



WINDFLOW TECHNOLOGY LTD **HALF YEAR REPORT**

FOR THE SIX MONTH PERIOD ENDED 31st DECEMBER 2010

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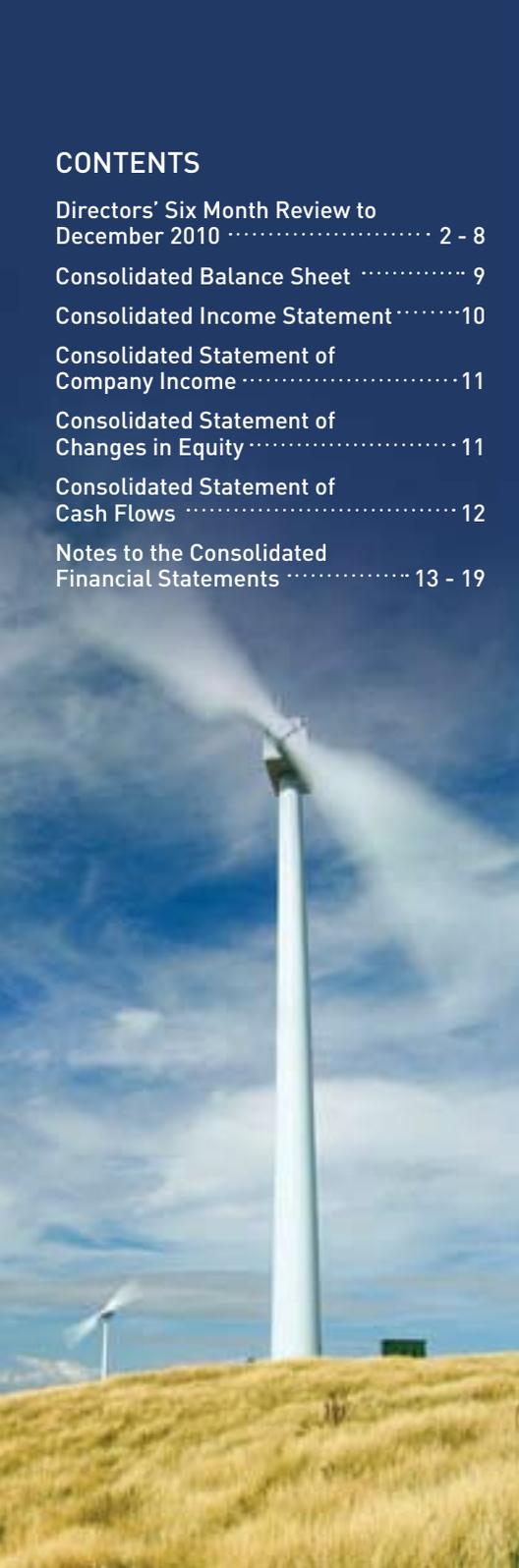
OVERVIEW

In the six months to 31 December 2010, Windflow reached a major milestone: in September, 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.

This milestone represented the culmination of four years of intensive work on top of four years of preliminary work. It involved meeting the requirements of many other standards in the IEC 61400 series as well as other international standards, exhaustive calculation work, rigorous testing of components and the whole turbine and independent inspection of our manufacturing processes. An overarching requirement has been that we demonstrate compliance with world-class quality systems, to which end we obtained ISO 9001 certification in 2008.

Certification to Class 1A (Edition 3) means that the Windflow 500 can claim to be significantly tougher than a turbine certified to Class 1A Edition 2, because Edition 3 of IEC 61400-1 is significantly more arduous in the way that it deals with turbulence. The Windflow 500 is one of the first turbines in the world certified to Class 1A Edition 3.

It is especially notable that the Windflow 500 also has the highest power-to-weight ratio in the wind industry, whether that is measured as rated power or, more importantly, average power output. This vindicates the fundamental cost-effectiveness of the turbine, which is a strong commercial advantage that should be realised once the Windflow 500 is in volume production, and other variants are developed based on the Windflow 500 architecture.





Another important milestone was passed in October 2010: the track record of the Windflow 500 reached 100 turbine-years at Te Rere Hau. Combined with the Class 1A IEC Type Approval Certificate, this track record is establishing the turbine's credentials as Windflow prepares to enter overseas markets while continuing to pursue opportunities in New Zealand.

