Windflow Technology Limited

Annual Report 2015

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Directors' Annual Review to 30 June 2015

Windflow Technology has continued to make progress in the year to 30 June 2015:

- Five turbines were installed and commissioned in Scotland
- Two of these were sold to third parties
- All six W33-500 turbines in Scotland, four owned by the Windflow Group, have performed reliably and earned significant revenue for their owners
- The Class 2 45-500 prototype was completed and commissioned with General Dynamics in Texas (see cover photo)
- Windflow has taken delivery of some substantial Class 2 tooling assets and components that General Dynamics has transferred to Windflow
- All 97 turbines at Te Rere Hau have now exited their 5 year warranty periods, and the turbines continue to run with availability well over 95%.

A gross profit of $1.1 million was achieved by the Windflow Group on revenue of $2.4 million. However the overall result after overheads and finance costs was a loss of $3.1 million. Trading conditions remain difficult and the parent company had to make six staff redundant in order to reduce costs while the Group experiences ongoing delays in securing sales orders:

- UK sales prospects have progressed slowly due to a range of factors including planning and grid connection issues. For example grid constraint issues affecting many parts of Scotland as major transmission upgrade projects continue to be delayed. And planning permission for onshore wind turbines continues to be highly politicised in the UK, especially in England and Wales
- Nonetheless the Windflow Group managed since balance date to bring seven new projects totalling eleven turbines to the point of pre-accreditation under the UK feed-in-tariff (FIT) scheme. This was done to a deadline of September 30, 2015, which appears likely to mark the last date for pre-accreditation and thus the last date before the value of the FIT is significantly reduced, although it is possible the UK government will re-introduce pre-accreditation for community-owned projects. Out of these eleven turbines, two have now been confirmed for build by Windflow in the coming year, and we expect to confirm more in the coming months, though possibly not all of the eleven will prove viable.
- In addition, the ongoing UK government review of the FIT is expected to result in either termination or a significant reduction, which will adversely affect the UK market for single wind turbines. Thus the next batch of turbines that Windflow builds for the UK could possibly be the last for the single turbine FIT market, although there are some indications the market will continue to be supported for community-owned projects and offshore island projects.
- This uncertainty does not help of course and it is also unclear at this stage whether it will be possible to replace this in due course with (for example) small wind farm projects in the UK
- The New Zealand market continues to be stagnant because of an oversupply of power. While there are some signs of a revival because the aluminium smelter appears to be staying in the medium term and some thermal power stations are being shut down, it is too early to factor any New Zealand projects into Windflow's planning
- Windflow's weakened balance sheet and the ongoing disputes with NZ Windfarms have created negative perceptions which are themselves barriers to achieving sales. The Directors are pleased to announce that a settlement has been recently agreed with NZ

Windfarms, subject to ratification at a Windflow shareholders' meeting to be held before the end of 2015. (See also a separate joint announcement being made at this time.)

- 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 to progress new licensing prospects
- Climate change provides a major policy context which argues for major progress in renewable energy such as wind power, but price signals in the developed world have been mixed in recent years. While there is an expectation that renewed impetus will come from the major UN conference in Paris this December, it will take some time for this to translate into a durable carbon-pricing system. In the meantime, fracking and other means to continue use of fossil-fuels and centralised power stations appear to be favoured in many countries. For example Britain has recently announced it will build the 3,000 MW Hinckley C Nuclear Station for £18 billion. This is hugely ironic when one remembers how this station was rejected by a Commission of Inquiry in the 1980s which concluded that nuclear power was more expensive than wind power, which at the time was in its infancy. Today's price-tag shows that is still the case. But nonetheless, at a time when renewable energy has overtaken coal as a proportion of Britain's power sources, the British government is shutting down the growth of onshore wind power. It is predictable that in five years time it will also shut down offshore wind power because of its intractable high costs to the taxpayer.

Looking ahead to 30 June 2016:

- Windflow is working to find a licensee for China, India, the USA and other markets. The CEO and Licensing Manager have both travelled to these three countries in recent months, with the assistance of NZ Trade & Enterprise in country, including participation by Windflow in a Cleantech Mission to India led by Minister Amy Adams in late September. Windflow is now following up a number of promising leads in those countries.
- 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, and is addressing prospects in island nations in the Pacific and Caribbean.
- Low wholesale power prices are likely to persist in New Zealand. They have been at 4-6 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.
- Windflow expects to seek further capital to fund further projects in the UK. More information will be provided in due course.

In summary we will continue to work on the issues facing the Company by addressing the various opportunities before us to manufacture turbines for the UK and elsewhere, and by working to find licensees for our designs.

We would like to take this opportunity to acknowledge the ongoing support of all shareholders, and in particular the Company's largest shareholder. As set out in Note 30, on 20 October 2015 he provided the Company with a letter of support that is a significant factor in the Directors' consideration that the Company remains a going concern. Details of this support are subject to shareholder approval, at a meeting to be held before the end of 2015.

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

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 2015 and notes, on pages 5 to 28:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Group as at 30 June 2015 and the results of its operations and cash flows for the 12 months ended on that date; and,
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

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

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

For and on behalf of the Board of Directors:

D. M. Clarke

Chairman
30 October 2015

Geoff Henderson

Director
30 October 2015

Consolidated Balance Sheet

As at 30 June 2015

	Note	2015 ($000's)	2014 ($000's)
Current assets			
Cash on hand and at bank	15	242	469
Income earned not invoiced	16	501	753
Trade and other receivables	16	194	325
Prepayments	16	314	740
Asset Held for Sale	16	649	-
Retentions	17	629	631
Inventory and work in progress	12	837	1,762
Value added goods and services tax refund		-	30
Total current assets		**3,366**	**4,710**
Non-current assets			
Property, plant & equipment	20	9,131	2,525
Intangible assets	21	1,429	1,682
Total non-current assets		**10,560**	**4,207**
Total assets		**13,926**	**8,917**
Equity			
Contributed capital	11	43,714	43,093
Foreign Currency Translation Reserve		(1,612)	-
Accumulated losses		(45,992)	(42,543)
Equity attributable to the owners of the Company		(3,890)	550
Non-controlling Interests		(95)	-
Total equity		**(3,985)**	**550**
Current liabilities			
Trade and other payables	18	1,092	1,476
Loan from shareholder	19	15,670	4,966
Provisions	14	808	1,777
Value added goods and services tax		113	-
Total current liabilities		**17,683**	**8,219**
Non-current liabilities			
Provisions	14	228	148
Total non-current liabilities		**228**	**148**
Total equity and liabilities		**13,926**	**8,917**

