

Windflow Technology Limited

Annual Report 2011

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Directors' Review for the Year to 30 June 2011

OVERVIEW

The past year has seen the successful completion of Windflow's two major long-standing objectives:

- In September 2010, Lloyds Register issued its Type Approval Certificate for the Windflow 500, certifying that it complies with the requirements of International Electrotechnical Commission (IEC) Standard 61400-1:2005 (Edition 3) for Class 1A sites, being the windiest and most turbulent of the standard site classifications.
- In June 2011, Te Rere Hau wind farm (TRH) was completed with 97 turbines installed and operating. Operating availability was 95.3% for the financial year, and the 97th turbine was fully commissioned on 1st July, 2011.

Windflow's product, the Windflow 500, is now technically and commercially proven, by IEC Type Approval Certification and the track record it continues to build – 170 turbine-years by September 2011 – in the demanding, frequently hurricane-force conditions of the Manawatu Saddle.

However Windflow as a company has not yet achieved commercial success and is at a major decision point regarding its future. In order to remain a going concern it needs a combination of:

- Further investment by existing and/or new shareholders
- Revenue from turbine sales
- Revenue from licensing and engineering services.

Windflow has targeted its niche within different geographic markets from New Zealand and Australia to California and Chile, but in previous years was hampered by lack of IEC certification. During 2010, market conditions deteriorated in New Zealand and elsewhere. Long Gully wind farm in Wellington, which was expected to be Windflow's next in New Zealand, was shelved by Mighty River Power after careful consideration of the resource consent which WTL obtained, and other factors in particular current market conditions.

During 2010 an important opportunity arose for Windflow, at the same time that certification was coming through. A significant market for 500 kW turbines was created by the UK government's April 2010 decision to introduce a Feed-in Tariff (FIT) scheme for small and mid-size renewable energy projects. Accordingly Windflow decided to focus on securing orders from that market. While this remains a positive prospect for Windflow, initial orders have yet to be achieved for reasons discussed in detail below. Foremost among these reasons is the UK government's February 2011 decision to review the FIT ahead of the planned review date of March 2013.

As well as focussing on the UK, Windflow has progressed developments in the USA. During 2010, two potential demonstration sites for Windflow turbines were secured at an existing wind farm of 500 kW two-bladed turbines in southern California. However Windflow has had insufficient capital to build those two 60 Hz Windflow 500's. Thus in 2011, Windflow has been progressing licensing for North America as being commercially the most practical way to realise ongoing sales opportunities such as the Californian repowering market.

In this review, the directors have set out what Windflow has done to address these challenges:

- It has established a presence in UK without over-investing, thus informing Windflow about the UK market and creating a pipeline of potential projects without undue cost
- It has established a significant number of prospects for licensing its intellectual property (IP), progressing discussions with several of these. In this context it has also obtained proposals from specialist New Zealand companies for conducting a competitive international licensing process
- It has managed its limited financial resources carefully:
 - Restructuring to reduce staff numbers while retaining the core competence
 - Suspending manufacturing at the end of the TRH build while retaining the key know-how and capability to resume turbine production in response to demand
 - Sub-letting parts of the factory and offices at Mandeville St, Christchurch
 - Selling assets, in particular its stock of spares for TRH to NZ Windfarms.

Throughout all this, Windflow has completed the TRH build with NZ Windfarms, underpinning and strengthening that key relationship by:

- Completing the build of the last 32 turbines within the contract time-frame

- Providing an excellent operating and maintenance (O&M) service, keeping the turbines operating with high availability (>95%), and remedying such warranty issues as have arisen. Output per square metre of swept area has been similar to other wind farms in the lower North Island.
- Establishing TRH Services Ltd (TSL) and granting various securities over that company and other Windflow assets, as part of the transaction to sell spares to NZ Windfarms Ltd. This has enhanced the customer's security about long-term O&M at TRH.

And of course like all Christchurch businesses, Windflow has had to deal with the year's major earthquake events and the ongoing stresses they have created for its staff, as they have for all the citizens of Christchurch.

Despite Windflow's positive achievements and the careful management of its financial resources, the delay in receiving cash from anticipated UK orders has resulted in Windflow's cash reserves, which were replenished in November, becoming depleted. There is substantial uncertainty about Windflow's ability to remain a going concern, which is discussed in more detail in Note 34 to the Financial Statements. In order now to realise value from the investments and technical successes to date, the directors recommend that shareholders secure the value of the IP by investing again under a share purchase plan (SPP) to be issued in September.

The funds raised will be applied to the following course of action to secure Windflow's future:

1. Engage outside specialists to conduct a formal process for licensing the company's IP internationally, at least for manufacturing Windflow's designs in and for certain international markets such as North America;
2. Continue to meet our O&M and warranty obligations for TRH;
3. Continue Windflow's market presence in the UK in the expectation that the uncertainty created by the FIT scheme review will be finally determined by the end of 2011, and that orders in at least modest volumes will be forthcoming.

The Directors assess that they require a total of \$2.4 million from the SPP and/or new cash or commitments from other sources in order for Windflow to carry out the above course of action and remain solvent through until January 2012 when final payments from NZ Windfarms Ltd for the last 32 turbines are scheduled to commence. These scheduled payments from NZ Windfarms Ltd would then be expected to see the Company through until June 2012. Shares issued under the SPP are limited to 30% of the existing shares on issue, which means the Company can issue up to 4,715,479 shares under the SPP. The issue price is being fixed by the Directors on 14 September. At the maximum price of \$0.50 per share the SPP could raise \$2.35 million. Before allotting the shares in October the Directors will ensure Windflow has (or is likely to have) sufficient cash from the SPP and/or other new sources to undertake the above course of action and remain solvent, in terms of both Windflow's immediate and continuing cash-flow requirements. If not, they will not allot the shares and will return the cash, which is held in trust prior to allotment. In that event they will take whatever action their duties require them to do.

In this review, the directors have set out further details about the plans and progress to date under the three main themes above, in the sections headed:

- "Te Rere Hau Wind Farm"
- "UK Market", and
- "International Licensing".

FINANCIAL POSITION

The consolidated year-end results show Windflow made a gross profit of \$1.290 million (\$1.406 million loss for the 09/10 year). Revenue at \$10.150 million was down \$13.780 million (23.930 million last year) and the overall net loss was \$7.030 million (\$7.950 million last year).

This loss can be attributed to a combination of factors:

- The effect of the full year's delay in completing the build of TRH Stage 4, which was reported last year, led to reduced revenue and therefore margin contribution spread over both this year and the previous one.
- Lack of new sources of revenue.
- Windflow increased its operating and maintenance (O&M) and warranty provisions at the end of the first half-year in the light of increasing experience and the need for prudent levels of provisioning within the business. As detailed in the following section, the Windflow 500 is a new design in a very testing environment and previous provisions had been based on the more gradual build anticipated in the 2005 sale and purchase agreement. Pleasingly, the review of O&M provisions at year-end has shown that a further increase is not necessary, indicating that the turbines at TRH are "over the hump" of initial issues to be resolved.

Meeting Windflow's overall O&M and warranty obligations cost \$3.542 million in the year to June 2011. This was offset by revenue from NZ Windfarms for O&M of \$0.845 million with the rest being met by provisions Windflow had made originally in 2005 and then reviewed upwards since then. These are expected to reduce significantly as the more costly initial issues (described on pages 8-10 below) are put behind us.

The provision for future warranty costs at 30 June 2011 amounted to \$5.386 million which sum is estimated to cover the present value of these costs over the remaining warranty period of the turbines. Component failure is a normal occurrence when a complex and sophisticated product is first released into the market. The chart on page 10 under the heading 'Summary of Main Early Issues' demonstrates our experience to date and the expected period for resolution.

In spite of the fact that the half-year review of provisions resulted in an increase, comparative data indicates that our levels of O&M/warranty costs are as good or better than those of our competitors. For example Meridian recently released information for their Danish turbines at Project Westwind near Wellington, indicating that full O&M costs (including 'warranty' type costs) are running at \$17 million annually. This is about four times the figure for TRH for the year to June 2011. For comparison, Project Westwind has about three times the rated capacity and four times the swept area of TRH. (Swept area is the best guide to annual energy output, though of course it depends on the wind resource. TRH has similar exposure to the prevailing westerlies, but Westwind has better exposure to easterly or south-easterly conditions).

Thus the O&M/warranty costs at TRH, while running higher than originally budgeted, and higher than expected in the long term due to initial issues flowing from fact that TRH is the first production run of the Windflow 500, are per unit output as good as or better than the latest offerings from Europe installed in New Zealand.

Windflow provides scheduled and unscheduled maintenance for the 97 turbines at TRH. The contracted rate for this service was established as part of the original sale and purchase agreement with NZ Windfarms Ltd. The rate charged for such maintenance while the turbines are under warranty is currently \$11,778 per turbine per annum, inflation adjusted. This maintenance rate is concessionary, with the true cost being higher than this figure.

There were no IEC expenses capitalised for the year, and amortisation of \$0.192 million took the total amount recorded to \$2.371 million, being the recorded value of the intangible asset of IEC Certification.

At year end total equity (net assets) stood at \$2.630 million (\$6.762 million last year).

Some revenue will continue to flow from the TRH project, both for the O&M services Windflow provides (now through TSL) and for \$2.821 million in final payments for the turbines which are due or will fall due from NZ Windfarms before June 2012. However this will not be sufficient of itself to sustain Windflow in its present form. Windflow needs either further cash injections or it needs to undergo further significant restructuring.

At 30 June, Windflow's cash position was \$0.844 million out of \$5.943 million current assets (the rest being \$1.856 million in stock, and \$3.1 million due from NZ Windfarms, mostly in the first half of calendar 2012, for turbine final payments and O&M).

After 30 June, Windflow's cash position fell for the next two months until Windflow was able to sell about \$0.9 million worth of its stock (being spare parts held for TRH) to NZ Windfarms for cash. Under the agreement Windflow will sell a further \$0.8 million worth of spares to NZ Windfarms as the spares are delivered by their suppliers. Much of this will be disbursed to suppliers but it will further assist Windflow's cash position, which currently stands at about \$0.4 million. This tight cash position underlines the need for an immediate capital raising.

Windflow has a further \$0.9 million worth of stock in hand which has been procured in expectation of further orders, including 16 blades and major components for at least one turbine.

Thus the outlook for the coming year depends on whether Windflow receives a combination of:

- Further investment by existing and/or new shareholders
- Revenue from turbine sales
- Revenue from licensing and engineering services.

The delay in receiving cash from anticipated UK orders has resulted in Windflow's cash reserves, which were replenished in November, becoming depleted since balance date. While the directors have determined that it is appropriate for the accounts to be completed on a going concern basis, there is substantial uncertainty about Windflow's ability to remain a going concern, which is discussed in more detail in Note 34 to the Financial Statements.

Restructuring

Over the last year Windflow has reduced its cost structure considerably. Although Windflow retains the key know-how and capability to resume turbine production in response to demand, turbine production was effectively suspended in the last quarter of the year to June 2011 once the Te Rere Hau turbines were completed. Parts of the factory and office space at Mandeville St have now been sub-let and overall staff numbers have reduced from over 50 to about 32, being now:

- About 12 in the O&M team, now in a separate company as TSL
- About 10 in the engineering/R&D team
- 3 in production/procurement
- 3 in marketing (of whom 2 are UK-based)
- 4 in administration.

Although we have lost some valuable staff, we have retained the core competence.

