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**Windflow Technology Limited**  
**Annual Report 2018**

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# Windflow Technology Limited Annual Report 2018

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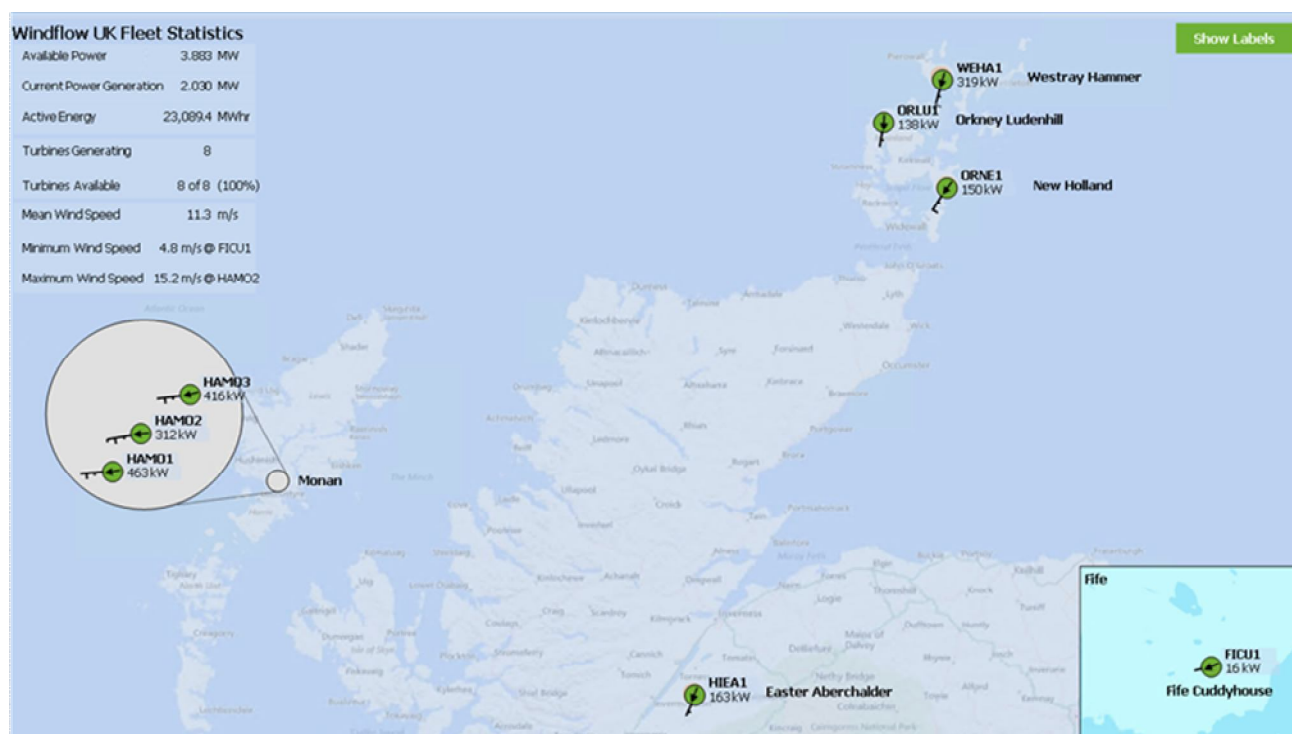
*Cover photo: the three Class 1 Windflow 33-500 turbines at Monan Hill, North Harris, in the Outer Hebrides*

## Directors' Annual Review to 30 June 2018

In the year to 30 June 2018, a gross profit of \$0.1 million was earned by the Windflow Group on revenue of \$0.9 million. Below this top-line result, other revenue was dominated by discontinued operations and the sale of Windflow UK Ltd. This major transaction resulted in the recognition of net revenue of \$12.6 million. After deducting overheads, finance costs and exchange rate effects, the Group's comprehensive income was \$10 million (compared with a loss of \$4.3 million in the prior year).

The year has been dominated by financial and operational restructuring:

- Sale of Windflow UK Ltd – this transaction with the Company's largest shareholder has strengthened the consolidated balance sheet by removing a liability which had previously been the primary cause of liabilities exceeding the allowed accounting value of Windflow UK's assets. Another key element of this transaction was that all outstanding redeemable convertible preference shares were converted and the liabilities to pay outstanding preferential dividends have been cancelled.
- Operational restructuring to focus on managing the UK turbine fleet – core revenue now comes from a management contract with Windflow UK Ltd, under which the Company provides a range of services around the operation and maintenance (O&M) of the eight Windflow 500 turbines in Scotland (six of which are owned by Windflow UK Ltd or its subsidiaries). During calendar year 2017, the Company undertook the restructuring necessary to achieve financial stability, based on the revenue stream from this contract. This restructuring involved the hard decision to close the factory at Mandeville St and downsize staff numbers.
- With that restructuring completed, during calendar year 2018 the Company has been settling into the new operational mode, focussed on maximising the performance of the eight turbines in Scotland. The following image taken from Windflow's SCADA system shows the eight turbines in Scotland in their generating mode (colour code green).



While staff numbers are now aligned with the capability and capacity required to support the operation of the UK turbines, that core group of people also have the competencies and intellectual property to address any other revenue-generating opportunities as they arise. Examples would include licensing opportunities, supporting the US prototype of the Class 2 turbine in Texas, or supply of turbines for small or mid-size projects.

The Company continued its licensing efforts during calendar 2017, with emphasis on our unique selling point the synchronous power-train, as enabled by the Company's patented TLG/LVS technology, which is scalable and readily adaptable for the 2 MW turbines which dominate the global market. A highlight of these efforts came in October when Geoff Henderson presented papers at conferences in Beijing and Berlin about Windflow's field experience with its synchronous wind turbines. However, to date these licensing efforts have not borne fruit, and have been suspended in 2018 for the time being.

In summary, the main activities during the year have been around restructuring and achieving financial stability.

For further details, we refer you to the Financial Statements and Notes.

## Consolidated Financial Statements Directors' declaration

In the opinion of the directors of Windflow Technology Limited (the "Company"), these financial statements of Windflow Technology Limited for the year ended 30 June 2018 and notes, on pages 6 to 30:

- comply with New Zealand generally accepted accounting practice and fairly reflect the financial position of the Group as at 30 June 2018 and the results of their operations and cash flows for the 12 months ended on that date; and,
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Market Conducts Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

We refer readers to the Auditor's Report on pages 31 to 33.

For and on behalf of the Board of Directors:

A handwritten signature in blue ink, appearing to read "Nguyen Anh", written over the printed name of the Chairman.

Chairman  
10 September 2018

A handwritten signature in black ink, appearing to read "Craig Henderson", written over the printed name of the Director.

Director  
10 September 2018


## Consolidated Balance Sheet


As at 30 June

	Note	2018 (\$000's)	2017 (\$000's)
<b>Current assets</b>			
Cash on hand and at bank	15	226	340
Trade and other receivables	16	223	445
Asset Held for Sale	16	-	10,198
Inventory and work in progress	12	973	2,205
Value added/goods and services tax refund		15	-
<b>Total current assets</b>		<b>1,437</b>	<b>13,188</b>
<b>Non-current assets</b>			
Property, plant & equipment	19	460	760
Intangible assets	20	591	830
<b>Total non-current assets</b>		<b>1,051</b>	<b>1,590</b>
<b>Total assets</b>		<b>2,488</b>	<b>14,778</b>
<b>Equity</b>			
Contributed capital	11	46,588	46,588
Foreign currency translation reserve		-	1,399
Accumulated losses		(44,450)	(55,656)
Equity attributable to the owners of the Company		2,138	(7,669)
Non-controlling Interests		-	(134)
<b>Total equity</b>		<b>2,138</b>	<b>(7,803)</b>
<b>Current liabilities</b>			
Trade and other payables	17	322	1,711
Loan from shareholder	18	-	20,699
Provisions	14	28	106
Value added/goods and services tax		-	46
<b>Total current liabilities</b>		<b>350</b>	<b>22,562</b>
<b>Non-current liabilities</b>			
Provisions	14	-	18
<b>Total non-current liabilities</b>		<b>-</b>	<b>18</b>
<b>Total equity and liabilities</b>		<b>2,488</b>	<b>14,778</b>

The notes on pages 10 to 30 are an integral part of these financial statements.

