



Windflow Technology Limited

Interim Financial Report 2011

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Directors' Six-Month Review to 31 December 2011

OVERVIEW

The six months to 31 December 2011 was a very difficult period for Windflow. It started with a major milestone; the last of 97 turbines at Te Rere Hau wind farm in Palmerston North (TRH) completing its commissioning on July 1st, bringing to a conclusion this first major project using the Windflow 500 turbine. However the financial state of the company meant that there was little celebration of that milestone.

A major initiative in the previous year had been to focus on entering the UK market based on a new Feed-in-Tariff (FIT) scheme which created a strong incentive for 500 kW turbines, of which there were few in the market place. Progress seemed very promising in late 2010 and early 2011, with a significant pipeline being established of projects in Scotland. However in February 2011 progress abruptly halted because the market's future was thrown into doubt by a UK government review of the scheme, two years earlier than hitherto promised at the scheme's inception. The delay in receiving cash from anticipated UK orders resulted in Windflow's cash reserves becoming depleted.

As a result shareholders were asked to support Windflow to provide the working capital for its proposed course of action:

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 would be finally determined by the end of 2011, and that orders in at least modest volumes would be forthcoming.

The capital raising was successful in raising \$2 million by early November, sufficient at the time to implement this course of action through at least to the end of June 2012.

The directors are pleased to be able to report that good progress has been made on all three of these action items, and that accordingly Windflow has a more secure future than it did in October. This review will briefly set out the progress which has been made. While the prospects that have previously been reported are now starting to materialise, shareholders should note that it will take time to rebuild Windflow's capabilities and capital value.

Barrie Leay 1938-2012

It was with great sadness that we learned our Chairman, Barrie Leay, died unexpectedly in Australia on 3 February 2012.



Barrie had been a Director of Windflow since its incorporation in 2000 and became Chairman in 2003. He had a boundless enthusiasm for renewable energy, brought about by experiencing the realities of the last oil crisis. His optimism and commitment to renewable energy has made a lasting difference to the industry. As NZ Windfarms director Vicki Buck put it, "he was a very strong believer in the world's capacity to avoid the extreme effects of climate change through technological innovation He had a huge smile and a total "can do" attitude that he lived. He made things happen everywhere. He was a great story teller. And in many ways a bit of a walking Facebook. Waiting in an airport with Barrie was like an exercise in connectivity because always he knew someone there."

He brought a wealth of energy experience and international contacts to Windflow through his prior roles as Executive Director of the Electricity Supply Association of New Zealand and Chairman of the APEC Energy Business Network in the Asia Pacific.

We are grateful for Barrie's valuable contribution to Windflow through the difficult start up years, and are glad that he saw the Windflow 500 successfully commercialised and internationally certified during his tenure. He was excited for the prospects for the company to take the turbine into international markets, and it is poignant that the long-expected license agreement with GD SATCOM was signed two weeks after his passing.

He will be greatly missed.

1. International Licensing of Windflow's Intellectual Property (IP)

As set out in the latest Annual Report, since March 2011 Windflow has been in negotiations with a US Fortune 500 company. On 17 February Windflow signed an agreement with GD SATCOM, a leading worldwide supplier of satellite and wireless communication equipment, to license its Windflow 500 turbine for manufacture and sale into North and South America, Africa, and US territories and military bases worldwide.

The agreement provides for a ten year relationship based on licensing and joint development around the Windflow 500. In addition to a royalty arrangement, the agreement provides co-funding for both the development of a 60 Hz version of the existing (Class 1A) turbine and the development of a Windflow 500 optimised for lower wind speeds.

A particularly pleasing aspect of the agreement is that it contains key provisions to support Windflow in resuming turbine manufacturing in Christchurch. The Windflow directors consider¹ that the value in Windflow's IP comes from the lessons it has learned about delivering operating reliability and cost-effectiveness by putting up turbines and operating them. Windflow's view has always been that such knowhow is best maintained and developed by ongoing experience as a designer-manufacturer.

One of the provisions is that GD SATCOM has contracted to offer warranty insurance, with the premiums to be determined on a case-by-case basis, for sales by Windflow in New Zealand and in other markets (such as the UK) which Windflow will continue to service directly.