In addition, there were several other highlights in the six months:

- Construction resumed at Te Rere Hau wind farm (TRH), with 12 new turbines installed on the eastern extension by the end of December.
- TRH operating availability was 96.0% for calendar year 2010.
- Windflow appointed VG Energy as its exclusive distributor and reseller for the UK to meet significant demand for 500 kW turbines.
- UK Trade and Investment (UKTI) awarded Windflow 1st prize as New Zealand winner of a "fast track market entry" competition for our business plan to enter the UK market.
- Windflow raised \$3.3 million through a rights issue in November.

In summary, the six months saw Windflow making good progress after a difficult previous year of delays to both the IEC Type Approval process and the Te Rere Hau project. Those delays have continued to affect Windflow's bottom line in a number of ways. The largest effect has been that revenue which was expected in the previous financial year has been spread over at least two years.

Currently the best prospects for turbine orders are from the UK. Accordingly the Windflow board and management are very much focussed on securing orders from that quarter.

The Christchurch earthquakes: how have they affected Windflow?

Like all Cantabrians, the Windflow team has been shocked by the events of the last six months and extends sympathies to those who have lost family members, those whose houses have been destroyed and those businesses which have suffered major interruptions as a result.

Windflow has been fortunate that the September 4th and February 22nd earthquakes did not cause any major injuries to Windflow's staff and immediate families. Windflow's premises needed only minor repair, and the water and power supplies were not interrupted at all.

The prototype turbine at Gebbies Pass survived both events without damage and was able to resume operation once power was restored and the turbine inspected each time.

On February 22nd the Windflow directors were all in Mancan House in the Christchurch CBD for a strategy day with the senior management team. They all experienced the earthquake at 12:51 (Mancan House was undamaged), and then joined the stunned citizens in Cambridge Tce outside the collapsed PGC building. They then joined the evacuation of the CBD except for one team member, Sheralee Macdonald, who notably stayed on to do sterling work as a volunteer assisting the rescue team at the PGC building until midnight with the administrative task of determining names of people inside the building. Sadly those names include people that Windflow regularly does business with.

The Windflow team shares the pain of all Christchurchers but also the commitment to stay the course and rebuild this beautiful city. Canterbury's world-leading earthquake engineering community will no doubt apply the lessons learned to achieve ever more sophisticated safety performance under earthquake loads whether it be from new houses, tower blocks or rebuilt heritage.

FINANCIAL RESULTS

The consolidated six-month results show Windflow produced a gross profit of \$0.076 million (\$1.565 million 2009). Revenue was \$3.994 million (\$14.259 million) and the overall net loss was \$4.336 million (\$1.628 million).

This loss can be attributed predominantly to the year's delay in completing the build of TRH Stage 4, which led to reduced revenue and therefore margin contribution.

The total investment in IEC certification (after amortisation) is recorded on the balance sheet as \$2.499 million.

At 31 December 2010, total equity (net assets) stood at \$5.183 million (\$13.497 million last year).

The outlook for the coming year depends on the success of the Company's ongoing efforts to achieve further orders in the UK, New Zealand or elsewhere. Completion of the TRH Stage 4 build is providing a baseline of revenue, but it is taking time to achieve orders in the UK market. As a result Windflow is budgeting for a loss in the year to 30 June 2011 of about \$6.7 million whether or not orders are received before then. This is because the deposits received at time of such orders (which are expected before June) will not be recognised as significant revenue by that date.

The directors are confident that the long term market for wind turbines, combined with the significant intellectual property that now resides within Windflow in terms of operating experience and design excellence, will ensure that Windflow receives the necessary support from investors and customers, enabling the company to remain a going concern.

However there is uncertainty about the timing of the next order for the Windflow 500, whether from the UK or elsewhere. Accordingly, as a contingency against the possibility of further delays in receipt of orders and also to accelerate the Company's development into the UK and US markets, the directors are starting to explore avenues for further capital raising. See also Note 17 to the Financial Statements.

TE RERE HAU WIND FARM

This wind farm being developed with NZ Windfarms now has 80 turbines installed and operating or being commissioned. The remaining 17 turbines, taking the project to 48.5 MW, are expected to be fully commissioned by the middle of the calendar year 2011.

The performance of the turbines over the last year has been very pleasing. For the calendar year 2010, the wind farm achieved 96.0% availability which exceeded the contracted performance of the turbines. Windflow has provided 5 year warranties to NZ Windfarms for all 97 turbines.

Windflow continues to work hard to ensure that any technical issues that arise on site are resolved in a timely manner in order to keep performance figures above warranted levels. As TRH is a world-class wind site, with strong winds and complex terrain, several technical issues have already been addressed over the past year. The company expects to address further issues from time to time over the next year, particularly as new turbines are being commissioned, and it has adjusted its provisions to allow for these.

