




Windflow Technology Limited

Half Year report for the six months ended 31st December 2006





Windflow Technology's long-term goal is to manufacture and sell New Zealand made, internationally accredited Windflow 500 turbines to domestic and international customers.

Contents

Directors' half year review to December 2006	2-4
Statement of Financial Performance	5
Statement of Movements in Equity	6
Statement of Financial Position	7-8
Statement of Cash Flows	9-10
Notes to the Financial Statements	11-12

*Rt Hon Helen Clark, Prime Minister
Geoff Henderson, WTL CEO
Derek Walker, NZWL Chairman
at the opening of Stage One
of the Te Rere Hau wind farm,
September 2006*

Directors' Half-year Review to December 2006

Summary

Over the first half of the financial year Windflow Technology has made excellent progress towards full commercialisation.

An obvious highlight of this period was the official opening, by Prime Minister Rt Hon Helen Clark, of Te Rere Hau wind farm on September 15th. In severe gale-force winds she "pushed the button" to start all five turbines which dutifully sprang to life. Since then, their performance and reliability has met all expectations, and Windflow Technology's customer – now formally the Te Rere Hau Joint Venture (TRH-JV) – has confirmed an order for a further 14 turbines.

The entry of Babcock and Brown Windpower (the fourth largest wind farm operator in the world) and NP Power (a specialist US windfarm investor) as a 50% partner with NZ Windfarms in the Te Rere Hau wind farm development was a major turning point for Windflow Technology. Being the sole manufacturer of turbines to this development, we not only have a reference site for the Company moving forward but also have gained a significant vote of confidence in our technology from one of the world's largest investors in renewable energy.

The half year loss reflects two main factors; the sale to TRH-JV of the first 5 turbines at a loss and our ongoing commitment to achieve international certification. The financial impact of both these decisions was anticipated and represents the investment we need to make in proving the Windflow 500 turbine.

Over the next two years we will be supplying 92 turbines to TRH-JV. Following that, we plan to have an ongoing order book of at least 60 turbines per year. This rapid growth has necessitated a review of our financial arrangements and other matters of resource – notably staff and facilities. These matters are in the process of being addressed alongside the build of the next Batch (2A) of 14 turbines.

Windflow Technology has benefited from further scoping of the marketplace through a business trip to the USA by the Company's CEO and research that aims to prove the suitability of the

Windflow 500 turbine for use in small isolated networks such as islands or remote communities (and especially linked to diesel generation).

The Company has embarked on a determined and substantial growth plan that is expected to lead to a number of positive announcements over the next six months.

Te Rere Hau Wind Farm Joint Venture (TRH-JV)

Formal agreements novating the Sale and Purchase Agreement for the 97 Windflow 500 turbines were completed in December 2006. This novation made TRH-JV the customer in place of Windflow Technology's sister company NZ Windfarms Ltd.

NZ Windfarms is a 50% partner in TRH-JV. The other 50% partner is NPBB Pty Ltd which is a consortium of Babcock and Brown Windpower Ltd and NP Power Pty Ltd. NZ Windfarms remains our main point of contact because it has a management contract from TRH-JV to oversee the remaining development and the day-to-day operation of the wind farm.

Following the successful completion of a 45-day reliability run by the first 5 turbines, TRH-JV placed an order for another 14 turbines.

The Company has placed orders for the major components and is planning the build process for the second half of 2007.

International Electrotechnical Commission (IEC) Certification

Progress has been made across the four aspects of certification of our Windflow 500 turbine to IEC Standard WT-01:2002. The significance of this certification – both for expanding our domestic market and for international export – cannot be underestimated.

ISO 9001 Certification

The Company has been working with Lloyds Register Quality Assurance and has implemented improvements to our documentation. This process is expected to continue alongside the manufacture of the Batch 2A turbines until certification is completed.

Type Testing

Delays have been experienced in relation to test procedures and equipment by both parties responsible for blade fatigue testing and type testing of the Gebbies Pass prototype.

The Company has also experienced setbacks such as the vandalism of the meteorological mast at Gebbies Pass.

Consequently type testing will not be concluded until July 2007. Blade fatigue testing has however commenced at IRL's laboratories in Parnell Auckland.

Design Evaluation

In this complex process the Company's new Bladed software will be validated using early data from type testing. The Company is working closely with Garrad-Hassan in Bristol (suppliers of the Bladed software) to ensure that the modelling reflects its unique design in every important respect.

The Company's design team will use information from Bladed to finalise the existing calculations for design evaluation by the certification body, Lloyds Register.

Manufacturing Evaluation

The Company is working on the manufacturing plan and quality assurance procedures which specify its processes and requirements for suppliers.

In short the Company expects to complete its work for Type Testing and Design Evaluation by the third quarter of 2007, and for Manufacturing Evaluation during the build of the Batch 2A turbines.