NEW ZEALAND PROJECTS

Te Rere Hau Wind Farm

Windflow has completed the TRH build with NZ Windfarms, underpinning and strengthening that key relationship by:

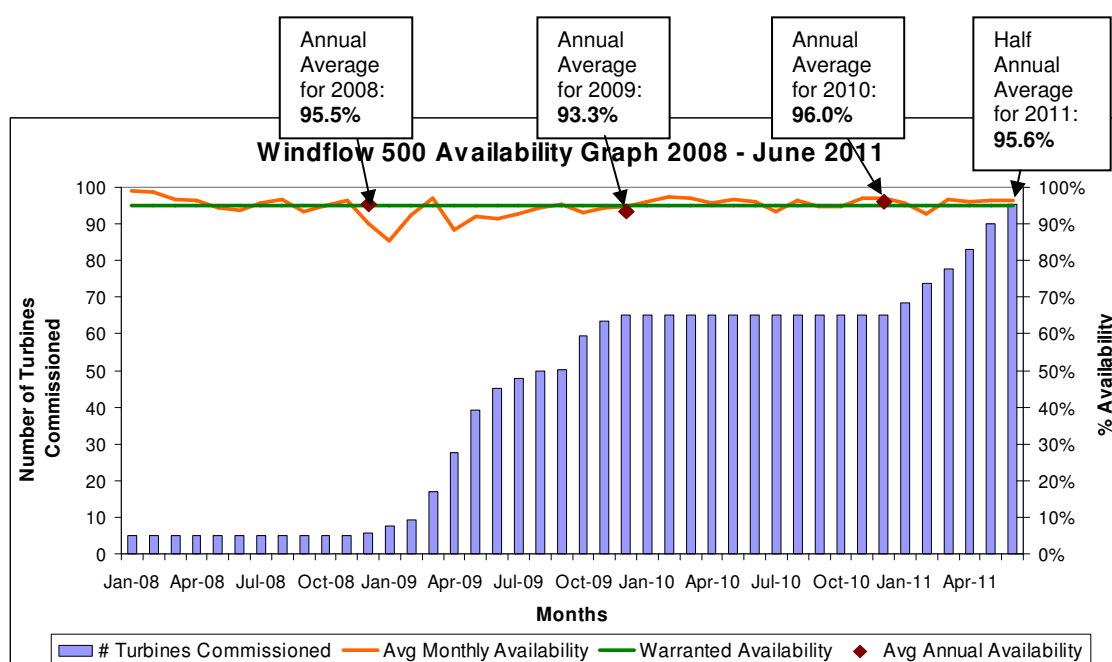
- Completing the build and commissioning of the last 32 turbines ahead of the contract time-frame of August 2011, 44 weeks after the first of the 32 sites was electrically livened in October 2010
- Providing an excellent operating and maintenance (O&M) service, keeping the turbines operating with high availability (>95%), and remedying such warranty issues as have arisen. Output per square metre of swept area has been similar to other wind farms in the lower North Island. In this context it should be noted that:
 - There have been no new gearbox failures
 - The issues that have arisen are typical of any new product in its first year or two of quantity operation. The top five issues to date are summarised below.
- Establishing TSL and granting various securities over that company and other WTL assets, as part of the transaction to sell spares to NZ Windfarms Ltd. This has enhanced the customer's security about the long-term O&M arrangements at TRH.

With the milestone of completion behind, Windflow is now focussed on the operating and maintenance (O&M) of the wind farm.

O&M Experience

The wind farm has been in operation for five years since it was officially opened in September 2006.

- The first five production turbines were installed in mid-2006 and another 60 turbines between December 2008 and November 2009.
- A further 32 turbines were installed and commissioned between October 2010 and July 2011.

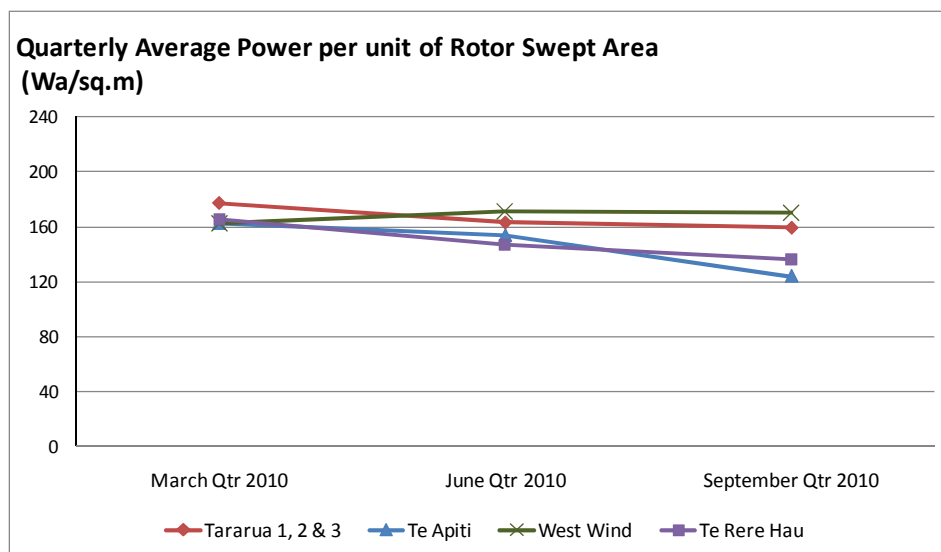


The wind farm, based on one of the windiest sites in the world, has been performing at world class levels achieving over 96% availability in 2010 and over 95% availability for the first half of 2011. The Windflow 500 now has over 170 turbine-years of track record and is commercially proven. The size of the fleet and its average operating availability over time are shown above.

Note about availability: A turbine is deemed to be unavailable if it has been shut down for maintenance, including scheduled maintenance, or due to an alarm. Windflow does not “pause” the availability calculation for extended outages due to turbine component failures. However, if it is only shut down due to insufficient wind speed or high winds, this will count as available. If there are system

operator constraints, grid faults or other abnormal events outside Windflow's control the turbine will also count as being available.

Output per square metre of swept area has been similar to other wind farms in the lower North Island. See for example the following graph for the first three quarters of calendar 2010.



Being the first production run of the Windflow 500, it was expected that O&M issues would arise, which while expectable in general, would be unforeseeable as to their specifics. For this reason the wind farm was planned to be installed in four stages, being batches of 5, 28, 32 and 32 turbines.

In the first five years, significant issues (in terms of O&M/warranty costs) have arisen with five components, and these are summarised below. The first three are particularly expensive because they require a crane to replace, whereas the other two can be replaced uptower. The first two of these, the gearbox and generator, had issues which were non-recurring and thus no longer cause Windflow to incur warranty costs. The third of these, the pitch bearing, is now the largest issue because it is the only recurring issue requiring a crane to replace. It accounts for over 50% of warranty costs.

The three recurring issues outlined below (pitch bearing, one-way clutch and torque limiting pump) currently account for about 80% of unscheduled maintenance/warranty costs. Accordingly they are each being addressed by Windflow's engineering team, who are applying considerable time and effort to work with the component suppliers to determine corrective actions to reduce these costs.

1. Gearbox

The first 5 turbines installed in 2006 at Te Rere Hau were operating for nearly two years before the next two stages (60 turbines) were installed in 2008/09. These were placed at the highest point on the site and therefore experienced the highest wind speeds to properly test them before installing the next batch of turbines.

In 2007, a broken bolted joint was found in two gearboxes during a maintenance check. As a result, the two gearboxes were repaired under warranty with a strengthened joint and the other three turbines were also upgraded with the strengthened joint as a precaution. This issue has not recurred, the subsequent 92 gearboxes having been strengthened in this area at the manufacturing stage.

Of those subsequent gearboxes, a small number had manufacturing defects in one gear which emerged in 2009 when gear teeth were found to have broken cleanly off due to fatigue cracking after only a few hundred hours operation at rated power. Manufacturing and quality assurance procedures were changed by the supplier. These defects have not recurred.

2. Generator

In 2009 some generators failed because of overheating when operating for sustained periods at rated output. The solution was to retrofit cooling fans to all generator assemblies. Until the retrofit could take

place, the generators were de-rated to 400 kW to avoid damage. After adding the cooling fans, there have not been any further generator overheating failures.

3. Pitch bearing

During calendar 2010, an issue of premature pitch bearing wear emerged. 12 turbines needed to have their pitch bearings replaced in 2010 and a further 8 in 2011, all on steep sites, i.e those which face the wind coming up a significant slope from one of the three prevailing directions. Windflow has replaced these under warranty. Windflow has investigated the root causes rigorously through inspection and analysis, has commissioned an independent review of its investigation and has shared its findings with the pitch bearing manufacturer. The issue is one of the amount of movement the bearing undergoes (thus creating wear if the lubricant is inadequate), not the magnitude of the external loads it experiences. Due to the teetering hub and pitch-teeter coupling, the pitch bearing loads are not significantly different on steep sites, but the amount of motion increases significantly.

Windflow has designed and built a small test rig to test alternate greases for this particular application, which involves significant oscillating and sliding motion relative to other wind turbine pitch bearings. This testing has established that the grease specified by the pitch bearing manufacturer is not suitable for this application. The testing has been conducted at a range of temperatures including sub-zero, and has identified superior alternative greases, based at least on small scale testing with properties matched to the full-scale application as far as possible using dimensional analysis. The main corrective action being taken therefore is to replace the grease with a better alternative. In addition as bearings are replaced on failure, stiffeners are being fitted to reduce the amount of deformation that occurs on the inner ring of the pitch bearing, in order to minimise the amount of “4-point contact” sliding motion that is occurring with these ball bearings.

Windflow is closely monitoring the replacement rate for the pitch bearings and the early indications are that it has slowed considerably after only changing the grease type. It is possible therefore that the stiffeners are not a necessary part of the overall solution, but they will continue to be fitted as bearings need replacing as part of a “belt and braces” approach.

4. One-way clutch

The one-way clutch is part of the high-speed shaft (HSS) assembly and can be readily replaced uptower. Its function is to allow the wind turbine to slow down during a lull in the wind while the generator remains on line at constant speed without having to motor the windmill. It would not necessarily be expected to have a 20-year life, but it should have a relatively long life. Its service life to date is only a little under three years, which is making this currently the second most expensive O&M item after the pitch bearings. In consultation with the supplier, Windflow has decided to change the type of one-way clutch to eliminate a particular wear mechanism. On replacement, the new type is being installed. Early indications are that the new type is performing better.

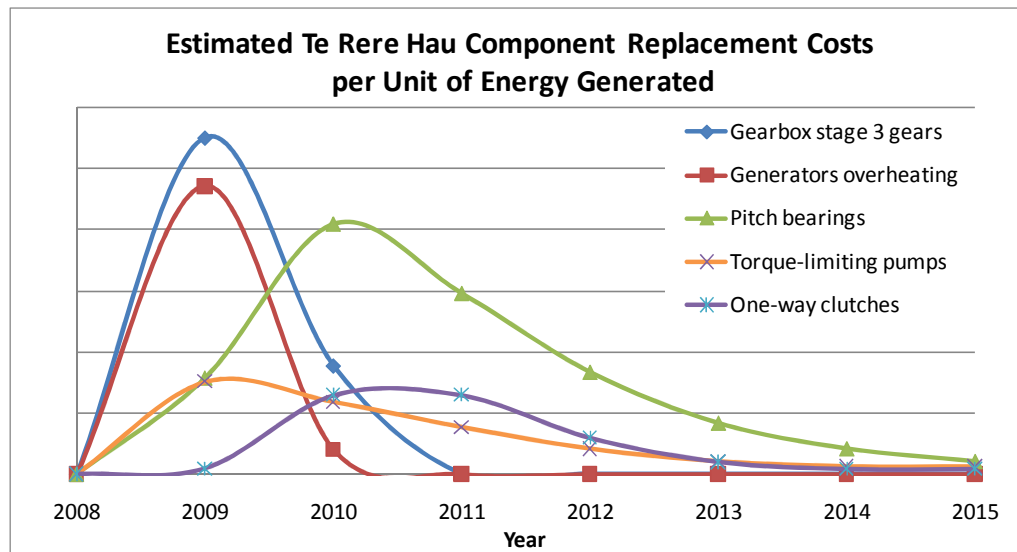
5. Torque Limiting Pump

The torque limiting (TL) pump is mounted on the gearbox and can be readily replaced uptower. Its function is to allow variable speed of the wind turbine by being accelerated and decelerated during wind gusts, while reacting and limiting the torque on the drive-train. As such it is not expected to have a 20-year life, particularly as some speed excursions are known to exceed the speed rating of the unit. Its service life to date is only a little over two years, which is making this currently the third most expensive O&M item after the pitch bearings. Accordingly Windflow's engineering team is working with the supplier to identify ways to extend its service life and minimise its refurbishment costs. Considerable progress has been made already and further improvements are being worked on.

6. Summary of Main Early Issues

The following graph shows the historical and expected impact these five issues have had on Windflow's component replacement costs at TRH. It shows a “learning curve” behaviour as these early issues are identified through field experience, then overcome through applications engineering. The gearbox and generator issues peaked in 2009 and have since been eliminated. The TL pump issue peaked in 2009 and is on its way down. The pitch bearing and one-way clutch issues peaked in 2010/2011 and are on their way down. The area under these curves is proportional to the total cost of each issue. Part of the process which Windflow carries out each 6 months in preparing its published accounts is to re-estimate

these costs in order to provide for its contingent liabilities under its 5 year warranty obligations for TRH. For the years to June 2010 and 2011, the following graph illustrates why these provisions have increased during those years, including for Windflow's Six-month Report to December 2010. It also illustrates how, pleasingly, the review of O&M provisions at year-end (June 2011) has shown that a further increase is not necessary, indicating that the turbines at TRH are collectively "over the hump" of initial issues to be resolved.



