and at Bank	2,413,000	263,495	-	93,048
Term Deposits	200,000	2,621,583	-	16,919
Interest Accrued	-	9,821	-	-
Accounts Receivable	-	5,625	-	6,779
Prepayments / Retentions	405,000	356,965	-	4,224
GST Refund	76,000	105,999	-	46,093
Work in Progress	-	423,196	-	-
Other Assets	-	-	-	16,904
	<u>3,094,000</u>	<u>3,786,684</u>	<u>-</u>	<u>183,967</u>
Non Current Assets				
Fixed Assets	976,000	1,171,037	-	1,263,593
Intangible Assets	982,000	765,450	-	915,526
Advance to Joint Venture	-	262,969	-	-
Advance to Subsidiary	-	62,657	-	-
	<u>1,958,000</u>	<u>2,262,113</u>	<u>-</u>	<u>2,179,119</u>
Total Assets	<u>5,052,000</u>	<u>6,048,797</u>	<u>-</u>	<u>2,363,086</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 31ST DECEMBER 2004 (Continued)

The major variances between the projections and actual are as follows:

The subscribed funds required to commence Stage 2 were raised during the year ended 30th June 2004, not during the year ended 30th June 2003 as projected. Therefore there are very substantial differences between the actual incurred for the year ended 30th June 2004 and the projections for the same period.

The construction of wind turbines for resale had not commenced, as projected, during the 2003 or 2004 financial year.

In 2004, the engineering costs variance is due to the timing of construction of the wind turbines and the capitalisation policy adopted by the Directors of recording these costs as work in progress.

Additional delays and research and development costs were incurred during the 2004 financial year in order to meet the stringent operating noise levels required by the Gebbies Pass resource consent.

Depreciation did not commence until the installation of the first turbine was completed at Gebbies Pass. The date was determined to be from the 1st July 2003.

Since the issue of the 2001 Prospectus the Directors have determined that a policy of amortisation regarding the licences and wind rights be introduced.