The TRH wind farm is proving to be an excellent reference wind farm site for the Windflow 500. Prospective customers who visit the site are impressed with the ease of installation, low environmental impact and operational performance of the innovative turbines.

OTHER NEW ZEALAND PROJECTS

Long Gully

In June 2010 Windflow obtained resource consent from Wellington City Council for up to 25 Windflow 500 turbines at the Long Gully wind farm site. Windflow led the consenting effort on behalf of Mighty River Power who initiated the project.

Mighty River Power changed its generation portfolio strategy so as to divest itself of small scale generation. Thus Mighty River Power notified Windflow in June that it would not proceed to construction stage as expected. Windflow has since been in negotiations with Mighty River Power to transfer the project to Windflow so that the Company can work towards other avenues which would see the project built and demonstrating the merits of small scale distributed generation. These negotiations have not been successfully concluded to date, but Windflow continues to liaise with Mighty River Power on ways to ensure the project proceeds.

Our Wind Limited

During 2010 Windflow has been meeting with a group of prominent New Zealanders who are committed to establishing the concept of community-owned wind power here. These meetings have led to the formation of a subsidiary company, Our Wind Limited (OWL). The independent directors of OWL are:

- Dr Morgan Williams (Chairman) former Parliamentary Commissioner for the Environment.
- Jeanette Fitzsimons, former co-leader of the Green Party, now retired from parliament.
- Duncan Currie, an environmental lawyer who practises internationally for clients including Greenpeace International and the Pew Foundation, as well as for Windflow on the Long Gully, Te Rere Hau and Gebbies Pass resource consent applications.

In addition Professor Ralph Sims from Massey University is advising the board of OWL, in between his work on renewable energy for the UN's Intergovernmental Panel on Climate Change (IPCC). Windflow also has three of its directors on the OWL board, Barrie Leay, Simon Young and Geoff Henderson.

On 9 March, 2011, OWL was introduced to the public at a meeting with Blueskin Resilient Community Trust (BRCT) near Dunedin. OWL and BRCT signed a memorandum of understanding to work together to develop a small wind farm using a few Windflow 500 turbines at Blueskin Bay.

This initiative is intended to be replicated at other communities around New Zealand. Thus it has the potential in the medium term to add to the demand for the Windflow 500. However it will probably be a year or two before the OWL initiative results in turbine orders.

INTERNATIONAL MARKETS

With IEC Certification, the turbines pleasing track record at TRH and the Company's production and quality systems well established, Windflow has increasingly been progressing opportunities in international markets.

United Kingdom

As reported in the last Annual Report, a Feed-in Tariff (FIT) policy incentivising small scale renewable generation came into place in the UK on 1 April, 2010 and has resulted in an unprecedented demand for 500 kW wind turbines. The level of this incentive provides a compelling investment opportunity for customers in the UK. Accordingly Windflow, as one of the few 500 kW turbine providers in the world, is now well placed to make significant sales in this market and is working alongside its reseller, VG Energy (VGE) based near Glasgow, to progress potential orders.

Milestones of Windflow 500 Orders in the UK	Turbine numbers to	
	November 2010	March 2011
Enquiries for Windflow 500 turbines	370	550
Site surveys carried out	113	280
Deposits or payments made by from landowners for planning/line surveys	29	22
Planning applications lodged with local Councils	17	20
Applications made to the local power company for connection	17	24
Planning applications granted	0	1
Line surveys/connection cost estimates received from local power company	0	5
Sites for which planning granted <u>and</u> viable connection cost estimate received	0	0

In the 5 months since commencing the marketing of the Windflow 500 in the United Kingdom, VGE has received strong sales interest. The first formal stage in the process of installing turbines in the United Kingdom is to get planning consent and completion of a satisfactory lines survey, including a viable cost of connection to the lower power network. These activities act as an early indicator that VGE orders will be forthcoming. To date, VGE has reported the following progress: (see table).

While the number of "deposits paid" has decreased since November, all other numbers are increasing. The reason for the decrease in "deposits paid" is that seven sites have been ruled out for the Windflow 500 because of lack of local lines capacity. In this situation VGE applies the deposits to smaller turbines in its product range, so the sites are no longer counted as part of the Windflow 500 pipeline.

Of the 20 planning applications lodged, one has now received planning approval but not yet its lines survey (which will include a commercial offer to connect the turbine to the national grid).

UK Trade and Investment (UKTI) awarded Windflow 1st prize as New Zealand winner of a "fast track market entry" competition for our business plan to enter the UK market.