TRH Services Ltd

In August 2011 Windflow concluded an agreement with NZ Windfarms to sell much of its stock of spare components. As part of the agreement Windflow has set up a subsidiary, TSL, which now employs the staff from Windflow's existing operation to provide O&M services at TRH. NZ Windfarms has been granted an option to take over TSL in the event of Windflow becoming insolvent (and other related events). NZ Windfarms has also been granted various securities over TSL, and other Windflow assets including the New Zealand rights to its intellectual property, although only for the purpose of operating and maintaining TRH in such an event.

Long Gully

Windflow has continued to discuss with Mighty River Power the future prospects for progressing the 12.5 MW wind farm at Long Gully near Brooklyn which is consented to use up to 25 New Zealand made Windflow 500 turbines. It is expected to be one of the most productive sites in New Zealand with an output of 48 GWh/yr from the 25 turbines, or 250 average watts per square metre (Wa/sq.m) of rotor area. (For comparison the other wind farms in the lower North Island, including Te Rere Hau, average more like 160-200 Wa/sq.m.)

Mighty River Power, who at 15.2% is the largest Windflow shareholder, funded most of the consenting costs for the project on the windy Wellington ridgeline but announced last year that it did not intend to proceed with the project at this time after careful consideration of the resource consent which WTL obtained, and other factors in particular current market conditions. Windflow and Mighty River Power continue to monitor market conditions to assess the project viability. However present wholesale power prices make such projects difficult to finance in the near term.

A group of Brooklyn residents have established a group to try and raise funds for part-ownership of the completed wind farm. Our Wind Limited (OWL), a community wind power advocate and subsidiary of Windflow, is providing technical assistance towards this end.

Mt Cass

Mainpower's Mt Cass wind farm is currently being considered by the Environment Court after a lengthy appeal process (the hearing finished in August). A final decision on this North Canterbury project is expected by Christmas. About 60 Windflow turbines are expected to be consented, along with two other configurations based on larger turbines, which will then enable Mainpower to issue a competitive tender process for turbine procurement. It remains to be seen how quickly Mainpower will want to progress this project, but Windflow looks forward to having the opportunity to submit a proposal, which would be the first time that it has been invited to submit a formal proposal alongside larger imported turbines.

INTERNATIONAL MARKETS

UK Market

Two sites in the UK have received planning permission for the Windflow turbine and two more are expected to secure planning permission in the next month. In addition to planning permission, a grid connection offer is also required before a turbine order can be placed. None of these four projects have yet received grid connection offers. Windflow is negotiating a Heads of Agreement (HoA) to develop jointly on Shetland Island the first site using a Windflow 500 turbine in the UK. Windflow also has an option for a site on North Harris for up to three turbines with planning permission, and is seeking clarification of local grid connection constraints from the local network operator.

In summary, the UK market for Windflow continues to look promising, although anticipated orders have been and continue to be delayed. Windflow plans to continue its market development activities in the UK in the expectation that the uncertainty created by the FIT scheme review will be resolved by the end of 2011, and that orders in at least modest volumes will be forthcoming. Assuming these initial orders start to flow through, Windflow will work to reinstate the performance bond it had put in place last year with its bankers and the NZ Export Credit Office.

FIT Review

In February this year, the UK government announced a review of the UK Feed-In Tariff (FIT), under which the Windflow 500 turbine generates revenue of 19.7 p/kWh and an additional export tariff of at least 3 p/kWh. Consultation documents, which will provide the first signal of any proposed changes to the wind FIT, are due September or October in order to meet the stated timetable for completing the review by the end of 2011. This review has caused considerable market uncertainty. Due to the lead-times required for wind turbine supply, the review has caused a “wait-and-see” attitude among some potential customers.

Competition risk has also increased as larger turbines, de-rated to 500 kW, have entered the market in the interim. It is hoped that the FIT Review will determine whether Windflow need only compete with turbines of similar size, or must compete directly with these larger turbines in the same tariff band, thereby limiting the market opportunity to sites where the Windflow turbine has particular advantages.

Second UK Reseller for Windflow

Windflow has appointed Bryan J Rendall (Electrical) Ltd (BJRE Ltd) as a second UK reseller for its mid size wind turbines. BJRE Ltd brings wind turbine sales, installation and service capability to customers in the Orkney and Shetland Islands, where the Windflow turbine is particularly well suited due to its size and strong wind optimisation.

Company Director, Bryan Rendall recently visited the Windflow facilities in New Zealand and the Te Rere Hau wind farm and was impressed by the turbine's electrical capabilities, ease of installation and maintenance, and ability to handle the gale force winds he experienced first-hand.

A Windflow turbine received planning permission in mid July on the Orkney Islands, and a Windflow turbine is proposed for a potential project in the Shetland Islands. BJRE Ltd and Windflow UK promoted the Windflow turbine at the Orkney County Show in early August.

About Bryan J Rendall (Electrical) Ltd

BJRE Ltd has an extensive portfolio of renewable energy projects ranging from householder and community energy schemes on off grid Scottish islands, to multi megawatt offshore wind farms with locations stretching from California to Australia. Their experience in large scale wind energy dates back to the 1990's and includes a number of wind farm construction projects in Europe. To date, they have been involved with 1,500 wind turbines and their team is able to handle projects from a few kW to many megawatts.

<http://www.bjre.co.uk/>

VG Energy (VGE) and Windflow sign new HOA

Windflow and VG Energy (VGE) have reviewed their exclusive UK Distributor agreement and in early August entered a heads of agreement for VGE to be a non-exclusive reseller of Windflow turbines. This allows Windflow to take a more direct role in this important market and engage other resellers directly as in the case of Bryan Rendall. In May, Windflow set up subsidiary company Windflow UK which will now act as distributor and employer of Windflow's UK based staff.

VG Energy has greatly assisted Windflow's market entry into the UK and has put over 20 Windflow turbines into the planning process in Scotland. VGE remain an important channel to market, particularly in mainland Scotland, and will continue to work to provide UK customers with the Windflow turbine.

North Fish Shetland and Windflow sign HOA for First UK Turbine

North Fish Shetland (NFS) and Windflow are negotiating a Heads of Agreement to develop jointly the first site using a Windflow 500 turbine for the UK. Under this HoA, NFS intends to pay a substantial deposit into its solicitor's trust account in order to reserve Windflow's manufacturing capacity for the next turbine it assembles. The deposit will be released to Windflow in 5 months unless Windflow opts out (for example due to lack of finance) or NFS is unable to obtain planning permission. The turbine installation is planned for the northern summer of 2012 and is intended to be jointly funded by Windflow and NFS, who will have the option to buy it within 5 years of commissioning. BJRE will assist with the installation, operations and maintenance of the turbine which is hoped to be the first of several Windflow turbines on the windy Shetland Islands (population 23,000).

International Licensing

During 2010, two potential demonstration sites for Windflow turbines were secured at an existing wind farm of 500 kW two-bladed turbines in southern California. However Windflow has had insufficient capital to build those two 60 Hz Windflow 500's, and the formal rights to those two sites have expired. Windflow is in negotiations with a US Fortune 500 company to license its proven Windflow 500 turbine for manufacturing for the North American market. The two companies have been in discussions since March.

Several other international companies have expressed interest in licensing the Windflow design for manufacture in overseas markets. Until recently, because of its focus on IEC Certification and its strategy to manufacture and export wind turbines, Windflow had not actively pursued such opportunities. However it is now actively pursuing a strategy to realise shareholder value through IP licensing and strategic partnerships, both in respect of the complete turbine and the separate technologies embodied within the design, in particular the proprietary Torque-Limiting Gearbox (TLG) which is suitable for deployment in multi-megawatt wind turbines. The TLG promotes gearbox reliability by limiting torsional impact and fatigue loads, and eliminates the need for power electronic frequency conversion in wind turbines and dynamic reactive power compensation systems for wind farms.

The indications to date suggest that Windflow's technologies' proven track record and IEC certification provide a very good foundation for IP licensing, which can provide significant returns for a relatively small incremental investment at this time.

Accordingly Windflow now plans to engage outside specialists to conduct a formal process for licensing the company's IP internationally, at least for manufacturing Windflow's designs in and for certain international markets such as North America. It has obtained proposals from two experienced New Zealand companies which specialise in IP licensing.

Other International Opportunities

Windflow continues its market engagement with other countries including Australia, Chile, Turkey, China, Korea and India. While the marketing to date has necessarily been limited in its scope, it has created a network of contacts which will be helpful in the context of the planned international licensing activities. Not all markets will support local manufacturing initiatives, which means that any future supply of Windflow turbines, at least to meet initial orders from those markets, will either be from the New Zealand base or from a licensee with a larger home market.

PRODUCTION

The Company and its suppliers produced 15 nacelle assemblies in the year to 30 June 2011.

The lack of ongoing orders led to the need for staff redundancies at the factory of Windflow's subsidiary Wind Blades in Auckland, as well as the nacelle assembly factory in Christchurch.

Production is thus suspended pending the receipt of ongoing orders. It will take orders for four to six turbines and some start-up time to resume production throughout our supply chain.

SUMMARY

Windflow has achieved some major milestones while dealing with a challenging business environment in the year to June 2011. It has:

- Completed IEC Type Approval Certification and the build of TRH
- Underpinned our relationship with NZ Windfarms by providing an excellent O&M/warranty service and by creating TRH Services Ltd
- Established a presence in UK without over-investing
- Established a significant number of prospects for licensing its IP and obtained proposals from specialist New Zealand companies for conducting a competitive international licensing process
- It has managed its limited financial resources carefully.

Thus Windflow has achieved major technical successes and has progressed hugely since its initial public offering (IPO) in 2001, when it had yet to build its first prototype. With 98 turbines operating now in New Zealand, including that prototype which is now "earthquake-proven" among its other achievements, the technical risk issues which dominated that IPO and subsequent capital raisings are now substantially eliminated.

However Windflow has yet to achieve commercial success and now faces substantial commercial risks in these difficult economic times.

Delays in completing TRH, combined with lack of new revenue and increased costs of O&M/warranty at TRH have resulted in Windflow continuing to run at a significant loss. The lack of new revenue which was anticipated from UK orders has resulted in Windflow's cash reserves, which were replenished in November, becoming depleted.

There is substantial uncertainty about Windflow's ability to remain a going concern, which is discussed in more detail in Note 34 to the Financial Statements. In order now to realise value from the investments and technical successes to date, the directors recommend that shareholders secure the value of the IP by investing again under a share purchase plan (SPP) to be issued in September.

The Directors assess that they require a total of \$2.4 million from the SPP and/or new cash or commitments from other sources in order for Windflow to carry out its planned course of action and remain solvent through until January 2012 when final payments from NZ Windfarms Ltd for the last 32 turbines are scheduled to commence. These scheduled payments from NZ Windfarms Ltd would then be expected to see the Company through until June 2012. Before allotting the shares in October the Directors will ensure Windflow has (or is likely to have) sufficient cash from the SPP and/or other new sources to undertake the above course of action and remain solvent. If not, they will not allot the shares and will return the cash, which is held in trust prior to allotment. In that event they will take whatever action their duties require them to do.

To meet the anticipated cash shortfall for the coming year, Windflow needs about \$2.4 million and has decided to offer its shareholders the first opportunity to re-invest at the current low share price by means of the SPP closing 6th October 2011. Shares issued under the Share Purchase Plan are limited to 30% of the existing shares on issue, which means the Company can issue up to 4,715,479 shares under the Share Purchase Plan. The issue price is being fixed by the Directors on 14 September. At the maximum price of \$0.50 per share the SPP could raise \$2.35 million

Assuming the \$2.4 million is raised from the SPP and/or new cash or commitments from other sources, the directors will apply the funds raised to the following course of action to secure Windflow's future:

1. Engage outside specialists to conduct a formal process for licensing the company's IP internationally, at least for manufacturing Windflow's designs in and for certain international markets such as North America. Efforts to date towards licensing have cost about \$0.1 million mainly in internal salary costs. Engaging outside specialists is expected to cost around \$0.2 million in fees and expenses, plus a similar amount in internal salary costs and travel expenses;
2. Continue to meet Windflow's O&M and warranty obligations for TRH. Meeting these obligations cost about \$3.542 million in the year to June 2011 which was offset by revenue from NZ Windfarms for O&M of \$0.845 million with the rest being met by provisions Windflow had made originally in 2005 and then reviewed upwards since then. These are expected to reduce significantly as the more costly initial issues like pitch bearings are put behind us; and
3. Continue Windflow's market presence in the UK in the expectation that the uncertainty created by the FIT scheme review will be finally determined by the end of 2011, and that orders in at least modest volumes will be forthcoming. Maintaining this presence and supporting it from New Zealand cost about \$0.3 million in the year to June 2011, and is currently costing about \$0.4 million annually.