The notes on pages 10 to 28 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 30 October 2015:

D. M. Cl...

Chairman

Geoff Henderson

Director

Consolidated Statement of Comprehensive Income

For the year ended 30 June

	Note	2015 ($000's)	2014 ($000's)
Operating revenue	5	2,371	1,543
Cost of sales		1,264	1,201
Gross profit / (loss)		**1,107**	**342**
Other revenue	5	224	51
Licensing revenue	5	1,335	641
Less:-			
Depreciation	6	(459)	(190)
Amortisation of licences and patents	6	(256)	(257)
General and administration costs		(2,748)	(1,257)
Engineering costs		(1,008)	(1,653)
Research and development costs		(70)	(83)
Marketing costs		(399)	(939)
Wind farm development, operations & maintenance		(139)	(1,383)
Operating loss before finance income and expenses		**(2,413)**	**(4,728)**
Finance income	5	**7**	6
Finance expense		(662)	(240)
Loss before income tax		**(3,068)**	**(4,962)**
Income tax expense / (credit)		**-**	**-**
Loss for the year		**(3,068)**	**(4,962)**
Other comprehensive income:			
Exchange differences on translating foreign operations		(1,612)	**-**
Total comprehensive loss for the period attributable to the shareholders of Windflow Technology Limited		**(4,680)**	**(4,962)**
Total comprehensive loss for the year attributable to:			
Non-controlling interest		(95)	-
Owners of the parent		(4,585)	(4,962)
		(4,680)	**(4,962)**
Losses per share for loss attributable to the ordinary equity holders of the Company during the period:			
Basic Loss per Share		**$(0.12)**	**$(0.24)**
Diluted Loss per Share		**$(0.04)**	**$(0.07)**

The notes on pages 10 to 28 are an integral part of these financial statements.

Statement of Changes in Equity

	Note	Ordinary Share Capital ($000's)	Preference Share Capital ($000's)	Foreign Currency Translation Reserve ($000's)	Retained Earnings ($000's)	Equity Attributable to non-controlling Interests ($000's)	Total Equity Attributable to owners of the Group ($000's)
Balance at 1 July 2013		**33,588**	**4,339**	**-**	**(37,131)**	**-**	**796**
Total comprehensive loss for the year		-	-	-	(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)**
Balance at 30 June 2014		**33,588**	**9,505**	**-**	**(42,543)**	**-**	**550**
Total comprehensive loss for the year		-	-	(1,612)	(2,973)	(95)	**(4,680)**
Preferential dividends	10	-	-	-	(476)	-	**(476)**
Redeemable Convertible Preference Shares	11	-	625	-	-	-	**625**
Issue costs of Preference Shares	11	-	(4)	-	-	-	**(4)**
Share conversion	11	4,512	(4,512)	-	-	-	**-**
Balance at 30 June 2015		**38,100**	**5,614**	**(1,612)**	**(45,992)**	**(95)**	**(3,985)**

The notes on pages 10 to 28 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 30 June

	Note	2015 ($000's)	2014 ($000's)
Cash flows from operating activities			
Cash receipts from customers			
Sales of turbines and components		3,204	477
Licensing revenue		-	641
Consulting Fees		137	83
Other		145	246
Interest received		7	6
Cash paid to suppliers and employees			
Suppliers		(3,188)	(3,493)
Employees		(2,349)	(2,328)
Other		-	(1,331)
Net cash used in operating activities		**(2,044)**	**(5,699)**
Cash flows from investing activities			
Disposal of property plant and equipment		854	-
Acquisition of property plant, equipment and capital WIP		(7,077)	(1,904)
Net cash used in investing activities		**(6,223)**	**(1,904)**
Cash flows from financing activities			
Dividends on redeemable convertible preference shares		(421)	-
Loan from a shareholder		8,465	8,138
Issue costs of equity		(4)	(254)
Net cash from financing activities		**8,040**	**7,884**
Net increase (decrease) in cash and cash equivalents		**(227)**	**281**
Cash and cash equivalents at beginning of the period		469	188
Cash and cash equivalents at end of the period		**242**	**469**

The notes on pages 10 to 28 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 2013. The Financial Statements are those of the Group and have been prepared in accordance with the Financial Reporting Act 2013 and Companies Act 1993.

These audited financial statements were approved by the Board of Directors on 30 October 2015.

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

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013. The Company is listed on the New Zealand Alternative Stock Exchange and the address of its registered office is care of HFK Ltd, 4/567 Wairakei Road, Christchurch.

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 2013 and the Companies Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards ('FRS') as applicable for profit oriented entities. The Financial Statements comply with International Financial Reporting Standards ('IFRS').

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

Details of material accounting judgements and assumptions are:

i. **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.

v. **Preference share capital**
The redeemable convertible preference shares have been accounted for as equity because the Company has discretion to convert these shares to ordinary shares at any time during their five year period to maturity. 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, 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 and by all Group entities. Certain comparative values have been changed to be consistent with these accounting policies (retentions / trade receivables)

a) **Basis of Consolidation**

i. **Subsidiaries**

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

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

ii. **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 kilowatt hours 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.

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:

Operating Wind turbines	20 years
Demonstration Wind Turbine	10 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.

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 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) **Change in Accounting Policies**
None.