The NZ Export Credit Office, which is part of Treasury, has endorsed Windflow's business plan for UK market entry by agreeing to provide a 100% performance bond (advance payment guarantee) as required under the terms of any sales to the UK. NZ Trade and Enterprise has also been very supportive of Windflow's efforts to enter the UK and other international markets.

Thus there has been significant progress putting the elements in place for dealing with orders from the UK. However during February 2011, the United Kingdom Energy Secretary announced a comprehensive review of the FIT scheme following growing evidence that large scale solar farms could soak up money intended to help homes, communities and small businesses generate their own electricity (through wind generation, amongst others). The previous FIT review date of April 2013 has been brought forward to April 2012 (unless the review reveals a need for greater urgency). The results from the review will be released to the market in December of this year, but may be released as early as July.

The review is expected to substantially restore the FIT terms as they relate to wind generation. The reason for this belief is that the need for the review was initiated due to the unexpected use of the FIT by large scale solar arrays. The policy settings for new generation from wind turbines are yet to be achieved, and accordingly this element of FIT should remain largely unaffected. However this early review of the FIT increases the uncertainty about the timing of the first UK orders for the Windflow 500.

Should the Company be placed in a position where orders are not received by 30 June 2011, the Company will need to raise further investment capital. Accordingly, as a contingency against the possibility of further delays in receipt of orders and also to accelerate the Company's development into the UK and US markets, the directors are starting to explore avenues for further capital raising.

Once initial orders are achieved, the Company anticipates rapid growth of orders. To this end we have been establishing a presence in the UK. In the six months to 31 December 2010, a Windflow staff member moved to the UK to work for VG Energy as their Windflow Product Manager, and another staff member has relocated to Scotland for at least six months as Windflow's UK Business Development Manager. Recently Windflow announced the appointment of a sales manager to work alongside the UK Business Development Manager, giving Windflow two full-time employees based in Britain. Further support is provided to the UK effort by staff in Christchurch, and there is regular international travel to Scotland by those staff to provide additional support. The Windflow Marketing Manager, Sheralee MacDonald recently spent three weeks in the UK promoting the Windflow 500 to potential customers, developers, banks and industry consultants.

USA

In the six months to 31 December 2010, Windflow secured two potential demonstration sites for Windflow turbines at an existing wind farm of 500 kW two-bladed turbines in southern California. There has also been progress in developing relationships with potential investment partners. Raising capital is the next step before committing to the build of two 60 Hz Windflow 500's for that site, and then developing sales opportunities such as the Californian repowering market.

Chile

Windflow is continuing to work with its agent, Seawind South America, to promote the Windflow 500 in Chile. This market possibility is at an early stage of development.

PRODUCTION

Nacelle assembly production resumed during the six months after a period of delays to TRH Stage 4. During the six months Windflow produced 8 nacelle assemblies. As reported in the Annual Report, all the blades for TRH Stage 4 (including some spares) were completed by the end of the year and the lack of ongoing orders led to the need for temporary staff cutbacks at the factory of Windflow's subsidiary Wind Blades in Auckland. A small amount of outwork for other customers is keeping the remaining staff busy.

A significant production gap in calendar 2011 is now inevitable due to the lead times between orders and key nacelle assembly components being available. The directors and management are working to reduce losses and minimise production disruption during this period, pending the receipt of ongoing orders.

OUTLOOK

Overall, Windflow has many positive accomplishments and is now poised to participate in the largest 21st century growth sector of the electricity industry. The global wind industry has averaged 25% p.a. compound growth since 1990, which is a remarkable 90-fold increase from 2 GW in 1990 to 180 GW in 2010. It installed about \$100 billion worth of wind farms in each of 2009 and 2010, which is about three times larger than global hydro power and 200 times larger than global geothermal power (two other forms of renewable energy which are familiar to New Zealanders). In order to access a share of this market, Windflow has established and is seeking to grow a knowledge-based industry in New Zealand's unsubsidised economy. The company has unique intellectual property around its light-weight, yet robust design. This provides a fundamental manufacturing cost advantage, which will come into its own with sustained quantity production. This underpins Windflow's confidence that it will soon achieve significant ongoing sales based on the turbine's merits as evidenced by its track record at TRH and the Type Approval Certificate to IEC 61400-1 (Edition 3) Class 1A.

As usual there is no shortage of challenges for Windflow. The six months to 31 December 2010 saw Windflow making good progress towards recovering from a tough previous year. Internationally, turbine orders fell in 2009, so that in 2010 there was an oversupply of turbines world-wide and prices fell as a result. The volatility of the New Zealand dollar affects Windflow from month to month, and its strength adversely affected Windflow's competitiveness last year. In New Zealand, electricity demand growth has been weak, the hydro lakes are full and the spot market for wholesale electricity is not providing encouraging signals for new generation here. The Emissions Trading Scheme (ETS) took effect in July 2010 but its value as an incentive for renewable energy appears very small (less than 1 c/kWh).