Of these last two revenue-generating opportunities, both have the potential to turn the company around in the short to medium term from its loss-making history to a profitable future. (The O&M operation is expected to be profitable in future as well but it will take significantly longer to achieve this.)

IP licensing is a new direction for Windflow which has hitherto focussed on manufacturing in New Zealand. It is a natural progression for a company such as ours and there have been very useful early discussions with a number of overseas companies including a Fortune 500 company. The Windflow 500's proven track record and IEC certification provide a very good foundation for IP licensing. The indications to date suggest that the IP licensing alone justifies the additional investment being sought at this time.

In summary the company has unique intellectual property around its light-weight, yet robust design, backed up by its IEC Type Approval Certification and its track record at TRH. This provides a fundamental manufacturing cost advantage, which will result in a competitive advantage over other turbines once the turbine is in sustained quantity production. As events have unfolded, Windflow has been unable to secure quantity production orders for the New Zealand market in 2010/11. Thus it must turn to the international market where far greater opportunities exist. The fundamental manufacturing cost advantage due to the light-weight design underpins Windflow's confidence that it will be able to achieve good revenue from licensing the design internationally.

At the same time Windflow has the proven capability to manufacture in New Zealand and, while that operation has been suspended for the last few months, it expects to restart manufacturing in the short term based on at least modest turbine orders from the UK.

Directors' Declaration

In the opinion of the directors of Windflow Technology Limited (the "Company"), the financial statements and notes, on pages 16 to 40:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 30 June 2011 and the results of its operations and cash flows for the 12 months ended on that date.
- 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 Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company 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.

The directors are pleased to present the financial statements of Windflow Technology Limited for the 12 month period ended 30 June 2011.

For and on behalf of the Board of Directors:



Keith McConnell
Director
13 September 2011



Geoff Henderson
Director
13 September 2011

Balance Sheet

As at 30 June

As at 30 June		2011		2010	
	Note	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Current assets					
Cash on hand and at bank	17	844	763	2,389	2,327
Accruals		384	384	307	298
Trade and other receivables	18	393	389	1,810	1,780
Prepayments	18	57	57	172	170
Retentions	19	2,356	2,356	1,444	1,444
Stock and work in progress	13	1,856	1,752	5,379	5,182
Tax refund due	9	53	52	26	26
Total current assets		5,943	5,753	11,527	11,227
Non-current assets					
Property, plant & equipment	22	731	566	796	601
Intangible assets	23	2,377	2,377	2,677	2,571
Advances to associates		-	-	256	256
Advances to subsidiary		-	239	-	495
Investment in listed shares		-	-	1,189	1,189
Investment in subsidiaries		-	-	-	90
Investment in associates	24	5	5	210	5
Total non-current assets		3,113	3,187	5,128	5,207
Total assets		9,056	8,940	16,655	16,434
Equity					
Ordinary share capital	11	31,298	31,298	28,400	28,400
Retained deficit		(28,668)	(28,863)	(21,638)	(22,153)
Total equity		2,630	2,435	6,762	6,247
Non-current liabilities					
Provisions	16	3,112	3,112	2,645	2,645
Current liabilities					
Progress payments held	15	-	-	2,872	2,872
Trade and other payables	20	761	847	2,058	2,376
GST payable		7	-	22	-
Provisions	16	2,546	2,546	2,296	2,294
Total current liabilities		3,314	3,393	7,248	7,542
Total equity and liabilities		9,056	8,940	16,655	16,434

The notes on pages 20 to 40 are an integral part of these financial statements.

For and on behalf of the Board of Directors:



Keith McConnell
Director
13 September 2011



Geoff Henderson
Director
13 September 2011

Income Statement

For the year ended 30 June

	Note	2011		2010	
		Group (\$'000's)	Company (\$'000's)	Group (\$'000's)	Company (\$'000's)
Operating revenue	5	10,150	10,020	23,930	23,789
Cost of sales		8,860	8,830	25,336	26,155
Gross profit (loss)		1,290	1,190	(1,406)	(2,366)
Other revenue	5	407	768	728	728
Depreciation		(215)	(186)	(365)	(335)
Amortisation and impairment of licences and patents	23	(299)	(194)	(146)	(146)
General and administration costs		(2,476)	(2,550)	(2,276)	(1,759)
Engineering costs		(1,198)	(1,198)	(1,254)	(1,254)
Research and development costs		(696)	(696)	(500)	(500)
Marketing costs		(611)	(611)	(476)	(476)
Wind farm development, operations & maintenance		(3,290)	(3,290)	(2,496)	(2,496)
Loss from operating activities	6	(7,088)	(6,767)	(8,191)	(8,604)
Finance income	5	58	57	241	239
Loss before income tax		(7,030)	(6,710)	(7,950)	(8,365)
Income tax	9	-	-	-	-
Loss for the period attributable to the equity holders of the Company	27	(7,030)	(6,710)	(7,950)	(8,365)
Basic Earnings per Share	8	(0.44)		(0.66)	
Diluted Earnings per Share	8	(0.42)		(0.63)	

Statement of Comprehensive Income

For the year ended 30 June

	Note	2011		2010	
		Group (\$'000's)	Company (\$'000's)	Group (\$'000's)	Company (\$'000's)
Loss for the year		(7,030)	(6,710)	(7,950)	(8,365)
Changes to the value of investments	12	-	-	(1,553)	(1,553)
Income tax relating to components of other comprehensive income		-	-	-	-
Total comprehensive loss for the year, net of tax		(7,030)	(6,710)	(9,503)	(9,918)

The notes on pages 20 to 40 are an integral part of these financial statements.

Statement of Changes in Equity

	Note	Share Capital (\$000's)	Revaluation Reserve (\$000's)	Retained Earnings (\$000's)	Total Equity (\$000's)
Group					
Balance at 1 July 2009		28,400	1,553	(13,688)	16,265
Total recognised income and expenses		-	-	(7,950)	(7,950)
Share investment revaluation reserve	12	-	(1,553)	-	(1,553)
Balance at 30 June 2010		28,400	-	(21,638)	6,762
Total recognised income and expenses		-	-	(7,030)	(7,030)
Ordinary shares issued	11	2,898	-	-	2,898
Balance at 30 June 2011		31,298	-	(28,668)	2,630
Company					
Balance at 1 July 2009		28,400	1,553	(13,788)	16,165
Total recognised income and expenses		-	-	(8,365)	(8,365)
Share investment revaluation reserve	12	-	(1,553)	-	(1,553)
Balance at 30 June 2010		28,400	-	(22,153)	6,247
Total recognised income and expenses		-	-	(6,710)	(6,710)
Ordinary shares issued	11	2,898	-	-	2,898
Balance at 30 June 2011		31,298	-	(28,863)	2,435

The notes on pages 20 to 40 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 30 June

	Note	2011		2010	
		Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Cash flows from operating activities					
Cash receipts from customers					
Consulting fees		338	338	239	239
Sales of turbines		6,719	6,295	11,694	11,655
Other		342	342	55	53
Interest received		52	51	237	235
Cash paid to suppliers and employees					
Suppliers		(8,035)	(7,634)	(16,176)	(16,667)
Employees		(4,231)	(4,065)	(4,636)	(4,100)
Other		(804)	(804)	(513)	(513)
Net cash used in operating activities	27	(5,619)	(5,477)	(9,100)	(9,098)
Cash flows from investing activities					
Disposal of tradable rights in shares		1,244	1,244	405	405
Dividends received from Associates		100	100	-	-
Disposal of property plant and equipment		3	3	1	1
Acquisition of shares		-	-	(399)	(399)
Acquisition of intangible assets		-	-	(71)	(71)
Acquisition of property plant and equipment		(144)	(144)	(174)	(154)
Net cash used in investing activities		1,203	1,203	(238)	(218)
Cash flows from financing activities					
Issue of shares		3,174	3,174	-	-
Advance from Associate Company		150	150	-	-
Issue costs of Equity		(453)	(453)	-	-
Advance to subsidiary company		-	(161)	-	(13)
Net cash from financing activities		2,871	2,710	-	(13)
Net increase (decrease) in cash and cash equivalents		(1,545)	(1,564)	(9,338)	(9,329)
Cash and cash equivalents at beginning of period	17	2,389	2,327	11,727	11,656
Cash and cash equivalents at end of period	17	844	763	2,389	2,327

The notes on pages 20 to 40 are an integral part of these financial statements.

Notes to the Financial Statements

1. REPORTING ENTITY

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

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

The financial statements comprise the consolidated financial statements of the Group and the separate financial statements of the Company.

These statements were approved by the Board of Directors on the 12 September 2011.

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

2. BASIS OF PREPARATION

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in 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 Windflow Technology Group, except for investments in listed companies which are at fair value.

c) Statement of compliance

These consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other 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 judgments and assumptions are:

i. Provisions for warranty.

In determining the level of provision required for warranties, the Group has made judgements in respect of the expected performance of products and the cost of rectifying any items that do not meet contractual standards. Historical experience and the determinations of qualified employees have been used by management in determining the appropriate provision required.

ii. Revenue Recognition

Operating revenue arising from the completion of a contract is calculated in accordance with the relevant stage of completion. The extent of completion is calculated with reference to the terms of the contract, the costs incurred and management input as to the stage of completion.

iii. Impairment of goodwill

The Group determines whether goodwill with indefinite useful lives is impaired at least on an annual basis. This requires certain assumptions being made in determining the recoverable amount of the cash generating unit, using a value in use discounted cash flow methodology, to which goodwill has been allocated.

iv. 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, manufacturer's warranties, lease terms and managements' judgement on the performance of the asset. Adjustments to useful lives are made when considered necessary.

v. Impairment of non-financial assets other than goodwill

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.

vi. Management's expectations of future payments

Management closely monitor the cash needs of the Group so that adequate financial resources are available to meet the immediate cash commitments

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 34.

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. The accounting policies have been applied consistently by all Group entities.

a) Basis of Consolidation

i. Subsidiaries

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

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

ii. Associates (equity accounted investees)

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

iii. 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, but only to the extent that there is no evidence of impairment.

b) New Accounting Standards and Interpretations

NZ IFRS Standards which have been issued but not yet effective and have not been adopted for the financial statements ending on 30 June 2011, are as follows:

Reference	Title	Summary	Application date of standard	Impact on Group Financial Statements	Application date for the Group
NZ IFRS 9	Financial Instruments	This standard is part of the IASB's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and subsequently measured at amortised cost or fair value.	1 January 2013	These amendments are expected only to affect the presentation of the Group's financial statements and have no material impact on the measurement and recognition of amounts in the financial statements.	1 July 2013
NZ IAS 24	Related Party Disclosures (Revised 2009)	This Standard makes amendments to NZ IAS 24 <i>Related Party Disclosures</i> . The amendments simplify the definition of a related party and provide a partial exemption from the disclosure requirements for government-related entities.	1 January 2011	These amendments are expected only to affect the presentation of the Group's financial statements and have no material impact on the measurement and recognition of amounts in the financial statements.	1 July 2011
NZ IFRS 10	Consolidated Financial Statement	The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee.	1 January 2013	It is not expected to have a material impact on the company.	1 July 2013
NZ IFRS 13	Fair Value Measurement.	The Standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs.	1 January 2013	It is not expected to have a material impact on the company	1 July 2013

c) Government Grants

Unconditional government grants relating to export market development and research and development are recognised in profit and loss when the grant becomes receivable.

d) Revenue Recognition

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

e) Investment Revenue

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

f) Foreign Currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the income statement.

g) Inventories

Inventory of component parts 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 expensed in the income statement.

Work in Progress includes the cost of direct materials, components, direct labour and an appropriate share of production overheads based on normal operating capacity.

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

h) Supplier Prepayments

Supplier prepayments comprise deposits paid to suppliers and goods paid for but not on hand at the factory site. Typically such items include gearbox components, tower steel and nacelle claddings.

i) Goods and Services Tax (GST)

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

j) Financial Instruments

i. 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.