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, selling, operating and maintaining wind turbines and related parts. It is an aggregation of the activities in New Zealand, the United Kingdom and the United States of America.

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.

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

	2015 Wind Turbines ($000's)	2015 Licensing ($000's)	2015 Corporate ($000's)	2015 Total ($000's)	2014 Wind Turbines ($000's)	2014 Licensing ($000's)	2014 Corporate ($000's)	2014 Total ($000's)
Total revenue : Sales to customers	2,437	1,335	165	3,937	1,303	641	297	2,241
Less:- Operating expenses	2,409	-	4,596	7,005	2,703	-	4,500	7,203
(Loss)/Profit before income tax	**28**	**1,335**	**(4,431)**	**(3,068)**	**(1,400)**	**641**	**(4,203)**	**(4,962)**
Assets and Liabilities								
Segment assets	10,435	83	3,408	13,926	4,516	80	4,291	8,887
Segment liabilities	16,216	-	1,695	17,911	5,610	-	2,727	8,337
Total equity	**(5,781)**	**83**	**1,713**	**(3,985)**	**(1,094)**	**80**	**1,564**	**550**

CASH FLOW	2015 Wind Turbines ($000's)	2015 Licensing ($000's)	2015 Corporate ($000's)	2015 Total ($000's)	2014 Wind Turbines ($000's)	2014 Licensing ($000's)	2014 Corporate ($000's)	2014 Total ($000's)
Cash receipts from customers								
Sales of turbines and components	3,204	-	-	3,204	477			477
Licensing revenue	-	-	-	-		641		641
Other		137	145	282	79		167	246
Interest received			7	7			6	6
sub-total	3,204	137	152	3,493	556	641	173	**1,370**
Cash paid to suppliers and employees								
Suppliers	2,355	-	833	3,188	1,851		831	2,682
Employees	1,062	-	1,287	2,349	624		1,704	2,328
Other	-	-	-	-	1,094		965	2,059
sub-total	3,417	-	2,120	5,537	3,569	-	3,500	**7,069**
Net cash used in operating activities	**(213)**	**137**	**(1,968)**	**(2,044)**	**(3,013)**	**641**	**(3,327)**	**(5,699)**

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.

	2015 Wind Turbines ($000's)	2015 Licensing ($000's)	2015 Corporate ($000's)	2015 Total ($000's)	2014 Wind Turbines ($000's)	2014 Licensing ($000's)	2014 Corporate ($000's)	2014 Total ($000's)
New Zealand	458	-	165	623	556	-	83	639
United Kingdom and Europe	1,758	-	-	1,758	747	-	214	961
North America	221	1,335	-	1,556	-	641	-	641
Revenue	**2,437**	**1,335**	**165**	**3,937**	**1,303**	**641**	**297**	**2,241**

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

	2015 Wind Turbines ($000's)	2015 Licensing ($000's)	2015 Corporate ($000's)	2015 Total ($000's)	2014 Wind Turbines ($000's)	2014 Licensing ($000's)	2014 Corporate ($000's)	2014 Total ($000's)
New Zealand – sale of parts and assets	393	-	-	**393**	477	-	-	**477**
New Zealand - sale of electricity	57	-	-	**57**	-	-	-	**-**
United Kingdom – sale of electricity	980	-	-	**980**	-	-	214	**214**
United Kingdom – sale of turbines	693	-	53	**746**	747	-	-	**747**
North America – licensing income		1,335		**1,335**	-	641	-	**641**
North America – engineering services	221		-	**221**	-	-	-	**-**

c) Non-current Assets by Geographic Location

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

The non-current assets include property, plant and equipment and intangible assets.

	2,015 Wind Turbines ($000's)	2,015 Licensing ($000's)	2,015 Corporate ($000's)	2,015 Total ($000's)	2,014 Wind Turbines ($000's)	2,014 Licensing ($000's)	2,014 Corporate ($000's)	2,014 Total ($000's)
New Zealand		83	1,539	1,622	257	80	1,602	1,939
United Kingdom and Europe	7,994	-	-	7,994	2,268	-		2,268
North America	944	-	-	944	-	-	-	-
Total non-current assets	**8,938**	**83**	**1,539**	**10,560**	**2,525**	**80**	**1,602**	**4,207**

5. REVENUE

	2015 ($000's)	2014 ($000's)
Operating revenue:		
Sale of turbines to customer	693	747
Sale of electricity generated	1,037	240
Maintenance fees	47	-
Other	252	79
Sale of turbine components	342	477
	2,371	**1,543**
Licensing revenue:	**1,335**	**641**
Other revenue:		
Consultancy fees	81	-
Foreign currency	38	11
Profit on disposal of assets	105	-
Sundry income	-	40
	224	**51**
Interest received	**7**	**6**
Total revenue	**3,937**	**2,241**

6. OPERATING EXPENSES

	2015 ($000's)	2014 ($000's)
Operating expenses include:		
Amortisation of licences and patents	256	257
Depreciation	459	190
Research and development	70	83
Audit fees – prior year	53	56
– current year	44	35
Directors' fees	83	143
Rent and leases	217	177
Employee benefit expense:		
Wages and salaries	2,388	2,328
Defined contribution superannuation	22	82

7. DIRECTORS' COMPENSATION

	2015 ($000's)	2014 ($000's)
Salaries and remuneration	192	312
Directors' fees	83	143

8. EARNINGS PER SHARE

	2015	2014
Weighted average number of shares on issue	25,109,436	20,597,264
Additional shares if all preference shares converted by the Company	49,808,253	50,570,428
Additional shares if all staff options converted	1,236,018	1,236,016
Total potential shares	**76,153,707**	**72,403,708**
	($000's)	**($000's)**
Loss for the period	**(3,068)**	**(4,962)**
Basic earnings/(loss) per share	$(0.12)	$(0.24)
Diluted earnings/(loss) per share	$(0.04)	$(0.07)

The number of additional shares includes the number of ordinary shares allotted during the year ended 30 June 2015 that are not included in the weighted average number.

