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## **Windflow Technology Limited**

### **Annual Report 2014**

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# Windflow Technology Limited Annual Report 2014

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## Directors' Annual Review to 30 June 2014

Windflow Technology Ltd ("Windflow") has continued to work diligently on its mission of designing, developing and supplying mid-size wind turbines. While this is a small segment of the overall \$100 billion-per-year international industry, Windflow aims to become the partner of choice in mid-size wind through the unique technical and economic benefits of its proven technologies. To this end it has continued its long-term strategy embodied in the 1-2-3 course of action which it has been following since early 2011:

1. License its intellectual property internationally;
2. Develop its market presence in the UK to achieve turbine sales;
3. Continue to meet its maintenance and warranty obligations for Te Rere Hau wind farm (TRH).

Overall the trading environment has been difficult as market uncertainties have affected Windflow's international initiatives and the domestic market remains dormant. However positive progress has been achieved. In particular Windflow Technology has developed considerable further intellectual property by completing the design of a Class 2A wind turbine to satisfy markets with lower wind speeds. Funding has been forthcoming through shareholder loans and equity, reflecting the strong commitment shareholders have to achieving Windflow's potential. These funds have been applied to investments in turbines for the UK, as well as meeting overhead and warranty commitments. With most revenues continuing to be internally generated, a Group loss of \$5.0 million has been recorded.

The major milestones for the financial year were:

- July - Windflow and GD SATCOM entered into a formal warranty insurance agreement, pursuant to which GD SATCOM issued the first warranty insurance certificate for a single turbine project in the Orkneys
- August – GD SATCOM confirmed approval of the final design of the Class 2A turbine, enabling the manufacture of the prototype to proceed and a major milestone payment to be earned by Windflow
- September - an independent report on the Westray turbine showed a considerable reduction in sound levels had been achieved. This improves the marketability of the turbine
- December – availability at Te Rere Hau for calendar year 2013 was 95.0%
- January – a capital raising was completed of \$2.9 million for the issue of preference shares.
- January – a project of three turbines was confirmed for North Harris in the Outer Hebrides. Monan Wind Limited was formed as a 90% owned subsidiary for this project.
- March - NZ Windfarms advised that it will enter arbitration to resolve the matter of its December 2013 power curve warranty claim which the Company disputes.
- March - a British buyer contracted to purchase a turbine for his site in Scotland.
- June – Windflow's cornerstone shareholder injected a further \$2.5 million of equity for preference shares.
- June – the Westray turbine completed its first full year of operation. The reliability of the turbine has been pleasing and the revenue is several times what it would earn in New Zealand. However it is also being curtailed by the local network operator, SSE, more than had been estimated by SSE, which has reduced its revenue. Windflow has written to SSE seeking improvements.



Subsequent to balance date:

- July – GD SATCOM decided not to continue in the wind business and terminated its licence from Windflow, although it is completing the Class 2A prototype.
- August – the hundredth Windflow turbine to roll out of the factory was dispatched to Orkney.
- August – NZ Windfarms gave notice of dispute regarding some warranty matters that have been at issue for some time now. This notice triggers a 60-day period to attempt a negotiated solution, failing which NZ Windfarms has advised that it intends to refer the disputes to arbitration.
- September – Windflow and GD SATCOM concluded an agreement whereby GD SATCOM continues to provide warranty insurance to two projects in Scotland, Windflow will acquire assets including manufacturing tooling for the Class 2A turbine, and Windflow will have access to the Class 2A prototype for testing purposes.

Looking ahead to the rest of calendar year 2014:

- The prototype 60 Hz Class 2A turbine will be installed by GD SATCOM (with support from Windflow) at a site in West Texas. This will be an important milestone proving Windflow's intellectual property and adding to Windflow's product range. Like the Class 1A it uses the proven torque limiting gearbox and teetering two-bladed technologies to reduce fatigue loads and enable significant weight reduction. In addition it has a new patented feature enabling broad-band variable speed and is generally designed for lower wind speeds, therefore addressing a larger market.
- Initial marketing in the USA by Windflow has generated interest in a project of at least eight Class 2A turbines. Windflow will provide a proposal for a project in the US of at least eight Class 2A turbines.
- Windflow will work to find a licensee or in other ways pursue the opportunities in the USA and other markets in the territory that GD SATCOM has relinquished.
- Windflow will complete the manufacture in New Zealand and installation in Scotland of the five Class 1A turbines currently in production. The photos at right show the first of these turbines on site at New Holland farm, Orkney, at the time of installation in October 2014. Pictured (left-to-right) are landowners Elizabeth and Tony Bown, with Windflow's local service provider, Bryan Rendall.
- Windflow expects to confirm further projects in the UK, including external sales and a demonstration 50 Hz Class 2A turbine.
- Windflow will continue to work on other sales prospects that arise from time to time.
- Windflow expects that warranty payments to NZ Windfarms will reduce significantly as all but 32 turbines will have completed their five-year warranty periods, although risks remain in terms of unforeseen and disputed warranty claims. TRH availability is expected to be greater than 95.0% for the full calendar year.
- Low wholesale power prices are likely to persist in New Zealand. They have been at 4-5 c/kWh for the last few years, which compares with more than 7.5 c/kWh being needed for long-term viability. Accordingly Windflow will continue its focus on overseas markets.



**Turbine 100 installed at New Holland Farm, Orkney, October 2014**

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

## Audited Financial Statements Directors' declaration

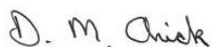
In the opinion of the directors of Windflow Technology Limited (the "Company"), these financial statements of Windflow Technology Limited for the year ended 30 June 2014 and notes, on pages 5 to 30:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company and the Group as at 30 June 2014 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.

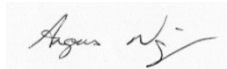
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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.

For and on behalf of the Board of Directors:



Chairman  
22 October 2014



Director  
22 October 2014

# Balance Sheet

As at 30 June

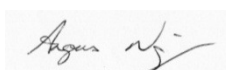
As at 30 June		2014		2013	
	Note	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
<b>Current assets</b>					
Cash on hand and at bank	15	469	82	188	148
Income earned not invoiced	16	753	-	199	126
Trade and other receivables	16	516	699	1,589	1,723
Prepayments	16	740	12	216	18
Retentions and Design Difference	17	440	440	167	167
Inventory and work in progress	12	1,762	877	1,011	945
Value added goods and services tax refund		30	101	185	10
<b>Total current assets</b>		<b>4,710</b>	<b>2,211</b>	<b>3,555</b>	<b>3,137</b>
<b>Non-current assets</b>					
Property, plant & equipment	20	2,525	257	2,287	304
Intangible assets	21	1,682	1,657	1,872	1,871
Retentions	17	-	-	250	250
Advances to subsidiaries	24c)	-	-	-	1,436
<b>Total non-current assets</b>		<b>4,207</b>	<b>1,914</b>	<b>4,409</b>	<b>3,861</b>
<b>Total assets</b>		<b>8,917</b>	<b>4,125</b>	<b>7,964</b>	<b>6,998</b>
<b>Equity</b>					
Contributed capital	11	43,093	43,093	37,927	37,927
Accumulated losses		(42,543)	(44,095)	(37,131)	(36,438)
<b>Total equity</b>		<b>550</b>	<b>(1,002)</b>	<b>796</b>	<b>1,489</b>
<b>Current liabilities</b>					
Trade and other payables	18	1,476	958	2,504	2,112
Prepayments received from subsidiary	18	-	2,244	-	490
Loan from shareholder	19	4,966	-	-	-
Provisions	14	1,777	1,777	2,158	2,158
<b>Total current liabilities</b>		<b>8,219</b>	<b>4,979</b>	<b>4,662</b>	<b>4,760</b>
<b>Non-current liabilities</b>					
Loan from shareholder	19	-	-	1,757	-
Provisions	14	148	148	749	749
<b>Total non-current liabilities</b>		<b>148</b>	<b>148</b>	<b>2,506</b>	<b>749</b>
<b>Total equity and liabilities</b>		<b>8,917</b>	<b>4,125</b>	<b>7,964</b>	<b>6,998</b>

The notes on pages 9 to 30 are an integral part of these financial statements.

For and on behalf of the Board of Directors who authorise these financial statements for issue on 22 October 2014:

D. M. Chick

Chairman



Director

## Statement of Comprehensive Income

For the year ended 30 June

	Note	2014		2013	
		Group (\$'000's)	Company (\$'000's)	Group (\$'000's)	Company (\$'000's)
Operating revenue	5	1,543	1,892	146	1,338
Cost of sales		1,201	1,634	272	781
<b>Gross profit / (loss)</b>		<b>342</b>	<b>258</b>	<b>(126)</b>	<b>557</b>
Other revenue	5	51	805	356	539
Licensing revenue	5	641	641	405	405
<b>Less:-</b>					
Depreciation	6, 20	(190)	(71)	(147)	(101)
Amortisation of licences and patents	6, 21	(257)	(257)	(257)	(257)
General and administration costs		(1,257)	(1,076)	(1,132)	(1,070)
Interest expense		(240)	-	(179)	-
Engineering costs		(1,653)	(1,653)	(1,457)	(1,457)
Research and development costs	6	(83)	(83)	(122)	(122)
Marketing costs		(939)	(167)	(649)	(59)
Wind farm development, operations & maintenance		(1,383)	(1,316)	(942)	(725)
<b>Loss from operating activities</b>		<b>(4,968)</b>	<b>(2,919)</b>	<b>(4,250)</b>	<b>(2,290)</b>
Impairment provision	24 (c)	-	(4,294)	-	(1,500)
Finance income	5	6	6	8	8
<b>Loss before income tax</b>		<b>(4,962)</b>	<b>(7,207)</b>	<b>(4,242)</b>	<b>(3,782)</b>
Taxation	9	-	-	-	-
<b>Loss after tax for the year</b>	25	<b>(4,962)</b>	<b>(7,207)</b>	<b>(4,242)</b>	<b>(3,782)</b>
Basic Loss per Share	8	<b>\$(0.24)</b>	<b>\$(0.35)</b>	<b>\$(0.21)</b>	<b>\$(0.19)</b>
Diluted Loss per Share	8	<b>\$(0.07)</b>	<b>\$(0.09)</b>	<b>\$(0.11)</b>	<b>\$(0.10)</b>

Loss after tax for the year is equal to the total comprehensive loss for the year attributable to equity holders of the Company.

The notes on pages 9 to 30 are an integral part of these financial statements.