Trade and Other Receivables

Trade receivables, which generally have terms of 30 to 60 days, are measured at cost, which approximates fair value at balance date.

Collectability of trade receivables is reviewed on an on-going basis. Individual debts that are known to be uncollectible 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.

Investments in Equity Securities

Shares in equity securities are designated as available-for-sale financial assets except for investments in equity securities of subsidiaries or associates which are measured at cost in the financial statements of the Company and are initially recorded at cost and subsequently revalued to fair value by reference to published price quotations from an active market. Any revaluation surplus or deficit (other than impairment losses) arising on the revaluation of an investment is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for the asset is recognised in the income statement in the period it arises. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the profit and loss account.

ii. Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments to hedge its risk associated with foreign currency fluctuations arising from operational, financing and investment activities. Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and subsequently re-measured to their fair value at balance date. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as fair value hedges.

Fair Value Hedge

Changes in the fair value of derivatives that do not qualify as a cash flow hedge are recorded in the income statement.

k) 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 balance sheet 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 recognised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

l) 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 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:

Wind turbine and associated assets	7 years
Motor vehicles	5 years
Leasehold improvements	12 years
Office equipment	2 to 12 years
Equipment and tooling	1 to 14 years
Blade moulds	amortised over 50 pairs of blades

Repairs and maintenance costs are recognised in the income statement in the period they are incurred.

iii. Disposals

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

m) Intangible Assets

i. Goodwill

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

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

ii. Other intangibles 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 include patents, licenses and certifications are assessed as having a finite life are amortised equally over their useful lives from the time the patent, license or certification is available or 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.

n) Impairments

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

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised immediately in the income statement.

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 Groups 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 assets recoverable amount is estimated. For goodwill, which has an indefinite life, the recoverable amount is estimated at each reporting date.

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 profit and loss. 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 the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods and assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

iii. Impairment of equity instruments

Equity instruments are deemed to be impaired whenever there is significant or prolonged decline in fair value below the original purchase price. For this purpose prolonged is regarded as any period longer than nine months and significant as more than 20 percent of the original purchase price of equity instrument.

Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the income statement.

o) Progress Payments

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

p) Warranty Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and the risks specific to the liability.

Each turbine commissioned includes warranty cover. The full warranty cover, which extends for up to five years, is expensed in the income statement as a direct manufacturing expense when the turbine is commissioned. As turbines are commissioned, the Company assesses, and makes provision for, the likely expenditure arising from the warranty.

Various suppliers will also give warranties to the Company, which may offset the Company's gross cost for any warranty claims, and the amount of such recovery is assessed on an assessment of the probability that such recovery will eventuate.

At the end of each year, the warranty records of all turbines are reviewed and the adequacy of the amounts provided for the remainder of the warranty period are reassessed. The provision will be increased or decreased depending on each individual turbine's history and expected future warranty expenses.

Any costs arising from the warranty during a period are charged to warranty expense and any warranty received from suppliers is credited to warranty monies received.

q) Retentions

Retentions represent the final payment of the selling price of the turbines that have been commissioned during the financial year. These amounts are included in total revenue and are due and payable at specific periods following the commissioning of each turbine.

r) Research and Development Costs

Research costs are recognised in the income statement as incurred.

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

s) Employee Entitlements

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

Wages, salaries, annual leave and sick leave

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

as the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

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

An employee share option scheme is offered to employees of the Company (Refer Note 14) 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.

t) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its Ordinary Shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of Ordinary Shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of Ordinary Shares outstanding for the effects of all dilutive potential Ordinary Shares.

u) Changes to accounting policies

There have been no changes to accounting policies during the reporting period other than the application of the new standards and interpretation contained in Improvements to NZ Equivalents to IFRS effective 1 July 2010

4. SEGMENTAL REPORTING

The Group and Company trade in one business segment being the manufacture of wind turbines.

The Group and Company's production and manufacturing operations are all based in the New Zealand geographical segment. Revenues are currently all derived from within New Zealand.

5. REVENUE

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Operating revenue:				
Sale of turbines	7,998	7,998	22,382	22,382
Maintenance fees	845	845	719	719
Warranty Provision Released	1,177	1,177	688	688
Other	130	-	141	-
	10,150	10,020	23,930	23,789
Other revenue:				
Consultancy fees	242	242	308	308
Cost recovery	-	-	-	-
Foreign currency losses	(57)	(57)	(32)	(32)
Dividends received	-	104	-	-
Subvention payment received	-	287	-	-
Profit/(Loss) on NZ Windfarm share movement	55	55	(57)	(57)
Sale of rights offer NZ Windfarms	-	-	406	406
New Zealand Trade and Enterprise grant	95	95	-	-
Sundry income	72	42	103	103
	407	768	728	728
Interest received	58	57	241	239
Total revenue	10,615	10,845	24,899	24,756

6. OPERATING EXPENSES

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Operating expenses include:				
Amortisation and impairment of licences and patents	299	195	146	146
Depreciation	216	186	365	335
Research and development	696	696	500	500
Audit fees	43	43	35	35
Directors' fees	217	212	208	203
Rent and leases	468	266	446	260
Write down of investment in subsidiaries and associate company loans	-	756	-	-
Loss on sale of fixed assets	4	4	1	1
Employee benefit expense:				
Wages and salaries	4,025	3,865	4,638	4,099
Defined contribution & superannuation	48	46	56	49

7. DIRECTORS' COMPENSATION

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Salaries and remuneration	312	232	289	209
Directors' fees	217	212	208	203

8. EARNINGS PER SHARE

	2011 Group	2010 Group
Weighted average number of shares on issue	15,718,264	11,993,489
Additional shares if all options converted	687,916	528,756
Total potential shares	16,406,180	12,522,245
Basic earnings per share	(0.44)	(\$0.66)
Diluted earnings per share	(0.42)	(\$0.63)

9. TAXATION

Taxation expense	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Operating deficit	(7,030)	(6,710)	(7,950)	(8,365)
Prima facie taxation expense at 30%	(2,109)	(2,013)	(2,385)	(2,509)
Add back permanent differences:				
Non-deductible entertainment & legal fees	7	7	15	15
Amortisation of intangibles	90	58	44	44
Provision against intercompany investment	-	27	-	-
Provision against intercompany account balance	-	186	-	-
Add back temporary differences:				
IEC Certification expenditure	-	-	(21)	(21)
Current year's loss for which no deferred tax benefit is recognised	2,012	1,734	2,347	2,471
Income tax expense	-	-	-	-

Deferred tax	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Deferred tax benefit at beginning of year at 28%	(6,110)	(6,110)	(3,865)	(3,865)
Tax benefit for the year at 28%	(1,878)	(1,619)	(2,190)	(2,306)
Tax effect of timing differences at 28%	145	149	-55	61
Deferred tax benefit at end of year	(7,843)	(7,580)	(6,110)	(6,110)
Resident withholding tax (RWT on interest received to be refunded)	4	4	26	26

The above deferred tax benefit has not been recognised in the financial statements due to on the lack of certainty that such benefits will be able to be utilised by the company.

10. IMPUTATION CREDIT ACCOUNT

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Balance at beginning of year	28	26	28	26
Resident withholding tax refunded	(26)	(26)	-	-
Resident withholding tax paid	4	4	-	-
Balance at end of year	6	4	28	26

11. CONTRIBUTED CAPITAL

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Balance at beginning of year	28,400	28,400	28,400	28,400
Ordinary shares issued	2,898	2,898	-	-
Balance at end of year	31,298	31,298	28,400	28,400

	Number of ordinary shares			
	Group	Company	Group	Company
Balance at beginning of year	11,993,489	11,993,489	11,993,489	11,993,489
Placements	3,724,775	3,724,775	-	-
Balance at end of year	15,718,264	15,718,264	11,993,489	11,993,489

On the 8th of December 2010, the company allotted 3,724,775 ordinary shares at a subscription price of \$0.90 per share, Total capital raised amounted to \$3,352,230, from which was deducted underwriting costs and other costs of raising capital totalling \$453,799.

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

12. REVALUATION RESERVE

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Balance at beginning of year	-	-	1,553	1,553
Revaluation of NZ Windfarms Ltd shares	-	-	(1,553)	(1,553)
Balance at end of year	-	-	-	-

13. STOCK AND WORK IN PROGRESS

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Stock prepaid	-	-	540	540
Stock on hand	1,850	1,752	4,679	4,538
Work in progress	6	-	160	104
Stock and work in progress	1,856	1,752	5,379	5,182

14. SHARE OPTION PLANS

a) Employee Share Options

The Company, on the 19th 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.

Movements in share options issued during the year:

	Year of Issue				
	2011	2010	2009	2008	Total
Exercise Price	\$0.86	\$0.93	\$1.83	\$2.94	
Expiry Date	20/06/14	20/06/13	20/06/12	20/06/11	
Balance at 1st July 2010	-	357,808	136,548	34,400	528,756
Granted during year	193,560	-	-	-	193,560
Exercised during the year	-	-	-	-	-
Lapsed during the year	-	-	-	(34,400)	(34,400)
Total options at end of year	193,560	357,808	136,548	-	687,916

Share Options Outstanding

The weighted average remaining contractual life for the share options outstanding at the 30th June 2011 is 2.06 years (2010: 2.61 years). The range of exercise prices for option outstanding at the end of the year was \$0.86 to \$1.83 (2010: \$0.93 - \$2.94). The weighted average fair value of options granted in the year was \$0.86 (2010: \$0.93).

The carrying amount of the liability (contained in "other liabilities") relating to cash settled share based payment at balance date is \$21,652. No cash settled awards vested during the period to 30 June 2011 (2010: Nil). In determining fair value, weighted average volatility was assessed at 55% based on experience over the previous 12 month period, a nil dividend expectation was assumed and the 5.15% risk free interest rate was assumed based on the 10 year Bond Yield.

b) Royalty Share Options

The Company, on the 22nd January 2002, entered into an agreement wherein a royalty was payable to 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 \$10,000 per turbine plus 10,000 share options of \$1.00 each. The total number of options is limited so that if exercised do not represent more than either 1,000,000 shares in Windflow Technology Ltd or more than 20% of the issued share capital of Windflow Technology Ltd.

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

There were no royalty options issued or exercised during the year (2010: nil).

15. DEFERRED INCOME

Deferred income classified as progress payments is a current liability and consists of customer progress payments for construction work in progress in respect of which the stage of completion of the relevant wind turbine does not justify revenue recognition in accordance with the accounting policies of the Group. All progress payments are expected to crystallise as revenue in the forthcoming financial year.

16. PROVISIONS

Provision for warranties:

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Balance at beginning of year	4,574	4,574	2,197	2,197
Amounts added to warranty provision	1,252	1,252	3,066	3,066
Amount deducted from warranty provision for warranty provisions elapsed	(440)	(440)	(689)	(689)
Balance at end of year	5,386	5,386	4,574	4,574
Expected to be utilised within one year	2,274	2,274	1,929	1,929
Provision for period of 1 to 5 years	3,112	3,112	2,645	2,645
Balance at end of year	5,386	5,386	4,574	4,574

Warranty provisions relate to the obligation the Company has to its customers in respect of product warranty for turbines sold. This warranty extends for up to five years from the date of commissioning. The provision is based on estimates made by the engineering staff of the Company from historical warranty data. In determining these estimates, the Company has undertaken rigorous analysis of all material warranty issues, including a probabilistic assessment of the likely recovery from suppliers. Where appropriate, third party peer review has been sought for this analysis.

The increase in the warranty provision in the current year relates to the higher number of turbines commissioned, together with provisioning for all known, foreseeable, and statistically likely warranty requirements arising during the warranty period.

During the 2010 financial period, the Company and NZ Windfarms Ltd ("Windfarms") reached agreement on a monitoring programme with respect to some components in the early turbines at Te Rere Hau which were subsequently modified as part of the Company's IEC Certification process because they did not meet IEC requirements for a 20 year life. Under this agreement, Windfarms are entitled to retain a sum of \$966,200 plus GST (being the total potential remediation cost) from the proceeds of the retentions (refer to Note 19) which will be released to the Company if and when remediation works are undertaken during the five year warranty period or, if prior to the end of the current five year warranty period a report from an independent consultant provides an opinion that the affected components can be expected to achieve a 20 year life and accordingly do not need to be upgraded. In the absence of such a report, any components not upgraded will be subject to a warranty from the Company that extends to the end of the 20 year design life, provided the Company remains the operations and maintenance contractor to Windfarms. Any retention held at the end of the five year warranty period is repaid once the extended 20 year warranty is provided. A provision in respect of the likely cost of the potential remediation cost has been included in the above provision for warranties.