9. TAXATION

	2015 ($000's)	2014 ($000's)
Operating deficit	(3,068)	(4,962)
Prima facie taxation expense at 28% (2014: 28%)	(859)	(1,389)
Add back permanent differences:		
Amortisation of intangibles	72	72
Current year's loss for which no deferred tax benefit is recognised	(787)	(1,317)
Income tax	-	-

The deferred tax benefit of the Group as at 30 June 2015 is $11,034,000 (2014: $10,247,000). 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 $475,956 for the year ended 30 June 2015 (2014: $451,257).

During the year the Company allotted 1,250,000 Redeemable Convertible Preference Shares with a nominal value of $625,000 and paying dividends at 10% from late 2015 (see Note 11). The preferential dividends are cumulative and payable quarterly.

During the remaining period to maturity from 1 July 2015 to 26 November 2019, cash dividends of $2.3 million are scheduled to be paid on the Preference Shares unless they are redeemed or converted (see also Notes 2d)v. and 11).

The preferential dividend has been paid in accordance with the terms in the prospectus. No ordinary dividend was declared or paid during the year (2014: nil).

11. CONTRIBUTED CAPITAL

	2015 ($'000s)	2014 ($'000s)
Balance at beginning of year	43,093	37,927
Redeemable Convertible Preference Shares	625	5,420
Issuing costs of Preference Shares	(4)	(254)
Balance at end of year	**43,714**	**43,093**

Number of ordinary shares

	2015	2014
Balance at beginning of year	20,597,264	20,597,264
Conversion of Preference Shares	18,048,688	0
Balance at end of year	**38,645,952**	**20,597,264**

Number of redeemable convertible preference shares

	2015	2014
Balance at beginning of year	19,864,925	9,024,345
Allotted during the year	1,250,000	10,840,580
Conversion to Ordinary Shares	(9,024,345)	-
Balance at end of year	**12,090,580**	**19,864,925**

On 31 March 2015 the Company converted 9 million Redeemable Convertible Preference Shares issued in March 2013 to 18 million ordinary shares.

On 9 October 2014 and 26 November 2014 the Company allotted 250,000 and 1,000,000 Redeemable Convertible Preference Shares respectively. The total capital raised amounted to $625,000 from which was deducted costs of raising capital totalling $4,232. 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 3 ordinary shares for 1 preference share.

12. INVENTORY AND WORK IN PROGRESS

	2015 ($000's)	2014 ($000's)
Inventory on hand	837	946
Work in progress	-	816
Inventory and work in progress	**837**	**1,762**

Group inventory on hand of $837,000 is net of an obsolescence provision of $38,841 (2014: $148,767 and net of an impairment provision of $40,886) reflecting the age of some inventory held by the Company.

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:

	2015	2014	2013	2012	Total
Exercise Price	$0.07	$0.20	$0.21	$0.23	
Expiry Date	30/06/2017	16/08/2016	31/07/2017	30/06/2017	
Balance at 30 June 2014	-	240,031	476,000	665,128	**1,381,159**
Granted during year	402,129	-	-	-	**402,129**
Lapsed during the year	-	-	-	-	**0**
Balance at 30 June 2015	**402,129**	**240,031**	**476,000**	**665,128**	**1,783,288**

Share Options Outstanding

The weighted average remaining contractual life for the share options outstanding at 30 June 2015 is 23 months (2014: 36 months). The exercise prices for option outstanding at the end of the year were $0.23, $0.21, $0.20 or $0.07 (2014: $0.23, $0.21 or $0.20). The weighted average fair value of options granted in the year was $0.07 (2014: $0.20).

No cash settled awards vested during the year to 30 June 2015 (2014: 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 4.2% 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 (2014: nil).

14. WARRANTY PROVISIONS

	2015 ($000's)	2014 ($000's)
Balance at beginning of period	1,925	2,907
Amounts added to warranty provision	174	1,326
Amount released from warranty provision	(1,063)	(2,308)
Balance at end of period	**1,036**	**1,925**
Expected to be utilised within one year	808	1,629
Provision for extended warranty period	228	296
Balance at end of period	**1,036**	**1,925**

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, $228,000 of these provisions is expected to be incurred after June 2016 and therefore is recorded as a non-current liability. The number of turbines under their 5 year warranties as at 30 June 2015 was 4, and fell to nil in July 2015.

A significant portion of the provision relates to possible future torque-limiting pump, pitch actuator and accumulator failures.

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 $0.5 million (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. 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 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

	2015 ($000's)	2014 ($000's)
Trading accounts balances	215	432
Deposits held as security	27	37
Balance at end of year	**242**	**469**

As at 30 June 2015 the Company had $15,000 deposited as security with a financial institution as security in respect of the NZAX (2014: $15,000) and $12,000 for the company credit cards (2014: $10,000). The Company earned interest on the deposits at a rate between 3.75% - 4.1% depending on the term the funds were deposited. As at 30 June 2014 the Company also had a deposit of $12,400 for forward foreign exchange contracts.

16. TRADE AND OTHER RECEIVABLES

	2015 ($000's)	2014 ($000's)
Trade and other receivables	194	325
Accrued income not invoiced	501	753
Prepayments made	314	740
Asset held for sale	649	-

In 2015 no allowance for doubtful debts was made (2014: nil).

Prepayments are mostly deposits for United Kingdom turbine projects, plus prepaid operating expenses.

Asset held for sale is the Group's 50% share of a wind farm in Scotland. The sale was completed in July 2015 generating a $1.2 million profit.

Accrued income relates to the sale of electricity. 2014 accrued income not invoiced was a turbine under construction for a customer in the United Kingdom.