All of these challenges have contributed to the fact that the Company has been delayed in its market development plans. A production gap in the calendar 2011 is now inevitable due to the lead times between orders and key nacelle assembly components being available. As a result the loss in the year ending 30 June 2011 is expected to be \$6.7 million. The directors and management are working to minimise losses and production disruption pending the receipt of ongoing orders.

The directors and management have recently completed a review of its strategy, which remains focussed on the short- and long-term market opportunities for the mid-size, Class 1A, Windflow 500. These represent a significant niche around the world at higher wind speed sites in New Zealand, the United Kingdom, USA and elsewhere. To achieve this market development, Windflow has a clear plan of action for the coming years, based on providing excellent product support at Te Rere Hau, and continuous product improvement, as well as new product development such as the 60 Hz variant for the US market. To accelerate this action plan and as a contingency against the possibility of further delays in receipt of orders, the directors are starting to explore avenues for further capital raising.

The directors would like to acknowledge all the Company's stakeholders and thank them for their ongoing support.

As at 31 December 2010 (Unaudited)

	Note	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Current assets				
Cash on hand and at bank	11	3,875	2,034	2,389
Accruals		381	337	306
Trade and other receivables		1,906	1,878	1,810
Prepayments		154	379	172
Retentions		-	4,558	1,444
Stock and work in progress	9	3,984	10,162	5,379
Tax refund due	7	32	27	27
Total current assets		10,332	19,375	11,527
Non-current assets				
Property, plant & equipment		752	902	796
Intangible assets		2,611	2,710	2,677
Advances to associates		117	256	256
Investments in listed shares		-	1,260	1,189
Investment in associates		48	128	210
Total non-current assets		3,528	5,256	5,128
Total assets		13,860	24,631	16,655
Equity				
Contributed share capital	8	31,328	28,394	28,400
Reserves		-	413	-
Retained deficit		(26,145)	(15,310)	(21,638)
Total equity		5,183	13,497	6,762
Non-current liabilities				
Provisions	10	2,514	2,579	2,645
Current liabilities				
Progress payments held		1,269	6,413	2,872
Trade and other payables		2,740	1,463	2,058
GST payable		1	34	22
Provisions	10	2,153	645	2,296
Total current liabilities		6,163	8,555	7,248
Total equity and liabilities		13,860	24,631	16,655

The notes on pages 13 to 19 are an integral part of these financial statements.

For and on behalf of the Board of Directors:



Director
10 March 2011



Director
10 March 2011

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2010 (Unaudited)

	Note	31 December 2010 (\$'000's)	31 December 2009 (\$'000's)	Audited 30 June 2010 (\$'000's)
Operating revenue	4	3,994	14,259	23,930
Cost of sales		(3,918)	(12,694)	(25,336)
Gross profit (loss)		76	1,565	(1,406)
Other revenue	4	270	207	728
Depreciation		(104)	(223)	(365)
Amortisation of licences and patents		(70)	(73)	(146)
General and administration costs		(1,076)	(1,212)	(2,276)
Engineering costs		(611)	(608)	(1,254)
Research and development costs		(382)	(234)	(500)
Marketing costs		(284)	(175)	(476)
Wind farm development, operations & maintenance		(2,174)	(1,040)	(2,496)
Loss from operating activities	5	(4,355)	(1,793)	(8,191)
Finance income	4	19	165	241
Loss before income tax		(4,336)	(1,628)	(7,950)
Income tax	7	-	-	-
Loss for the period attributable to the equity holders of the Company		(4,336)	(1,628)	(7,950)
Basic Earnings per Share	6	(0.28)	(0.14)	(0.66)
Diluted Earnings per Share	6	(0.26)	(0.13)	(0.63)

The notes on pages 13 to 19 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2010 (Unaudited)

	Note	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Loss for the year		(4,336)	(1,628)	(7,950)
Changes to the value of investments		(171)	-	(1,553)
Total comprehensive loss for the year, net of tax		(4,507)	(1,628)	(9,503)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2010 (Unaudited)

	Share Capital (\$000's)	Revaluation Reserve (\$000's)	Retained Earnings (\$000's)	Total Equity (\$000's)
Balance at 30 June 2010	28,400	-	(21,638)	6,762
Total recognised income and expenses	-	-	(4,507)	(4,507)
Contributions from Owners	2,928	-	-	2,928
Balance at 31 December 2010	31,328	-	(26,145)	5,183