## Statement of Changes in Equity

	Note	Share Capital (\$000's)	Retained Earnings (\$000's)	Total Equity (\$000's)
<b>Group</b>				
<b>Balance at 1 July 2012</b>		<b>33,238</b>	<b>(32,764)</b>	<b>474</b>
Total comprehensive loss		-	(4,242)	(4,242)
Preferential dividends		-	(125)	(125)
Redeemable Convertible Preference Shares		4,512	-	4,512
Issue costs of Preference Shares		(173)	-	(173)
Ordinary Shares Issued		350	-	350
<b>Balance at 30 June 2013</b>		<b>37,927</b>	<b>(37,131)</b>	<b>796</b>
Total comprehensive loss			(4,962)	(4,962)
Preferential dividends	10		(450)	(450)
Redeemable Convertible Preference Shares	11	5,420		5,420
Issue costs of Preference Shares	11	(254)		(254)
<b>Balance at 30 June 2014</b>		<b>43,093</b>	<b>(42,543)</b>	<b>550</b>
<b>Company</b>				
<b>Balance at 1 July 2012</b>		<b>33,238</b>	<b>(32,531)</b>	<b>707</b>
Total comprehensive loss		-	(3,782)	(3,782)
Preferential dividends		-	(125)	(125)
Redeemable Convertible Preference Shares		4,512	-	4,512
Issue costs of Preference Shares		(173)	-	(173)
Ordinary Shares Issued		350	-	350
<b>Balance at 30 June 2013</b>		<b>37,927</b>	<b>(36,438)</b>	<b>1,489</b>
Total comprehensive loss			(7,207)	(7,207)
Preferential dividends	10		(450)	(450)
Redeemable Convertible Preference Shares	11	5,420		5,420
Issue costs of Preference Shares	11	(254)		(254)
<b>Balance at 30 June 2014</b>		<b>43,093</b>	<b>(44,095)</b>	<b>(1,002)</b>

The notes on pages 9 to 30 are an integral part of these financial statements.



## Statement of Cash Flows

For the year ended 30 June

		2014		2013	
	Note	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
<b>Cash flows from operating activities</b>					
Cash receipts from customers					
Consulting fees		83	83	7	7
Sales of turbines and components		477	1866	-	1,222
Licensing revenue		641	641	606	606
Other		246	26	177	247
Interest received		6	6	8	8
Cash paid to suppliers and employees					
Suppliers		(3,493)	(2,987)	(2,640)	(1,433)
Employees		(2,328)	(1,704)	(1,976)	(1,654)
Other		(1,331)	(281)	(2,166)	(1,141)
<b>Net cash used in operating activities</b>	25	<b>(5,699)</b>	<b>(2,350)</b>	<b>(5,984)</b>	<b>(2,138)</b>
<b>Cash flows from investing activities</b>					
Acquisition of property plant, equipment and capital work in progress	20	(1,904)	(24)	(151)	(15)
<b>Net cash used in investing activities</b>		<b>(1,904)</b>	<b>(24)</b>	<b>(151)</b>	<b>(15)</b>
<b>Cash flows from financing activities</b>					
Loan from shareholder	19	8,138	5,420	6,456	4,862
Issue costs of equity		(254)	(254)	(173)	(173)
Advance to subsidiary company		-	(2,858)	-	(2,423)
<b>Net cash from financing activities</b>		<b>7,884</b>	<b>2,308</b>	<b>6,283</b>	<b>2,266</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>281</b>	<b>(66)</b>	<b>148</b>	<b>113</b>
Cash and cash equivalents at beginning of year	15	188	148	40	35
<b>Cash and cash equivalents at end of year</b>	15	<b>469</b>	<b>82</b>	<b>188</b>	<b>148</b>

The notes on pages 9 to 30 are an integral part of these financial statements.

# Notes to the Financial Statements

## 1. REPORTING ENTITY

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

The 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 audited financial statements were approved by the Board of Directors on 22 October 2014.

The Company is profit oriented and undertakes wind turbine development and manufacture, and operated in New Zealand and the United Kingdom during the financial year.

## 2. BASIS OF PREPARATION

### a) Functional and presentation currency

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

### b) Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the Group.

### c) Statement of compliance

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

From 1 April 2014, the new Financial Reporting Act 2013 ("FRA 2013") has come into force replacing the Financial Reporting Act 1993. This will be effective for the Company's 30 June 2015 year end. It is expected that the change in legislation will have no material impact on the Company's obligation to prepare general purpose financial statements.

In addition to the change in legislation the External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The Company is currently reporting under NZ IFRS. Under the new XRB framework management expects that the Company is expected to continue to apply NZ IFRS as applicable for Tier 1 for-profit entities. Management expects that this will have no material impact on the preparation and disclosures included in the financial statements.

### d) Critical judgements in applying accounting policy

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reviewed on an on-going basis. The results of these actions form the basis of making the judgements about carrying values of assets and liabilities of the Company and Group. Actual results may differ from these estimates under different assumptions and conditions.

Details of material accounting judgements and assumptions are:

#### i. 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. Estimation of the useful lives of assets

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

#### iv. Impairment of assets

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

As at 30 June 2014 Windflow Technology Ltd, the parent Company, had advanced net funds of \$4.2 million to its subsidiaries, Windflow UK and Windflow Hammer Limited. An impairment provision of \$4.2 million has been made at 30 June 2014, reducing the balance outstanding to \$0. The provision reflects the short-term uncertainty regarding the ability of the subsidiaries to repay the loans in full.

v. **Preference share capital**

The redeemable convertible preference shares that were issued in January 2014 and June 2014 have been accounted for as equity because the Company has discretion to convert these shares to ordinary shares at any time during their five year period to maturity. This feature enables the Company to immediately extinguish any further liabilities, in the form of dividends that accrue on a 10% annual rate of return, associated with this financial instrument therefore this entire instrument has been accounted for as equity. The Company's Directors sought independent professional advice to confirm that this accounting treatment was appropriate, recognising that the terms of the issue are such that the dividends payable prior to conversion to ordinary shares need to be paid in cash (See also Note 11).

e) **Going concern**

These Financial Statements have been prepared on a going concern basis. In using the going concern basis for accounts preparation, the matters considered and assumptions made by the Directors in reaching this conclusion are detailed in Note 31.

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

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

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. Associate companies have been reflected in the Consolidated Financial Statements using the equity method, which shows the Group's share of retained surpluses or losses in the Consolidated Statement of Comprehensive Income, 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.

b) **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 Statement of Comprehensive Income immediately.

License fee income and sales of parts is recognised when an invoice is issued while electricity sales are accrued on the basis of kWh produced.

c) **Investment Revenue**

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

d) **Foreign Currency Transactions and Balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as profit or loss within the Statement of Comprehensive Income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

e) **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 recognised within the Statement of Comprehensive Income.

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

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

f) **Supplier Prepayments**

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

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

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

h) **Interest Expense**

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

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

*Trade and Other Receivables*

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

*Trade and Other Payables*

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

*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 as profit or loss within the Statement of Comprehensive Income in the period it arises. When an investment is de-recognised, the cumulative gain or loss in equity is recognised as profit or loss within the Statement of Comprehensive Income.

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 each reporting 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 Statement of Comprehensive Income.

*Cash flow Hedge*

The effective portion of changes in the fair value of derivatives that are designated as qualifying as cash flow hedges is recognised in equity in the cash flow hedge reserve. Any ineffective portion is designated as a fair value hedge with the gain or loss recognised within the Statement of Comprehensive Income.

If the hedging instrument no longer meeting the criteria for hedge accounting expires, is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The accumulated gain or loss recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit and loss.

j) **Taxation**

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

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit nor differences relating to investments in subsidiaries to the extent that they probably will not

reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

k) **Property, Plant and Equipment**

i. **Recognition and measurement**

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

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

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

ii. **Depreciation**

Depreciation is provided on a straight line basis on all property, plant and equipment at depreciation rates calculated to allocate the asset's cost, less the residual value, over its estimated useful life.

No depreciation is charged on partially constructed assets.

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

Wind turbine and associated assets	20 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

iii. **Disposals**

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognised within the Statement of Comprehensive Income.

l) **Intangible Assets**

Intangible assets that are acquired by the Group are recognised if it is probable that the expected future economic benefits relating to the intangible assets will accrue to the Company and the cost is able to be reliably measured.

Intangible assets including patents, licences and certifications that are assessed as having a finite life are amortised equally over their useful lives from the time the patent, licence 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.

m) **Impairments**

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

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

i. **Impairment of receivables**

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

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

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are 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.

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 profit or loss within the Statement of Comprehensive Income.

n) **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 at the time value of money and the risks specific to the liability.

Each turbine commissioned includes warranty cover. The full warranty cover, which extended for five years, was in previous years expensed in the Statement of Comprehensive Income when the turbine was commissioned for a customer. This sum was then transferred to provisions 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 based on an assessment of the probability that such recovery will eventuate.

At the end of each reporting period, 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 turbine 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.

o) **Retentions**

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

p) **Research and Development Costs**

Research costs are recognised as incurred in the Statement of Comprehensive Income.

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

q) **Employee Entitlements**

A liability for benefits accruing to employees in respect of wages and salaries, annual 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 each reporting 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 Statement of Comprehensive Income 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 13). Employees within the Group are granted share appreciation rights, which can only be settled in cash ("cash settled transactions"). The cost of cash settled transactions is measured initially at fair value at the grant date based on the Black-Scholes-Merton model. This fair value is expensed over the period until the vesting date with the recognition of a corresponding liability. The liability is pre-measured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognised in employee benefits expense.

r) **Reserves**

i. **Cash flow hedge reserve**

A cash flow hedge reserve records gains or losses on forward foreign currency cash flow hedges that are recognised directly in equity.

ii. **Employee share entitlement reserve**

An employee share entitlement reserve recognises the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee.

s) **Loss per share**

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



t) **Dividends of preference share capital**

Dividends payable on redeemable convertible preference shares issued in March 2013, January 2014 and June 2014 accrue on a daily basis. Until paid, this liability is reflected as a current liability and directly through the statement of movement in equity, given the determination that this is an equity instrument (see Note 2 d) v.)

u) **Reclassifications**

There have been no reclassifications for the current year or prior reporting period.

#### 4. SEGMENTAL REPORTING

The Group operated in two separately reportable business segments; the Wind Turbines segment and the Licensing segment, which are reviewed by the chief operating decision maker. All other activities are aggregated as 'Corporate'. Transactions between reporting segments are accounted for on the accruals basis.

**Wind Turbines Segment:** Represents manufacturing, installing, commissioning, operating and maintaining wind turbines and related parts. It is an aggregation of the activities in New Zealand and the United Kingdom.