17. RETENTIONS

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

	2015 ($000's)	2014 ($000's)
Within one year	629	631

As referred to in Note 14, the payment of all or part of the $629,000 (being a portion of the total retentions) (2014: $631,000) is contingent on the Company discharging its obligations to NZ Windfarms. The Company has provided $579,000 against the expected cost of these obligations. As at 30 June 2014, retentions due within one year were reported as $440,000 with the balance of $191,000 being included in trade receivables.

18. TRADE AND OTHER PAYABLES

	2015 ($000's)	2014 ($000's)
Trade payables	589	969
Staff annual leave entitlements	93	137
Sundry creditors and accruals	410	370
Balance at end of year	**1,092**	**1,476**

There are aggregate warranty claims of $646,000 that the Company does not consider justifiable, which have not been recorded as a liability (2014: $252,000).

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 £7.38 million (NZ$17.0 million as at 30 June 2015 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 2015 the aggregate liability under these loans was $15.7 million (2014: $5.0 million) with a security over the 'wind turbine' fixed assets $7.9 million, an asset held for sale with a sale value of $1.9 million, and prepayments, work in progress and inventories of $0.6 million.

The Loan liability is recorded as a current liability as the negative equity as at 30 June 2015 places the Company in breach of the loan covenants and enables the lender to call the loans. The lender has expressed the intention not to call any of the loans prior to July 2016.

The loan facilities incorporate the following documents:

i. 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.
ii. General Security Agreement (in respect of parts and assemblies of the turbines owned by the Company).
iii. Guarantee and Indemnity wherein the Company and WHL jointly and severally guarantee WUK's obligations to the lender under the Term Loan Agreement.
iv. Debenture over the assets of WUK granting a general and floating charge over all the assets and undertakings of WUK securing its obligations under the loan (English law).
v. Debenture over the assets of WHL granting a general and floating charge over the assets and undertakings of WHL, securing WHL's obligations as guarantor of WUK's obligations under the loan (English law).
vi. Floating Charge over assets of WHL granting a general and floating charge over project equipment owned by WUK and the Company securing WUK's obligations under the loan (as the borrower under the Term Loan Agreement) and the Company's obligations as guarantor of WUK's obligations to the lender (Scottish Law).
vii. Deed of Variation of Facility Agreement granting loan facility for 7 turbines in total and changing the interest rate from 16 September 2013 to 10.00% per annum, compounding daily and equivalent to an annual percentage rate of 10.516%.

20. FIXED ASSETS: PROPERTY, PLANT & EQUIPMENT

	Office Equipment	Plant & Equipment	Leasehold Improvements	Motor Vehicles	Wind Turbine & Components	Assets under Construction	Total
Cost	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)
Balance at 30 June 2013	466	1,332	144	79	2,773	123	**4,917**
Additions	32	-	6	-	192	199	**429**
Disposals	-	-	-	-	(1)	-	**(1)**
Balance at 30 June 2014	**498**	**1,332**	**150**	**79**	**2,964**	**322**	**5,345**
Additions	6	1,130	-	-	6,305	30	**7,471**
Transfers to Wind Turbines	-	-	-	-	322	(322)	**-**
Disposals	-	(67)	-	(10)	(664)	-	**(741)**
Foreign currency translation adjustment	-	-	-	-	315	-	**315**
Balance at 30 June 2015	**504**	**2,395**	**150**	**69**	**9,242**	**30**	**12,390**
Depreciation and impairment losses							
Balance at 30 June 2013	436	1,083	56	48	1,007	-	**2,630**
Depreciation for Year	15	48	12	11	104	-	**190**
Disposals	-	-	-	-	-	-	**-**
Balance at 30 June 2014	**451**	**1,131**	**68**	**59**	**1,111**	**-**	**2,820**
Depreciation / amortisation for year	27	194	12	6	220	-	**459**
Disposals	-	-	-	(2)	(15)	-	**(17)**
Foreign currency translation adjustment	-	-	-	-	(3)	-	**(3)**
Balance at 30 June 2015	**478**	**1,325**	**80**	**63**	**1,313**	**-**	**3,259**
Carrying amounts							
At 30 June 2013	30	249	88	31	1,766	123	2,287
At 30 June 2014	**47**	**201**	**82**	**20**	**1,853**	**322**	**2,525**
At 30 June 2015	**26**	**1,070**	**70**	**6**	**7,929**	**30**	**9,131**

Demonstration Turbine
The Company's policy is to depreciate wind turbines over 20 years. The turbine at Gebbies Pass has been depreciated over 10 years reflecting the term of its original resource consent.

Impairment
During the financial year the property, plant and equipment of the Group 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

	Licences and Patents	IEC Certification Costs	Total
Cost	**($000's)**	**($000's)**	**($000's)**
Balance 30 June 2013	868	2,563	3,431
Additions	68	-	68
Balance 30 June 2014	**936**	**2,563**	**3,499**
Additions	**-**	**-**	**-**
Net exchange differences	3	-	**3**
Balance 30 June 2015	**939**	**2,563**	**3,502**
Amortisation and impairment losses			
Balance 30 June 2013	856	704	1,560
Amortisation for the year	-	257	257
Balance 30 June 2014	**856**	**961**	**1,817**
Amortisation for the year	-	256	**256**
Balance 30 June 2015	**856**	**1,217**	**2,073**
Carrying amounts			
At 30 June 2013	12	1,859	1,871
At 30 June 2014	80	1,602	1,682
At 30 June 2015	**83**	**1,346**	**1,429**

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 at an estimated cost of $80,000. 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 2015 (2014 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 2015	2014
Windflow UK Ltd	Trading	100	100
Windflow Hammer Ltd	Trading	100	100
Hammer Westray LLP	Trading	100	100
Monan Wind Company Ltd	Trading	90	90
Wind Blades Ltd	Non trading	100	100
Windflow International Ltd	Non trading	100	100
Our Wind Ltd	Non trading	100	100

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 Wind Company Ltd was incorporated in 2014.

b) Associated companies within the Group comprise:

	Nature of business	Interest percentage 2015	2014
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 a small number of customers.