GD SATCOM has also contracted to give Windflow limited access to the California and Hawaii markets, where opportunities for Class 1A turbines are relatively well developed. This may enable Windflow in the medium term to capitalise on the groundwork it has done in those states during the past few years.

The term of the agreement is ten years, with GD SATCOM having rights of termination after two years. GD SATCOM is contracted to make a number of payments to Windflow, both initially and over the term of the agreement. Some of these payments are contingent on design deliverables for product development over that two year period. In the near term these payments will cover some but not all of Windflow's planned operating expenses.

Royalties are expected to commence in year three under a conventional commercial arrangement, if and as GD SATCOM succeeds in selling wind turbines and assuming it does not exercise its rights of termination. No further details are being released due to commercial sensitivity.

As GD SATCOM has licensed only a portion of Windflow's IP, the company plans to develop additional revenues from further overseas opportunities, in addition to generating operating income by selling turbines made in Christchurch. Windflow retains the rights for manufacture and sale of its turbine designs throughout Europe, Asia and Australasia, as well as worldwide rights in the application of its field-proven core technologies in multimegawatt turbines. Windflow is working towards further partnerships and licensing opportunities.

In November Windflow engaged the Auckland-based firm Everedge IP to provide advice about a formal process for licensing Windflow's IP internationally, and to assist with negotiations with GD SATCOM. Windflow has also engaged Everedge, which has advised over 100 New Zealand companies in marketing their IP abroad, to progress further partnerships and licensing opportunities.

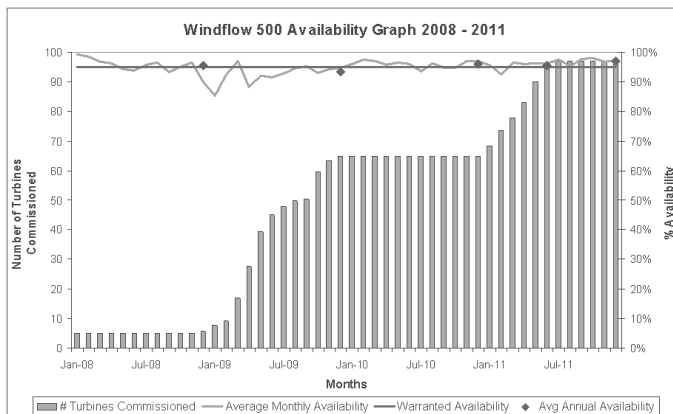
The Windflow directors are encouraged that the Windflow 500's potential for profitable volume manufacturing, due to its light-weight, yet robust design, may yet be realised.

¹ It is appropriate to emphasize that this Review is on behalf of the Windflow directors, and is not intended to represent GD SATCOM's opinions. General Dynamics has not endorsed these statements.

2. TRH Performance and O&M Arrangements

The 97 Windflow 500 turbines at TRH have continued to perform extremely well in the face of high winds and demanding storm conditions such as the 180 km/h storm experienced on November 21. The turbines shut down automatically when winds exceeded 108 km/h, following which all staff left site in mid-afternoon for safety reasons. By the following day, winds had eased to a gale (70+ km/h) and 100% of turbines were operating again.

For the calendar year 2011, the wind farm achieved 95.6% availability which exceeded the contracted performance of the turbines. The graph below shows the accumulated track record at TRH now in terms of numbers of turbines installed and overall availability.



Windflow has provided 5 year warranties to NZ Windfarms (NWF) for all 97 turbines. As set out in the last Annual Report, there are a number of significant component issues which Windflow has been handling as part of its warranty obligations. Pleasingly, the review of O&M provisions at year-end (June 2011) showed that a further increase was not necessary, suggesting that the turbines at TRH are collectively "over the hump" of initial issues to be resolved. The most expensive of these components (pitch bearings) are expected – along with some other components - to continue to need replacing at a reducing rate. Only one pitch bearing has needed replacing since June 2011, in large part due to a change of grease type. This compares to a replacement rate of more than one a month prior to the grease change, with the improvement being achieved as a result of some rigorous R&D on alternate greases carried out Windflow in Christchurch.