For and on behalf of the Board of Directors who authorise these financial statements for issue on 10 September 2018:

  
Chairman

  
Director

## Consolidated Statement of Comprehensive Income

For the year ended 30 June

	Note	2018 (\$000's)	2017 (\$000's)
Operating revenue	5	871	606
Cost of sales		(731)	(334)
<b>Gross profit/(loss)</b>		<b>140</b>	<b>272</b>
Other revenue	5	662	84
Gain on sale of subsidiaries	5	12,582	-
<b>Less:</b>			
Depreciation	6 & 19	(192)	(757)
Amortisation of licences and patents	6 & 20	(239)	(252)
General and administration costs	6	(3,047)	(1,392)
		(3,478)	(2,401)
Operating profit/(loss) before finance income and expenses		<b>9,906</b>	<b>(2,045)</b>
Finance income	5	1	2
<b>Profit/(Loss) before income tax</b>		<b>9,907</b>	<b>(2,043)</b>
Income tax expense / (credit)		-	-
<b>Profit/(Loss) from Continuing operations</b>		<b>9,907</b>	<b>(2,043)</b>
<b>Profit/(Loss) from Discontinued operations</b>	5&6	<b>104</b>	<b>(2,765)</b>
<b>Profit/(Loss) for the year</b>		<b>10,011</b>	<b>(4,808)</b>
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translating foreign operations		-	497
<b>Total comprehensive profit/(loss) for the period attributable to the shareholders of Windflow Technology Limited</b>		<b>10,011</b>	<b>(4,311)</b>
<b>Total comprehensive profit/(loss) for the year attributable to:</b>			
Non-controlling interest		-	(43)
Owners of the parent		10,011	(4,268)
		<b>10,011</b>	<b>(4,311)</b>
<b>Earnings/(Loss) per share for earnings/(loss) attributable to the ordinary equity holders of the Company during the period:</b>			
<b>Basic and Diluted Earnings/(Loss) per Share</b>			
Continuing operations		<b>\$0.11</b>	<b>\$(0.02)</b>
Discontinued operations		<b>\$0.00</b>	<b>\$(0.10)</b>
Diluted Earnings/(Loss) per Share		<b>\$0.10</b>	<b>\$(0.05)</b>

The notes on pages 10 to 30 are an integral part of these financial statements.

## Consolidated Statements of Movements in Equity

For the year ended 30 June

	Note	Ordinary Share Capital (\$000's)	Preference Share Capital (\$000's)	Foreign Currency Translation Reserve (\$000's)	Accumulated Losses (\$000's)	Equity attributable to equity holders of the parent (\$000's)	Equity Attributable to non- controlling Interests (\$000's)	Total Equity (\$000's)
Balance at 30 June 2016		38,100	8,489	908	(50,227)	(2,730)	(97)	(2,827)
Total comprehensive profit/(loss) for the year		-	-	497	(4,765)	(4,268)	(43)	(4,311)
Foreign currency translation		-	-	(6)	-	(6)	6	-
Preferential dividends	10	-	-	-	(663)	(663)	-	(663)
Issue costs of Preference Shares	11	-	(1)	-	-	(1)	-	(1)
<b>Balance at 30 June 2017</b>		<b>38,100</b>	<b>8,488</b>	<b>1,399</b>	<b>(55,656)</b>	<b>(7,669)</b>	<b>(134)</b>	<b>(7,803)</b>
Total comprehensive profit/(loss) for the year		-	-	(1,399)	11,410	10,011	-	10,011
Removal of equity split		-	-	-	-	-	134	134
Dividends and Convertible note interest	10	-	-	-	(204)	(204)	-	(204)
Redeemable Convertible Preference Shares	11	8,488	(8,488)	-	-	-	-	-
<b>Balance at 30 June 2018</b>		<b>46,588</b>	<b>-</b>	<b>-</b>	<b>(44,450)</b>	<b>2,138</b>	<b>-</b>	<b>2,138</b>

The notes on pages 10 to 30 are an integral part of these financial statements.



## Consolidated Statement of Cash Flows

For the year ended 30 June

Note	2018 (\$000's)	2017 (\$000's)
<b>Cash flows from operating activities</b>		
Cash receipts from customers		
Sales of turbines, power and components	1,089	-
Consulting Fees	694	141
Other	853	307
Interest received	7	2
Cash paid to suppliers and employees		
Suppliers	(2,094)	(107)
Employees	(708)	(795)
<b>Net cash from/(used) in operating activities</b>	<b>(159)</b>	<b>(452)</b>
<b>Net cash from/(used) in discontinued operating activities</b>	<b>104</b>	<b>(1,694)</b>
<b>Cash flows from investing activities</b>		
Disposal of property plant and equipment	147	-
<b>Net cash from/(used) in investing activities</b>	<b>147</b>	<b>-</b>
<b>Net cash from/(used) in discontinued investing activities</b>	<b>-</b>	<b>(2,815)</b>
<b>Cash flows from financing activities</b>		
Preference shares dividend and convertible note interest	(205)	-
Issue costs of equity	(1)	(1)
<b>Net cash from/(used) in financing activities</b>	<b>(206)</b>	<b>(1)</b>
<b>Net cash from/(used) in discontinued financing activities</b>	<b>-</b>	<b>4,518</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(114)</b>	<b>(444)</b>
<b>Foreign currency translation adjustment on cash value at end of period</b>	<b>-</b>	<b>(1)</b>
Cash and cash equivalents at beginning of the period	340	785
<b>Cash and cash equivalents at end of the period</b>	<b>226</b>	<b>340</b>

The notes on pages 10 to 30 are an integral part of these financial statements.

## Notes to the Consolidated Financial Statements

### 1. 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 Financial Statements are those of the Group and have been prepared in accordance with the Financial Markets Conduct Act 2013 and Companies Act 1993.

These financial statements were approved by the Board of Directors on 10 September 2018.

The Group is profit oriented. During 2017 the group ceased to undertake wind turbine development and manufacture. The group now oversees the operations and maintenance of wind turbines located in the United Kingdom.

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013. The Company is listed on the New Zealand Alternative Stock Exchange and the address of its registered office is care of Nexia New Zealand, 123 Victoria Street, Christchurch 8013.

### 2. BASIS OF PREPARATION

#### a) **Functional and presentation currency**

Items included in the Financial Statements are measured using the New Zealand Dollar, the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in New Zealand dollars, which is the Group's functional and presentation currency. All values are rounded to the nearest thousand dollars (\$000's).

#### b) **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 Group.

#### c) **Statement of compliance**

These financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and the requirements of the Financial Markets Conduct Act 2013 and the Companies Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards ('FRS') as applicable for profit-oriented entities. The Financial Statements comply with International Financial Reporting Standards ('IFRS').

#### d) **Critical judgements in applying accounting policy**

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.

Details of material accounting judgements and assumptions are:

##### i. **Assets Held for resale.**

In determining the recorded value of the Assets Held for Resale in 2017, the Group reviewed the book value and assessed this against an independent valuation undertaken for the purpose of the sale of those assets.

##### ii. **Revenue recognition**

Revenue received from the Operations and Maintenance agreement is recognised on an accruals basis. Interest revenue is recognised on an accruals basis using the effective interest method.

##### iii. **Estimation of the useful lives of assets**

The estimation of the useful lives of assets, including fixed life intangible assets and property, plant and equipment, has been based on historical experience, manufacturers' warranties, lease terms and management's judgement on the performance of the asset. Adjustments to useful lives are made when considered necessary.

##### iv. **Impairment of assets**

The Group assesses impairment of all assets at each reporting date, by evaluating conditions specific to the Group and to the particular assets held. The assessment made includes product and manufacturing performances, technology, economic environments and future product expectations. If an impairment exists the recoverable amount is determined and the asset written down to the recoverable amount.

##### v. **Preference share capital**

The redeemable convertible preference shares have been accounted for as equity because the Company has discretion to convert these shares to ordinary shares at any time during their five-year period to maturity. All redeemable convertible preference shares were converted to ordinary shares on 29 January 2018. (See also Note 11).

e) **Going concern**

These Financial Statements have been prepared on a going concern basis. In using the going concern basis for accounts preparation, the matters considered and assumptions made by the Directors in reaching this conclusion are detailed in Note 28.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below. These accounting policies have been applied consistently to all periods presented in these Financial Statements and by all Group entities.

a) **Basis of Consolidation**

i. **Subsidiaries**

The Group Financial Statements consolidate the Financial Statements of the Company and all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether another entity is controlled by the Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

ii. **Transactions eliminated on consolidation**

Intra-group balances, and any unrelated income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains.

b) **Revenue Recognition**

Revenue from operations and maintenance income is recognised on a monthly basis as the service is provided. Revenue from the sale of spare parts is recognised when the goods are invoiced and shipped to the customer.

c) **Foreign Currency Transactions and Balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as profit or loss within the Statement of Comprehensive Income.

d) **Inventories**

Inventory of component parts used to supply to the UK is recognised at lower of cost determined on a first-in first-out basis and net realisable value and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition. Provision has been made for any obsolete stock on hand and has been recognised within the Statement of Comprehensive Income.

Work in Progress includes the cost of direct materials, components, direct labour and an appropriate share of production overheads based on normal operating capacity. In line with the director's assessment, Work in Progress is being depreciated as per the policy noted at 3j (ii). In the current year work in progress has been written down to its estimated realisable value and transferred to Inventory.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

e) **Supplier Prepayments**

Supplier prepayments comprise deposits paid to suppliers and goods paid for but not on hand.

f) **Goods and Services Tax (GST) and UK Value Added Tax (VAT)**

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

g) **Interest Expense**

Where interest expense has been directly incurred in the construction of an asset the cost has been recognised to the cost of construction of the asset.

h) **Financial Instruments**

**Non-derivative financial instruments**

Non-derivative financial instruments are recognised within the Balance Sheet when the Group becomes party to a financial contract. They include cash, bank deposits, receivables, payables and investment in equities.

**Recognition and measurement**

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

*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 and are subject to an insignificant risk of changes in value.

*Trade and Other Receivables*

Trade receivables, which generally have terms of 30 to 60 days, are measured at cost, which approximates fair value at each reporting date. Recoverability of trade receivables is reviewed on an on-going basis. Individual debts that are known to be unrecoverable are written off when identified.