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

iv) *Interest Rate Risk*

The Group has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates. The Group endeavours to deposit funds at the best available rate, for the selected term, at a range of registered banks. At each reporting date, there were no term deposits held for periods greater than 90 days. The Group 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 a small number of customers. The risk arising from this is closely managed. No collateral is held, nor any credit enhancement, for this risk, other than the ability to offset amounts receivable from one customer against accepted warranty payments due to that company. The Directors are satisfied with the management of this exposure. At this stage in the development of the Company it has not been possible to diversify this credit risk.

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

	2015 ($000's)	2014 ($000's)
Not past due	77	2
Past due 31-60 days	15	26
Past due 61-90 days	72	-
Past due 91-120 days	30	-
Past due 121 days	0	297
Balance at end of the period	**194**	**325**

All of the amounts past due 61 days or more as at 30 June 2015 have been paid since.

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 Group had secured borrowings of $15.7 million as at 30 June 2015 (2014: $5.0 million), 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.

30-Jun-15	Carrying amount ($'000s)	Less than 12 months ($'000s)	1 - 2 years ($'000s)	2 - 5 years ($'000s)
Non derivative financial liabilities				
Trade and other payables	1,092	1,092	-	-
Shareholder loan	15,670	15,670	-	-
Derivative financial liabilities				
FX exchange contracts for hedging	-	-	-	-

30-Jun-14	Carrying amount ($'000s)	Less than 12 months ($'000s)	1 - 2 years ($'000s)	2 - 5 years ($'000s)
Non derivative financial liabilities				
Trade and other payables	1,476	1,476	-	-
Shareholder loan	4,966	4,966		-
Derivative financial liabilities				
FX exchange contracts for hedging	253	253	-	-

iii) *Foreign Exchange Risk*

At the reporting date, the Group had exposure to foreign currency risk through the operations, assets and liabilities of its UK subsidiaries. The Group takes out forward cover contracts for major transactions in foreign currencies. At 30 June 2015 the Group had no fully hedged forward exchange contracts (2014: $253,000).

Underlying exposure

A 5% weakening of the NZD against the British Pound (GBP) at 30 June 2015 would have (increased)/decreased equity and increased/(decreased) the loss by the amounts shown below:

	2015 ($000's)		2014 ($000's)	
Currency	**Equity**	**P&L**	**Equity**	**P&L**
GBP	109	(12)	105	72

A 5% strengthening of the NZD against GBP at 30 June 2015 would have had the opposite effect.

iv) *Interest rate risk*

At the reporting date, the Group had financial liabilities, but no exposure to interest rate derivatives. All cash and term deposits held by the Group were short term. The Group is not exposed to any variable interest rate risks 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.

See also Note 31, Going Concern.

d) **Fair Value**

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

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

30-Jun-15	Note	Held to maturity ($000's)	Loans and receivables ($000's)	Other amortised cost ($000's)	Total carrying amount ($000's)	Fair value ($000's)
Assets						
Cash and cash equivalents	15	-	242	**-**	**242**	**242**
Retentions	17	-	629	**-**	**629**	**629**
Trade and other receivables	16	-	194	**-**	**194**	**194**
Total current assets		-	1,065	-	1,065	1,065
Total assets		**-**	**1,065**	**-**	**1,065**	**1,065**
Current Liabilities						
Trade and other payables	18	-	-	1,092	**1,092**	**1,092**
Loan from shareholder	19	-	-	15,670	**15,670**	**15,670**
Total liabilities		**-**	**-**	**16,762**	**16,762**	**16,762**

30-Jun-14	Note	Held to maturity ($000's)	Loans and receivables ($000's)	Other amortised cost ($000's)	Total carrying amount ($000's)	Fair value ($000's)
Assets						
Cash and cash equivalents	15	-	469	**-**	**469**	**469**
Retentions	17	-	631	**-**	**631**	**631**
Trade and other receivables	16	-	325	**-**	**325**	**325**
Total current assets		-	1,425	-	1,425	1,425
Total assets		**-**	**1,425**	**-**	**1,425**	**1,425**
Current Liabilities						
Trade and other payables	18	-	-	1,476	**1,476**	**1,476**
Loan from shareholder	19	-	-	4,966	**4,966**	**4,966**
Total liabilities		**-**	**-**	**6,442**	**6,442**	**6,442**

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 2015 (2014: 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**

			Transaction value		Balance outstanding	
Person	Transaction	Note	2015	2014	2015	2014
A Napier, Director	Management services	(1)	$ 21,935	$ 34,881	-	-
G Henderson, Director, CEO	Employee salary and remuneration		$ 192,049	$ 232,000	-	-

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

c) **Key management personnel compensation**

	2015 ($000's)	2014 ($000's)
Short term employee benefits	669	703

d) **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 $625,000 of redeemable convertible preference shares during the year (see Note 11) (2014: $5.0 million).

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

	2015 ($000's)	2014 ($000's)
Net Deficit	**(3,068)**	**(4,962)**
Less Non-cash items:		
Amortisation of licences & patents	256	257
Depreciation	459	190
(Profit)/Loss on sale of fixed asset	(105)	-
Other	537	258
	1,147	705
Cash flow from operations before working capital changes	**(1,921)**	**(4,257)**
Movements in working capital:		
Increase/(Decrease) in accounts payable excluding asset purchases	(380)	(1,021)
Increase/(Decrease) in leave entitlements	(44)	(7)
Increase/(Decrease) in accruals	92	(87)
Movement in provisions	(969)	982
(Increase)/Decrease in other assets	(649)	474
Movement in accounts receivable & accrued income	383	(1,073)
Decrease in stock & WIP	925	(499)
(Increase)/Decrease in prepayments made	426	(514)
(Increase)/Decrease in retentions	2	23
Increase/(Decrease) in Goods and Services Tax and Value Added Tax	143	155
Increase/(Decrease) in Preferential dividends payable	(52)	125
Net movements	(123)	(1,442)
Net cash flows from operating activities	**(2,044)**	**(5,699)**

26. OPERATING LEASES

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

	2015 ($000's)	2014 ($000's)
Within one year	104	138
Between one and five years	214	46
After five years	1,388	-

The operating leases relate to land leases and an office in the United Kingdom and to warehouse space and office premises in New Zealand.