**Licensing Segment:** Derives revenue from licensing agreements with other manufacturers of wind turbines. In these financial statements all such revenue was from engineering services provided to GD SATCOM Technologies Inc., USA (see also Note 30).

**Corporate (All Other Segments):** Represents the design and development of the Wind Turbine, general marketing and administration expenses; it includes all Group companies and their general administration income and expenses that are not applicable to the Licensing Segment nor the Wind Turbines Segment.

a) **Business Segmental Analysis**

**GROUP: For the year ended 30 June 2014**

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
Total revenue : Sales to customers	1,303	641	297	2,241
Less:- Operating expenses	2,703	-	4,500	7,203
<b>(Loss)/Profit before income tax</b>	<b>(1,400)</b>	<b>641</b>	<b>(4,203)</b>	<b>(4,962)</b>
<b>Assets and Liabilities</b>				
Segment assets	4,516	80	4,291	8,887
Segment liabilities	5,610	-	2,727	8,337
<b>Total equity</b>	<b>(1,094)</b>	<b>80</b>	<b>1,564</b>	<b>550</b>

**CASH FLOW**

**Cash receipts from customers**

Sales of turbines and components	477	-	-	477
Licensing revenue	-	641	-	641
Other	79	-	167	246
Interest received	-	-	6	6

**Cash paid to suppliers and employees**

Suppliers	1,851	-	831	2,682
Employees	624	-	1,704	2,328
Other	1,094	-	965	2,059

<b>Net cash used in operating activities</b>	<b>(3,013)</b>	<b>641</b>	<b>(3,327)</b>	<b>(5,699)</b>
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**GROUP: For the year ended 30 June 2013**

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
Total revenue : Sales to customers	127	405	383	915
Less:- Operating expenses	1,295	-	3,862	5,157
<b>(Loss)/Profit before income tax</b>	<b>(1,168)</b>	<b>405</b>	<b>(3,479)</b>	<b>(4,242)</b>
<b>Assets and Liabilities</b>				
Segment assets	2,762	-	5,202	7,964
Segment liabilities	2,478	-	4,690	7,168
<b>Total equity</b>	<b>284</b>	<b>-</b>	<b>512</b>	<b>796</b>

**Business Segmental Analysis (continued)**

**GROUP: For the year ended 30 June 2013**

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
Consulting Fees				7
Sales of turbines and components	-	-	-	-
Licensing revenue	-	606	-	606
Other	5	-	-	5
Interest received	-	-	8	8
<b>Cash paid to suppliers and employees</b>				
Suppliers	(1,218)	-	(1,422)	(2,640)
Employees	(323)	-	(1,653)	(1,976)
Other	(899)	-	(1,095)	(1,994)
<b>Net cash used in operating activities</b>	<b>(2,435)</b>	<b>606</b>	<b>(4,155)</b>	<b>(5,984)</b>

**b) Geographic Revenue**

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

**For the year ended 30 June 2014**

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	556	-	83	639
United Kingdom and Europe	747	-	214	961
North America	-	641	-	641
<b>Total revenue</b>	<b>1,303</b>	<b>641</b>	<b>297</b>	<b>2,241</b>

Customers representing more than 10% of a segment's Total revenue:

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand – sale of parts	477	-	-	477
United Kingdom – sale of electricity	-	-	214	214
United Kingdom – sale of turbines	747	-	-	747
North America – engineering services	-	641	-	641

**For the year ended 30 June 2013**

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	113	-	153	266
United Kingdom and Europe	-	-	87	87
North America	-	405	-	405
<b>Total revenue</b>	<b>113</b>	<b>405</b>	<b>240</b>	<b>758</b>

Customers representing more than 10% of a segment's Total revenue:

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand – sale of parts	68	-	-	68
United Kingdom – sale of electricity	-	-	78	78
North America – engineering services	-	405	-	405

**c) Non-current Assets by Geographic Location**

The non-current segment assets are scheduled by the geographic location where the asset is held.

The non-current assets which include property, plant and equipment, intangible assets and advances for each geographical location is as follows:

**Group: For the year ended 30 June 2014**

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	257	80	1,602	1,939
United Kingdom and Europe	2,268	-	-	2,268
North America	-	-	-	-
<b>Total Non-current Assets</b>	<b>2,525</b>	<b>80</b>	<b>1,602</b>	<b>4,207</b>



**Group: For the year ended 30 June 2013**

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	250	-	2,323	2,573
United Kingdom and Europe	1,765	-	71	1,836
North America	-	-	-	-
<b>Total Non-current Assets</b>	<b>2,015</b>	<b>-</b>	<b>2,394</b>	<b>4,409</b>

**Company: For the year ended 30 June 2014**

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	257	80	1,577	1,914
United Kingdom and Europe	-	-	-	-
North America	-	-	-	-
<b>Total Non-current Assets</b>	<b>257</b>	<b>80</b>	<b>1,577</b>	<b>1,914</b>

**Company: For the year ended 30 June 2013**

	Wind Turbines (\$000's)	Licensing (\$000's)	Corporate (\$000's)	Total (\$000's)
New Zealand	250	-	3,611	3,861
United Kingdom and Europe	-	-	-	-
North America	-	-	-	-
<b>Total Non-current Assets</b>	<b>250</b>	<b>-</b>	<b>3,611</b>	<b>3,861</b>

**5. REVENUE**

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
<b>Operating revenue:</b>				
Sale of turbines to customer	747	-	-	-
Sale of turbines to subsidiary	-	1,389	-	1,223
Sale of electricity generated	240	26	78	-
Maintenance fees	-	-	2	2
Other	79	-	3	3
Sale of turbine components	477	477	63	110
	<b>1,543</b>	<b>1,892</b>	<b>146</b>	<b>1,338</b>
<b>Licensing revenue:</b>	<b>641</b>	<b>641</b>	<b>405</b>	<b>405</b>
<b>Other revenue:</b>				
Consultancy fees	-	-	-	2
Foreign currency	11	14	135	135
Management Fees from subsidiaries	-	357	-	346
Interest from subsidiaries	-	394	-	-
Sundry income	40	40	221	56
	<b>51</b>	<b>805</b>	<b>356</b>	<b>539</b>
<b>Interest received</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>8</b>
<b>Total revenue</b>	<b>2,241</b>	<b>3,344</b>	<b>915</b>	<b>2,290</b>

**6. OPERATING EXPENSES**

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
<b>Operating expenses include:</b>				
Amortisation of licences and patents	257	257	257	257
Depreciation	190	71	147	101
Research and development	83	83	122	122
Audit fees – prior year Grant Thornton	56	56	33	33
– current year KPMG	35	35	5	5
Directors' fees	143	143	143	143
Rent and leases	177	160	236	236
Write down of investment in subsidiaries and associate company loans	-	4,294	-	1,500
<b>Employee benefit expense:</b>				
Wages and salaries	2,328	1,704	2,110	1,654
Defined contribution superannuation	82	68	75	66

## 7. DIRECTORS' COMPENSATION

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Salaries and remuneration	312	232	312	232
Directors' fees	143	143	143	143

## 8. EARNINGS PER SHARE

	2014 Group	2013 Group
Weighted average number of shares on issue	20,597,264	20,597,264
Additional shares if all preference shares converted	50,570,428	18,048,690
Additional shares if all staff options converted	1,236,016	1,334,688
<b>Total potential shares</b>	<b>72,403,708</b>	<b>39,543,142</b>
<b>Loss for the period</b>	<b>\$4,962 million</b>	<b>\$4.242 million</b>
<b>Basic earnings/(loss) per share</b>	<b>(0.24)</b>	<b>\$(0.21)</b>
<b>Diluted earnings/(loss) per share</b>	<b>(0.07)</b>	<b>\$(0.11)</b>

## 9. TAXATION

Taxation expense	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
<b>Operating deficit</b>	<b>(4,962)</b>	<b>(7,207)</b>	<b>(4,242)</b>	<b>(3,782)</b>
<b>Prima facie taxation expense at 28% (2013: 28%)</b>	<b>(1,389)</b>	<b>(2,018)</b>	<b>(1,188)</b>	<b>(1,059)</b>
Add back permanent differences:				
Amortisation of intangibles	71	71	71	71
Provision against intercompany account balance	-	1,202	-	420
Current year's loss for which no deferred tax benefit is recognised	(1,318)	(745)	(1,117)	(568)
<b>Income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The deferred tax benefit of the Group as at 30 June 2014 is \$10,247,000 (2013: \$8,929,000) and the Company as at 30 June 2014 is \$8,718,000 (2013: \$7,973,000). This has not been recognised in the financial statements due to the lack of certainty that such benefits will be able to be utilised by the Company.

## 10. DIVIDENDS

The Company declared and accrued preferential dividends of \$451,217 for the year ended 30 June 2014 (2013: \$125,546).

In March 2013 the Company allotted 9,024,345 Redeemable Convertible Preference Shares with a 10% per annum dividend rate and a five year term to maturity. The total capital raised amounted to \$4,512,173. The preferential dividends are cumulative and payable quarterly. During the remaining period to maturity from 1 July 2014 to March 2018, cash dividends of \$1,692,063 are scheduled to be paid on the March 2013 Preference Shares unless they are redeemed or converted (see also Notes 2d)v. and 11).

During the remaining period to maturity for the January 2014 and June 2014 issues of Redeemable Convertible Preference Shares, amounts of \$1,168,000 and \$1,000,000 respectively will be accrued and paid.

The preferential dividend has been paid in accordance with the terms in the prospectus. No ordinary dividend was declared or paid during the year (2013: nil).

## 11. CONTRIBUTED CAPITAL

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Balance at beginning of year	37,927	37,927	33,238	33,238
Ordinary shares issued	-	-	350	350
Redeemable Convertible Preference Shares	5,420	5,420	4,512	4,512
Issuing costs of Preference Shares	(254)	(254)	(173)	(173)
<b>Balance at end of year</b>	<b>43,093</b>	<b>43,093</b>	<b>37,927</b>	<b>37,927</b>

	2014		2013	
	Group	Company	Group	Company
Balance at beginning of year	20,597,264	20,597,264	19,722,264	19,722,264
Placements	-	-	875,000	875,000
<b>Balance at end of year</b>	<b>20,597,264</b>	<b>20,597,264</b>	<b>20,597,264</b>	<b>20,597,264</b>

In January 2014 the Company allotted Redeemable Convertible Preference Shares; the total capital raised amounted to \$2,920,000 from which was deducted costs of raising capital totalling \$254,069. The Redeemable Convertible Preference Shares do not have voting rights except on matters affecting those shares. They bear a 10% per annum preferential dividend commencing 12 months after their allotment date, which is then payable quarterly, and these may be redeemed by the Company at their issue price of \$0.50 at any time from 18 months after their allotment date, until their 5 year maturity date. They may be converted to ordinary shares by either the Company or the holder at any time and will be converted by the Company to ordinary shares if not redeemed by the 5 year maturity date. If converted by the holder they will convert to ordinary shares at 1:1. If converted by the Company they will convert into 2 ordinary shares for 1 preference share.