*Trade and Other Payables*

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

i) **Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or subsequently enacted at the reporting date, or any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit nor differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is possible that future profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

j) **Property, Plant and Equipment**

i. **Recognition and measurement**

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

Cost includes expenditure directly attributable to the acquisition or construction of the asset.

When major components of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

ii. **Depreciation**

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.

The estimated useful lives for the current and comparative periods are:

Office equipment	2 to 12 years
Equipment and tooling	1 to 14 years
Work in Progress	Over 3 years

iii. **Disposals**

An item of property, plant and equipment is de-recognised 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 recognised within the Statement of Comprehensive Income.

k) **Intangible Assets**

Intangible assets that are acquired by the Group 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 including patents and licences that are assessed as having a finite life are amortised equally over their useful lives from the time the patent or licence is available and registered.

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

l) **Impairments**

The carrying values of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount exceeds its recoverable amount. Impairments that directly affect the carrying value of assets are recognised as losses in the Statement of Comprehensive Income.

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.

i. **Impairment of receivables**

All significant receivables are individually reviewed by management and impairments or provisions are made if deemed necessary.

ii. **Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

m) **Employee Entitlements**

A liability for benefits accruing to employees in respect of wages, salaries and annual 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 each reporting date.

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured as the amounts expected to be paid when the liabilities are settled.

An employee share option scheme is offered to employees of the Company (refer Note 13). Employees within the Group are granted share appreciation rights, which can only be settled in cash ("cash settled transactions"). The cost of cash settled transactions is measured initially at fair value at the grant date based on the Black-Scholes-Merton model. This fair value is expensed over the period until the vesting date with the recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognised in employee benefits expense.

n) **Earnings/Loss per share**

The Group presents basic earnings/loss per share (EPS) data for its Ordinary Shares. Basic EPS is calculated by dividing the earning/loss attributable to ordinary shareholders of the Company by the weighted average number of Ordinary Shares outstanding during the period. The Group also presents EPS for Continuing and Discontinued Operations.

o) **Convertible Notes**

Interest payable on convertible notes accrues on a daily basis. Provision has been for the interest payable until the maturity date of the convertible notes. This liability is reflected as a current liability and has been recorded as an expense in the Statement of Comprehensive Income.

p) **New accounting standards and interpretations adopted**

i. **Adoption of new and revised Standards and Interpretations**

The Company adopted all mandatory new and amended standards and interpretations in the current year. None of the new and amended standards and interpretations had a material impact on the measurement of the Company's assets and liabilities.

ii. **New Accounting standards and interpretations issued but not yet adopted**

At the date of authorisation of these Financial Statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at Balance Sheet date, and which the Company has not early adopted.

Those relevant to the Company are listed below:

**Adoption of new and revised Standards and Interpretations**

Effective for the financial year ending

NZ IFRS 9 'Financial Instruments'	30 June 2019
NZ IFRS 15 'Revenue from contracts with customers'	30 June 2019
NZ IFRS 16 'Leases'	30 June 2020

NZ IFRS 9 replaces the guidance is NZ IAS 39. It includes requirements on the classification and measurement on the classification and measurement of financial assets and liabilities.

NZ IFRS 15 addresses revenue recognition from contracts with customers. It replaces the guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts. NZ IFRS 15 sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

NZ IFRS 16 replaces the current guidance in NZ IAS 17 Leases. NZ IFRS requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts.

The Company has assessed the relevance of these new standards and has determined that there would be no material impact to the amounts recognised or disclosed in the Financial Statements.

#### 4. SEGMENTAL REPORTING

Following the sale of the UK subsidiaries to David Iles on 29 January 2018 the Group now operates in only one business segment. The primary focus of the group is to provide operational and management services to UK based Wind Turbine owning entities. See Note 6.

##### a) Business Segmental Analysis

	2018 Wind Turbines (\$000's)	2018 Licensing (\$000's)	2018 O&M/Parts (\$000's)	2018 Total (\$000's)	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 O&M/Parts (\$000's)	2017 Total (\$000's)
Total revenue : Sales to customers	-	-	1,534	1,534	606	-	86	692
Less:- Operating expenses	-	-	(4,209)	(4,209)	(424)	(108)	(2,203)	(2,735)
<b>Continuing operation Profit(Loss) before income tax</b>	-	-	(2,675)	(2,675)	182	(108)	(2,117)	(2,043)
<b>Gain on sale of subsidiaries</b>	12,582	-	-	12,582				
<b>Discontinued operation Profit(Loss) before income tax</b>	-	-	104	104	(2,765)	-		(2,765)
<b>Profit(Loss) before income tax</b>	<b>12,582</b>	<b>-</b>	<b>(2,571)</b>	<b>10,011</b>	<b>(2,583)</b>	<b>(108)</b>	<b>(2,117)</b>	<b>(4,808)</b>
<b>Assets and Liabilities</b>								
Continuing operation - Segment assets	973	591	924	2,488	11,676	53	843	12,572
Discontinued operation - Segment assets	-	-	-	-	2,205	-	-	2,205
Continuing operation - Segment liabilities	-	-	(350)	(350)	(229)	-	(1,528)	(1,757)
Discontinued operation - Segment liabilities	-	-	-	-	(20,805)	-	(18)	(20,823)
<b>Total equity</b>	<b>973</b>	<b>591</b>	<b>574</b>	<b>2,138</b>	<b>(7,153)</b>	<b>53</b>	<b>(703)</b>	<b>(7,803)</b>
<b>CASH FLOW</b>								
	2018 Wind Turbines (\$000's)	2018 Licensing (\$000's)	2018 O&M/Parts (\$000's)	2018 Total (\$000's)	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 O&M/Parts (\$000's)	2017 Total (\$000's)
<b>Cash receipts from customers</b>								
Sales of turbines and components	1,089	-	-	1,089	-	-	-	-
Other	-	-	1,547	1,547	141	-	307	448
Interest received	-	-	7	7	-	-	2	2
<b>sub-total</b>	<b>1,089</b>	<b>-</b>	<b>1,554</b>	<b>2,643</b>	<b>141</b>	<b>-</b>	<b>309</b>	<b>450</b>
<b>Cash paid to suppliers and employees</b>								
Suppliers	2,094	-	-	2,094	-	46	61	107
Employees	708	-	-	708	-	62	733	795
Other	-	-	-	-	-	-	-	-
<b>sub-total</b>	<b>2,802</b>	<b>-</b>	<b>-</b>	<b>2,802</b>	<b>-</b>	<b>108</b>	<b>794</b>	<b>902</b>
<b>Continuing operation net cash used in operating activities</b>	<b>(1,713)</b>	<b>-</b>	<b>1,554</b>	<b>(159)</b>	<b>141</b>	<b>(108)</b>	<b>(485)</b>	<b>(452)</b>
<b>Discontinued operation net cash used in operating activities</b>	<b>104</b>	<b>-</b>	<b>-</b>	<b>104</b>	<b>(800)</b>	<b>-</b>	<b>(894)</b>	<b>(1,694)</b>

## b) Geographic Revenue

Revenue from external customers by geographic locations is detailed below. Revenue is attributed to each geographic location based on the location of the customer. Movements in foreign currency exchange rates can impact funds received.

	2018 Wind Turbines (\$000's)	2018 Licensing (\$000's)	2018 O&M/Parts (\$000's)	2018 Total (\$000's)	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 O&M/Parts (\$000's)	2017 Total (\$000's)
New Zealand	-	-	75	75	356	-	86	442
United Kingdom and Europe	-	-	733	733	109	-	-	109
North America	-	-	63	63	141	-	-	141
Revenue from continuing operations	-	-	871	871	606	-	86	692
Revenue from discontinued operations	641	-	-	641	1,039	-	69	1,108
Total Revenue	641	-	871	1,512	1,645	-	155	1,800

### Customers representing more than 10% of a segment's total revenue from continuing operations

	2018 Wind Turbines (\$000's)	2018 Licensing (\$000's)	2018 O&M/Parts (\$000's)	2018 Total (\$000's)	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 O&M/Parts (\$000's)	2017 Total (\$000's)
New Zealand – sale of parts and services	-	-	75	75	345	-	86	431
New Zealand - sale of electricity	-	-	-	-	11	-	-	11
United Kingdom – sale of electricity	-	-	-	-	-	-	-	-
United Kingdom – engineering services	-	-	-	-	109	-	-	109
United Kingdom – O&M	-	-	733	733	-	-	-	-
North America – engineering services	63	-	-	63	141	-	-	141
Total Revenue	63	-	808	871	606	-	86	692

## c) Non-current Assets by Geographic Location

The non-current segment assets are scheduled by the geographic location where the asset is held. The non-current assets include property, plant and equipment and intangible assets.

	2018 Wind Turbines (\$000's)	2018 Licensing (\$000's)	2018 O&M/Parts (\$000's)	2018 Total (\$000's)	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 O&M/Parts (\$000's)	2017 Total (\$000's)
New Zealand	108	591	-	699	187	-	828	1,015
United Kingdom and Europe	-	-	-	-	59	-	-	59
China	352	-	-	352	496	-	-	496
North America	-	-	-	-	20	-	-	20
Total non-current assets	460	591	-	1,051	762	-	828	1,590

All direct operations in UK ceased following the completion of the transfer of the UK assets to the largest shareholder. Income from the sale of power in the UK ceased along with direct maintenance and operations costs. Revenue is received primarily from coordinating the operations and maintenance of the same assets for a set monthly fee. All income disclosed in the "United Kingdom – O&M" category was received from one customer.