On October 20, NWF exercised its option to take over TRH Services Ltd and consequently the Operations and Maintenance function at TRH. Since then Windflow and NWF have been working constructively together on a range of transitional matters, which have taken and will continue to take some time to work through. Overall it is expected to provide a win-win solution for the two companies, with some cost reductions for Windflow in the short term, and with NWF improving its long-term security by carrying out the O&M function at TRH.

3. Windflow's UK Market Opportunities

There has been positive progress in the UK. A review of the Feed-in Tariff (FIT) scheme for renewable energy has now been completed and the UK Government's draft decision is to reduce the 500 kW wind FIT to 17.5 p/kWh (from 20.7 p/kWh) for projects completed from October 2012 onwards. The overall effect of this change (assuming it is confirmed once the public consultation period concludes in April) is minor in terms of project viability for the Windflow 500. Combined with the wholesale market value of electricity (which is paid in addition to the FIT), 500 kW turbines installed after October 2012 can now be confidently expected to earn about 21 p/kWh versus about 24 p/kWh if installed prior. This is still a very viable rate.

The prolonged uncertainty (February 2011 to February 2012) about the FIT scheme adversely affected the VGE pipeline discussed in earlier reports. In addition the possibility of derating turbines had a negative impact on their pipeline during that period. The FIT review did not resolve this question, thus leaving open the possibility that turbines can be derated to 500 kW and receive the 500 kW FIT (which would otherwise be 9.5 p/kWh). The fact that it has not been resolved is neutral and creates some risk for the competition that individual projects may or may not qualify for derating. In the present situation, whereby Windflow has focussed on a smaller niche in the high wind "Highlands and Islands" to target for its UK market entry, this is an outcome that the Directors are comfortable with in the short term.

Pending the FIT review, important progress was made towards completing the contractual arrangements for at least three initial projects in Scotland (likely to be Shetland, Orkney and North Harris). Since October:

- Electrical connection offers have been formally accepted for one Windflow 500 on Orkney and up to three Windflow 500 turbines on North Harris (the Shetland turbine does not need an electrical connection as it is planned to be off-grid)
- Planning permission has been received for one Windflow 500 turbine on Shetland (the Orkney turbine already had planning permission and the North Harris project has planning permission for three turbines of a different design which we are in the process of applying to be changed)
- In addition to Windflow UK Ltd, which is Windflow's subsidiary established to act as its UK distributor, a new subsidiary company, Windflow Hammer Ltd, has been established to be a holding company for Windflow's interests in the first three turbines
- Windflow Hammer Ltd has signed a partnership agreement with local developer Colin Risbridger for the Orkney project.

As part of the strategy that has developed in the last year, Windflow established a second dealer, BJRE Ltd based on Orkney. In turn this gives Windflow access to a small pipeline of projects on the Orkney and Shetland Islands, additional to these three, which are progressing through planning and other early stage project activities. Similarly the staff of Windflow UK Ltd are working with a number of other prospective dealers and customers on a range of projects for other "Highlands and Islands" applications including the many Hebridean islands.

Accordingly the Directors are of the view, following the release of the FIT review draft decision, that orders in at least modest volumes will be forthcoming from the Scottish market in particular.

To facilitate Windflow's UK market entry, as advised in October a Windflow shareholder has offered to provide finance by way of loans secured against the first three turbines to be installed in the UK, subject to acceptable final project agreements being concluded for these three turbines. Accordingly Windflow is now engaged in discussions with the shareholder about how to progress the proposed loan arrangement.

Financial Results

The consolidated six-month results show Windflow produced a gross profit of \$0.333 million (\$0.076 million 2010). Operating revenue was \$1.983 million (\$3.994 million) and the overall net loss was \$2.366 million (\$4.336 million).

This loss can be attributed predominantly to the lack of revenue.

In the recent past the company has taken measures to conserve cash, including:

- sub-letting parts of the factory and office space at Mandeville St
- reducing overall staff numbers from over 50 to 16 (excluding 4 part-time contractors):
 - 10 in the engineering/R&D team
 - 1 in production/procurement
 - 2 in marketing (UK-based)
 - 3 in administration.
- divesting itself of TRH Services Ltd
- establishing a presence in UK without over-investing
- selling stock held for TRH to NWF for cash.

At 31 December 2011, total equity (net assets) stood at \$2.327 million (\$5.183 million last year).