The notes on pages 13 to 19 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2010 (Unaudited)

	Note	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Cash flows from operating activities				
Cash receipts from customers				
Consulting fees		254	210	239
Sales of turbines		2,761	5,621	11,694
Other		382	16	55
Interest received		19	179	237
Cash paid to suppliers and employees				
Suppliers		(3,472)	(12,934)	(16,176)
Employees		(2,228)	(2,454)	(4,636)
Other		(427)	(180)	(513)
Net cash used in operating activities	13	(2,711)	(9,542)	(9,100)
Cash flows from investing activities				
Disposal of tradable rights		-	-	405
Disposal of property plant and equipment		1	-	1
Sale of Listed Investments		1,344	-	(399)
Acquisition of intangible assets		-	(31)	(71)
Acquisition of property plant and equipment		(81)	(120)	(174)
Net cash used in investing activities		1,264	(151)	(238)
Cash flows from financing activities				
Issue of shares		2,928	-	-
Other		5	-	-
Net cash from financing activities		2,933	-	-
Net increase (decrease) in cash and cash equivalents				
		1,486	(9,693)	(9,338)
Cash and cash equivalents at beginning of period	11	2,389	11,727	11,727
Cash and cash equivalents at end of period	11	3,875	2,034	2,389

The notes on pages 13 to 19 are an integral part of these financial statements.

1. GENERAL INFORMATION

Windflow Technology Ltd (the "Company" or the "Parent") 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.

These statements were approved by the Board of Directors on the 10th March 2011.

The Company is profit oriented and undertakes wind turbine development and manufacture and, pending development of trading activities within the United Kingdom, operates solely within New Zealand.

2. SUMMARY OF ACCOUNTING POLICIES

The Financial Statements of the Group have been prepared in accordance with NZ IAS 34 Interim Financial Statement and are in respect of the Group only. These interim financial statements do not include all notes normally included in annual financial statements and accordingly should be read in conjunction with the 2010 Annual Report.

Disclosures in respect of dates titled 31 December relate to either the 6 months ended on that date or the balance as at that date, as the context requires. Disclosures in respect of dates titled 30 June relate to either the 12 months ended on that date or the balance as at that date, as the context requires.

3. SEGMENTAL REPORTING

The Group trades in one business segment being the development and manufacture of wind turbines.

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

4. GROUP REVENUE

	31 December 2010 (\$'000's)	31 December 2009 (\$'000's)	Audited 30 June 2010 (\$'000's)
Operating revenue:			
Sale of turbines	2,668	13,597	22,382
Maintenance fees	368	329	719
Other	958	333	829
	3,994	14,259	23,930
Other revenue:			
Consultancy fees	158	197	308
Cost recovery	-	71	-
Foreign currency gains	7	(75)	(32)
Movement on NZ Windfarm Ltd. share valuation	55	-	(57)
Sale of rights offer NZ Windfarms Ltd.	-	-	406
New Zealand Trade and Enterprise grant	48	-	-
Sundry income	2	14	103
	270	207	728
Interest received	19	165	241
Total revenue	4,283	14,631	24,899

5. GROUP OPERATING EXPENSES

	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Operating expenses include:			
Amortisation of licences and patents	70	73	146
Depreciation	104	223	365
Research and development	382	234	500
Audit fees	-	-	35
Directors' fees	105	100	208
Rent and leases	220	227	446
Employee benefit expense:			
Wages and salaries	2,228	2,454	4,638
Defined contribution & superannuation	26	31	56

6. GROUP EARNINGS PER SHARE

	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Weighted average number of shares on issue	15,718,264	11,993,489	11,993,489
Additional shares if all options converted	528,756	321,768	528,756
Total potential shares	16,247,020	12,315,257	12,522,245
Basic earnings per share	(\$0.28)	(\$0.14)	(\$0.66)
Diluted earnings per share	(\$0.26)	(\$0.13)	(\$0.63)

7. GROUP TAXATION

The Group has \$7,295,000 deferred tax benefit which has not been recognised in the accounts based on the lack of certainty that such benefits will be able to be utilised by the company.

8. GROUP CONTRIBUTED CAPITAL

	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Balance at beginning of year	28,400	28,394	28,400
Ordinary shares issued	2,928	-	-
Balance at end of period	31,328	28,394	28,400

Number of ordinary shares

	31 December 2010	31 December 2009	Audited 30 June 2010
Balance at beginning of year	11,993,489	11,993,489	11,993,489
Placements	3,724,775	-	-
Balance at end of period	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 \$427,604.