## 5. REVENUE

	2018 (\$000's)	2017 (\$000's)
<b>Operating revenue (continuing operations):</b>		
Maintenance fees	4	95
Other	0	166
Sale of turbine components	867	345
<b>Total operating revenue from continuing operations</b>	<b>871</b>	<b>606</b>
Other - discontinued operations	641	1,053
<b>Total operating revenue</b>	<b>1,512</b>	<b>1,659</b>
<b>Other revenue - continuing operations</b>		
Consultancy Fees	694	141
Foreign currency	6	-
Profit/(Loss) on disposal of assets	(38)	(57)
Sub total	662	84
Gain on sale of subsidiaries	12,582	-
<b>Total other revenue</b>	<b>13,244</b>	<b>84</b>
<b>Interest received</b>	<b>1</b>	<b>2</b>
<b>Total revenue</b>	<b>14,757</b>	<b>1,745</b>
Addback losses from disposal of subsidiaries	10,670	-
Loan, interest and debtor offset	1,912	-
<b>Gain on sale of subsidiaries</b>	<b>12,582</b>	<b>-</b>

See Note 6 and 21 for information on discontinued operations and the sale of the UK business



## 6. OPERATING EXPENSES AND DISCONTINUED OPERATIONS

	2018 (\$000's)	2017 (\$000's)
<b>Operating expenses of continuing operations include:</b>		
Amortisation of licences and patents	239	252
Depreciation (see note 19)	192	757
General and Administration Cost (see below)	3,047	1,392
	3,478	2,401
Operating expenses from discontinued operations:	537	3,873
<b>Total expense</b>	<b>4,015</b>	<b>6,274</b>
<b>General and administration costs</b>		
Administration Costs	908	107
Software Maintenance	38	28
Salaries and directors fees	591	1,066
Debtor Write Off	194	-
Stock Write Down	966	-
Legal fees	102	35
Insurance	95	107
Audit fees	59	34
Sharemarket fees	53	14
Travel and Accommodation	41	-
<b>Total expense</b>	<b>3,047</b>	<b>1,391</b>

### Discontinued Operations

On 29 January 2018, the Company completed an agreement with its largest shareholder, David Iles, under which the WTL Group companies repaid all outstanding debts to the shareholder by transferring the UK-based entities to him and converting all outstanding redeemable convertible preference shares (see Notes 11 and 18). As a result, his shareholding in WTL increased from 42% to 73%. In 2017 the directors decided to close the factory in Christchurch and as a consequence the Company reduced staff numbers to the minimum required to support the operation of the UK turbines and any other revenue-generating activities, such as supporting the US prototype of the Class 2 turbine in Texas.

The Company continues with a small engineering team, primarily focussed on managing the operation and maintenance of the UK turbines. The Company also intends to address licensing opportunities as they arise. In these financial statements the revenue and expenses from the UK subsidiaries have been treated as discontinued and have been disclosed as such in the Statement of Comprehensive Income.

Discontinued Operations	2018 (\$000's)	2017 (\$000's)
Revenue	\$641	\$1,108
Expense	\$(537)	\$(3,873)
Profit/Loss	\$104	\$(2,765)

## 7. DIRECTORS' COMPENSATION

	2018 (\$000's)	2017 (\$000's)
Salaries and remuneration	149	165
Directors' fees	103	126

## 8. EARNINGS PER SHARE

	2018	2017
Weighted average number of shares on issue	92,167,691	38,645,952
Additional shares if all preference shares converted by the Company	-	53,521,740
Additional shares if all convertible notes converted to shares	4,250,000	4,250,000
Additional shares if all staff options converted	-	177,000
<b>Total potential shares</b>	<b>96,417,691</b>	<b>96,594,692</b>
	<b>(\$000's)</b>	<b>(\$000's)</b>
<b>Profit/(Loss) from Continuing operations</b>	<b>9,907</b>	<b>(2,043)</b>
<b>Profit/(Loss) from Discontinued operations</b>	<b>104</b>	<b>(2,765)</b>
<b>Profit/(Loss) for the period</b>	<b>10,011</b>	<b>(4,808)</b>
<b>Basic and Diluted earnings/(loss) per share</b>		
Continuing operations	\$0.11	\$(0.02)
Discontinued operations	\$0.00	\$(0.10)
Diluted earnings/(loss) per share	\$0.10	\$(0.05)

On 30 November 2015 the Company's shareholders approved an agreement with NZ Windfarms Limited (NWF). The consideration included 4,250,000 convertible notes (each convertible into one ordinary share in Windflow).

See Note 13a regarding all staff options converted.

## 9. TAXATION

	2018 (\$000's)	2017 (\$000's)
<b>Operating profit/(deficit)</b>	10,011	(4,808)
<b>Prima facie taxation expense at 28% (2017: 28%)</b>	2,803	(1,346)
Add back permanent differences:	(3,456)	70
Current year's profit/(loss) for which no deferred tax benefit is recognised	(653)	(1,276)

The deferred tax benefit of the Group as at 30 June 2018 is \$13.3 million (2017: \$13.1 million). This has not been recognised in the financial statements due to the lack of certainty that such benefits will be able to be utilised by the Company. These tax losses are subject to approval by the Inland Revenue Department.

## 10. DIVIDENDS AND CONVERTIBLE NOTE INTEREST

The Company declared and paid preferential dividends of \$24,526 for the year ended 30 June 2018 (2017: accrued and unpaid of \$663,000). The Company also paid prior year accrued preference dividends of \$84,173. Accrued unpaid preference dividends of \$554,301 were cancelled as part of the debt settlement agreement (see Note 18).

Preferential dividends ceased to accrue on 29 January 2018 when all Redeemable Convertible Preference Shares were converted to ordinary shares. (see also Note 11).

No ordinary dividend was declared or paid during the year (2017: nil).

Convertible Note interest of \$95,479 (2017 - \$Nil) which had previously been provided for was paid during the year.

## 11. CONTRIBUTED CAPITAL

	2018 (\$'000s)	2017 (\$'000s)
Balance at beginning of year	38,100	38,100
Preference shares converted to ordinary shares	8,488	-
<b>Balance at end of year</b>	<b>46,588</b>	<b>38,100</b>

### Number of ordinary shares

	2018	2017
Balance at beginning of year	38,645,952	38,645,952
Conversion of Preference Shares	53,521,739	-
<b>Balance at end of year</b>	<b>92,167,691</b>	<b>38,645,952</b>

### Number of redeemable convertible preference shares

	2018	2017
Balance at beginning of year	17,840,580	17,840,580
Allotted during the year	-	-
Conversion to Ordinary Shares	(17,840,580)	-
<b>Balance at end of year</b>	<b>-</b>	<b>17,840,580</b>

### Convertible Notes

	2018	2017
Balance at beginning of year	4,250,000	4,250,000
Allotted during the year	-	-
Conversion to Ordinary Shares	-	-
<b>Balance at end of year</b>	<b>4,250,000</b>	<b>4,250,000</b>

4,250,000 Convertible Notes were issued on 1 December 2015, earning interest of 1 cent each per annum for 3 years. The redeemable preference shares were converted to ordinary shares as part of the restructure effective 1 December 2017.

## 12. INVENTORY AND WORK IN PROGRESS

	2018 (\$000's)	2017 (\$000's)
Finished Goods	973	875
Work in progress	-	1,330
<b>Inventory and work in progress</b>	<b>973</b>	<b>2,205</b>

During the year, the company transferred the balance of work in progress to inventory. The work in progress had been impaired by \$512,000 in the year ended 30 June 2017 and a further provision of \$912,689 after sales of \$117,254 was applied in the current year, bringing the book value of these items to \$300,000 and the total provision to \$1,424,690.

### 13. SHARE OPTION PLANS

#### a) Employee Share Options

The Company, on 19 December 2002, entered into a cash-settled 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 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. No options were offered in the year ended 30 June 2018 (2017 - Nil).

Share options granted comprise:

	2018	2017
<b>Opening Balance</b>	177,000	974,499
Granted during year	-	-
Lapsed during the year	177,000	797,499
<b>Closing Balance</b>	-	<b>177,000</b>

No cash settled awards vested during the year to 30 June 2018 (2017: nil).

#### b) Royalty Share Options

The Company, on the 22 January 2002, entered into an agreement wherein a royalty was payable to company director Mr Henderson for each wind turbine sold or retained by the Company (other than any turbines retained as demonstration turbines). The amount of the royalty is currently \$5,000 per turbine plus 10,000 share options of \$1.00 each. The total number of options able to be issued is limited so that if exercised they 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 7 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.

There were no royalty options issued or outstanding or exercised during the year (2017: nil).

### 14. PROVISIONS

	<b>Convertible Notes interest</b>	
	2018	2017
	(\$000's)	(\$000's)
Balance at beginning of period	124	124
Amount released from provision	(96)	-
<b>Balance at end of period</b>	<b>28</b>	<b>124</b>
current	28	106
non current	-	18
<b>Balance at end of period</b>	<b>28</b>	<b>124</b>

The agreement included Convertible Notes that pay interest for 3 years until maturity on 1 December 2018 unless converted at the option of the holder. Provision has been made for the maximum interest payable.