Windflow is budgeting for a loss in the year to 30 June 2012 of about \$2.5 million. This represents a slowing of the rate at which losses are accumulating because of new revenue under the license agreement with General Dynamics SATCOM Technologies Inc (GD SATCOM).

In addition the outlook for the coming year includes the possibility of three turbine sales to projects in Scotland. The directors expect that Windflow's ongoing efforts to achieve further orders in the UK, New Zealand and elsewhere will be boosted by being able to secure these first sales in the UK, together with the possibility of offering warranty insurance.

The main outgoings of the company are now the costs of maintaining an engineering core of expertise for research and development and of meeting its warranty obligations. Against that, the company expects new revenue to be gained from UK sales and international licensing. The directors are now becoming more confident that Windflow will be able to remain a going concern, and expect that the patience of all our stakeholders will be rewarded over the long term as these prospects start to develop.

Prospective New Zealand Projects

Long Gully

There has been no progress towards developing the 12.5 MW wind farm at Long Gully near Brooklyn which is consented to use up to 25 Windflow 500 turbines.

Mt Cass

Mainpower's Mt Cass wind farm is now consented for 67 Windflow turbines along with two other configurations based on larger turbines. Mainpower is expected to issue a competitive tender process for turbine procurement in the middle of 2012 for construction in approximately late 2013. Windflow hopes to have 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.

Our Wind Limited

Windflow subsidiary Our Wind Limited (OWL) remains a potential vehicle for progressing the concept of community-owned wind power and continues to liaise with Blueskin Resilient Community Trust (BRCT) near Dunedin. BRCT wishes to develop a small wind farm using a few Windflow 500 turbines at Blueskin Bay.

This type of project has the potential in the medium term to add to the demand for the Windflow 500. However it is not expected to be a short-term source of revenue.

New Developments

With an eye to the future Windflow is at the early stages of investigating a small number of other sites around New Zealand for possible utility-scale as well as community-scale projects.

Summary

In summary Windflow is making pleasing progress on all three actions to which it committed in September 2011. Shareholders will be pleased to know that Windflow did not suffer any damage in the latest round of Christchurch earthquakes since December 23rd, and looks forward to a more settled 2012.

Finally Windflow wishes to acknowledge its substantial debt to our chairman Barrie Leay. Barrie was with the company from its inception and contributed immeasurably to the achievements and successes of Windflow. Barrie was always convinced that the company would ultimately succeed in its stated goals and constantly kept the big picture firmly in sight. He was always a source of inspiration and will be sadly missed by all who had contact with him. Our sincere condolences go to his wife Gloria and their family.

While Barrie's shoes will be hard to fill, the directors are actively working to find a suitable replacement.

The directors have resolved that the first Windflow turbine installed overseas will, as a mark of remembrance of this British-born global citizen, be known internally at Windflow as 'Barrie', in a similar way that we remember Windflow's first Chairman Neil Cherry through 'Neil', the Windflow turbine installed at Gebbies Pass.

Consolidated Balance Sheet

As at 31 December 2011 (Unaudited)

	Note	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Current assets				
Cash on hand and at bank	11	591	3,875	844
Accruals		489	381	384
Trade and other receivables		386	1,906	393
Prepayments		9	154	57
Retentions		2,432	-	2,356
Stock and work in progress	9	1,150	3,984	1,856
Tax refund due	7	59	32	53
Total current assets		5,116	10,332	5,943
Non-current assets				
Property, plant & equipment		510	752	731
Intangible assets		2,248	2,611	2,377
Advances to associates		-	117	-
Investment in associates		-	48	5
Total non-current assets		2,758	3,528	3,113
Total assets		7,874	13,860	9,056
Equity				
Contributed share capital	8	33,236	31,328	31,298
Retained deficit		(30,909)	(26,145)	(28,668)
Total equity		2,327	5,183	2,630
Non-current liabilities				
Provisions	10	3,715	2,514	3,112
Current liabilities				
Progress payments held		-	1,269	-
Trade and other payables		700	2,740	761
GST payable		-	1	7
Provisions	10	1,132	2,153	2,546
Total current liabilities		1,832	6,163	3,314
Total equity and liabilities		7,874	13,860	9,056

The notes on pages 6 to 10 are an integral part of these financial statements.