In June 2014 the Company allotted a further \$2.50 million of Redeemable Convertible Preference Shares on the same terms as the January 2014 issue.

## 12. INVENTORY AND WORK IN PROGRESS

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Inventory on hand	946	877	996	945
Work in progress	816	-	15	-
<b>Inventory and work in progress</b>	<b>1,762</b>	<b>877</b>	<b>1,011</b>	<b>945</b>

Group inventory on hand of \$946,000 is net of an obsolescence provision of \$148,767 (2013: \$148,767) and an impairment provision of \$40,886 (2013: \$40,886) reflecting the age of some inventory held by the Company and by Wind Blades Limited respectively.

## 13. SHARE OPTION PLANS

### a) Employee Share Options

The Company, on 19 December 2002, entered into a cash settled share option plan for the benefit of all employees of the Company who have attained the age of twenty years and who have been employed by the Company for at least one year. The selection of the participants and the number of shares are determined by the Directors. Any offer of an option is at a price equal to the market price at the date of the resolution by the Directors to make an offer.

Movements in share options issued during the year:

	2014	2013	2012	Total
Exercise Price	\$0.07	\$0.20		
Expiry Date	30/6/2017	15/7/2017		
<b>Balance at 30 June 2013</b>		1,141,128	193,560	<b>1,334,688</b>
Granted during year	240,031			<b>240,031</b>
Lapsed during the year	-	(145,141)	(193,560)	<b>(338,701)</b>
<b>Balance at 30 June 2014</b>	<b>240,031</b>	<b>995,987</b>	<b>-</b>	<b>1,236,018</b>

### Share Options Outstanding

The weighted average remaining contractual life for the share options outstanding at 30 June 2014 is 36 months (2013: 42 months). The exercise prices for option outstanding at the end of the year were \$0.20 or \$0.07 (2013: \$0.21 or \$0.86). The weighted average fair value of options granted in the year was \$0.18 (2013: \$0.31).

No cash settled awards vested during the year to 30 June 2014 (2013: 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 3.25% risk free interest rate was assumed based on the 10 year NZ Government Bond Yield.

b) **Royalty Share Options**

The Company, on the 22 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 currently \$5,000 per turbine plus 10,000 share options of \$1.00 each. The total number of options able to be issued is limited so that if exercised they do not represent more than either 1,000,000 shares in Windflow Technology Ltd or more than 20% of the issued share capital of Windflow Technology Ltd.

Each option to purchase shares shall expire 7 months after the end of the calendar quarter. The option price is \$1.00, or if a market price for Windflow Technology Ltd shares has been established at a level which raises concerns for the Directors that the option price is not fair and reasonable to existing shareholders, the option price will be determined as the average market price in the last month of the quarter less one third.

There were no royalty options issued or outstanding or exercised during the year (2013: nil).

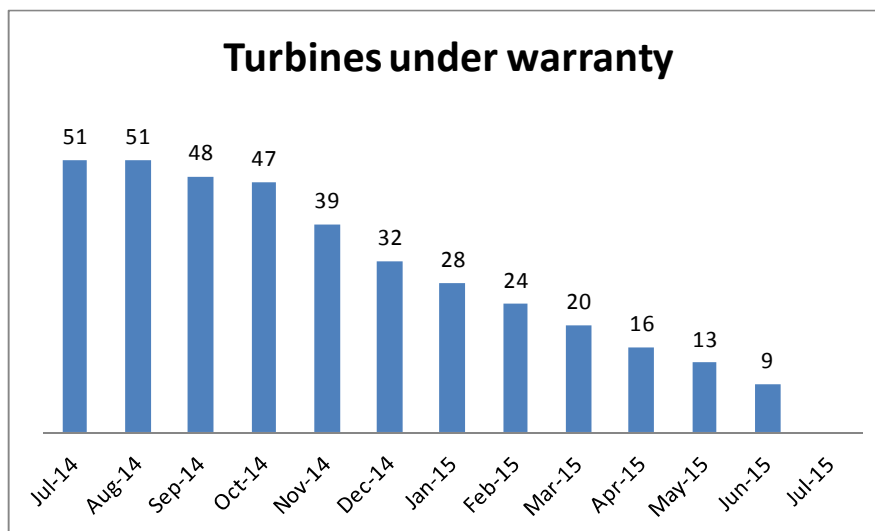
#### 14. WARRANTY PROVISIONS

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
<b>Balance at beginning of year</b>	<b>2,907</b>	<b>2,907</b>	<b>4,612</b>	<b>4,612</b>
Amounts added to warranty provision	1,326	1,326	273	273
Amount released from warranty provision	(2,308)	(2,308)	(1,977)	(1,977)
Increase in discounted amount	-	-	(1)	(1)
<b>Balance at end of year</b>	<b>1,925</b>	<b>1,925</b>	<b>2,907</b>	<b>2,907</b>
Expected to be utilised within one year	1,629	1,629	2,158	2,158
Provision for remainder of warranty period	-	-	749	749
Provision for extended warranty period	296	296	-	-
<b>Balance at end of year</b>	<b>1,925</b>	<b>1,925</b>	<b>2,907</b>	<b>2,907</b>

Warranty provisions are an estimate of the future costs to fulfil the obligations the Company has in respect of product warranty for turbines sold. The actual liability could be higher or lower than the warranty provision.

These warranties extend for 5 years from the date of commissioning, plus such recurring 2 year time periods (extended warranty periods) as are required for a warranty repair to last for 2 years following the date of that repair. As shown in the Balance Sheet, \$148,000 of these provisions are expected to be paid after July 2015 and therefore are recorded as a non-current liability. The number of turbines under their 5 year warranties as at 30 June 2014 was 51, falling to nil by July 2015.

The following graph illustrates the number of turbines under warranty; all are at the Te Rere Hau wind farm.



The Company has provided \$887,000 in respect of possible future failures of specific components for the period to July 2015, where there has historically been a higher than expected failure rate. The majority of the provision relates to possible future torque-limiting pump, pitch bearing, sprag clutch and gearbox failures.

In addition, an estimated 'general provision' totalling \$612,000 has been provided against the general costs anticipated from a turbine through the warranty period to July 2015.

During the 2010 financial year, the Company and NZ Windfarms Ltd ("NZ 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 International Electrotechnical Commission Certification (IEC) process because they did not meet IEC requirements for a 20 year life. Under this agreement, NZ Windfarms is entitled to retain a sum of \$522,000 (being the estimated total maximum upgrade cost left from that of \$966,200 calculated in 2010) from the proceeds of the retentions (refer

to Note 17). This sum will be released to the Company if and when the Company discharges certain obligations during the 5 year warranty period. Upgrade works may be undertaken unless a report from an independent consultant provides an opinion that the affected components are expected to achieve a 20 year life and accordingly do not need to be upgraded.

The Company has provided several other warranties to NZ Windfarms under the sale and purchase agreement for the turbines. These warranties are described below and apply to turbines for 5 years from their commissioning date.

- a) The Company has provided a Sound Level Warranty in respect of two matters:
  - i) A turbine must operate within its Resource Consent for 5 years from the commissioning date. The consequence of failure to comply with this warranty is that the turbine may be required to be shut down which in turn would affect the availability warranty referred to later in this note.
  - ii) The turbine must achieve a sound power level less than 104 dBA. The consequence of non compliance with this warranty is that such failure is deemed a defect under the General Warranty against Defects requiring remediation.

No provision is considered necessary for this warranty as the turbines are believed to be well within the specific sound level conditions of the consent.

- b) The Company has provided a turbine availability warranty wherein the turbine availability across the wind farm must be greater than 95% for the calendar year. The penalty for non-compliance is a make-good calculation for the lost revenue up to the 95% availability. To date in calendar year 2014, the availability percentage for the wind farm has been close to the 95% level and has increased in recent months so that the full year's figure is expected to be above 95%. No provision is considered necessary in respect of this item.
- c) The Company has provided a warranty to NZ Windfarms for power curve performance of 95%. The realisation of any claim under this warranty crystallises as the turbines exit their 5 year warranty period in July 2015. NZ Windfarms has taken the matter to arbitration to seek unspecified compensation under this warranty. The Company disputes any liability. Accordingly at this point no provision has been made relating to this warranty (see also Note 28).

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.

## 15. CASH ON HAND AND AT BANK

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Trading accounts balances	432	45	155	115
Deposits held as security	37	37	33	33
<b>Balance at end of year</b>	<b>469</b>	<b>82</b>	<b>188</b>	<b>148</b>

The Company had \$15,000, \$10,000 and \$12,400 deposited as security with financial institutions as at 30 June 2014. These served as security in respect of the NZAX, for the company credit cards and security for a forward exchange contract in place at 30 June 2014. The Company earned interest on two of the three deposits at a rate between 3.5% - 4.4% depending on the term the funds are deposited. The Company had deposits of \$15,000, \$6,000 and \$12,400 respectively as at 30 June 2013.

## 16. TRADE AND OTHER RECEIVABLES

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Trade and other receivables	516	699	1,589	1,723
Accrued income not invoiced	753	-	199	126
Prepayments made	740	12	216	18

In 2014 no allowance for doubtful debts was made. The Company trade receivables include \$184,000 due from a subsidiary (2013 - \$130,000).

The accrued income not invoiced is a turbine under construction for a third party customer in the United Kingdom, and the prepayments are deposits for United Kingdom turbine projects.

## 17. RETENTIONS

Retentions represent contractual amounts withheld by the customer as a surety against the operational performance of the wind turbines.

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Within one year	440	440	167	167
Between one and two years	-	-	250	250
<b>Total</b>	<b>440</b>	<b>440</b>	<b>417</b>	<b>417</b>

As referred to in Note 14, the payment of all or part of the \$440,000 (being a portion of the total retentions) (2013: \$417,000) is contingent on the Company discharging its obligations to NZ Windfarms. The Company has provided \$426,000 against the expected cost of these obligations.