The warranty provision of the company includes the full \$966,200 potential cost of remedial work referred to in the above paragraph.

Other provisions: Employee entitlements

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Balance at end of year	272	272	367	365

17. CASH ON HAND AND AT BANK

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Trading accounts balances	789	708	2,334	2,272
Deposits held as security	55	55	55	55
Balance at end of year	844	763	2,389	2,327

The Company has \$15,000 and \$40,000 deposited as security with a financial institution. These serve as security in respect of the NZAX and for the company credit cards respectively. The Company earns interest at a rate between 3.1% - 4.5% depending on the term the funds are deposited.

18. TRADE AND OTHER RECEIVABLES

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Trade and other receivables	393	389	1,810	1,780
Prepayments	57	57	172	170

In 2011 no allowance for doubtful debts was made, balances past due at balance date are \$nil (2010: \$nil). There are no receivables due from related parties.

19. RETENTIONS

Retentions represent contractual amounts withheld by the customer as a surety against the operational performance of the wind turbines. Retentions are payable by the customer in the twelve months following commissioning.

As referred to in note 16, payment for all or part of \$966,200 (being a portion of total retentions) may be delayed until the earlier of:

- the date that remedial work potentially required to ensure certain turbine components meet the IEC requirements for a 20 year life is completed, or
- an independent consultant certifies that the components can be expected to reach their 20 year life and do not need to be upgraded, or
- the Company agreeing to extend the warranty in respect of the components to a term of twenty years from the commissioning date.

20. TRADE AND OTHER PAYABLES

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Trade payables	488	486	705	817
Employee entitlements	40	40	355	339
Sundry creditors and accruals	233	133	728	494
	761	659	1,788	1,650
Related party payables:				
Associates	-	-	270	270
Subsidiaries	-	188	-	456
Balance at end of year	761	847	2,058	2,376

21. GOVERNMENT GRANTS

During the year under review the Company has applied for, but not yet received, a \$36,171 grant from New Zealand Trade and Enterprise. The amount applied for represents a 50% reimbursement for international market development costs incurred during the financial year. The Company has not accrued for this income.

22. FIXED ASSETS

PROPERTY, PLANT & EQUIPMENT COMPANY – (\$000's)

	Office Equipment	Plant	Leasehold Improve- ments	Motor Vehicles	Components	Equipment	Assets under Construction	Total
Cost								
Balance at 1 July 2009	438	34	109	142	978	930	1	2,632
Additions	7	-	31	28	-	57	9	132
Balance at 30 June 2010	445	34	140	170	978	987	10	2,764
Additions	40	-	4	24	2	90	-	160
Disposals	(11)	-	-	(5)	-	-	(9)	(25)
Balance at 30 June 2011	474	34	144	189	980	1,077	1	2,899
Depreciation and impairment losses								
Balance at 1 July 2009	286	5	8	33	938	569	-	1,839
Depreciation for Year	88	-	12	23	40	161	-	324
Balance at 30 June 2010	374	5	20	56	978	730	-	2,163
Depreciation for Year	54	-	12	38	-	82	-	186
Disposals	(11)	-	-	(5)	-	-	-	(16)
Balance at 30 June 2011	417	5	32	89	978	812	-	2,333
Carrying amounts								
At 30 June 2009	152	29	101	109	40	361	1	793
At 30 June 2010	71	29	120	114	-	257	10	601
At 30 June 2011	57	29	112	100	2	265	1	566

**PROPERTY, PLANT & EQUIPMENT
GROUP – (\$000's)**

	Office Equipment	Plant	Leasehold Improvements	Motor Vehicles	Components	Equipment	Assets under Construction	Total
Cost								
Balance at 1 July 2009	438	3	144	142	978	1,1	1	2,917
Additions	7	-	38	28	-	65	9	147
Balance at 30 June 2010	445	3	182	170	978	1,2	10	3,064
Additions	40	-	4	24	2	90	-	160
Disposals	(11)	-	-	(5)	-	-	(9)	(25)
Balance at 30 June 2011	474	3	186	189	980	1,3	1	3,199
Depreciation and impairment								
Balance at 1 July 2009	284	5	12	33	938	64	-	1,913
Depreciation for Year	89	-	19	23	40	18	-	355
Balance at 30 June 2010	373	5	31	56	978	82	-	2,268
Depreciation for Year	56	-	17	38	-	10	-	216
Disposals	(11)	-	-	(5)	-	-	-	(16)
Balance at 30 June 2011	418	5	48	89	978	93	-	2,468
Carrying amounts								
At 30 June 2009	154	2	132	109	40	53	1	1,00
At 30 June 2010	72	2	151	114	-	42	10	796
At 30 June 2011	56	2	138	100	2	40	1	731

Impairment

During the financial year, property, plant and equipment have been examined for impairment. No indicators of impairment have been identified and no material items of property, plant and equipment are considered to be impaired.

23. INTANGIBLE ASSETS

	Group (\$000's)				Company (\$000's)		
	Licences and Patents	IEC Certification Costs	Goodwill on Acquisition	Total	Licences and Patents	IEC Certification Costs	Total
COST							
Balance 1 July 2009	859	2,493	105	3,457	859	2,493	3,352
Additions	-	70	-	70	-	70	70
Balance 30 June 2010	859	2,563	105	3,527	859	2,563	3,422
Additions	-	-	-	-	-	-	-
Balance 30 June 2011	859	2,563	105	3,527	859	2,563	3,422
AMORTISATION AND IMPAIRMENT LOSSES							
Balance at 1 July 2009	706	-	-	706	706	-	706
Amortisation, Impairment	146	-	-	146	146	-	146
Balance 30 June 2010	850	-	-	850	850	-	850
Amortisation, Impairment	3	192	105	300	3	192	195
Balance 30 June 2011	853	192	105	1,150	853	192	1,045
CARRYING AMOUNTS							
At 30 June 2009	153	2,493	105	2,751	153	2,493	2,646
At 30 June 2010	9	2,563	105	2,677	9	2,563	2,572
At 30 June 2011	6	2,371	0	2,377	6	2,371	2,377

(a) Patents

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

Low Noise Gearing Patent No. 538381 dated 10th July 2008 was procured for \$7,348 and terminates on the 5th February 2017. This cost is amortised over the remaining period of the patent. Management has assessed the value of this patent in respect of prospective sales and licensing opportunities and are satisfied that the carrying value of this item is not impaired.

(b) IEC Certification

These costs, generated both internally and externally, represent the costs incurred by the Company to apply for IEC Certification. The total cost of certification is amortised over a 10 year period, being term over which the Company anticipates being able to use this assets limited by the likely term of the legal right. Management has assessed the value of this certification in respect of prospective export sales and licensing opportunities and are satisfied that the carrying value of this item is not impaired.

(c) Goodwill

The goodwill which Windflow Technology Ltd acquired as part of the acquisition of Wind Blades Ltd was valued at \$105,000 in December 2008.

For the purposes of impairment testing, Wind Blades Ltd is at the lowest level at which goodwill is monitored. The recoverable amount of the Group's goodwill is based on its value in use. The manufacturing operations of the Company have been suspended pending receipt of orders from the United Kingdom (refer to note 34). Due to the consequential impact on the goodwill's value in use, the balance has been written off in these financial statements.

24. SUBSIDIARY AND ASSOCIATED COMPANIES

(a) Subsidiaries within the Group comprise:

	Nature of business	Interest percentage	
		2011	2010
Wind Blades Ltd	Construction of blades for wind turbines	100	100
Windflow International Ltd	Non trading	100	100

TRH Services Ltd (previously named Windflow Hawaii Ltd)	Non trading	100	100
Windflow UK Ltd (incorporated in the United Kingdom)	Non trading	100	-
Our Wind Ltd	Non trading	100	-

During the year the Group incorporated Our Wind Limited to promote community sub megawatt wind projects using the technology of the Company and Windflow UK Limited to promote the Windflow product range and manage the distribution network in the United Kingdom market.

The manufacturing operations of the Company have been suspended pending receipt of orders from the United Kingdom (refer to note 34). Due to the consequential impact on the trading activities of the Company's subsidiary company Wind Blades Limited, the \$90,000 investment in this company is considered to be impaired and has been fully provided for in the financial statements of the Parent Company.

(b) Associated companies within the Group comprise:

Nature of business		Interest percentage	
		2011	2010
Wind Gears Ltd	Development and construction of gear boxes for the Wind turbines	50	50
Windpower Otago Ltd	Non trading	20	20

During the year, Wind Gears Limited ceased operations and distributed its assets.

(c) Summary information for equity accounted associated investees, not adjusted for the percentage ownership held by the Group are (\$000's):

	Assets (\$000's)	Liabilities (\$000's)	Revenue (\$000's)	Profit (\$000's)
2010				
Wind Gears Ltd	2,130	1,740	6,613	236
Windpower Otago Ltd	-	-	-	-
2011				
Wind Gears Ltd	-	-	989	9
Windpower Otago Ltd	-	-	-	-

(d) Movements in carrying value of equity accounted investees are:

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Opening balance	210	5	92	5
Share of net surplus after tax (distribution of assets)	(205)	-	118	-
Balance at end of the period	5	5	210	5

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

25. 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 only one customer, NZ Windfarms Ltd.

The Company has advanced minor amounts to its subsidiaries and associate companies which are unsecured (Refer Note 24).

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. The Group is arranging equity injections sufficient to meet its medium term business plan (Refer Note 33).

iii) Foreign Exchange Risk

The Company has exposure to foreign exchange risk as a result of transactions, in particular purchases of raw materials and components, denominated in Euro. The Company has approved treasury policy that sets out the parameters under which foreign exchange cover is to be taken. At balance date the Company had no forward exchange contracts.

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 balance date, there were no term deposits held for periods greater than 90 days. The Group has no interest bearing debt.

(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 17. Funds are held at registered banks with a Standard and Poor's credit rating of not less than AA.

There is a significant credit risk arising from there being substantially only one customer of the Company. The risk arising from this is closely managed. No collateral is held, nor any credit enhancement, for this risk. 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 the reporting date was as follows:

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Due in 0-30 days	393	389	365	335
Due in 31-120 days	-	-	1,445	1,445
Balance at end of the period	393	389	1,810	1,780

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.

The Group has not provided for the impairment of any receivable. The manufacturing operations of the Company have been suspended pending receipt of orders from the United Kingdom (refer to note 34). Due to the consequential impact on the trading activities of the Company's subsidiary company Wind Blades Limited, the intercompany account between the Company and Wind Blades Ltd is considered to be impaired by \$666k in the financial statements of the Parent Company.

ii) Liquidity risk

The Group and Company has no borrowings. Financial liabilities are comprised of the short terms payables disclosed in note 20.

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

iii) Foreign Exchange Risk

At the reporting date, the Group and Company has no exposure to foreign currency risk.

iv) Interest rate risk

At the reporting date, the Group and Company has no financial liabilities, nor any exposure to interest rate derivatives. All cash and term deposits held by the Group and Company are short term.

(c) Capital Management

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

The directors aim to provide a capital structure which:

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

The Company is listed on the NZ Stock Exchange, requiring continuous disclosure obligations and 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 subject to any external capital requirements.

(d) Fair Value

The carrying amounts of the financial instruments in the Group and Parents balance sheet are the same as their fair value in all material aspects.

The fair value of investments in listed companies is calculated using quoted prices in active markets, therefore the Group has categorised this asset as Level 1 under the fair value hierarchy contained within the amendment to NZ IFRS 7 (refer also to Note 12).