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

9. GROUP STOCK AND WORK IN PROGRESS

	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Stock prepaid but not on hand	190	3,547	540
Stock on hand	3,193	4,281	4,679
Work in progress	601	2,334	160
Stock and work in progress at end of period	3,984	10,162	5,379

10. GROUP PROVISIONS

	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Balance at beginning of year	4,574	2,197	2,197
Amounts added to warranty provision	100	1,175	3,066
Amount deducted from warranty provision for warranty provisions elapsed	[400]	[554]	[689]
Balance at end of period	4,274	2,818	4,574
Expected to be utilised within one year	1,760	239	1,929
Provision for period of 1 to 5 years	2,514	2,579	2,645
Balance at end of period	4,274	2,818	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 associated with similar products. 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 6 month period, compared to the corresponding period in the prior 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 previous financial year, 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 will retain a sum of \$966,200 plus GST from the proceeds of Batch 4 retention payments due, (being the total potential remediation cost) 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, or if components not upgraded are warranted by the Company to the end of the 20 year design life (provided the Company remains the operations and maintenance contractor to Windfarms). Any retention held under this arrangement is repaid once the extended 20 year warranty is provided.

The warranty provision of the company includes the potential cost of remedial work referred to in the above paragraph.

Other provisions:

	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Balance at end of period	393	406	367

11. GROUP CASH ON HAND AND AT BANK

	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Trading accounts balances	3,820	1,979	2,334
Deposits held as security	55	55	55
Balance at end of period	3,875	2,034	2,389

12. RELATED PARTY DISCLOSURES

(a) Underwriting

Aeolian Property Limited, (a company in which parties associated with Windflow Technology Limited's director Geoffrey Henderson have a 35% interest), provided a partial underwrite of the Company's December 2010 share issue. Pursuant to the underwriting agreement and subscription rights available to Aeolian Property Limited as a pre-existing shareholder in the Company, Aeolian Property Limited subscribed for 1,120,350 shares in the Company at \$0.90 per share.

(b) Loans to Directors

There were no loans to Directors issued during the period to 31 December 2010 (2009: nil).

(c) Key management personnel compensation

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

(d) Payments to Directors

There were no payments to Directors which were unusual or outside of amounts approved by shareholders.

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

	31 December 2010 (\$000's)	31 December 2009 (\$000's)	Audited 30 June 2010 (\$000's)
Net Deficit	(4,336)	(1,628)	(7,950)
Less Non-cash items:			
Amortisation of licences & patents	70	73	146
Depreciation	104	223	365
Loss on sale of fixed assets	(4)	-	(1)
Interest received	-	(179)	-
	170	117	510
Cash flow from operations before working capital changes	(4,166)	(1,511)	(7,440)
Movements in working capital:			
Decrease in accounts payable excluding asset purchases	(32)	(1,147)	(1,302)
Increase in accounts payable asset purchases	6	-	5
Decrease in progress payments held	(1,604)	(5,351)	(8,892)
Increase in holiday pay	29	-	11
Increase in accruals	480	-	391
Increase (Decrease) in provisions	(301)	781	2,432
Decrease in other assets	14	198	193
Decrease (Increase) in accounts receivable & interest accrued	251	(1,315)	(1,446)
Decrease in Stock & WIP	1,393	94	4,879
Decrease (Increase) in prepayments	(41)	58	324
Decrease (Increase) in retentions	1,444	(1,365)	1,749
Increase (Decrease) in GST	(184)	16	(4)
Net cash flows from operating activities	(2,711)	(9,542)	(9,100)

14. 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.

Operating revenue for the 6 months ended December 2010 is \$10.26m below the comparable 2009 period due to delays in the completion of Te Rere Hau site. For instance, in the prior 6 month period 23 turbines were commissioned, in contrast to there being no turbines commissioned in the 6 months to December 2010 (although 12 turbines have been installed, awaiting commissioning in the second half of the financial year).

Gross profit was affected by both the reduction in volume referred to in this note, together with the increased levels of warranty provisioning referred to in note 10.

The costs of wind farm operations and maintenance are \$1.13m above the comparable period last year. This cost increase reflects the internationally demanding nature of the environment at Te Rere Hau and the continuing responsiveness of the Company as it adjusts the design features of the Windflow 500 to cater for this world class wind site. The Company has provided for all anticipated future warranty costs in accordance with note 10.

15. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 December 2010 (December 2009: nil, June 2010: nil).