## 18. TRADE AND OTHER PAYABLES

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Trade payables	969	622	2,092	1,860
Staff annual leave entitlements	137	137	131	131
Sundry creditors and accruals	370	199	281	121
	1,476	958	2,504	2,112
Related party payables:				
Subsidiaries – prepayments received	-	2,244	-	490
<b>Balance at end of year</b>	<b>1,476</b>	<b>3,202</b>	<b>2,504</b>	<b>2,602</b>

There are aggregate warranty claims of \$252,000 that the Company does not consider justifiable, which have not been recorded as a liability.

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

## 19. SHAREHOLDER LOAN

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

The Shareholder Loan Facility provides for advances up to £7,380,000 (NZ\$14,324,534 as at 30 June 2014 exchange rate) to WUK to fund the Projects, provided certain conditions set out in the loan documents are satisfied. The Company and WHL are covenantors and guarantors of WUK's obligations.

As at 30 June 2014 the aggregate liability under these loans was \$4,965,685, (2013: \$1.76 million) with a security over the 'wind turbine' fixed asset (\$1,984,000 (see 2013 and 2014 additions in Note 20) and assets under construction, including prepayments, work in progress and stock, (\$2,572,000).

The Statement of Cash Flows states \$8.138 million was received as Loans during the year, of which \$5.42 million was converted to redeemable convertible preference shares (see also Note 11).

The Loan liability of \$4,966 million is recorded as a current liability as the Company is planning to sell its wind turbine projects and repay the loan before 30 June 2015.

The loan facilities incorporate the following documents:

- Term Loan Agreement wherein interest will accrue on the amounts advanced to WUK from the date of draw down at a rate of 20% per annum compounding daily, equivalent to an annual percentage rate of 22.134% per annum. Repayments under the Term Loan Agreement are scheduled to commence on the date that is 3 years from the date of each loan agreement. No repayments are required before July 2015.
- General Security Agreement (in respect of parts and assemblies of the turbines owned by the Company).
- Guarantee and Indemnity wherein the Company and WHL jointly and severally guarantee WUK's obligations to the lender under the Term Loan Agreement.
- Debenture over the assets of WUK granting a general and floating charge over all the assets and undertakings of WUK securing its obligations under the loan (English law).
- Debenture over the assets of WHL granting a general and floating charge over the assets and undertakings of WHL, securing WHL's obligations as guarantor of WUK's obligations under the loan (English law).
- Floating Charge over assets of WHL granting a general and floating charge over project equipment owned by WUK and the Company securing WUK's obligations under the loan (as the borrower under the Term Loan Agreement) and the Company's obligations as guarantor of WUK's obligations to the lender (Scottish Law).
- Deed of Variation of Facility Agreement granting loan facility for 7 turbines in total and changing the interest rate from 16 September 2013 to 10.00% per annum, compounding daily and equivalent to an annual percentage rate of 10.516%.

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

<b>GROUP – (\$000's)</b>	<i>Office Equipment</i>	<i>Plant &amp; Equipment</i>	<i>Leasehold Improvements</i>	<i>Motor Vehicles</i>	<i>Wind Turbine &amp; Components</i>	<i>Assets under Construction</i>	<i>Total</i>
<b>Cost</b>							
<b>Balance at 30 June 2012</b>	447	1,242	144	69	980	6	2,888
Additions	19	90	-	10	1,793	117	2,029
Disposals	-	-	-	-	-	-	-
<b>Balance at 30 June 2013</b>	466	1,332	144	79	2,773	123	4,917
Additions	32	-	6	-	192	199	429
Disposals	-	-	-	-	1	-	1
<b>Balance at 30 June 2014</b>	498	1,332	150	79	2,964	322	5,345
<b>Depreciation and impairment losses</b>							
<b>Balance at 30 June 2012</b>	418	1,007	44	35	979	-	2,483
Depreciation for Year	18	76	12	13	28	-	147
Disposals	-	-	-	-	-	-	-
<b>Balance at 30 June 2013</b>	436	1,083	56	48	1,007	-	2,630
Depreciation for Year	15	48	12	11	104	-	190
Disposals	-	-	-	-	-	-	-
<b>Balance at 30 June 2014</b>	451	1,131	68	59	1,111	-	2,820
<b>Carrying amounts</b>							
At 30 June 2012	29	235	100	34	1	6	405
<b>At 30 June 2013</b>	30	249	88	31	1,766	123	2,287
<b>At 30 June 2014</b>	47	201	82	20	1,853	322	2,525

<b>COMPANY – (\$000's)</b>	<i>Office Equipment</i>	<i>Plant &amp; Equipment</i>	<i>Leasehold Improvements</i>	<i>Motor Vehicles</i>	<i>Components</i>	<i>Assets under Construction</i>	<i>Total</i>
<b>Cost</b>							
<b>Balance at 30 June 2012</b>	439	1,051	144	69	980	6	2,689
Additions	17	55	-	-	-	-	72
Disposals	-	-	-	-	-	-	-
<b>Balance at 30 June 2013</b>	456	1,106	144	69	980	6	2,761
Additions	18	-	6	-	-	-	24
Disposals	-	-	-	-	-	-	-
<b>Balance at 30 June 2014</b>	474	1,106	150	69	980	6	2,785
<b>Depreciation and impairment losses</b>							
<b>Balance at 30 June 2012</b>	410	888	44	35	979	-	2,356
Depreciation for Year	18	58	12	13	-	-	101
Disposals	-	-	-	-	-	-	-
<b>Balance at 30 June 2013</b>	428	946	56	48	979	-	2,457
Depreciation for Year	15	34	12	9	1	-	71
Disposals	-	-	-	-	-	-	-
<b>Balance at 30 June 2014</b>	443	980	68	57	980	-	2,528
<b>Carrying amounts</b>							
At 30 June 2012	29	163	100	34	1	6	333
<b>At 30 June 2013</b>	28	160	88	21	1	6	304
<b>At 30 June 2014</b>	31	126	82	12	-	6	257

### Impairment

During the financial year the property, plant and equipment of the Group and Company have been examined for impairment. See Note 31 on going concern, explaining the uncertainties affecting going concern and the potential adverse impact on the above assets.



## 21. INTANGIBLE ASSETS

	Group (\$'000's)			Company (\$'000's)		
	Licences and Patents	IEC Certification Costs	Total	Licences and Patents	IEC Certification Costs	Total
<b>Cost</b>						
Balance 30 June 2012	859	2,563	3,422	859	2,563	3,422
Additions	9	-	9	9	-	9
Balance 30 June 2013	868	2,563	3,431	868	2,563	3,431
Additions	68	-	68	42	-	42
Balance 30 June 2014	936	2,563	3,499	910	2,563	3,473
<b>Amortisation and impairment losses</b>						
Balance 30 June 2012	855	448	1,303	855	448	1,303
Amortisation for the year	1	256	257	1	256	257
Balance 30 June 2013	856	704	1,560	856	704	1,560
Amortisation for the year	-	257	257	-	257	257
Balance 30 June 2014	856	961	1,817	856	961	1,817
<b>Carrying amounts</b>						
At 30 June 2012	4	2,115	2,119	4	2,115	2,119
At 30 June 2013	12	1,859	1,871	12	1,859	1,871
At 30 June 2014	80	1,602	1,682	54	1,602	1,656

### a) Patents

Management has assessed the value of patents in respect of prospective sales and licensing opportunities, also taken the indicators in note 31 on going concern into consideration, and is satisfied that the carrying value of this item is not impaired

### b) International Electrotechnical Commission (IEC) Certification

These costs generated both internally and externally, represent the costs incurred by the Company in obtaining IEC Certification on 17 September 2010, which expires on 16 September 2015. This will be renewed in 2015 at an estimated cost of \$50,000. The IEC certification only applies to the Class 1A, 2 bladed, 500 kW turbine, under IEC standard 61400:1 2005. The total cost of certification is amortised over a 10 year period, being the term over which the Company anticipates being able to use this asset limited by the likely term of the legal right. Accordingly, the Company envisages renewing its Class 1A IEC Certification for a further 5 year period. The Board has assessed the value of this certification in respect of prospective export sales and licensing opportunities and is satisfied that the carrying value of this item is not impaired at 30 June 2014 (2013 nil impairment).

See Note 31 on going concern, explaining the uncertainties affecting going concern and the potential adverse impact on the above assets.

## 22. SUBSIDIARY AND ASSOCIATED COMPANIES

### a) Subsidiaries within the Group comprise:

Nature of business		Interest percentage	
		2014	2013
Wind Blades Ltd	Construction of blades for Wind turbines	100	100
Windflow International Ltd	Non trading	100	100
Windflow UK Ltd	Trading	100	100
Windflow Hammer Ltd	Trading	100	100
Hammer Westray LLP	Trading	100	100
Our Wind Ltd	Trading	100	100
Monan Wind Ltd	Non trading	90	n/a

All assets and liabilities of Wind Blades Limited were transferred to Windflow Technology Limited effective 1 July 2014. Wind Blades Limited is a non-trading company from 1 July 2014. Monan was incorporated in 2014.

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

Nature of business		Interest percentage	
		2014	2013
Windpower Otago Ltd	Non trading	20	20



## 23. 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 3 major customers (2013: 4).

#### 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 undertaking certain strategies to meet its medium term business plan (refer Note 31).

#### 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 Australian Dollars, Euro and UK Pounds, and revenues in US Dollars and UK Pounds. The Company has an approved treasury policy that sets out the parameters under which foreign exchange cover is to be taken.

#### iv) Interest Rate Risk

The Group has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates. The Group endeavours to deposit funds at the best available rate, for the selected term, at a range of registered banks. At each reporting date, there were no term deposits held for periods greater than 90 days. The Group has an interest bearing debt as detailed in Note 19.

### b) Quantitative disclosures

#### i) Credit risk

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

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

There is a credit risk arising in that the Group has only 3 customers. The risk arising from this is closely managed. No collateral is held, nor any credit enhancement, for this risk, other than the ability to offset amounts receivable from one customer against accepted warranty payments due to that company. The Directors are satisfied with the management of this exposure. At this stage in the development of the Company it has not been possible to diversify this credit risk.

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

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Not past due	2	152	568	568
Past due 31-60 days	26	26	249	287
Past due 61-90 days	-	-	2	2
Past due 91-120 days	-	-	2	2
Past due 121 days	488	521	768	864
<b>Balance at end of the period</b>	<b>516</b>	<b>699</b>	<b>1,589</b>	<b>1,723</b>

Receivables past due 121 days relate to design difference and outstanding work retentions held by NZ Windfarms.

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

#### ii) Liquidity risk

The Company had no borrowings at 30 June 2014 or at 30 June 2013. The Group had secured borrowings of \$4,965,685 as at 30 June 2014 (2013 - \$1,757,010), see Note 19. Other financial liabilities are comprised of the short terms payables disclosed in Note 18.