For and on behalf of the Board of Directors:


Heugh Kelly
Director
9th March 2011


Keith McConnell
Director
9th March 2011

Consolidated Income Statement

For the six months ended 31 December 2011 (Unaudited)

	Note	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Operating revenue	4	1,983	3,994	10,150
Cost of sales		(1,650)	(3,918)	(8,860)
Gross profit (loss)		333	76	1,290
Other revenue	4	203	270	407
Depreciation		(83)	(104)	(215)
Amortisation of licences and patents		(129)	(70)	(299)
General and administration costs		(993)	(1,076)	(2,476)
Engineering costs		(600)	(611)	(1,198)
Research and development costs		(74)	(382)	(696)
Marketing costs		(408)	(284)	(611)
Wind farm development, operations & maintenance		(625)	(2,174)	(3,290)
Loss from operating activities	5	(2,376)	(4,355)	(7,088)
Finance income	4	10	19	58
Loss before income tax		(2,366)	(4,336)	(7,030)
Income tax	7	-	-	-
Loss for the period attributable to the equity holders of the Company		(2,366)	(4,336)	(7,030)
Basic Earnings per Share	6	(0.11)	(0.28)	(0.44)
Diluted Earnings per Share	6	(0.11)	(0.26)	(0.42)

The notes on pages 6 to 10 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2011 (Unaudited)

	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Loss for the year	(2,366)	(4,336)	(7,030)
Changes to the value of investments	-	(171)	-
Total comprehensive loss for the year, net of tax	(2,366)	(4,507)	(7,030)

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2011 (Unaudited)

	Share Capital (\$000's)	Revaluation Reserve (\$000's)	Retained Earnings (\$000's)	Total Equity (\$000's)
Balance at 30 June 2011	31,298	-	(28,668)	2,630
Total recognised income and expenses	-	-	(2,366)	(2,366)
Contributions from Owners	1,938	-	-	1,938
Balance at 31 December 2011	33,236	-	(30,909)	2,327

The notes on pages 6 to 10 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the six months ended 31 December 2011 (Unaudited)

	Note	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Cash flows from operating activities				
Cash receipts from customers				
Consulting fees		25	254	338
Sales of turbines and Components		1,289	2,761	6,719
Other		119	382	342
Interest received		10	19	52
Cash paid to suppliers and employees				
Suppliers		(2,240)	(3,472)	(8,035)
Employees		(1,120)	(2,228)	(4,231)
Other		(298)	(427)	(804)
Net cash used in operating activities	14	(2,215)	(2,711)	(5,619)
Cash flows from investing activities				
Disposal of tradable rights in shares		-	-	1,244
Disposal of Investment		48	-	-
Disposal of property plant and equipment		(17)	1	3
Sale of Listed Investments		-	1,344	-
Dividends received from Associates		-	-	100
Acquisition of property plant and equipment		-	(81)	(144)
Net cash used in investing activities		31	1,264	1,203
Cash flows from financing activities				
Issue of shares		2,000	2,928	3,174
Advance from Associate Company		-	-	150
Issue costs of Equity		(62)	-	(453)
Other		(7)	5	-
Net cash from financing activities		1,931	2,933	2,871
Net increase (decrease) in cash and cash equivalents		(253)	1,486	(1,545)
Cash and cash equivalents at beginning of period	11	844	2,389	2,389
Cash and cash equivalents at end of period	11	591	3,875	844

The notes on pages 6 to 10 are an integral part of these financial statements.

Notes to the 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 9th March 2012.

The Company is profit oriented and undertakes wind turbine development and manufacture and, pending development of trading activities within the United Kingdom and United States, 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. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

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 operates in two business segments being the development and manufacture of wind turbines and the sale of licensing agreements 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.

The Group's sale of licensing agreements is to the US and as at balance date no revenue had been earned.