Resourcing

The directors are reviewing staffing requirements in order to ensure the Company has the resources required to carry out all the functions and research it needs to maintain momentum and grow.

The Company is also considering shifting to new premises in Christchurch which offer the advantage of combined factory and office space, at the same location.

Marketing to USA

The Company's CEO undertook a 10 day visit to USA in late September. He visited Hawaii and looked at potential sites for a demonstration Windflow 500, and also San Francisco where he briefed potential investors on the merits of the Windflow turbine. Chris Freear, the CEO of NZ Windfarms, joined him for part of the trip.

Pleasingly several prospects have since been forthcoming.

Research

Work on the research to prove the suitability of the Windflow 500 turbine for use in small, isolated networks, such as islands or remote communities, has continued. Technology New Zealand (who provided Windflow with a grant of \$130,000 to fund half the research to prove the capabilities of the Windflow 500 turbine for these markets and particularly in a wind-diesel situation), has given us an extension of time to carry out this work. The Company now expects this project to be completed by 31 August 2007.

Financial Results

The half year loss reflects two main factors; the sale to TRH-JV of Batch 1 (the first 5 turbines) at a loss (as one would expect at the early stages of ramping up production and absorbing the overhead costs of set up) and our ongoing commitment to achieving IEC certification. The financial impact of both these factors was anticipated and represents the investment we need to make in proving the Windflow 500 turbine.

Furthermore the half-year revenue does not include any income for Batch 2A. The order was placed before the end of the period and a 30% deposit was invoiced by the Company. (This dominates the large accounts receivable figure. It has since been paid.) As this deposit is treated as a prepayment, it is not shown as revenue until later in the project as we invoice for the completion of specific components and milestones.

The Company is on track to achieve profitability as the remaining batches are produced for TRH-JV. Under the present terms of the sale and purchase agreement these remaining batches (92 turbines) could all need to be built as early as the end of 2008. This would be very close to 60 turbines a year, which the Company has always set as a minimum target for a viable ongoing manufacturing operation.

It is prudent however to note several risk factors:

- As in any rapid growth phase, careful management of finances is necessary to avoid short-term cashflow issues. The Company is working to put in place the necessary banking arrangements to cover these issues.
- Component prices could be adversely affected by raw material costs and/or changing market conditions for wind turbine components. Our New Zealand manufacturing operation insulates us to some extent from these risks, but such adverse movements could still undermine our ability to achieve adequate profitability within the terms of the TRH-JV sale and purchase agreement.
- The IEC Certification process could be delayed by unforeseen technical or administrative issues, which could cause TRH-JV to delay confirmation of Batches 3 and 4, as they are entitled to do under the SPA. The directors are however instigating all possible actions to prevent this from occurring.

To sum up

Our immediate plans going forward are:

- to continue monitoring and documentation of the Windflow 500 for certification purposes to IEC WT 01 Class 1A .
- to continue ordering components for the 14 turbines for Batch 2A for the Te Rere Hau JV and to continue the civil works on site throughout 2007.
- to put in place the infrastructure and resources Windflow will need as it moves forward into manufacturing 60 turbines a year in 2008.

In summary the Company faces exciting growth prospects, and accompanying challenges, as it progresses to full commercialisation.

Windflow Technology Limited
Consolidated Statement of Financial Performance
For the six months ended 31st December 2006

12 Months to 30th June 2006 \$	Notes	6 Months to 31st Dec 2006 \$	6 Months to 31st Dec 2006 \$
Operating Revenue			
7,381	Consultancy Fees Received	11,765	(605)
1,862,488	Sales and Benefits	2,003,496	181,878
69,233	Grants Received	-	-
37,770	Sundry Income	165,964	4,500
214,952	Interest received	72,072	109,734
2,191,824		2,253,297	295,507
Operating Expenses			
75,038	Amortisation of Licences & Wind Rights	37,519	45,067
2,641,991	Cost of Sales	2,020,520	223,167
402,897	Engineering and IEC Certification Costs	613,388	173,545
147,182	Research and Development Costs	20,135	47,151
66,738	Marketing Costs	86,231	9,899
689,486	General and Administration Costs	462,464	504,292
279,764	Depreciation	136,400	153,188
4,303,096		3,376,657	1,156,309
104,206	Share of Associates Surplus	(217,447)	486
4,407,302		3,159,210	1,156,795
(2,215,478)	Net Surplus / (Deficit)	(905,913)	(861,288)
Net Surplus / (Deficit) comprises:			
(2,200,481)	Parent Interests	(862,871)	(828,838)
(14,997)	Minority Interests	(43,042)	(32,450)
(2,215,478)		(905,913)	(861,288)

Windflow Technology Limited
Consolidated Statement of Movements in Equity
For the six months ended 31st December 2006