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

### Liquidity risk maturity analysis

#### **Group**

30 June 2014	Carrying amount	Less than 12 months	1 - 2 years	2 - 5 years
<b>Non derivative financial liabilities</b>				
Trade and other payables	1,476	1,476	-	-
Shareholder loan	4,966	4,966	-	-
<b>Derivative financial liabilities</b>				
FX exchange contracts for hedging	253	253	-	-

#### **Company**

30 June 2014	Carrying amount	Less than 12 months	1 - 2 years	2 - 5 years
<b>Non derivative financial liabilities</b>				
Trade and other payables	958	958	-	-
Shareholder loan	-	-	-	-
<b>Derivative financial liabilities</b>				
FX exchange contracts for hedging	253	253	-	-

#### **Group**

30 June 2013	Carrying amount	Less than 12 months	1 - 2 years	2 - 5 years
<b>Non derivative financial liabilities</b>				
Trade and other payables	2,504	2,504	-	-
Shareholder loan	1,757	-	-	1,757
<b>Derivative financial liabilities</b>				
FX exchange contracts for hedging	-	-	-	-

#### **Company**

30 June 2013	Carrying amount	Less than 12 months	1 - 2 years	2 - 5 years
<b>Non derivative financial liabilities</b>				
Trade and other payables	2,112	2,112	-	-
Shareholder loan	-	-	-	-
<b>Derivative financial liabilities</b>				
FX exchange contracts for hedging	-	-	-	-

#### iii) *Foreign Exchange Risk*

At the reporting date, the Group and Company had exposure to foreign currency risk through the operations, assets and liabilities of its UK subsidiaries. The Company takes out forward cover contracts for major transactions in foreign currencies. At 30 June 2014 the Company had \$253,000 fully hedged forward exchange contracts for the payment of AU\$ 232,000 with a maturity date of 9 October 2014.

#### *Underlying exposure*

A 5% weakening of the NZD against the British Pound (GBP) at 30 June 2014 would have (increased)/decreased equity and increased/(decreased) the loss by the amounts shown below:

Currency	2014		2013	
	Group (\$000's)		Group (\$000's)	
	Equity	P&L	Equity	P&L
GBP	105	72	40	34

A 5% strengthening of the NZD against GBP at 30 June 2014 would have had the opposite effect.

#### iv) *Interest rate risk*

At the reporting date, the Group had financial liabilities, but no exposure to interest rate derivatives. All cash and term deposits held by the Group and Company were short term. The Group is not exposed to any variable interest rate risks as all interest-bearing liability instruments have specified fixed interest rates (see Note 19).

c) **Capital Management**

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

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

The Company is listed on the NZ Alternative Stock Exchange, with obligations to inform the shareholders and the market of any matters which affect the capital of the Company. This includes changes to the capital structure, new share issues, dividend payments and any other significant matters which could affect the credit-worthiness or liquidity of the Group.

The Group is not currently, and was not subject to any external capital requirements in either reporting period.

d) **Fair Value**

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

e) **Classification and fair values**

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

**Group: as at 30 June 2014**

	Note	Held to maturity	Loans and receivables (\$000)	Other amortised cost (\$000)	Total carrying amount (\$000)	Fair value (\$000)
<b>Assets</b>						
Cash and cash equivalents	15	-	469	-	469	469
Retentions	17	-	440	-	440	440
Trade and other receivables	16	-	516	-	516	516
Total current assets		-	1,425	-	1,425	1,425
<b>Total assets</b>		-	1,425	-	1,425	1,425
<b>Current Liabilities</b>						
Trade and other payables	18	-	-	1,476	1,476	1,476
Loan from shareholder	19	-	-	4,966	4,966	4,966
<b>Total liabilities</b>				6,442	6,442	6,442

**Group: as at 30 June 2013**

	Note	Held to maturity	Loans and receivables (\$000)	Other amortised cost (\$000)	Total carrying amount (\$000)	Fair value (\$000)
<b>Assets</b>						
Cash and cash equivalents	15	-	188	-	188	188
Retentions	17	-	167	-	167	167
Trade and other receivables	16	-	1,589	-	1,589	1,589
Total current assets		-	1,944	-	1,944	1,944
Non-current assets: - retentions		-	250	-	250	250
<b>Total assets</b>		-	2,194	-	2,194	2,194
<b>Current Liabilities</b>						
Trade and other payables	18	-	-	2,504	2,504	2,504
Total current liabilities		-	-	2,504	2,504	2,504
Non-current Liabilities	19			1,757	1,757	1,757
<b>Total liabilities</b>		-	-	4,261	4,261	4,261

**Company: as at 30 June 2014**

	Note	Held to maturity	Loans and receivables (\$'000)	Other amortised cost (\$'000)	Total carrying amount (\$'000)	Fair value (\$'000)
<b>Assets</b>						
Cash and cash equivalents	15	-	82	-	82	82
Retentions	17	-	440	-	440	440
Trade and other receivables	16	-	711	-	711	711
Total current assets		-	1,233	-	1,233	1,233
Advances to subsidiaries		-	-	-	-	-
<b>Total assets</b>		-	<b>1,233</b>	-	<b>1,233</b>	<b>1,233</b>
<b>Liabilities</b>						
Trade and other payables	18	-	-	958	958	958
Total current liabilities		-	-	958	958	958
Non-current Liabilities	19	-	-	-	-	-
<b>Total liabilities</b>		-	-	<b>958</b>	<b>958</b>	<b>958</b>

**Company: as at 30 June 2013**

	Note	Held to maturity	Loans and receivables (\$'000)	Other amortised cost (\$'000)	Total carrying amount (\$'000)	Fair value (\$'000)
<b>Assets</b>						
Cash and cash equivalents	15	-	148	-	148	148
Retentions	17	-	167	-	167	167
Trade and other receivables	16	-	1,723	-	1,723	1,723
Total current assets		-	2,038	-	2,038	2,038
Non-current assets:						
– retentions		-	250	-	250	250
Advances to subsidiaries		-	1,436	-	1,436	1,436
<b>Total assets</b>		-	<b>3,724</b>	-	<b>3,724</b>	<b>3,724</b>
<b>Liabilities</b>						
Trade and other payables	18	-	-	2,112	2,112	2,112
Total current liabilities		-	-	2,112	2,112	2,112
Non-current Liabilities	19	-	-	-	-	-
<b>Total liabilities</b>		-	-	<b>2,112</b>	<b>2,112</b>	<b>2,112</b>

## 24. 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 2014 (2013: nil).

ii) *Key management personnel compensation*

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

b) **Payments to directors**

*Other transactions with key management personnel*

Person	Transaction	Note	Transaction value		Balance outstanding <sup>(2)</sup>	
			2014	2013	2014	2013
H Kelly, Director	Management services	(1)	-	\$1,226	-	-
A Napier, Director	Management services	(1) (2)	\$34,881	\$4,000	-	\$4,000
K McConnell, Past Director	Management services	(1)	-	\$4,841	-	-
G Henderson, Director, CEO	Employee salary and remuneration	(4) (5)	\$232,000	\$232,000	-	-

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

(2) Balances outstanding at 30 June 2013 relate to management services unpaid.

c) **Transactions within the Group**

Company	Transaction	Note	Net Transaction value		Balance outstanding	
			2014 (\$000's)	2013 (\$000's)	2014 (\$000's)	2013 (\$000's)
Wind Blades Ltd	Loan	(2)	-	3	-	76
Windflow UK Ltd	Loan	(1)	2,517	2,744	-	1,244
Windflow Hammer Ltd	Loan	(1)	191	115	-	115
Our Wind Limited	Loan	(3)	-	-	-	1
Wind Power Otago Limited		(4)	-	-	-	-
<b>Total</b>			<b>2,708</b>	<b>2,862</b>	<b>-</b>	<b>1,436</b>
Hammer Westray LLP			-	-	-	-
Windflow UK Ltd	Trade receivables		184	130	184	130

Notes:

- (1) Windflow Technology Ltd advanced funds to assist with initial set up costs and to fund turbine sales, development projects, parts and operating costs. The advance is interest bearing and repayable upon demand. An impairment provision of \$4,294,272 was made at 30 June 2014 (2013 - \$1,500,000), reducing the carrying value to \$0. Windflow Technology Ltd has advanced funds to Windflow Hammer Ltd, which is interest bearing and repayable upon demand. An impairment provision of \$306,339 was made at 30 June 2014. The provisions reflect the short-term uncertainty regarding the ability of the borrowing companies to repay their loan in full.
- (2) The advance is interest free and repayable upon demand. The balance outstanding is \$0 after deducting an impairment provision of \$933,139. Wind Blades Ltd was amalgamated into Windflow Technology Ltd on 1st July 2014.
- (3) A provision of \$167,513 has been made against the Company's investment in Our Wind Limited.
- (4) A provision of \$26,052 has been made against the Company's investment in Wind Power Otago Limited.

Windflow Technology Ltd earns income from selling turbines, spare parts and tools to Windflow UK, charging management fees to Windflow UK and Windflow Hammer Limited and charging interest on funds advanced. Windflow UK earns income by selling turbines to third parties and to Windflow Hammer Limited, the Group's developer of turbine 'projects'. Hammer Westray LLP is a Group entity that owns the commissioned wind turbine 'project' on the Isle of Westray in the Orkney Islands. As included in Note 5, Company revenues from Group companies amounted to \$2.140 million (sale of turbines, management fees & interest charges), (2013: \$1.569 million).

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.

d) **Key management personnel compensation**

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Short term employee benefits	703	523	548	468

e) **Transactions with a shareholder**

The shareholder providing a loan facility is the Company's largest shareholder and a related party (see Note 19). The same shareholder purchased \$5 million of redeemable convertible preference shares in 2014 (see Note 11).