16. COMMITMENTS

The Group has no capital commitments as at 31 December 2010 (December 2009: nil, June 2010: nil).

17. MATERIAL UNCERTAINTY

These financial statements have been prepared using the going concern assumption. The continued operations of the Group are dependent on the ability to fund future activities from operational cash flows or the raising of further investment capital.

The Company has reported a net loss for the six months ended 31 December 2010 of \$4.336 million (December 2009 loss of \$1.628 million, June 2010 loss of \$7,950 million).

The current year's financial performance has been adversely affected by a difficult previous year of delays to both the IEC Type Approval process and the Te Rere Hau project. The consequences of this include delays in the receipt of on-going orders whether for projects in New Zealand or overseas, leading to significant operational losses.

The Company has been successful in securing a United Kingdom distribution agreement with VG Energy Limited ("VG Energy"). This agreement provides minimum sales volumes in return for VG Energy retaining exclusive distribution rights for the United Kingdom. Whilst there is no enforceability associated with the sales order timing or volumes, market conditions within the United Kingdom (refer below for details) make the receipt of orders in the current financial year likely. Achievement by VG Energy of the minimum order levels in the 2011/12 financial year would ensure the Company records a substantial profit in that year.

Assumed sales performance into the United Kingdom is dependent on the feed-in tariffs ("FIT") mandated by the United Kingdom government in respect of 500 kW wind projects. This incentive provides wind turbine owners with a strong payback on their investment varying from 3 to 5 years. The FIT have resulted in excess demand for wind turbines in the United Kingdom market. The feed-in tariff extends for 20 years and provides revenues which are inflation indexed.

During February 2011, the United Kingdom Energy Secretary announced a comprehensive review of the FIT scheme following growing evidence that large scale solar farms could soak up money intended to help homes, communities and small businesses generate their own electricity (through wind generation, amongst others). This comprehensive FIT review will assess all aspects of the scheme including tariff levels, administration and eligibility of technologies. The previous FIT review date of April 2013 has been brought forward to April 2012 (unless the review reveals a need for greater urgency). The results from the review will be released to the market in December of this year, but may be released as early as July.

This early review of the FIT increases the uncertainty that UK orders for the Windflow 500 will be forthcoming prior to the FIT review date in December 2011 (or potentially the earlier date of July 2011).

VG Energy anticipates the review will substantially restore the FIT terms as they relate to wind generation. The reason for this belief is that the need for the review was initiated due to the unexpected use of the FIT by large scale solar arrays. The policy settings for new generation from wind turbines are yet to be achieved, and accordingly this element of FIT should remain largely unaffected.

Capital raised in December 2010 provided sufficient capital for the Company to meet its likely liquidity needs through to the time orders were expected to be received from VG Energy.

Based on the Company's cash flow forecasts, forecast warranty liabilities and the prospect of sales by financial year end, 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 these financial reports were approved, 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 substantive element of uncertainty over the receipt of orders. Should the Company be placed in a position where orders are not received by 30 June 2011, the Company will need to raise further investment capital, otherwise it will then bring into doubt the Company's ability to meet its commitments as they fall due. In these circumstances, 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.

18. SIGNIFICANT EVENTS AFTER BALANCE DATE

(a) Banking facilities

On 10 March 2011 the Company entered into banking facilities with the Bank of New Zealand ("BNZ"). Under this facility agreement the BNZ has provided an Advance Payment Guarantee in the amount of \$11 million wherein deposits paid by VG Energy prior to the shipments of the turbines are repayable by the BNZ in the event of the Company's failure to deliver turbines in accordance with the contracted terms. The term of this facility is through to March 2012. The BNZ has also provided forward foreign exchange cover of NZ\$5 million.

Security granted by the Company for these facilities is a general security agreement over the present and future property of the Company, together with a guarantee from the New Zealand Export Credit Office in the sum of \$11 million.

(b) Wind Gears Limited

During the reporting period the directors of Wind Gears Limited, a 50% owned equity accounted associated investee of the Company, resolved to wind down its operations as a manufacturer of wind turbine gearboxes for the Company. Future production of gearboxes will be provided by two gearbox manufacturers, including A H Gears Limited (the other 50% shareholder of Wind Gears Limited). There are no material losses or impairments expected from the wind down of Wind Gears Limited.

(c) Change to the feed-in tariff

During February 2011, the United Kingdom Energy Secretary announced a comprehensive review of the FIT scheme wherein the previous FIT review date of April 2013 has been brought forward to April 2012 (unless the review reveals a need for greater urgency). This change creates uncertainty about the timing of sales orders receipt for the Windflow 500 as described in note 17 above.



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