## 15. CASH ON HAND AND AT BANK

	2018 (\$000's)	2017 (\$000's)
Trading accounts balances	199	313
Deposits held as security	27	27
<b>Balance at end of year</b>	<b>226</b>	<b>340</b>

As at 30 June 2018 the Company had \$15,000 deposited as security with a financial institution as security in respect of the NZAX (2017: \$15,000) and \$12,000 for the company credit cards (2017: \$12,000). The Company earned interest on term deposits at 3.25%.

## 16. TRADE AND OTHER RECEIVABLES

	2018 (\$000's)	2017 (\$000's)
Trade receivables	127	140
Accrued income	94	208
Prepayments made	2	97
Sub Total	223	445
Asset held for sale	-	10,198
<b>Balance at end of year</b>	<b>223</b>	<b>10,643</b>

In 2018 no allowance for doubtful debts was made (2017: nil).

Accrued income relates to the sale of parts and services.

The asset held for sale 2018 \$nil (2017 \$10,198m) represented the book value of the group's operating wind turbines in Scotland. The sale of the Group's UK based subsidiary was approved at a special meeting on 20 October 2017 (see Note 18). This arrangement was in a conditional form prior to the 2017 financial year end and accordingly the assets subject to sale were transferred to asset held for sale. The purchaser commissioned a valuation report which indicated the value of the assets was not impaired, and accordingly no adjustment to book value of the asset was made. The assets were disposed of during the current year (refer to note 21).

## 17. TRADE AND OTHER PAYABLES

	2018 (\$000's)	2017 (\$000's)
Trade payables	277	203
Staff annual leave entitlements	25	115
Sundry creditors and accruals	21	1,393
<b>Balance at end of year</b>	<b>322</b>	<b>1,711</b>

The Directors consider the carrying amounts in the Balance Sheet to be a reasonable approximation of their fair value.

## 18. SHAREHOLDER LOAN FACILITY

In July 2012, a construction financing agreement (Shareholder Loan Facility) was reached with a shareholder, David Iles, wherein the Company, together with its wholly owned subsidiaries Windflow UK Limited (WUK) and Windflow Hammer Limited (WHL), would undertake up to 3 wind turbine projects in Scotland (the "Projects"). From January 2014 this financing agreement increased to up to 7 wind turbine projects (the "Projects") and from 30 November 2015 it increased by 4 turbines to a maximum of 11 wind turbine projects.

The Shareholder Loan Facility provided for advances up to £10.88 million (NZ\$19.3 million as at 30 June 2017 exchange rate) to WUK to fund the Projects, provided certain conditions set out in the loan documents were satisfied. The Company and WHL were covenantors and guarantors of WUK's obligations.

As at 30 June 2017 the aggregate liability under these loans was \$20.7 million with a security over the 'wind turbine' fixed assets \$10.2 million and work in progress and inventories of \$2.7 million.

	2018 (\$000's)	2017 (\$000's)
<b>Shareholder's Loan</b>	-	20,699

The Loan liability was recorded as a current liability as the negative equity as at 30 June 2017 placed the Company in breach of the loan covenants and enabled the lender to call the loans. The lender had expressed the intention not to call any of the loans prior to 31 October 2017.

The loan facilities incorporated the following documents:

- i. Term Loan Agreement wherein interest accrued initially on the amounts advanced to WUK from the date of draw down at a rate of 20% per annum compounding daily, equivalent to an annual percentage rate of 22.134% per annum. Repayments under the Term Loan Agreement were scheduled to commence on the date that is 3 years from the date of each loan agreement. No repayments were required before January 2017.
- ii. General Security Agreement (in respect of parts and assemblies of the turbines owned by the Company).
- iii. Guarantee and Indemnity wherein the Company and WHL jointly and severally guarantee WUK's obligations to the lender under the Term Loan Agreement.
- iv. Debenture over the assets of WUK granting a general and floating charge over all the assets and undertakings of WUK securing its obligations under the loan (English law).
- v. Debenture over the assets of WHL granting a general and floating charge over the assets and undertakings of WHL, securing WHL's obligations as guarantor of WUK's obligations under the loan (English law).
- vi. Floating Charge over assets of WHL granting a general and floating charge over project equipment owned by WUK and the Company securing WUK's obligations under the loan (as the borrower under the Term Loan Agreement) and the Company's obligations as guarantor of WUK's obligations to the lender (Scottish Law).
- vii. Deed of Variation of Facility Agreement granting loan facility for 7 turbines in total and changing the interest rate from 16 September 2013 to 10.00% per annum, compounding daily and equivalent to an annual percentage rate of 10.516%.

From 1 November 2015 the interest rate reduced to 5% per annum compounding daily, equivalent to an annual percentage rate of 5.13%. Commencement of repayments had been deferred with the Lender's consent through to 31 October 2017.

Following the result of the shareholders' special meeting on 20 October 2017, the shareholder loan liability, securities and cross guarantees were extinguished through the sale of the UK based turbine assets and conversion of his outstanding redeemable preference shares (see also Notes 11 and 23). This transaction was completed 29 January 2018, effective from 1 December 2017.

## 19. FIXED ASSETS: PROPERTY, PLANT & EQUIPMENT

	Office Equipment	Plant & Equipment	Leasehold Improvements	Motor Vehicles	Wind Turbine & Components	Assets under Construction	Total
Cost	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Balance at 30 June 2016	509	2,458	152	89	8,447	1,455	13,110
Additions	2	64	-	-	32	2,735	2,833
Transfers to Wind Turbines	-	-	-	-	4,146	(4,146)	(0)
Transfers to Inventory	-	-	-	-	(35)	-	(35)
Disposals	-	(89)	-	-	(980)	-	(1,069)
Foreign currency translation adjustment	(1)	(3)	-	(1)	(244)	(44)	(293)
Transferred to Assets Held for Sale	-	-	-	-	(11,366)	-	(11,366)
<b>Balance at 30 June 2017</b>	<b>510</b>	<b>2,430</b>	<b>152</b>	<b>88</b>	<b>0</b>	<b>0</b>	<b>3,180</b>
Additions	1	-	-	-	-	-	1
Disposals	(338)	(397)	(152)	(88)	-	-	(975)
Foreign currency translation adjustment	-	3	-	-	-	-	3
<b>Balance at 30 June 2018</b>	<b>173</b>	<b>2,036</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,209</b>
<b>Depreciation and impairment losses</b>							
Balance at 30 June 2016	500	1,529	93	68	1,646	-	3,836
Depreciation / amortisation for year	5	243	12	5	526	-	791
Disposals	-	(33)	-	-	(980)	-	(1,013)
Foreign currency translation adjustment	(1)	(1)	-	-	(24)	-	(26)
Transferred to Assets Held for Sale	-	-	-	-	(1,168)	-	(1,168)
<b>Balance at 30 June 2017</b>	<b>504</b>	<b>1,738</b>	<b>105</b>	<b>73</b>	<b>-</b>	<b>-</b>	<b>2,420</b>
Depreciation / amortisation for year	1	191	-	-	-	-	192
Disposals	(336)	(349)	(105)	(73)	-	-	(863)
<b>Balance at 30 June 2018</b>	<b>169</b>	<b>1,580</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>1,749</b>
<b>Carrying amounts</b>							
<b>At 30 June 2017</b>	<b>6</b>	<b>692</b>	<b>47</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>760</b>
<b>At 30 June 2018</b>	<b>4</b>	<b>456</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>460</b>

### Demonstration Turbine

The Company's policy is to depreciate wind turbines over 20 years.

### Impairment

During the financial year the property, plant and equipment of the Group have been examined for impairment. See Note 28 on going concern, explaining the uncertainties affecting going concern and the potential adverse impact on the above assets.

### Capital commitments

The Group had no capital commitments as at 30 June 2018 (2017: \$Nil).

## 20. INTANGIBLE ASSETS

	Licences and Patents	Development Costs	Total
Cost	(\$000's)	(\$000's)	(\$000's)
Balance 30 June 2016	935	2,563	3,498
Additions	2	-	2
Net exchange differences	(1)	-	(1)
<b>Balance 30 June 2017</b>	<b>936</b>	<b>2,563</b>	<b>3,499</b>
Additions	-	-	-
Net exchange differences	-	-	-
<b>Balance 30 June 2018</b>	<b>936</b>	<b>2,563</b>	<b>3,499</b>

### Amortisation and impairment losses

Balance 30 June 2016	871	1,546	2,417
Amortisation for the year	13	239	252
<b>Balance 30 June 2017</b>	<b>883</b>	<b>1,786</b>	<b>2,669</b>
Amortisation for the year	1	238	239
<b>Balance 30 June 2018</b>	<b>884</b>	<b>2,024</b>	<b>2,908</b>

### Carrying amounts

At 30 June 2016	64	1,017	1,081
<b>At 30 June 2017</b>	<b>53</b>	<b>777</b>	<b>830</b>
<b>At 30 June 2018</b>	<b>52</b>	<b>539</b>	<b>591</b>

#### a) Patents

Management has assessed the value of patents in respect of prospective sales and licensing opportunities, also taken the indicators in Note 28 on going concern into consideration, and is satisfied that the carrying value of this item is not impaired. The patents and licenses are amortised over periods from 5-15 years, other than those patents and licences that have an infinite life span and are not amortised.