12 Months to 30th June 2006 \$	Notes	6 Months to 31st Dec 2006 \$	6 Months to 31st Dec 2006 \$
6,906,575	Equity at Beginning of Period	6,006,853	6,906,575
217,580	Inter company Amortisation	-	-
-	Adjustment of Associate Equity at beginning of year due to new issue	72,737	-
7,124,155		6,079,590	6,906,575
(2,200,481)	Net Deficit comprising		
(14,997)	Parent Interests	(862,871)	(828,838)
-	Minority Interests	(43,043)	(32,450)
-	Associate Entity Retained Earnings	-	167,079
(2,215,478)	Total Net Deficit	(905,914)	(694,209)
9,962	Contributions from Owners		
	Ordinary Shares Issued during the Year	67,970	-
1,088,214	Gain due to Issue of Shares by Associates	400,673	1,088,214
6,006,853	Equity at End of Period	5,642,319	7,300,580

Windflow Technology Limited
Consolidated Statement of Financial Position
As at the 31st December 2006

As at 30th June 2006 \$		As at 31st Dec 2006 \$	As at 31st Dec 2005 \$
	Shareholders' Equity		
12,292,992	Contributed Capital	12,360,963	12,283,029
(7,348,715)	Retained Earnings Account	(8,138,849)	(6,027,572)
4,944,277		4,222,114	6,255,457
	<i>Minority Interest</i>		
22,375	Contributed Capital	22,375	22,375
(48,013)	Retained Earnings Account	(91,057)	(65,466)
(25,638)		(68,682)	(43,091)
1,088,214	Capital Reserve	1,488,887	1,088,214
6,006,853	Total Shareholders' Equity	5,642,319	7,300,580
	Current Liabilities		
338,000	Progress Payments Held	2,646,000	1,260,000
903,446	Accounts Payable	556,343	344,710
1,241,446	Total Current Liabilities	3,202,343	1,604,710
7,248,299	Total Equity and Liabilities	8,844,662	8,905,290

Windflow Technology Limited
 Consolidated Statement of Financial Position (Continued)
 As at the 31st December 2006

As at 30th June 2006 \$		As at 31st Dec 2006 \$	As at 31st Dec 2005 \$
	Current Assets		
103,245	Cash on Hand and at Bank	467,061	322,681
1,492,557	Term Deposits	221,552	1,500,308
5,985	Interest Accrued	1,003	14,284
564,729	Accounts Receivable	3,171,841	1,538,276
21,786	Prepayments	38,911	832,212
88,605	GST Refund	2,259	-
-	Retentions Held Sale of Turbines	315,000	-
1,190,315	Work in Progress and Stock on Hand	204,740	988,902
29,168	Other Assets	52,687	786
3,496,390	Total Current Assets	4,475,054	5,197,449
	Non Current Assets		
943,262	Fixed Assets	877,255	1,011,765
233,648	Intangible Assets	196,130	53,588
1,712,617	Investments in Associates	2,403,678	1,807,580
862,382	Advances to Associates	892,545	834,908
3,751,909	Total Non Current Assets	4,369,608	3,707,841
7,248,299	Total Assets	8,844,662	8,905,290

Signed for and on behalf of the Board



Geoff Henderson
 Director

15th March 2007



Keith McConnell
 Director

Windflow Technology Limited
 Consolidated Statement of Cash Flows
 For the six months ended 31st December 2006

12 Months to 30th June 2006 \$		6 Months to 31st Dec 2006 \$	6 Months to 31st Dec 2005 \$
	Cash flows from operating activities		
	<i>Cash was provided from:</i>		
443,721	Receipts from Outwork	190,191	143,130.00
7,946	Receipts from Consulting Fees	-	500
1,323,000	Sales (Part) of Turbines	1,642,182	-
	Sale of Power	16,250	-
37,770	Foreign Currency Gains	-	-
69,233	Funding Received	-	-
56,022	Other Income	7,296	8,658
-	Income Tax Refunded	-	333
218,635	Interest Received	43,870	81,791
2,467	Net GST Inflows	15,694	8,523
2,158,794		1,915,483	242,935
	<i>Cash was disbursed to:</i>		
2,125,323	Payments to suppliers	2,184,473	602,879
879,065	Payments to employees	601,075	543,378
6,610	Interest Paid	6,391	151
	Foreign Currency Transfers	37,197	-
184,648	Net GST Outflows	-	797
312	Income Tax Paid	258	194
3,195,958		2,829,394	1,147,399
(1,037,164)	Net Cash Flows from operating activities	(913,911)	(904,464)
	Cash flows from investing activities		
	<i>Cash was provided from:</i>		
3,390	Sale of Fixed Assets	-	2,068
600,305	Sale of Intangible Assets	-	846,488
246,183	Sale of Resource Consent	-	-
356,466	Disbursed from Term Deposit Accounts	1,277,341	5,491,473
1,206,344		1,277,341	6,340,029