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

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
<b>Net Deficit</b>	<b>(4,962)</b>	<b>(7,207)</b>	<b>(4,242)</b>	<b>(3,782)</b>
Less Non-cash items:				
Amortisation of licences & patents	257	257	257	257
Depreciation	190	71	149	101
Loss on sale of fixed asset	-	-	-	-
Impairment provision	-	4,294	-	1,500
Other	760	-	275	-
	1,207	4,622	681	1,858
<b>Cash flow from operations before working capital changes</b>	<b>(3,755)</b>	<b>(2,585)</b>	<b>(3,561)</b>	<b>(1,924)</b>
Movements in working capital:				
Movement in accounts payable excluding asset purchases	(1,021)	(1,060)	1,310	943
Increase in progress payments held	-	-	-	490
Movement in holiday pay	(7)	(7)	(33)	(33)
Decrease in accruals	(87)	(87)	53	(4)
Movement in provisions	982	982	(1,705)	(1,705)
(Increase)/Decrease in other assets	224	48	(2,011)	(45)
Movement in prepayments made	(524)	(7)	-	-
Movement in accounts receivable	(1,073)	(1,024)	(723)	(694)
Decrease in stock & WIP	(343)	(68)	324	299
Movement in prepayments	10	1,435	(10)	(10)
Movement in retentions	23	23	618	618
Movement in GST	155	(91)	(121)	52
Preferential dividends payable	125	14	(125)	(125)
<b>Net cash flows from operating activities</b>	<b>(5,699)</b>	<b>(2,350)</b>	<b>(5,984)</b>	<b>(2,138)</b>

## 26. OPERATING LEASES

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

	2014		2013	
	Group (\$000's)	Company (\$000's)	Group (\$000's)	Company (\$000's)
Within one year	138	138	52	52
Between one and two years	46	46	-	-

The operating lease relates to the leasing of warehouse space and office premises.

## 27. SEASONALITY OF OPERATIONS

The operations are not subject to seasonal fluctuations but are subject to the effects of the timely completion of orders.

## 28. CONTINGENT LIABILITIES

As disclosed in Note 14, the Company has provided turbine warranties for Sound Level and Power Curve and considers there is no liability. The calculation of the power curve performance contains several adjustments, some of which are disputed by NZ Windfarms which has referred the dispute to arbitration. The Company disputes any liability. Accordingly, no provision has been made for either in these Financial Statements.

## 29. CAPITAL COMMITMENTS

The Group had capital commitments amounting to \$2.9 million as at 30 June 2014 (2013: \$330,000).

## 30. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

### a) Arbitration:

Windflow Technology Ltd has received a notice of dispute from NZ Windfarms Ltd regarding some unresolved warranty matters. The Company has provided warranties to NZ Windfarms as part of the October 2005 sale and purchase agreement for the 97 turbines at Te Rere Hau. These warranties generally run for 5 years from the date of commissioning. At the date of signing these financial statements these warranties have expired for 50 turbines, with the last turbine's 5 year warranty period expiring in July 2015. Under the terms of the sale and purchase agreement, the notice of dispute dated 28 August 2014 triggers a 60-day period to attempt a negotiated solution, failing which NZ Windfarms has advised that it intends to refer the disputes to arbitration. The amount of the dispute has not yet been determined.

b) **GD SATCOM**

General Dynamics SATCOM Technologies Inc (GD SATCOM) has terminated its Licence Agreement with Windflow Technology Limited (Windflow). GD SATCOM decided to exit the wind business to focus on its core business. The decision by GD SATCOM has come against a background of good progress that has been made on the detailed design and construction of the Class 2A prototype, which was expected to be installed in Texas in August, but has recently experienced further delays.

The revenue implications for the Company are primarily in relation to expected licensing payments, as services committed under the Licence Agreement have been completed apart from some small scopes of engineering services associated with completing the prototype build. GD SATCOM was due to commence making minimum royalty payments in early August 2014.

Following GD SATCOM giving notice, an agreement has been concluded whereby GD SATCOM will continue to provide warranty insurance to two projects in Scotland and the Company will acquire manufacturing tooling and other assets for the Class 2A turbine.

c) **Preference Shares**

On 10 October 2014 the Company allotted a further \$125,000 of Redeemable Convertible Preference Shares on the same terms as the January 2014 issue (see Note 11).

### 31. GOING CONCERN ASSUMPTION

These Financial Statements have been prepared using the going concern assumption. There is a significant element of uncertainty as to the Group's ability to remain a going concern, which is contingent on it being able to generate sufficient cash to fund overheads by achieving a mix of the following:

- Ongoing access to the shareholder Loan Facility to fund turbine projects, and
- Achieve turbine sales in the USA and/or other markets; and/or
- Obtain further third party sales and development projects in the UK, and/or
- Obtain new finance as required for more development projects, and/or
- Sell some or all of the turbine projects being completed in the UK this year, as well as the Westray turbine; and/or
- Obtain further equity injections from existing or new shareholders.

The significant element of uncertainty arises because:

- An alternate approach to accelerate UK sales was adopted in June 2014. It will be early 2015 at the earliest before the Group can properly assess the success of the new approach.
- GD SATCOM's decision of July 2014 not to continue in the wind industry has created a gap in the Group's revenue expectations. The Company is working with parties in the US to progress a possible US market entry, but it is too early to report on these prospects.

The budgeted financial performance for the year to 30 June 2014 assumed the commencement of a steady flow of orders from the United Kingdom. While some orders were forthcoming, delays continue to be experienced. Factors contributing to these delays are:

- delays in resolving grid constraint issues in the Orkney Islands after a September 2012 announcement by the local network operator of a temporary moratorium on new grid connections;
- grid constraint issues have also affected other parts of Scotland as major transmission upgrade projects continue to be delayed;
- lack of profile of the Windflow turbine in Britain – this should be improved by the end of this year as more turbines go on line;
- planning permission for onshore wind turbines continues to be highly politicised in the UK, especially in England and Wales;

To facilitate and expedite UK projects, the Group has continued to focus on development activities (which are relatively capital intensive, but which are expected to be more profitable in the medium to long term) as well as third party sales.

Depending on progress with growing revenue from its various activities (licensing, engineering services, turbine sales, project sales and electricity sales), the Directors may or may not carry out further capital raising in 2014 or 2015.

The Group has made some progress and passed positive milestones in the year to 30 June 2014, albeit delayed by a number of factors as outlined above (see Directors' Review).

In summary, based on the Group's continued progress and prospects in its 1-2-3 strategy, together with opportunities in the US market, and short term shareholder support, the Directors consider the going concern assumption to be a valid basis on which to prepare these Financial Statements. This conclusion was reached giving due regard to circumstances likely to affect the company within the period to 30 June 2015, and to circumstances which may occur beyond that date which may affect the going concern assumption.

The Directors stress that there exists significant risk because of the delays which have affected the Group to date and which may continue to affect it. If sufficient sales are not able to be achieved and in particular if the US market opportunities are unable to be realised, the Directors would have to re-consider the going concern assumption and take appropriate action. This will also be evident if UK prospects are not achieved, while the Company's loan facility provided by a shareholder will only finance UK prospects. If that process results in the Directors concluding that the Group was no longer a going concern, the net assets of the Company and the Group would reduce significantly and this would result in significant negative equity.





## **Independent auditor's report**

### **To the shareholders of Windflow Technology Limited**

#### **Report on the company and group financial statements**

We were engaged to audit the accompanying financial statements of Windflow Technology Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 5 to 30. The financial statements comprise the balance sheets as at 30 June 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

#### ***Directors' responsibility for the company and group financial statements***

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate and for such internal control as the directors determine is necessary to enable the preparation of company and group 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 company and group financial statements based on conducting the audit in accordance with International Standards on Auditing (New Zealand). Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Our firm has also provided other services to the company and group in relation to an assurance report on the maintenance of the share register. This has not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

#### ***Basis for disclaimer of opinion***

An audit would ordinarily involve performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected would ordinarily depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the 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 company and group's internal control.

The disclosure at note 31 of the financial statements describes the use of the going concern assumption in the presentation of the financial statements.



The group incurred a net loss of \$4.962 million during the year ended 30 June 2014 and has negative working capital of \$3.509 million at balance date.

As disclosed in more detail in note 31 the financial statements have been prepared on a going concern basis, the validity of which is contingent on generating sufficient cash to fund overheads, which, in turn, is dependent upon one or more of the following occurring:

- Ongoing access to the shareholder loan facility to fund turbine projects;
- Achieving turbine sales in the USA and/or other markets;
- Obtaining further third party sales and development projects in the UK;
- Obtaining new finance as required for more development projects;
- Selling some or all of the turbine projects being completed in the UK this year, as well as the Westray turbine; and/or
- Obtaining further equity injections from existing or new shareholders.

Wherever possible, the Company has provided us with all information we requested. However, there are multiple uncertainties associated with these events and the inherent limitations of obtaining audit evidence about the outcome of future events. We have therefore been unable to obtain sufficient appropriate audit evidence upon which to form an opinion as to whether application of the going concern assumption remains appropriate and whether adjustments to the carrying values of assets and liabilities are required.

#### ***Disclaimer of opinion***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the company and group financial statements on pages 5 to 30.

#### ***Other matter***

The financial statements of Windflow Technology Limited and the group, for the year ended 30 June 2013, were audited by another auditor who expressed an unmodified opinion with an emphasis of matter on going concern on those statements on 7 November 2013.

#### **Report on other legal and regulatory requirements**

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- as noted above, we have not received all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by Windflow Technology Limited as far as appears from our examination of those records.



22 October 2014  
Christchurch

## Corporate Governance

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

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

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

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

The following headings reflect the corporate governance principles of the NZX Corporate Governance Best Practice Code.

### Board Composition and Membership

As at the 30 June 2014 the Board comprised four Directors. These included Michael Chick, a non-executive Chairman, Geoff Henderson an executive Director (the Chief Executive Officer), Angus Napier and Heugh Kelly the other two non-executive Directors.

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

The details and background of the Directors are described later in this Annual Report.

The Chairman is elected by the Board of Directors and it is his role to manage the Board in the most effective manner and to provide a conduit between the Board and the 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 Constitution.

The Board held twelve regular scheduled monthly meetings during the 12 month period ended 30th June 2014. 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 2014

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 13b of the Notes to the Financial Statements.

The Directors' disclosure of their shareholdings pursuant to the New Zealand Exchange's Alternative Market (NZAX) listing rule are shown as at 30 June 2014 in the list below.

### Ordinary Shares Held

Director	Beneficially	Interest of Associated Persons	Non-Beneficially
Geoff Henderson	702,564	679,422	
Heugh Kelly	39,625		
Michael Chick			
Angus Napier	102,000		

## Preference Shares Held

Director	Beneficially	Interest of Associated Persons	Non-Beneficially
Geoff Henderson	141,250	137,111	
Heugh Kelly	41,250		
Michael Chick	182,500		
Angus Napier	99,750		

## 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 four Directors three were independent, while Mr Geoff Henderson is also the Chief Executive Officer.

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 and Risk Committee consisting of Angus Napier (Chairman) and Michael Chick. The Chief Executive Officer and Chief Financial Officer attend the meetings by invitation. The external Auditor attends some meetings. The Audit and Risk Committee meets at least quarterly (generally on the same day as board meetings), in order to review the financial reports with the CEO and the Company’s Chief Financial Officer. In addition to these scheduled meetings the Audit and Risk Committee also meets on other occasions to review amongst other things the Company’s Annual and Half-Yearly accounts and the Company’s risk management.