#### b) Development Costs

Development Costs primarily relate to costs incurred during the development phase of the Company's Class 1A, 2 bladed, 500 kW turbines, which achieved International Electrotechnical Commission (IEC) certification under the IEC standard 61400:1 2005 on 17 September 2010. No costs relating to research have been capitalised. The IEC certification expired in 2015 and accordingly the direct costs of IEC certification (about 20% of the original Development Costs) have been fully amortised. Although it has not been renewed at reporting date, it can be renewed for a further five year term for an estimated cost of \$80,000, which the Company expects to do in due course.

The remaining development costs primarily consist of specialist internal labour and other directly attributable items required to produce the multitude of high-quality calculations, specifications, drawings, tests and independent reports on those tests required for IEC certification. These are being amortised over a 10 year period, being the minimum term over which the Company anticipates being able to use these assets. The Board has assessed the carrying value of these Development Costs in respect of the Company's actual and prospective revenue-generating activities and is satisfied that the carrying value of this item is not impaired at 30 June 2018 (2017: \$nil impairment).

## 21. SUBSIDIARY AND ASSOCIATED COMPANIES

### a) Subsidiaries within the Group comprise:

Nature of business		Interest percentage	
		2018	2017
Windflow UK Ltd	Trading	nil	100
Windflow Hammer Ltd	Trading	nil	100
Hammer Westray LLP	Trading	nil	100
Monan Wind Company Ltd	Trading	nil	90
Wind Blades Ltd	Non trading – Wound up 20/11/17	100	100
Windflow International Ltd	Non trading	100	100
Our Wind Ltd	Non trading	100	100



**b) Associated companies within the Group comprise:**

	Nature of business	Interest percentage	
		2018	2017
Windpower Otago Ltd	Non trading	20	20

- c) As documented in the Subsequent Events note to the 30 June 2017 financial statements, a special meeting was held on 20 October 2017 to approve the sale of the UK subsidiaries to the majority shareholder of Windflow Technology Ltd, David Iles. The sale was effective 1 December 2017. The subsidiaries sold were Windflow UK Limited, Windflow Hammer Limited, Hammer Westray LLP and Monan Wind Company Limited. The disposal of these subsidiaries has led to a gain on sale of \$12.582 million as disclosed in the Statement of Comprehensive Income for the year ended 30 June 2018. The assets of the four entities sold comprised fixed assets with a book value of \$9.978 million and debtors of \$0.476 million. The liabilities of the four entities comprised sundry creditors of \$0.476 million and a loan from David Iles amounting to \$21.284 million. The consideration received by Windflow Technology Limited for the sale of the subsidiaries involved a capital restructure comprising the release of Windflow Technology Limited from all its obligations in connection with that loan to the subsidiaries (including the release of Guarantees and Securities provided by Windflow Technology Limited), the forgiveness of the RCPS dividend of \$1.490 million, and a conversion of redeemable preference shares to ordinary shares. The results of these subsidiary companies for the five months of the 30 June 2018 financial year are recorded as discontinued operations.

## 22. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, foreign currency and interest rate risk arise in the normal course of the Group's business.

**a) Policy disclosure**

i. *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 ability of the Group to limit its credit risk is constrained by having a small number of customers.

In the current year, the group has only one primary customer for the operations and maintenance contract.

ii. *Liquidity risk*

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an on-going basis.

iii. *Foreign Exchange Risk*

The Group has exposure to foreign exchange risk as a result of transactions, in particular purchases of raw materials and components, denominated in Australian Dollars, Euro and UK Pounds, and revenues in US Dollars and UK Pounds. The Group has an approved treasury policy that sets out the parameters under which foreign exchange cover is to be taken.

iv. *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 endeavours to deposit funds at the best available rate, for the selected term, at a range of registered banks. At each reporting date, there were no term deposits held for periods greater than 90 days. The Group no longer has an interest bearing debt as detailed in Note 18.

b) **Quantitative disclosures**

i. *Credit risk*

The carrying amount of financial assets in the Balance Sheet represents the Group's maximum credit exposure.

The Group does not have any significant concentrations of non-customer credit risk apart from advances to associated companies as disclosed in the Balance Sheet and its deposits with New Zealand registered banks as disclosed in Note 15. Funds are held at registered banks with a Standard and Poor's credit rating of not less than AA.

There is a credit risk arising in that the Group has a small number of customers. The risk arising from this is closely managed. No collateral is held, nor any credit enhancement, for this risk, other than the ability to offset amounts receivable from one customer against accepted warranty payments due to that company. The Directors are satisfied with the management of this exposure. At this stage in the development of the Company it has not been possible to diversify this credit risk.

The status of trade receivables at each reporting date was as follows:

	2018 (\$'000's)	2017 (\$'000's)
Not past due	62	120
Past due 31-60 days	0	20
Past due 61-90 days	-	-
Past due 91-120 days	-	-
Past due 121 days	65	-
<b>Balance at end of the period</b>	<b>127</b>	<b>140</b>

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

ii. *Liquidity risk*

30-Jun-18	Carrying amount (\$'000s)	Less than 12 months (\$'000s)	1 - 2 years (\$'000s)	2 - 5 years (\$'000s)
<b>Non derivative financial liabilities</b>				
Trade and other payables	350	350	-	-

30-Jun-17	Carrying amount (\$'000s)	Less than 12 months (\$'000s)	1 - 2 years (\$'000s)	2 - 5 years (\$'000s)
<b>Non derivative financial liabilities</b>				
Trade and other payables	1,711	1,711	-	-
Shareholder loan	20,699	20,699	-	-
<b>Derivative financial liabilities</b>				
FX exchange contracts fully hedged	34	34	-	-

The Group had no secured borrowings as at 30 June 2018 (2017: \$20.7 million), see Note 18. Other financial liabilities comprise the short-term payables disclosed in Note 17.

The Group monitors its future cash requirements through rolling cash flow forecasts.

iii. *Foreign Exchange Risk*

The Group takes out forward cover contracts for major transactions in foreign currencies. At 30 June 2018 the Group had \$Nil of fully hedged forward exchange contracts (2017: \$59,102 due to the operations, assets and liabilities of its UK subsidiaries.).

Underlying exposure

A 5% weakening of the NZD against the British Pound (GBP) at 30 June would have (increased)/decreased equity and (increased)/decreased the profit/(loss) by the amounts shown below:

	2018 (\$'000's)		2017 (\$'000's)	
Currency	Equity	P&L	Equity	P&L
GBP	2	2	278	(36)

A 5% strengthening of the NZD against GBP at 30 June would have had the opposite effect.

iv. *Interest rate risk*

At the reporting date, the Group had financial liabilities, but no exposure to interest rate derivatives. All cash and term deposits held by the Group were short term. The Group is not exposed to any variable interest rate risks (2017 all interest-bearing liability instruments had specified fixed interest rates - see Note 18).

c) **Capital Management**

When managing capital (contributed capital and accumulated losses (see Statement of Changes in Equity)), the Directors' objective is to ensure the Group continues as a going concern, benefits for other stakeholders and an effort to provide an optimal returns for shareholders.

The Group's capital is managed at Company level. The Group's capital structure is managed to ensure that the funds sourced from shareholders and external debt is maintained at a level which minimises the credit or liquidity risk to the Group. Adjustments are made, with Board approval, to the structure in light of economic conditions at the time. There were no changes to objectives, policies or processes during the current financial year.

The Company is listed on the NZ Alternative Stock Exchange, with obligations to inform the shareholders and the market of any matters which affect the capital of the 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 currently, and was not subject to any external capital requirements in either reporting period. See also Note 28 regarding Going Concern.

d) **Fair Value**

The carrying amounts of the financial instruments in the Consolidated Balance Sheet are the same as their fair value in all material aspects.

e) **Classification and fair values**

The Group's fair values of the following Financial Instruments are compared to their carrying value shown in the Balance Sheet:

	Note	Held to maturity (\$000's)	Loans and receivables (\$000's)	Other amortised cost (\$000's)	Total carrying amount (\$000's)	Fair value (\$000's)
<b>30-Jun-18</b>						
<b>Assets</b>						
Cash and cash equivalents	15	-	226	-	226	226
Trade and other receivables	16	-	223	-	223	223
Total current assets		-	449	-	449	449
<b>Total assets</b>		-	449	-	449	449
<b>Current Liabilities</b>						
Trade and other payables	17	-	-	350	350	350
<b>Total liabilities</b>		-	-	350	350	350
<b>30-Jun-17</b>						
<b>Assets</b>						
Cash and cash equivalents	15	-	340	-	340	340
Trade and other receivables	16	-	10,643	-	10,643	10,643
Total current assets		-	10,983	-	10,983	10,983
<b>Total assets</b>		-	10,983	-	10,983	10,983
<b>Current Liabilities</b>						
Trade and other payables	17	-	-	1,711	1,711	1,711
Loan from shareholder	18	-	-	20,699	20,699	20,699
<b>Total liabilities</b>		-	-	22,410	22,410	22,410

## 23. RELATED PARTY DISCLOSURES

### a) Transactions with key management personnel:

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.

#### i. Loans to Directors

There were no loans to Directors issued during the period to 30 June 2018 (2017: nil).

#### ii. Key management personnel compensation

Other than their salaries and incentives, there were no other cash benefits to Directors or executive officers.