12 Months to 30th June 2006 \$		6 Months to 31st Dec 2006 \$	6 Months to 31st Dec 2005 \$
	<i>Cash was disbursed to:</i>		
-	Development of the Wind Turbine and associated costs	-	-
-	Acquisition of Intangible Assets	-	-
137,236	Purchase of Other Fixed Assets	67,586	75,607
846,488	Purchase of Shares NZ Windfarms Ltd	-	-
1,855,198	Disbursed to Term Deposit Accounts	-	6,975,389
2,838,922		67,586	7,050,996
(1,632,578)	Net Cash Flows from investing activities	1,209,755	(710,967)
	Cash flows from financing activities		
	<i>Cash was provided from:</i>		
9,963	Issue of Shares	67,972	-
-	Adjustment due to change from subsidiary to an equity investment	-	122,001
9,963		67,972	122,001
	<i>Cash was disbursed to:</i>		
-	Issue Costs of Equity	-	(593)
4,793	Opening Balance NZ Windfarms Ltd	-	-
405,500	Advances to Equity Investments	-	1,357,799
410,293		-	1,357,206
400,330	Net Cash Flows from financing activities	67,972	(1,235,205)
- 3,070,072	Net Increase (Decrease) in cash held	363,816	(2,850,636)
3,173,317	Cash at beginning of year	103,245	3,173,317
103,245	Cash at end of year	467,061	322,681

1. Accounting Policies

The financial statements have been prepared in accordance with Financial Reporting Standard number 24 and should be read in conjunction with the 2006 Annual Report.

There have been no other material changes in accounting policies. All policies have been applied on bases consistent with those used in previous interim and annual financial statements.

2. Unaudited

The Financial Statements for the current period and the previous six month period are unaudited. The Financial Statements for the twelve months to 30th June 2006 have been audited.

3. Subsidiary Companies

	Percentage Owned
Wind Blades Limited	50.00
It has been determined that Windflow Technology controls the above entity	
Pacific Windfarms Limited	100.00

4. Associate Investments

	Percentage Owned
NZ Windfarms Limited	28.91
Windpower Otago Ltd	20.00
Windpower Maungatua Ltd	20.00

5. Significant Events Subsequent to Balance Date

None.

6. Net Tangible Assets per Security

12 Months to 30th June 2006 \$		6 Months to 31st Dec 2006 \$	6 Months to 31st Dec 2005 \$
\$1.08	Amount per Security	\$1.28	\$1.32

7 Reconciliation of reported deficit with Cash Flows from Operating Activities

12 Months to 30th June 2006		6 Months to 31st Dec 2006	6 Months to 31st Dec 2005
(2,215,478)	Net Deficit	(905,913)	(861,288)
	<i>Plus</i>		
	<i>Non Cash Items and Non Operating Items</i>		
-	Equity Earnings	217,447	-
-	Interest Received	36,709	-
-		254,156	-
	<i>Less</i>		
	<i>Non Cash Items and Non Operating Items</i>		
75,038	Amortisation of Licences and Wind Rights	37,519	37,519
-	Deferred Tax Movement	-	36
	Impairment of Intangible Assets	-	7,548
279,764	Depreciation	136,400	153,188
104,207	Equity Earnings	-	486
-	Interest Charged	22	87
-	Issue Costs of Equity	-	(593)
-	Loss on Transfer of Blade to Research and Development	-	(60,000)
459,009		173,941	138,271
	<i>Cash Flow from Operations before</i>		
(1,756,469)	<i>working capital changes</i>	(986,128)	(723,017)
	<i>Movements in Working Capital</i>		
	Adjustment due to		
-	Change of Investment from Subsidiary to an Equity Investment	-	40,415
635,629	Increase (Decrease) in accounts payable excluding asset purchases	(646,494)	(43,868)
338,000	Increase (Decrease) in progress payments held	2,308,000	-
-	Increase (Decrease) in GST payable	387,892	-
(27,481)	Decrease (Increase) in tax refund	(23,519)	903
(545,963)	Decrease (Increase) in accounts receivable	(2,607,112)	(97,135)
(149,518)	Decrease (Increase) in Work in Progress	985,575	51,896
-	Decrease (Increase) in Retentions	(315,000)	-
603,304	Decrease (Increase) in Prepayments	(17,125)	(207,122)
(134,666)	Decrease (Increase) in GST receivable	-	73,464
719,305		72,217	(181,447)
(1,037,164)	<i>Net Cash Flows from Operating Activities</i>	(913,911)	(904,464)





Windflow Technology Limited

Box 13952, Level 2, 315 Manchester St, Christchurch 8141, New Zealand

www.windflow.co.nz