4. GROUP REVENUE

	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Operating revenue:			
Sale of turbines	(147)	2,668	7,998
Sale of components	1,195	-	-
Maintenance fees	160	368	845
Warranty provision released	768	499	1,177
Other	7	459	130
	1,983	3,994	10,150
Other revenue:			
Consultancy fees	25	158	242
Fixed asset disposal	(18)	-	-
Foreign currency gains	(8)	7	(57)
Movement on NZ Windfarm Ltd. share valuation	-	55	55
Sale of Subsidiary Company – Te Rere Hau Services Ltd.	48	-	-
New Zealand Trade and Enterprise grant	36	48	95
Sundry income	120	2	72
	203	270	407
Interest received	10	19	58
Total revenue	2,196	4,283	10,615

5. GROUP OPERATING EXPENSES

	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Operating expenses include:			
Amortisation of licences and patents	129	70	299
Depreciation	83	104	216
Research and development	74	382	696
Audit fees	17	-	43
Directors' fees	86	105	217
Rent and leases	228	220	468
Loss on sale of fixed assets	-	-	4
Employee benefit expense:			
Wages and salaries	1,148	2,228	4,025
Defined contribution & superannuation	26	26	48

6. GROUP EARNINGS PER SHARE

	31 December 2011	31 December 2010	Audited 30 June 2011
Weighted average number of shares on issue	19,718,264	15,718,264	15,718,264
Additional shares if all options converted	528,756	528,756	687,916
Total potential shares	20,247,020	16,247,020	16,406,180
Basic earnings per share	(\$0.11)	(\$0.28)	(\$0.44)
Diluted earnings per share	(\$0.11)	(\$0.26)	(\$0.42)

7. GROUP TAXATION

The Group has \$8,607,000 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 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Balance at beginning of year	31,298	28,400	28,400
Ordinary shares issued	1,938	2,928	2,898
Balance at end of period	33,236	31,328	31,298

	Number of ordinary shares		
	31 December 2011	31 December 2010	Audited 30 June 2011
Balance at beginning of year	15,718,264	11,993,489	11,993,489
Placements	4,000,000	3,724,775	3,724,775
Balance at end of period	19,718,264	15,718,264	15,718,264

On the 27th of October 2011, the Company allotted 4,000,000 ordinary shares at a subscription price of \$0.50 per share. Total capital raised amounted to \$2,000,000 from which was deducted underwriting costs and other costs of raising capital totalling \$62,086.

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 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Stock prepaid but not on hand	-	190	-
Stock on hand	1,144	3,193	1,850
Work in progress	6	601	6
Stock and work in progress at end of period	1,150	3,984	1,856

10. GROUP PROVISIONS

Provision for warranties:

	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Balance at beginning of period	5,386	4,574	4,574
Amounts added to warranty provision	-	100	1,252
Amount deducted from warranty provision for warranty provisions elapsed	(742)	(400)	(440)
Balance at end of period	4,644	4,274	5,386
Expected to be utilised within one year	929	1,760	2,274
Provision for period of 1 to 5 years	3,715	2,514	3,112
Balance at end of period	4,644	4,274	5,386

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.

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 can 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.

During the period under review 5 turbines reached the end of their warranty period. The following table illustrates the number of turbines still under warranty for the wind farm in each six month period:-

Period	1 – 6/2012	7– 12/2012	1– 6/2013	7 – 12/2013	1 -6/2014	7 – 12/2014
Number of turbines under Warranty	92	92	92	81	20	0

Other provisions: Employee entitlements

	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Balance at end of period	203	393	272

11. GROUP CASH ON HAND AND AT BANK

	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Trading accounts balances	570	3,820	789
Deposits held as security	21	55	55
Balance at end of period	591	3,875	844

The Company has \$15,000 and \$6,000 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 4% - 5% depending on the length of term the funds are deposited.

12. SALE OF SUBSIDIARY COMPANY

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 was granted an option over the shares of TSL in the event of the Company becoming insolvent (and various other events). NWF was also 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.

On the 20th October 2011 NZ Windfarms Ltd. exercised its option (noted above) to take over Windflow Technology's subsidiary company TRH Services Ltd., this included the subsidiary company's employees and various Fixed Assets for the consideration of the net asset value of the subsidiary company. Consequently Windflow Technology Ltd. has no further obligations towards the maintenance of the wind turbines at Te Rere Hau wind farm; however all warranty obligations remain in force until the termination of the warranty period.