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

## Ethical Standards

### Code of Ethics

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

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

### Interests Register

In accordance with the Companies Act 1993 the Company maintains an Interest Register in which the particulars of certain transactions and matters involving Directors are recorded. The following table summarises details of entries made in the Interests Register that relate to the Company and its subsidiaries during the financial year:

Director	Counterparty	Nature of Interest
Geoff Henderson	Monan Wind Limited	Director – appointed 19 November 2013
Heugh Kelly	Not applicable	Not applicable
Michael Chick	Not applicable	Not applicable
Angus Napier	Not applicable	Not applicable

## Conflicts of Interest

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

## Insider Trading

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

## Audit Governance and Independence

Shareholders approved the Board setting the remuneration of the Auditors at the Annual Meeting in December 2013. KPMG was appointed as the Company Auditor for the year ended 30<sup>th</sup> June 2014.

The work of the external Auditor is limited to audit and related work and the Company is committed to auditor independence. The Board annually reviews the independence and objectivity of the external Auditors. No employees, Partners or Directors of the Audit firm hold shares in the Company.

Representatives of the Company's external Auditor (KPMG) will be invited to the Annual General Meeting.

## Directors' Remuneration

The current annual Directors' fees paid to all Directors within the Company total \$142,500 per annum.

The remuneration package of the Chief Executive Officer as at the 30 June 2014 was \$232,000.

The following table summarises the remuneration paid to the Directors for the period to 30 June 2014:

Name	Directors Fees	Remuneration	Other Fees
Michael Chick	\$55,000		
Geoff Henderson	\$27,500	\$232,000	
Heugh Kelly	\$27,500		
Angus Napier	\$32,500		\$34,881

Fees for management services supplied to the Company by the Directors are disclosed in note 24 of the Financial Statements. No other benefits were received by the Directors of the Company. Reimbursements of appropriate costs (mainly travel to meetings) were made.

## Reporting and Disclosure

Annual and Interim Reports in accordance with the requirements of the 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.

## Risk Management

The Company has a policy of identifying, assessing and managing risks arising from its business direction and also from the strategic environment. It implements risk management through its business processes of planning, budgeting, investment and project analysis, and operations management.

## Shareholder Relations

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

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

## Company Secretary

Terry Moon has been Company Secretary since June 2005, co-ordinating the reporting and compliance requirements of the Company throughout the financial year.

## OTHER STATUTORY INFORMATION

### Employee Remuneration

For the period to 30 June 2014, there were 9 employees in the Group who earned more than NZD \$100,000.

Remuneration Range NZ\$	Number of Employees
200,001 – 220,000	1
180,001 – 200,000	1
160 001 – 180 000	
140 001 – 160 000	
130,001 – 140,000	
120,001 – 130,000	1
110,001 – 120,000	4
100,000 – 110,000	2

### Directors' Indemnity and Insurance

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

### Subsidiaries and Directors Thereof

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

#### Subsidiaries

#### Those charged with Governance

Wind Blades Ltd (non-trading since 1 July 2014)	Peter Brooking, Geoff Henderson
Windflow International Ltd	Geoff Henderson, Heugh Kelly
Windflow UK Ltd	Michael Chick, Angus Napier, Geoff Henderson, Heugh Kelly
Windflow Hammer Ltd	Michael Chick, Angus Napier, Geoff Henderson, Heugh Kelly
Hammer Westray Limited Liability Partnership	Michael Chick, Angus Napier, Geoff Henderson, Heugh Kelly, Colin Risbridger
Our Wind Ltd	Morgan Williams, Jeanette Fitzsimons, Duncan Currie, Geoff Henderson
Monan Wind Limited	Geoff Henderson, Andy Strowbridge, David Wake

### Donations

The Company's Directors have decided that no donations to charity will be made until the Company has paid an ordinary dividend to its shareholders. No donations have been made on behalf of the Company or any of its subsidiaries in the financial year ended 30 June 2014.

### Audit Fees

Fees paid to the Auditor to audit the Company accounts and Company Share Register totalled \$42,452 for the year ending 30 June 2014. No fees were paid to the Auditor in respect of other work undertaken for the Company. None of the Company's subsidiaries have been separately audited in the year to 30 June 2014.

## 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 10 October 2014.

### Twenty Largest Ordinary Shareholdings

Shareholder	Address	Ordinary Shares	%	Preference Shares
David Iles	USA	3,222,901	15.65	16,522,683
Mighty River Power Limited	Auckland	2,382,496	11.57	
Delane Wycoff	USA	1,100,000	5.34	
New Zealand Central Securities Depository Ltd	Wellington	890,859	4.33	420,772
Geoff Henderson	Christchurch	702,564	3.41	141,250
Jennifer Henderson	Christchurch	550,000	2.67	100,000
Reda Holdings Limited	Cayman Islands	241,000	1.17	
FNZ Custodians Limited	Wellington	213,953	1.04	
Jeanette Fitzsimons	Thames	211,513	1.03	20,000
Sheila Kolstad	Christchurch	165,000	0.80	122,500
J&T Gribben Family Account	Auckland	165,000	0.80	
Anthony Bowen	Christchurch	154,379	0.75	30,000
Ian Shearer & Mary Newman	Wellington	126,908	0.62	42,303
Caroline Stockdale	Nelson	123,738	0.60	63,454
Paul Simmons	Christchurch	118,149	0.57	
Bremca Holdings Limited	Christchurch	118,000	0.57	
Brett Whiston	Manukau	115,689	0.56	38,563
Alastair Nicholson & Celia Wade-Brown	Wellington	114,836	0.56	57,845
Thomas Lanigan	Auckland	112,426	0.55	
Margaret Simmons	Christchurch	108,149	0.53	
Oliver Powell	Christchurch	105,803	0.51	
<b>TOTALS</b>		<b>11,043,363</b>	<b>53.63</b>	<b>17,559,370</b>

### Distribution of Shareholders

Holdings Ranges	Number of Holders	Number of Shares	%
1 - 1,000	115	68,860	12.85
1,001 - 5,000	341	953,528	38.10
5,001 - 10,000	157	1,192,001	17.54
10,001 - 50,000	226	4,855,866	25.25
50,001 - 100,000	30	1,978,773	3.35
100,001 - 1,000,000	26	11,548,236	2.91
<b>Totals</b>	<b>895</b>	<b>20,597,264</b>	<b>100.00</b>

### Substantial Security Holders

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received and the Company's register of disclosures of substantial holdings, the following persons were substantial security holders in the Company at 10th October 2014.

Shareholder	Number of shares directly held		% of Ordinary Shares Held
	Ordinary Shares	Preference Shares	
<b>David Iles</b>	<b>3,222,901</b>	<b>16,522,683</b>	<b>15.65</b>
Mighty River Power Limited	2,382,496		11.57
Delane Wycoff	1,100,000		5.34
Henderson Family Interests - made up of:	1,381,986	278,361	6.97
• Geoff Henderson	702,564	141,250	
• Jenny Henderson	550,000	100,000	
• Carl Henderson	54,221		
• Lyndall Henderson	74,221	37,111	
• Est. Jon Henderson	980		
<b>Totals</b>	<b>8,087,383</b>	<b>16,801,044</b>	<b>39.53</b>

The total number of issued voting securities as at 30th June 2014 was 20,597,264.

## The Directors of the Company



**Michael Chick, Board Chairman**  
14A Rata St, Riccarton, Christchurch

Michael Chick has 40 years of experience in medium and high technology companies focused on international growth since qualifying in electrical engineering in Wales. Until 2009 he was CEO of Tait Ltd, a Christchurch based radio company, where he remains a Trustee of its controlling shareholder, in addition to being Chairman of a medium sized electronic company. Michael has held CEO/MD positions in a number of different companies having also undertaken a successful management buyout of one of the operations. He is a Chartered Engineer and Fellow of the Institution of Engineering and Technology. Michael is also director and chairman of the company's subsidiary Windflow UK Ltd and joined the Boards of both Companies to assist them to successfully build upon the strong engineering base to one with equally strong commercial capability.

**Geoff Henderson, Director and Chief Executive Officer**  
50 Waiwetū Street, Fendalton, Christchurch

A registered mechanical engineer, Geoff Henderson has been involved in wind power engineering for thirty 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 a registered professional engineer (PE) with the State of California. He is also a director of 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.

**Angus Napier, Director**  
220 Cockayne Rd, Ngaio, Wellington

Angus Napier qualified as a Chartered Accountant and was for many years a member of the Institute of Chartered Accountants in England and Wales and in New Zealand. Prior to April 2000 Angus held a variety of full-time employment positions, most latterly as Senior Advisor, State-Owned Enterprises, to the Crown Company Monitoring Advisory Unit within the Treasury. Earlier positions were Internal Audit Manager, Standard Chartered Bank, Hong Kong; and financial management consultancy and external audit roles with KPMG Peat Marwick, in New Zealand, Hong Kong and England. Since 2000 his focus has been as an Independent Management Consultant.





<b>Management Team</b>	Chief Executive Officer .....	Geoff Henderson
	Chief Financial Officer .....	Vinni Pietras-Jensen
	UK General Manager.....	Andy Strowbridge
	Company Secretary .....	Terry Moon
	Supply Chain Manager .....	Mike Palmer
	Sales and Marketing Manager.....	John Schurink
<b>Solicitor</b>	Lane Neave Lawyers 137 Victoria St Christchurch	
<b>Registered Office</b>	HFK Ltd 4/567 Wairakei Road Christchurch	
<b>Auditor</b>	KPMG 62 Worcester Boulevard Christchurch	
<b>Share Registry</b>	Link Market Services Ltd 138 Tancred St Ashburton	
<b>Bankers</b>	Bank of New Zealand 81 Riccarton Rd Christchurch	
<b>Insurance Brokers</b>	Marsh Limited Level 1, 447 Blenheim Rd Christchurch	
<b>Principal Suppliers</b>	Blades.....	Wind Blades Ltd of Auckland
	Gearbox.....	Moventas Australia
	Electrical Control.....	Bremca Ltd of Christchurch
	Hub .....	A&G Price Ltd of Thames
	Generator .....	Mecc Alte of Italy
	Hydraulics .....	Eaton Hydraulics Group of Auckland
	Nacelle Cladding.....	Wind Blades Ltd of Auckland
	Pallet.....	Allied Industrial Engineering of Kawerau
	Tower.....	SIAG Tube and Tower GmbH of Germany