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

Warranties: 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.

Gebbies Pass resource consent: The Company is in mediation with parties who have objected to the renewal of the Gebbies Pass resource consent by Christchurch CIty Council. If the matter goes to the Environment Court the Company may incur legal costs of around $30,000 to defend the resource consent.

29. CAPITAL COMMITMENTS

The Group had no capital commitments as at 30 June 2015 (2014: $2.9 million).

30. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 20 October 2015 the Company's largest shareholder provided the Company with a letter of support that is a significant factor in the Directors' consideration that the Company remains a going concern. Details of how this support will be provided are subject to shareholder approval, at a meeting to be held before the end of 2015. See also Note 31.

A settlement has been agreed on 30 October 2015 with NZ Windfarms, subject to ratification at a Windflow shareholders' meeting to be held before the end of 2015, which settles all matters and outstanding sums owing between the two companies. The consideration will include a cash sum of $1 million as well as convertible notes (convertible into ordinary shares in WTL) issued to NZ Windfarms. If NZ Windfarms elects to convert all of these notes as at the date of settlement, NZ Windfarms will hold a total of 9.9% of the Ordinary Shares in Windflow. (See also a separate joint announcement dated 30 October 2015.)

31. GOING CONCERN ASSUMPTION

These Financial Statements have been prepared using the going concern assumption. There is material 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:

- Obtain further equity injections from existing or new shareholders,
- Ongoing access to the shareholder Loan Facility to fund turbine projects, and
- Obtain further third party sales and development projects in the UK, and/or
- Achieve turbine sales in other markets; and/or
- Obtain licensing and engineering services revenue; and/or
- Obtain new finance as required for more development projects, and/or
- Sell some or all of the turbine projects owned by the Group.

The material uncertainty arises because:

- UK sales prospects continue to progress very slowly due to a range of factors including planning and grid connection issues. In addition, UK government review of the feed-in-tariff is expected to result in a significant reduction over the next 12 months, after which Windflow will cease installation of on-grid single wind turbines in the UK. Thus the next batch of turbines that Windflow builds for the UK could possibly be the last for the single turbine FIT market, and it is unclear whether it will be possible to replace this in due course with (for example) small wind farm projects in the UK.
- The New Zealand market continues to be stagnant because of an oversupply of power. While there are some signs of a revival because the aluminium smelter appears to be staying in the medium term and some thermal power stations are being shut down, it is too early to factor any New Zealand projects into Windflow's planning.
- 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 to progress new licensing prospects.

The budgeted financial performance for the year to 30 June 2015 assumed the commencement of a steady flow of orders from the United Kingdom. While some orders have been forthcoming, delays continue to be experienced with:

- fully 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 affecting other parts of Scotland as major transmission upgrade projects continue to be delayed;
- 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.

The Directors are taking steps to raise capital to restore positive equity based on the Group's prospects to increase revenues from licensing, engineering services, turbine sales, project sales and electricity sales..

The Group has made some progress and passed positive milestones in the year to 30 June 2015, albeit delayed by a number of factors as outlined above (see Directors' Review).

In summary, based on the Group's continued progress and prospects, together with opportunities in other markets, and short term shareholder support, the Directors consider the going concern assumption to be a valid basis on which to prepare these financial statements. See also Note 30 above. This conclusion was reached giving due regard to circumstances likely to affect the company within the period to 30 June 2016, 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 from the markets that Windflow is addressing, the Directors would have to re-consider the going concern assumption and take appropriate action. If that process were to result in the Directors concluding that the Group was no longer a going concern, the assets and liabilities of the Group would change significantly, and this would result in significant negative impacts on the equity.

Independent auditor's report

To the shareholders of Windflow Technology Limited

We were engaged to audit the accompanying consolidated financial statements of Windflow Technology Limited and its subsidiaries ("the group"), on pages 5 to 28. The financial statements comprise the consolidated statement of financial position as at 30 June 2015, the consolidated 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.

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

Directors' responsibility for the company and group financial statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

Other than in our capacity as auditor we have no relationship with, or interests in, the group.

Basis for disclaimer of opinion

An audit would ordinarily involve performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 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 $3.068 million during the year ended 30 June 2015 and has negative working capital of $14.317 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 and
- Obtain further third party sales and development projects in the UK and/or
- Achieve turbine sales in other markets; and/or
- Obtain licensing and engineering services revenue; and/or
- Obtain new finance as required for more development projects; and/or
- Sell some or all of the turbine projects owned by the Group; and/or
- Obtain further equity injections from existing or new shareholders.

Wherever possible, the group 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 consolidated financial statements on pages 5 to 28.

KPMG

30 October 2015
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 2015 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 2015. In addition to these formal meetings the Board met on other occasions both in person and by telephone conference, to discuss specific issues.

Directors’ Shareholdings as at the 30th June 2015

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 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 2015 in the list below.

Ordinary Shares Held

Director	Beneficially	Interest of Associated Persons	Non-Beneficially
Geoff Henderson	905,564	953,644	
Heugh Kelly	39,625		
Michael Chick	200,000		
Angus Napier	204,000		

Preference Shares Held

Director	Beneficially	Interest of Associated Persons	Non-Beneficially
Geoff Henderson	41,250		
Heugh Kelly	41,250		
Michael Chick	82,500		
Angus Napier	48,750		

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 two were independent, while Mr Geoff Henderson is also the Chief Executive Officer and Mr Angus Napier has been Acting Chief Financial Officer since April 2015.