13. RELATED PARTY DISCLOSURES

(a) Underwriting

A shareholder provided a partial underwrite of the Company's October 2011 share issue. Pursuant to the underwriting agreement and subscription rights available as a pre-existing shareholder in the Company, this shareholder subscribed for 1,494,000 shares in the Company at \$0.50 per share. There was no underwriting fee incurred.

(b) Loans to Directors

There were no loans to Directors issued during the period or outstanding as 31 December 2011 (December 2010: nil, June 2011: nil).

(c) Key management personnel compensation

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

(d) Payments to Directors

Mr G. Henderson provided the Company with bridging finance prior to the capital raising of October 2011. This bridging finance was repaid in October 2011 after the capital raising. The Company paid an interest charge of \$904 for this loan. The duration of the loan was for a period 15 days.

Mr S. Young, Director provided management services of \$4,350. Mr H Kelly, Director provided management services of \$9000. Both of these were at normal commercial rates and were outstanding at 31 December 2011.

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

	31 December 2011 (\$000's)	31 December 2010 (\$000's)	Audited 30 June 2011 (\$000's)
Net Deficit	(2,366)	(4,336)	(7,030)
Less Non-cash items:			
Amortisation of licences & patents	129	70	299
Depreciation	83	104	216
Loss on sale of fixed assets	(18)	(4)	(4)
	194	170	511
Cash flow from operations before working capital changes	(2,172)	(4,166)	(6,519)
Movements in working capital:			
Decrease in accounts payable excluding asset purchases	(31)	(32)	(230)
Increase in accounts payable asset purchases	30	6	-
Decrease in progress payments held	-	(1,604)	(2,873)
Increase in holiday pay	(107)	29	(47)
Increase in accruals	201	480	(1,205)
Increase (Decrease) in provisions	(712)	(301)	1,010
Decrease/(Increase) in maintenance accrual	(106)	-	(86)
Decrease in other assets	-	14	-
Movement in accounts receivable & interest accrued	(7)	251	1,684
Movement in stock & WIP	705	1,393	3,520
Movement in prepayments	47	(41)	45
Movement in retentions	(76)	1,444	(912)
Decrease in tax asset	6	-	31
Movement in GST	7	(184)	(37)
Net cash flows from operating activities	(2,215)	(2,711)	(5,619)

15. SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

Revenue for the six months under review is comprised mainly of the sale of components to NZ Wind Farms Ltd.

16. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 December 2011 (December 2010: nil, June 2011: nil).

17. COMMITMENTS

The Group has no capital commitments as at 31 December 2011 (December 2010: nil, June 2011: nil).

18. 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, including new sources being the licensing of intellectual property and sales of turbines funded by Group borrowing.

Based on the Company's cash flow forecasts to calendar year end, incorporating contracted revenue from GD SATCOM, retention and other payments due from NWF, current operational costs, forecast warranty liabilities, and the prospect of the sale of at least one turbine into the UK, funded by Group borrowing, the Board considers the going concern assumption to be a valid basis on which to prepare these Interim Financial Statements. In addition the prospects of further sales of intellectual property and further sales of turbines by year end lend additional weight to the going concern assumption. This conclusion was reached giving due regard to circumstances likely to affect the company within a 12 month period from the date of these Interim Financial Statements, 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 an element of uncertainty over the receipt and expenditure of funds within the next 12 months. Should there be insufficient cash received, compared to expenditure, 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.

19. SIGNIFICANT EVENTS AFTER BALANCE DATE**(a) Change to the feed-in-tariff**

During February 2012, the United Kingdom Energy Secretary published a consultation document of their comprehensive review of the renewable energy FIT; no major changes were announced regarding wind power. On the basis that this consultation document is approved the market opportunity for 500 kW turbines remains. The formal confirmation of this is expected in May 2012.

(b) On 17 February Windflow signed an agreement with GD SATCOM, a leading worldwide supplier of satellite and wireless communication equipment, to license its Windflow 500 turbine for manufacture and sale into North and South America, Africa, and US territories and military bases worldwide.

The agreement provides for a ten year relationship based on licensing and joint development around the Windflow 500. In addition to a royalty arrangement, the agreement provides co-funding for both the development of a 60 Hz version of the existing (Class 1A) turbine and the development of a Windflow 500 optimised for lower wind speeds.