(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:

As at 30 June 2010

	Note	Held to maturity	Loans and receivables (\$000)	Other amortised cost (\$000)	Designated at fair value	Total carrying amount (\$000)	Fair value (\$000)
Assets							
Other investments	24,12	210	-	-	1,189	1,399	1,399
Total non-current assets		210	-	-	1,189	1,399	1,399
Cash and cash equivalents	17	-	2,389	-	-	2,389	2,389
Retentions	19	-	1,444	-	-	1,444	1,444
Trade and other receivables	18	-	1,810	-	-	1,810	1,810
Total current assets		-	5,643	-	-	5,643	5,643
Total assets		210	5,643	-	1,189	7,042	7,042
Liabilities							
Progress payment held	15	-	-	2,872	-	2,872	2,872
Trade and other payables	20	-	-	2,058	-	2,058	2,058
Total current liabilities		-	-	4,930	-	4,930	4,930
Total liabilities		-	-	4,930	-	4,930	4,930

As at 30 June 2011

	Note	Held to maturity	Loans and receivables (\$000)	Other amortised cost (\$000)	Available for sale	Total carrying amount (\$000)	Fair value (\$000)
Assets							
Other investments	24,12	5	-	-	-	5	5
Total non-current assets		5	-	-	-	5	5
Cash and cash equivalents	17		844	-	-	844	844
Retentions	19		2,356	-	-	2,356	2,356
Trade and other receivables	18		393	-	-	393	393
Total current assets			3,593	-	-	3,593	3,593
Total assets		5	3,593	-	-	3,598	3,598
Liabilities							
Progress payment held	15	-	-	-	-	-	-
Trade and other payables	20	-	-	761	-	761	761
Total current liabilities		-	-	761	-	761	761
Total liabilities		-	-	761	-	761	761

26. 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 2011 (2010: nil).

ii) Key management personnel compensation

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

iii) Other transactions with key management personnel

Person	Transaction	Note	Transaction value		Balance outstanding ⁽²⁾	
			2011	2010	2011	2010
B Leay; Chairman	Management services	(1)	\$1,070	-	\$887	\$394
K McConnell, Director	Management services	(1)	-	\$1,879	\$109	\$409
H Kelly, Director	Management services	(1)	-	\$27,000	-	\$692
C Parlane, Director	Management services		-	-	-	\$399
S Young	Management services	(1)	\$37,880	-	-	-
G Henderson, Director, CEO	Employee remuneration		\$200,000	\$209,000	-	-

Notes:

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

(2) Balances outstanding at 30 June 2011 relate to director related expenses unpaid.

(b) Associate transactions with Company.

Person	Transaction	Notes	Transaction value		Balance outstanding	
			2011 (\$000)	2010 (\$000)	2011 (\$000)	2010 (\$000)
Wind Gears Ltd	Purchases		777	4,760	-	270
	Loans	(1)	-	-	-	230
Windpower Otago Ltd	Loans	(2)	-	-	26	26
Wind Blades Ltd	Purchases	(3)	332	2,936		456
	Loans		292	-	774	482

Notes:

(1) The advance is interest bearing and repayable upon demand.

(2) Windflow Technology Ltd has advanced funds to that company to assist in initial set up costs and as at balance date these totalled \$25,902 (30 June 2010: \$25,902). The advance is interest free and repayable upon demand.

(3) Purchases include a subvention payment of \$287,395

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

(c) Key management personnel compensation

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Short term employee benefits	1,280	1,200	1,382	1,302

27. RECONCILIATION OF REPORTED DEFICIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Net Deficit	(7,030)	(6,710)	(7,950)	(8,365)
Less Non-cash items:				
Amortisation and impairment of licences & patents	299	194	146	146
Depreciation	216	186	365	335
Loss on sale of fixed asset	(4)	(4)	(1)	(1)
Write down of investment in subsidiary company	-	90	-	-
Cash flow from operations before working capital changes	(6,519)	(6,244)	(7,442)	(7,885)
Movements in working capital:				
Decrease in accounts payable excluding asset purchases	(230)	(373)	(1,300)	(1,195)
Increase in accounts payable asset purchases	-	-	5	5
Decrease in progress payments held	(2,873)	(2,873)	(8,892)	(8,891)
Increase in holiday pay	(47)	(37)	11	11
Increase/(Decrease) in accruals	(1,205)	(1,155)	564	564
Increase in provisions	1,010	1,343	2,432	2,377
Decrease in other assets	-	-	193	197
Decrease/(increase) in maintenance accrual	(86)	(86)	(173)	(173)
Movement in accounts receivable & interest accrued	1,684	1,390	(1,446)	(985)
Movement in stock & WIP	3,520	3,429	4,879	4,797
Movement in prepayments	45	43	324	331
Movement in retentions	(912)	(912)	1,749	1,749
Movement in GST	(37)	(24)	(4)	-
Decrease in tax asset	31	22	-	-
Net cash flows from operating activities	(5,619)	(5,477)	(9,100)	(9,098)

28. OPERATING LEASES

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

	2011		2010	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Within one year	336	214	443	234
One to five years	312	312	770	630

The operating leases relate to the leasing of warehouse space, office premises, motor vehicles and a fork lift. All leases are reviewed on a regular basis.

29. MAJOR CUSTOMERS

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

30. SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

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

31. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30 June 2011 (2010: nil).

32. COMMITMENTS

The Group has no capital commitments as at 30 June 2011 (2010: nil).

33. SIGNIFICANT EVENTS AFTER BALANCE DATE

In August 2011 the Company concluded a negotiation with NZ Windfarms Limited ("NWF") whereby the Company sold \$858,000 of its spares stock for turbines to NWF. As part of this agreement the Company has created a special purpose subsidiary, TRH Services Limited ("TSL") (previously named Windflow Hawaii Limited), to provide the continuing operations and maintenance services at NZ Windfarms Limited's Te Rere Hau Windfarm ("TRH"). NWF has been granted an option over the shares of TSL in the event of the Company becoming insolvent (and various other events). NWF has also been granted various securities over TSL, and certain other Windflow assets including the New Zealand rights to its intellectual property, although only for the purpose of operating and maintaining TRH.

At the date of this report, the Company has yet to receive orders from the United Kingdom. This has placed considerable pressure on the cash resources of the Company. On 1 August 2011, the Company announced its intention to raise additional share capital through a Share Purchase Plan opening Thursday 15 September 2011, with allotment planned for 6 October 2011. It is expected that the funds raised by the Share Purchase Plan and other short term measures will provide the company with funds to progress the following course of action:

1. conduct a formal licensing sale process for its intellectual property assets,
2. continue to support its TRH operations and maintenance services and warranty obligations to NWF, and
3. continue Windflow's market development activities in the UK in the expectation that the uncertainty created by the UK Feed-In Tariff ("FIT") review will be resolved by the end of 2011, and that orders in at least modest volumes will be forthcoming.

During the period since balance date, the Company has identified numerous potential licensees who have an interest in its technology. It has had preliminary discussions with several substantial international companies with a view to licensing the existing 500 kW design and/or providing engineering design services to develop variants for different markets and wind conditions. Conditional upon the success of its capital raising plan, the Company intends to conduct a formal competitive process to maximise the value of its Intellectual Property to the Company and its shareholders.

In July 2011, the Company appointed Bryan J Rendall (Electrical) Limited as a second United Kingdom dealer to complement the geographic coverage of the Company's existing distributor VG Energy Limited.

34. GOING CONCERN ASSUMPTIONS

These financial statements have been prepared using the going concern assumption.

The 2010/2011 year's budgeted financial performance assumed the commencement of orders from the United Kingdom. These orders (nor orders from any other source) did not eventuate, due primarily to the United Kingdom government's February 2011 announcement of an early review of the FIT. Proposed changes to the FIT are likely to be made public in late September or October 2011. Until this date, market uncertainty will continue to delay the receipt of orders. Competition risk in the United Kingdom has also increased as larger turbines, de-rated to 500 kW, have entered the market.

The above lack of sales has set back the Company's programme for achieving profitability and has had a substantial adverse impact on the cash position of the Company. Further losses are probable in the year ending 30 June 2012 with the level of losses dependent upon the successful sale of the Company's intellectual property and the receipt and timing of United Kingdom orders.

The continued operations of the Group are dependent on the ability to fund future activities from the receipt of retentions and other payments from NZ Windfarms in accordance with the existing contractual provisions and the following proposed sources of new funds:

1. Further capital raising sufficient to meet, as a minimum, the immediate and projected short term cash requirements of the Company,
2. Revenue arising from the licensing of the Group's intellectual property in the form of upfront and recurring licence fees and the sale of engineering services, and
3. Deposits from turbine orders from the United Kingdom.

In the event that the Company fails to raise the above minimum amount of capital, the continued use of the Going Concern concept will be reassessed by the Board.

There are risks associated with the achievability of each of the above three strategies. The Directors' decision to apply the going concern assumption is itself based on an assumption that the Company can generate net new cash flow of \$2.4m from any combination of the above three sources sufficient to meet the Company's operational cash flow requirements through the period to January 2012 when substantial retentions are due to be received from NZ Windfarms Ltd which in turn are expected to fund the Company to June 2012. Considerations associated with each of the above alternatives are:

1. The capital raising through the Share Purchase Plan could provide \$2.35m should 160 shareholders take up their full \$15,000 entitlement at an issue price of \$0.50 per share. This represents 17% of the shareholder base compared to the 38% who participated in the last capital raising. Shares issued under the Share Purchase Plan are limited to 30% of the existing shares on issue, which means the Company can issue up to 4,715,479 shares under the Share Purchase Plan, hence the \$2.35m figure at \$0.50 per share. The issue price is being fixed by the Directors on 14 September 2011.
2. The Company has received significant interest from potential purchasers of licences for its intellectual property, even prior to a formal sale process being entered into. One Fortune 500 company is at the advanced evaluation stage of the intellectual property with the objective of entering into a licence and engineering support agreement. The level of interest and, based on negotiations to date, the prospective valuation of the Company's intellectual property provide evidence that this strategy is both realistic and a mechanism to provide substantial Company and shareholder value.
3. The review of the FIT incentive has arisen due to the strong uptake from large scale solar arrays and anaerobic digestion. The energy generation policy settings under the FIT from wind generation intended by the United Kingdom governments have not been achieved. It is believed that the review of the FIT will not materially change the incentive available to wind turbines such as our Windflow 500. The existing Feed-in Tariff provides wind turbine owners with a

strong payback on their investment varying from 2 to 5 years. Prior to the announcement of the review, the FIT incentives had resulted in substantial demand for wind turbines in the United Kingdom market. The Company believes that if the Feed-in Tariff review is resolved favourably for wind turbines, then a suitable number of orders will be forthcoming.

Based on the Company's:

- cash flow forecasts which assume \$2.4m of net new cash flow is received during the period to January 2012 sufficient to meet the Company's operational cash-flow requirements,
- forecast warranty liabilities and
- forecast level of shareholders' funds within the Company,

the Board considers the going concern assumption to be a valid basis on which to prepare the financial statements. This conclusion was reached giving due regard to circumstances likely to affect the company within a 12 month period from the date of this financial report, and to circumstances which may occur beyond that date which may affect the going concern assumption.

Having reached the conclusion that the going concern assumption is valid there remains a substantial element of uncertainty that sufficient cash flow will be generated in the available time period from capital raising plans, license sales and sales orders from the United Kingdom. Should the Company be placed in a position where it is unable to continue in normal operations or meet its commitments as they fall due, then adjustments may be required to reflect the need for assets to be realised or liabilities met at values materially different from those recorded in the financial statements. These financial statements do not include provision for losses that may occur as a result of the Company ceasing to be a going concern.

Audit Report

PKF Goldsmith Fox Audit
Chartered Accountants



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Windflow Technology Limited

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Windflow Technology Limited on pages 16 to 40 and its subsidiaries, which comprise the balance sheet of Windflow Technology Limited and the consolidated balance sheet as at 30 June 2011, and the consolidated and separate income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information

Directors' Responsibility for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal control as the directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the consolidated financial statements on pages 16 to 40:

- Comply with generally accepted accounting practice in New Zealand;
- Give a true and fair view of the financial position of Windflow Technology Limited and group as at 30 June 2011 and their financial performance and its cash flows for the year ended on that date.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Note 34 in the financial statements which records that there is a significant element of uncertainty over the amount and timing of funds expected to be generated from capital raising, selling of licences, and selling of turbines. These uncertainties indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The financial statements have been prepared on a going concern basis, the validity of which depends on sufficient cash flow being received to enable the company to continue in operational existence. If the company were unable to continue in operational existence for the foreseeable future, adjustments would most likely have to be made to reflect the situation that assets would be realised at amounts lower than they are currently recorded in the balance sheet. In addition the company may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets. Such adjustments could be material.

Report on Other Legal and Regulatory Requirements

In accordance with section 16 of the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by Windflow Technology Limited as far as appears from an examination of those records.

PKF Goldsmith Fox Audit

13 September 2011
Christchurch, New Zealand

Corporate Governance

INTRODUCTION

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

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

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

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

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

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

BOARD COMPOSITION AND MEMBERSHIP

As at the 30th June 2011 the Board comprised five Directors. This included a non-executive Chairman, and executive Director (the Chief Executive Officer) and three non-executive Directors.