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 attends the meetings by invitation. The external Auditor attends some meetings. The Audit and Risk Committee met at least quarterly until March 2015 (generally on the same day as board meetings), in order to review the financial reports with the CEO and the Company’s Financial Team. In addition to these scheduled meetings the Audit and Risk Committee also met on other occasions to review amongst other things the Company’s Annual and Half-Yearly accounts and the Company’s risk management. From April 2015 the business of the Committee has been heard by the full Board.

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. There were no entries required in the Interests Register that relate to the Company or its subsidiaries during the financial year.

Conflicts of Interest

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

Insider Trading

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

Audit Governance and Independence

Shareholders approved the Board setting the remuneration of the Auditors at the Annual Meeting in November 2014. KPMG was appointed as the Company Auditor for the year ended 30th June 2015.

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

Since February 2015, the Directors have waived payment of fees owing to the difficult trading conditions.

The remuneration package of the Chief Executive Officer as at the 30 June 2015 was $192,049.

The following table summarises the remuneration paid to the Directors for the period to 30 June 2015:

Name	Directors Fees	Remuneration	Other Fees
Michael Chick	$32,583		
Geoff Henderson	$16,041	$192,049	
Heugh Kelly	$16,041		
Angus Napier	$18,958		$21,935

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 2013 and the NZAX Listing Rules are communicated on a periodic basis to all shareholders.

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

The 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 2015, there were 7 employees in the Group who earned more than NZD $100,000.

Remuneration Range NZ$	Number of Employees
180,001 – 200,000	2
160 001 – 180 000	
140 001 – 160 000	
130,001 – 140,000	2
120,001 – 130,000	
110,001 – 120,000	1
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. 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
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
Monan Wind Company Limited	Geoff Henderson, Andy Strowbridge, David Wake
Our Wind Ltd (non-trading)	Morgan Williams, Jeanette Fitzsimons, Duncan Currie, Geoff Henderson
Wind Blades Ltd (non-trading since 1 July 2014)	Peter Brooking, Geoff Henderson
Windflow International Ltd (non-trading)	Geoff Henderson, Heugh Kelly

Donations

The Company's Directors have decided that no donations to charity will be made until the Company has paid an ordinary dividend to its shareholders. No donations have been made on behalf of the Company or any of its subsidiaries in the financial year ended 30 June 2015.

Audit Fees

Fees paid to the Auditor to audit the Company accounts and Company Share Register totalled $44,000 for the year ending 30 June 2015. 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 2015.

Shareholder Information

The ordinary shares of the Company are listed on the NZAX. The information in the disclosures below has been taken from the Company's register at 30 October 2015.

Twenty Largest Ordinary Shareholdings

Shareholder	Address	Ordinary Shares	%	Preference Shares
David Iles	USA	16,268,267	42.10	11,250,000
Mighty River Power Limited	Auckland	2,382,496	6.16	
New Zealand Central Securities Depository Ltd	Wellington	1,729,403	4.47	1,500
Delane Wycoff	USA	1,100,000	2.85	
Geoff Henderson	Christchurch	905,564	2.34	41,250
Jennifer Henderson	Christchurch	750,000	1.94	
Sheila Kolstad	Christchurch	330,000	0.85	40,000
Health Consultants Ltd	Kerikeri	310,000	0.80	
Ian Shearer & Mary Newman	Wellington	253,816	0.66	42,303
Jeanette Fitzsimons	Thames	251,513	0.65	
Reda Holdings Limited	Cayman Islands	241,000	0.62	
Brett Whiston	Auckland	231,379	0.60	38,563
Anthony Bowen	Christchurch	214,379	0.55	
FNZ Custodians Limited	Wellington	213,953	0.55	
Angus Napier	Wellington	204,000	0.53	48,750
Michael Chick	Christchurch	200,000	0.52	82,500
James Cone	Wellington	190,312	0.49	
J&T Gribben Family Account	Auckland	165,000	0.43	
Lyndall Henderson	Australia	148,443	0.38	
Thomas Lanigan	Auckland	148,426	0.38	
	TOTALS	**26,237,951**	**67.87**	**11,544,866**

Distribution of Shareholders

Holdings Ranges	Number of Holders	Number of Ordinary Shares	% of Issued Capital
1 - 1,000	107	63,042	0.16
1,001 - 5,000	323	922,484	2.38
5,001 - 10,000	149	1,124,337	2.91
10,001 – 50,000	234	5,533,697	14.28
50,001 - 100,000	36	2,466,174	6.42
Greater than 100,000	40	28,536,220	73.84
Totals	**889**	**38,645,954**	**100.00**

Substantial Security Holders

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received and the Company's register of disclosures of substantial holdings, the following persons were substantial security holders in the Company at 17th September 2015.

Shareholder	Number of shares directly held		% of Ordinary Shares Held
	Ordinary Shares	Preference Shares	
David Iles	16,268,267	11,250,000	42.10
Mighty River Power Limited	2,382,496		6.16
Totals	**18,650,763**	**11,250,000**	**48.26**

The total number of issued voting securities as at 30th June 2015 was 38,645,954.

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 Waiwetu 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.

Management Team	Chief Executive Officer .... Geoff Henderson UK General Manager .... Andy Strowbridge Company Secretary .... Terry Moon Supply Chain Manager .... Mike Palmer Licensing Manager .... Chris Holsonback
Solicitor	Lane Neave Lawyers 137 Victoria St Christchurch
Registered Office	HFK Ltd 4/567 Wairakei Road Christchurch
Auditor	KPMG 62 Worcester Boulevard Christchurch
Share Registry	Link Market Services Ltd 138 Tancred St Ashburton
Bankers	Bank of New Zealand 81 Riccarton Rd Christchurch
Insurance Brokers	Marsh Limited Level 1, 447 Blenheim Rd Christchurch
Principal Suppliers	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 Pallet .... Allied Industrial Engineering of Kawerau Tower .... SIAG Tube and Tower GmbH of Germany