### b) Payments to directors

Person	Transaction	Note	2018	2017	2018	2017
A Napier, Director (ceased Dec 2016)	Management services	(1)	\$ -	\$ 43,298	\$ -	\$ -
N Foster, Director, Chairman	Management services	(1)	\$ -	\$ -	\$ -	\$ -
G Henderson, Director, CEO	Employee salary and remuneration		\$ 149,399	\$ 165,775	-	-

(1) Transactions during the period relate to management services provided on market terms and conditions.

### c) Key management personnel compensation

	2018 (\$000's)	2017 (\$000's)
Short term employee benefits	314	584

### d) Transactions with a shareholder

The shareholder who provided a loan facility is the Company's largest shareholder and a related party (see Note 18).

#### Sale of UK subsidiaries

On 20 October 2017 the shareholders approved the sale of the UK subsidiaries to David Iles. The consideration was the value of the Loan Facility as at 31 October 2017. As at 30 June 2017 \$20.7 million was owed to David Iles.

In these financial statements the revenue and expenses from the UK subsidiaries have been considered as discontinued and have been disclosed as such in the Statement of Comprehensive Income. The assets being sold were disclosed as Assets held for Sale as at 30 June 2017 and were sold in the current year.

### e) Directors

Two of the Company's directors, Nigel Foster and Geoff Henderson, are also directors of Windflow UK Ltd and its subsidiaries, Windflow Hammer Ltd and Monan Wind Company Ltd. The Company has an O&M agreement with Windflow UK Ltd to provide management services for its group operating and maintenance functions. The revenue from these services is disclosed in Note 4, Segmental Reporting.

## 24. RECONCILIATION OF REPORTED DEFICIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

	2018 (\$000's)	2017 (\$000's)
<b>Net Deficit</b>	<b>10,011</b>	<b>(4,808)</b>
Add / (Less) Non-cash items:		
Amortisation of licences & patents	239	252
Profit on release of associate loan	(12,582)	-
Depreciation	192	1,303
Write down of Work in Progress	966	-
(Profit)/Loss on sale of fixed asset	38	57
Other	298	723
	(10,849)	2,335
<b>Cash flow from operations before working capital changes</b>	<b>(838)</b>	<b>(2,473)</b>
Movements in working capital:		
Increase/(Decrease) in accounts payable excluding asset purchases	74	(930)
Increase/(Decrease) in leave entitlements	(90)	20
Increase/(Decrease) in accruals	(180)	(48)
Movement in provisions	(96)	-
(Increase)/Decrease in other assets	-	-
(Increase)/Decrease in accounts receivable & accrued income	127	116
(Increase)/Decrease in inventory & work in progress	-	861
(Increase)/Decrease in prepayments made	95	1
Increase/(Decrease) in Goods and Services Tax and Value Added Tax	853	307
Net movements	783	327
<b>Net cash flows from operating activities</b>	<b>(55)</b>	<b>(2,146)</b>

## 25. OPERATING LEASES

Leases held are non-cancellable operating leases which are payable as follows:

	2018 (\$000's)	2018 (\$000's)	2018 (\$000's)	2017 (\$000's)	2017 (\$000's)	2017 (\$000's)
	Leases	Contingent rents	Total	Leases	Contingent rents	Total
Less than 1 yr	14	-	14	39	80	119
More than 1 year and less than 5 years	-	-	-	152	320	472
After 5 years	-	-	-	227	1,077	1,304

The operating leases relate to warehouse space and office premises in New Zealand.

## 26. CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 30 June 2018 (2017 nil).

## 27. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Following the operational and financial restructuring at the end of 2017, a focus of the Board has been to reduce costs. Maintaining its listing on the NZAX board imposes a significant cost burden on the Company. The Board therefore submitted an application to delist from the NZAX board on 10 September 2018. The Board expects the NZX to approve this application subject to a number of conditions, one of which is shareholder approval. If shareholders approve the delisting from the NZAX board, the Company will seek to list on the Unlisted Securities Exchange (Unlisted). Listing on Unlisted is also subject to shareholder approval. Both approvals will be sought at the 2018 Annual General Meeting on 24 October 2018.

## 28. GOING CONCERN ASSUMPTION

As at 30 June 2018 the Group had positive equity of \$2.1 million (30 June 2017: negative equity of \$7.8 million).

As reported in the interim financial statements for the 6 months to 31 December 2017, the Company undertook a financial and operational restructuring (completed 29 January 2018 with effect from 1 December 2017) by means of:

- a transaction with the largest shareholder which settled all the company's obligations to the shareholder by transferring to him the shares in the Group's UK-based subsidiary (including all its assets and trading operations) and converting all outstanding redeemable convertible preference shares to contributed capital (see also Note 18); and
- downsizing operations significantly to reduce overheads. This involved closing the Christchurch factory and reducing staff numbers to the minimum required to support the operation of the UK turbines under an O&M Agreement and any other revenue-generating activities.

The Company continues with a small engineering team, primarily focused on managing the operation and maintenance of the UK turbines. The Company structure also allows for licensing and other opportunities to be addressed as they arise.

These Financial Statements have been prepared using the going concern assumption after considering the following matters:

- The transaction with the largest shareholder having been completed and the Company restored to positive equity;
- The downsizing of Company operations having been completed;
- The directors preparing and approving on an ongoing basis operating budgets and cash forecasts as the basis for setting the monthly fee under the O&M agreement with WUK.
- The O&M Agreement provides specifically for quarterly review of the monthly fee paid under the Agreement to ensure that the fee is covering all of WTL's cash operating expenses. The Directors have approved cash forecasts which, taking into account both WTL's budgets and the provisions of the O&M agreement, indicate the Company will remain cash positive for the coming year.

The Directors accordingly consider the going concern assumption to be an appropriate basis on which to prepare these Financial Statements.

## 29. REGISTERED SECURITIES

The following securities are registered on the Companies Office Personal Property Securities Register:-

Entity	Collateral
Bank of New Zealand (BNZ)	Accounts receivable owing by BNZ to WTL
K M Finance Limited	Installed Copier
Southgate Hose & Fittings	Supplied goods and proceeds of sale thereof
Bremca Holdings Ltd	Supplied goods
Placemakers	Supplied goods and proceeds of sale thereof
Bronson & Jacobs Pty Limited	Supplied goods and proceeds of sale thereof
A & G Price Limited	Supplied goods and proceeds of sale thereof

## Windflow Technology Limited

Independent auditor's report to the Shareholders

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Windflow Technology Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

#### CHARTERED ACCOUNTANTS & ADVISORS

Level 4, 21 Queen Street  
Auckland 1010, New Zealand  
PO Box 106 090  
Auckland 1143, New Zealand  
Telephone: +64 9 366 5000  
[williambuck.co.nz](http://williambuck.co.nz)

William Buck Audit (NZ) Limited

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IMPAIRMENT OF KEY ASSETS	
Area of focus	How our audit addressed it
<p>The Group's assets are primarily comprised of plant &amp; equipment, inventory, and intangible assets as disclosed in the Consolidated Statement of Financial Position and notes to the financial statements.</p> <p>The Group was required to perform an assessment of the carrying value of these assets for impairment purposes.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>- detailed review of the nature and composition of the carrying value of each of the assets;</li> <li>- the consequences of the changes in the Group's activities during the year on the usage of the assets in the future;</li> <li>- the remaining useful lives of the assets;</li> <li>- the level of income earned by the Group as a result of holding the assets and the return achieved on sales of relevant assets.</li> </ul>

## Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the Directors Annual Review, Corporate Governance Information, and Shareholder Information, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## **Directors' Responsibilities**

The directors are responsible on behalf of the Group for the preparation of consolidated financial statements that give a true and fair view in accordance with New Zealand equivalents to International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement director on the audit resulting in this independent auditor's report is Michael Wood.

## **Restriction on Distribution and Use**

This report is made solely to the Group's shareholders, as a body. Our audit work has been undertaken so that we might state to the Group's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A stylized, handwritten-style signature of 'William Buck' in blue ink, enclosed within a thin blue rectangular border.

**William Buck Audit (NZ) Limited**

Auckland  
10 September 2018

## Corporate Governance

The Board of Directors is elected by the shareholders and is responsible for the corporate governance of Windflow Technology Limited ("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 the applicable laws and standards.

The Board establishes the vision, direction and goals of the Company and is engaged in ongoing strategic planning. 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 of the NZX Corporate Governance Best Practice Code.

### BOARD COMPOSITION AND MEMBERSHIP

As at 30 June 2018 the Board comprised three Directors. These were Nigel Foster, non-executive Chairman, Geoff Henderson, Managing Director, and Heugh Kelly, non-executive Director. Ian McInnes stood down on 31 August 2017 for health reasons. Duncan Currie was appointed to the Board in September 2017 and did not offer himself for re-election at the Annual Meeting of Shareholders on 29 November 2017. Nigel Foster joined the Board following election at that Annual Meeting.

The Board has a broad base of energy, marketing, sales, engineering, financial, legal and other skills, experience and expertise.

The details and background of the Directors are described later in 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 Managing Director. 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 Constitution.

The Board held twelve regular scheduled monthly meetings during the 12 month period ended 30th June 2018. In addition to these formal meetings the Board met on other occasions both in person and by telephone conference, to discuss specific issues.

### Managing Director Performance Review

The Board is responsible for the evaluation of the Managing Director 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 2018

There is a Share Option Plan with Mr G Henderson, the Managing Director, which relates to royalties payable under licence. This is detailed within Note 13b of the Notes to the Financial Statements.