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

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

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

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

The Board held twelve face to face meetings during the 12 month period ended 30th June 2011. In addition to these formal meetings the Board met on other occasions both in person and by telephone conference, to discuss specific issues.

Chief Executive Officer Performance Review

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

Directors' Shareholdings as at the 30th June 2011

There is a Share Option Plan with Mr G Henderson, the Chief Executive Officer, which relates to royalties payable under licence. This is detailed within note 14 of the Notes to the Financial Statements.

The Directors' disclosure of their shareholdings pursuant to Section 148 of the Companies Act 1993 and the New Zealand Exchange's Alternative Market (NZAX) listing rule are shown as at 30 June, 2011 in the list below.

Shares Held

Director	Beneficially	Interest of Associated Persons	Non-Beneficially
Barrie Leay	9,952	-	-
Geoff Henderson	507,202	1,525,129	-
Heugh Kelly	33,625	-	-
Keith McConnell	11,708	-	-
Simon Young	-	-	-

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 five Directors, all Directors were independent apart from Mr Geoff Henderson who is the Chief Executive Officer of the Group.

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

Board Committees

There is an Audit Committee consisting of Keith McConnell (Chairman), and Simon Young. Geoff Henderson also attends the meetings but in his capacity as Chief Executive Officer. This Audit Committee meets monthly on the same day as board meetings in order to review the financial reports with the CEO and the Company’s accounting staff. In addition to these scheduled meetings the Audit Committee also meets on other occasions to review amongst other things the Company’s Annual and Half-Yearly accounts.

There is also a Procurement Committee consisting of Heugh Kelly (Chairman), and Geoff Henderson. The Procurement Committee meets with the Production Manager on an as-required basis. The purpose of the committee is to review procurement contracts with suppliers especially as many of these are for substantial sums of money.

There is also a Remuneration Committee consisting of Barrie Leay (Chairman), and Geoff Henderson. The objective of the committee is to assist the board in the establishment of remuneration policies and the discharging of the Board’s responsibilities relative to remuneration—setting and review of, the Company’s Chief Executive Officer, other senior executives, and directors (both non-executive and executive).

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

ETHICAL STANDARDS

Code of Ethics

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

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

Conflicts of Interest

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

Insider Trading

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

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 during the financial year:

Director	Counterparty	Nature of Interest
Barrie Leay	Our Wind Ltd	Director – appointed 2 August 2010
	Windflow Technology Ltd	Purchase of 4,976 shares in the Rights Issue allotted 9 December 2010
Geoff Henderson	Our Wind Limited	Director – appointed 2 August 2010
	Windflow International Ltd	Director – Name changed from Pacific Windfarms Ltd on 21 April 2011
	Windflow UK Ltd	Director – appointed 9 May 2011
	TRH Services Ltd	Director – Name changed from Windflow Hawaii Ltd on 16 June
	Windflow Technology Ltd	Shareholding increased by 10,521 shares due to an inheritance.
	Windflow Technology Ltd	Director and Shareholder of Aeolian Property Company Ltd - purchased 1,100,350 shares in the Rights Issue allotted 9 December 2010
Heugh Kelly	Windflow Technology Ltd	Purchase of 3,000 shares in the Rights Issue allotted 9 December 2010
	Windflow International Ltd	Director – appointed 6 April 2011
	Windflow UK Ltd	Director – appointed 9 May 2011
	Wind Gears Ltd	Resigned as Director on 25 May 2011
	TRH Services Ltd	Director – appointed 16 June 2011
Keith McConnell	Wind Gears Ltd	Resigned as Director on 26 May 2011
Caroline Parlane	Windflow Technology Ltd	Resigned as Director on 8 September 2010
Simon Young	The Lines Company Ltd	Director – appointed 3 June 2010
	Our Wind Ltd	Director – appointed 2 August 2010
	Tasman Infrastructure Ltd	Director – appointed 6 May 2011
	Windflow Technology Ltd	Fees received for services rendered in 2010

AUDIT GOVERNANCE AND INDEPENDENCE

The Board approved the reappointment of PKF Goldsmith Fox Audit as Auditors for the year ended 30th June 2011. Shareholders approved the Board setting the remuneration of the Auditors at the Annual Meeting in October 2010.

The work of the external Auditors 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 Auditors, PKF Goldsmith Fox Audit will be invited to the Annual General Meeting.

REPORTING AND DISCLOSURE

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

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

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

DIRECTORS REMUNERATION

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

The remuneration package of the Chief Executive Officer as at the 30th June 2011 was \$220,000.

The following table summarises the remuneration paid to the Directors for the period to 30 June 2011

Name	Directors Fees	Salary	Other Fees
Barrie Leay	\$55,000	-	\$1,070
Geoff Henderson	\$27,500	\$200,000	-
Heugh Kelly	\$27,500	-	-
Keith McConnell	\$32,500	-	-
Caroline Parlane	\$7,375	-	-
Simon Young	\$29,500	-	\$37,880

Fees for management services supplied to the Company by the Directors are disclosed in note 26 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.

RISK MANAGEMENT

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

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

SHAREHOLDER RELATIONS

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

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

COMPANY SECRETARY

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

EMPLOYEE REMUNERATION

For the period to 30 June 2011, there were 6 employees who earned more than \$100,000.

Remuneration Range NZ\$	Number of Employees
140 001 – 160 000	1
120,001 – 130,000	1
110,001 – 120,000	1
100,000 – 110,000	3

DIRECTORS INDEMNITY AND INSURANCE

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

SUBSIDIARIES AND DIRECTORS THEREOF

Windflow has five subsidiary companies. They are Wind Blades Ltd, Our Wind Ltd, Windflow UK Ltd, TRH Services Ltd and Windflow International Ltd. The Directors of Wind Blades Limited are Peter Brooking, Keith McConnell and Geoff Henderson, the Directors of Our Wind Ltd are Morgan Williams, Jeanette Fitzsimons, Duncan Currie, Barrie Leay, Simon Young and Geoff Henderson and the Directors of Windflow UK Ltd, TRH Services Ltd and Windflow International Ltd (which is non-trading), are Geoff Henderson and Heugh Kelly.

JOINT VENTURE WITH AH GEARS

In June 2008 the Company formed a Joint Venture with AH Gears (its gearbox manufacturer in Auckland), called Wind Gears Ltd in which Windflow Technology Ltd had a 50% stake. Keith McConnell and Heugh Kelly were the two Company's representatives on the Board of Wind Gears Ltd. The Company has now sold its shares in Wind Gears. For further information refer to note 24 in the Financial Accounts.

SUMMARY OF WAIVERS FROM NZX LISTING RULES

The Company obtained a waiver from NZAX Listing Rule 7.9.5 in October 2010 as part of the rights issue held in October / November 2010. The waiver enabled the Company to offer an over-subscription facility as part of the rights issue.

DONATIONS

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

Shareholder Information

The ordinary shares of the Company are listed on the NZAX. The information in the disclosures below has been taken from the Company's register at 29 August 2011.

TWENTY LARGEST ORDINARY SHAREHOLDERS

Shareholder	Shares	%
Mighty River Power Limited	2,382,496	15.16
Aeolian Property Company Limited	1,160,350	7.38
Delane Wycoff	1,100,000	7.00
David Iles	853,901	5.43
Geoff Henderson	507,202	3.23
New Zealand Central Securities Depository Limited	431,015	2.74
Jennifer Henderson	332,237	2.11
Reda Holdings Limited	241,000	1.53
ASB Nominees Limited	156,339	0.99
Sheila Kolstad	135,000	0.86
Caroline Stockdale	123,738	0.79
Paul Simmons	118,149	0.75
Bremca Holdings Limited	118,000	0.75
Margaret Simmons	108,149	0.69
FNZ Custodians Limited	105,030	0.67
Oliver Powell	91,967	0.59
Andrew Rochford and Sabina Rochford	91,679	0.58
Victor Holmes & Christine Holmes	90,694	0.58
Brett Whiston	85,689	0.55
Alastair Nicholson and Celia Wade-Brown	84,836	0.54
Total	8,317,471	52.92%

DISTRIBUTION OF SHAREHOLDERS

Holdings Ranges	Number of Holders	Number of Shares	%
1 - 1,000	125	75,661	0.48
1,001 - 5,000	391	1,103,709	7.02
5,001 - 10,000	180	1,352,444	8.55
10,001 - 50,000	204	4,202,308	26.79
50,001 - 100,000	16	1,111,536	7.07
100,001 - 1,000,000	12	3,229,760	20.55
1,000,001 - and over	3	4,642,846	29.54
Total	932	15,718,264	100.00

SUBSTANTIAL SECURITY HOLDERS

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received, the following persons were substantial security holders in the company at 30th June 2011.

Shareholder	Number of shares directly held	%
Mighty River Power Limited	2,382,496	15.16
Aeolian Property Company Ltd	1,160,350	7.38
Delane Wycoff	1,100,000	7.00
David Iles	853,901	5.43
Henderson Family Interests – made up of	871,981 ^{*1}	12.93
• Geoff Henderson	507,202	
• Jenny Henderson	332,237	
• Est. J. M. Henderson	10,520	
• Carl Henderson	10,521	
• Lyndall Henderson	10,521	
• Jon Henderson	980	
• Aeolian Property Company Ltd	1,160,350 ^{*1}	
Total	6,368,728	40.52

^{*1} The total of Henderson Family Interests excludes the beneficial interest in Aeolian Property Company Ltd shares to avoid duplication in the totals within the table.

The total number of issued voting securities as at 30th June 2011 was 15,718,264.

The Directors of the Company are:

Barrie Leay, Chairman of Directors

45 Ledbury Rd, Nelson

Barrie Leay was until mid-1997 Executive Director of the Electricity Supply Association of New Zealand. Subsequently he was elected as the founder Chairman of the APEC Energy Business Network in the Asia Pacific region, where he has been a leading figure in the reforms of the electricity industries and the establishment of competitive electricity markets in New Zealand and other APEC economies. Barrie is currently Chairman of Aquaflow Bionomic Corporation Ltd, ThePacific.net Ltd, Broadband Networks Ltd, NetSolutionz Ltd, Ecodyne Ltd, ASCE Corporation Ltd, and is a director of Renewables Ltd, Our Wind Ltd and several other companies.



Keith McConnell, Director

Unit 1,12 Balfour Rd, Auckland

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

Geoff Henderson, Director and Chief Executive Officer

50 Waiwetu Street, Christchurch

A chartered mechanical engineer, Geoff Henderson has been involved in wind power engineering for twenty 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 the Aeolian Property Company Ltd and six companies in which the Company has shares, Wind Blades Ltd, TRH Services Ltd, Our Wind Ltd, Windpower Otago Ltd, Windflow UK Ltd and Windflow International Ltd (non-trading).



Heugh Kelly, Director

Shegadeens Road, R.D. 1, Wellsford

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

Simon Young, Director

7 Tole St, Ponsonby, Auckland

Simon Young has had a diverse career to date in the electricity industry as a founder and owner of his own energy trading company Opunake Hydro Ltd, Managing Director of Alliant Energy New Zealand Ltd, and as a Director of TrustPower Ltd. Simon was also co-founder and Managing Director of Empower Ltd, New Zealand's first independent electricity retailer. He holds a Bachelors Degree in Business Studies, a Post-graduate Diploma in Horticultural Science and Masters Degrees in both Science and Economics.



Directory

Management Team

Chief Executive Officer..... Geoff Henderson
 Chief Technology Officer..... John Arimond
 Finance Adviser John Hunter
 Production Manager..... Jules Ganley
 Windfarm Operations Manager Peter Chadwick
 Quality Manager..... Kevin Twohig
 Accountant Martin Richardson
 Marketing Manager Sheralee MacDonald
 Company Secretary Terry Moon

Solicitor

Guy Mortlock
 Mortlocks
 137 Armagh St
 Christchurch

Registered Office

HFK Ltd
 4/567 Wairakei Road
 Christchurch

Auditor

PKF Goldsmith Fox Audit
 250 Oxford Terrace
 Christchurch

Share Registry

Link Market Services Ltd
 138 Tancred St
 Ashburton

Bankers

Bank of New Zealand
 81 Riccarton Rd
 Christchurch

Insurance Brokers

Marsh Limited
 Level 1, 447 Blenheim Rd
 Christchurch

Principal Suppliers as at 30 June 2011

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