The Directors' disclosure of their shareholdings pursuant to the New Zealand Exchange's Alternative Market (NZAX) listing rule are shown as at 30 June 2018 in the list below.

### Ordinary Shares Held

Director	Beneficially	Interest of Associated Persons	Non-Beneficially
Geoff Henderson	1,029,314	953,644	
Heugh Kelly	163,375		
Nigel Foster			

## 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 three Directors two are independent, while Mr Geoff Henderson is also the Managing Director.

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

At this stage no Board Committees are 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 details of entries made in the Interests Register that relate to the Company and its subsidiaries during the financial year:

Director	Counterparty	Nature of Interest
Geoff Henderson	Windflow UK Ltd, Windflow Hammer Ltd, Monan Wind Company Ltd	Director
Heugh Kelly	Not applicable	Not applicable
Nigel Foster	Windflow UK Ltd, Windflow Hammer Ltd, Monan Wind Company Ltd	Director

### Conflicts of Interest

If conflicts of interest do exist then the policy of the Board is that Directors must declare their interest and 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 Limited shares under the NZAX Listing Rules and related legislation. 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

Shareholders approved the Board setting the remuneration of the Auditors at the Annual Meeting in November 2017. William Buck Audit (NZ) Ltd was appointed as the Company Auditor for the year ended 30<sup>th</sup> June 2018.

The work of the external Auditor is limited to audit and related work 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 Auditor will be invited to the Annual General Meeting.

## DIRECTORS REMUNERATION

The current annual Directors' fees paid to all Directors within the Company total \$110,000 per annum.

The remuneration package of the Managing Director for the year to 30 June 2018 was \$149,399.

The following table summarises the remuneration paid to the Directors for the period to 30 June 2018:

Name	Directors Fees	Remuneration	Other Fees
Nigel Foster	\$31,625		
Geoff Henderson	\$26,744	\$149,399	
Heugh Kelly	\$26,744		
Duncan Currie	\$4,583		
Ian McInnes	\$13,750		

Fees for management services supplied to the Company by the Directors are disclosed in Note 23 of the Financial Statements. 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 Financial Markets Act 2013, the Financial Markets Conduct Act 2013 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 Managing Director 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 disclosed to the NZX and posted to the Company's web site on a timely basis. Media releases are made and copied to shareholders by email.

## COMPANY SECRETARY

Gary Hughes was appointed Company Secretary in June 2017, replacing Terry Moon who retired. The Company Secretary is responsible for co-ordinating the reporting and compliance requirements of the Company throughout the financial year.

## OTHER STATUTORY INFORMATION

### EMPLOYEE REMUNERATION

For the period to 30 June 2018, there were 4 employees in the Company who earned more than NZD \$100,000.

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

### DIRECTORS' INDEMNITY AND INSURANCE

The Company has Directors' and Officers' Liability Insurance to the sum of \$10,000,000 in aggregate. The Company also obtained Directors' and Officers' Insurance of \$10,000,000 in aggregate in relation to prospectuses issued by the Company.

### SUBSIDIARIES AND DIRECTORS THEREOF

Windflow Technology Limited has two subsidiary companies with directors as set out below: Windflow International Limited was a non-trading company throughout the financial year. The Company's Directors do not receive separate director remuneration, nor do they have interests to disclose, in relation to the subsidiaries.

#### Subsidiaries

Our Wind Ltd  
Windflow International Ltd

#### Those charged with Governance

Morgan Williams, Jeanette Fitzsimons, Duncan Currie, Geoff Henderson  
Geoff Henderson, Heugh Kelly

### DONATIONS

The Company's Directors have decided that no donations to charity will be made until the Company has paid an ordinary dividend to its shareholders. No donations have been made on behalf of the Company or any of its subsidiaries in the financial year ended 30 June 2018.

### AUDIT FEES

Fees paid to the Auditor to audit the Company accounts totalled \$39,202 for the year ending 30 June 2018. No fees were paid to the Auditor in respect of other work undertaken for the Company. None of the Company's subsidiaries have been separately audited in the year to 30 June 2018.

## SHAREHOLDER INFORMATION

The ordinary shares of the Company are listed on the NZAX. The information in the disclosures below has been taken from the Company's register at 30 June 2018.

### TWENTY LARGEST ORDINARY SHAREHOLDINGS

Shareholder	Address	Ordinary Shares	%
David Iles	USA	67,268,267	72.98
Mercury NZ Limited	Auckland	2,382,496	2.58
New Zealand Central Securities Depository Limited	Wellington	1,682,353	1.83
Timothy Wycoff	Christchurch	1,100,000	1.19
Geoff Henderson	Christchurch	1,029,314	1.12
Jennifer Henderson	Christchurch	750,000	0.81
Sheila Kolstad	Christchurch	450,000	0.49
Michael Chick	Christchurch	447,500	0.49
Ian Shearer	Wellington	380,725	0.41
Angus Napier	Wellington	350,250	0.38
Brett Whiston	Manukau	347,068	0.38
Health Consultants Limited	Kerikeri	310,000	0.34
Jeanette Fitzsimons	Thames	251,513	0.27
FNZ Custodians Limited	Wellington	249,247	0.27
Reda Holdings Limited	Switzerland	241,000	0.26
Alastair Nicholson & Celia Wade-Brown	Wellington	229,673	0.25
Diane Baguley	Auckland	216,000	0.23
Anthony Bowen	Christchurch	214,379	0.23
James Cone	Wellington	190,312	0.21
Gary Baxter	Whangarei	179,273	0.19
<b>TOTALS</b>		<b>78,269,370</b>	<b>84.92</b>

### DISTRIBUTION OF SHAREHOLDERS

Holdings Ranges	Number of Holders	Number of Shares	%
1 - 1,000	104	60,372	0.07
1,001 - 5,000	312	896,250	0.97
5,001 - 10,000	150	1,121,236	1.22
10,001 - 50,000	213	5,107,083	5.54
50,001 - 100,000	47	3,268,141	3.55
Greater than 100,000	47	81,714,609	88.66
<b>Totals</b>	<b>873</b>	<b>92,167,691</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 and the Company's register of disclosures of substantial holdings, the following persons were substantial security holders in the Company at 30 June 2018.

Shareholder	Number of shares directly held	% of Ordinary Shares Held
	<b>Ordinary Shares</b>	
David Iles	67,268,267	72.98
<b>Totals</b>	<b>67,268,267</b>	<b>72.98</b>

The total number of issued voting securities as at 30 June 2018 was 92,167,691

## THE DIRECTORS OF THE COMPANY ARE:



**Nigel Foster, Board Chairman**

4 Shirley St, Karori, Wellington 6012

Nigel has had more than 20 years' experience specialising in business improvement and turnaround management. Nigel is the Managing Director of Armillary Management Limited, which has provided governance and management services to a variety of business improvement and turnaround assignments over the last thirteen years. Nigel provides hands-on help to businesses undertaking change, frequently in circumstances of business distress, and in migrating businesses towards a more robust approach to governance. In addition to these project roles, Nigel has continuing governance or advisory roles with several companies, including Tamaki Tours Limited,

Pinnacle Corporation, Northpower Contracting and Earthcare Group. Prior to Armillary, Nigel was at McCallum Petterson for 5 years as CEO and leading its business improvement and turnaround division. Earlier, he was a shareholder/director of a large Wellington-based IT services company. Nigel lives in Wellington and holds the degrees of Bachelor of Commerce and Administration and Master of Business Administration from Victoria University.

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

50 Waiwetu Street, Fendalton, Christchurch

A registered mechanical engineer, Geoff Henderson has been involved in wind power engineering for thirty-four years, including seven years in California and England working at the forefront of wind power technology. During that time he invented the torque limiting gearbox (TLG) system which has been patented in New Zealand, Australia, and the USA. 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 Our Wind Ltd, Windflow International Ltd, Windpower Otago Ltd, Windflow UK Ltd, Windflow Hammer Ltd and Monan Wind Company Ltd.



**Heugh Kelly, Director**

69f Wilson Rd, R.D. 1, Warkworth 0981

Heugh Kelly is a barrister and solicitor with over 35 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.

<b>Management Team</b>	Managing Director ..... Geoff Henderson Acting Finance Manager ..... Gary Hughes Company Secretary ..... Gary Hughes
<b>Solicitor</b>	Lane Neave Lawyers 137 Victoria St Christchurch
<b>Registered Office</b>	Nexia Christchurch Limited Level 4, 123 Victoria St Christchurch Central Christchurch
<b>Auditor</b>	William Buck Audit (NZ) Ltd Level 4, 21 Queen St Auckland
<b>Share Registry</b>	Link Market Services Ltd 138 Tancred St Ashburton
<b>Bankers</b>	Bank of New Zealand 81 Riccarton Rd Christchurch
<b>Insurance Brokers</b>	Marsh Limited Level 1, 447 Blenheim Rd Christchurch
<b>Principal Suppliers</b>	Blades ..... Wind Blades Ltd of Auckland Gearbox ..... Moventas Australia Electrical Control ..... Bremca Ltd of Christchurch Hub ..... A&G Price Ltd of Thames Generator ..... Mecc Alte of Italy Hydraulics ..... Eaton Hydraulics Group of Auckland Nacelle Cladding ..... Wind Blades Ltd of Auckland Pallet ..... Allied Industrial Engineering of Kawerau Tower ..... SIAG Tube and Tower GmbH of Germany