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**Windflow Technology Limited**  
**Interim Report December 2014**

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## Directors' Review

Windflow Technology has had another slow but steady year, with progress in Scotland offset by a setback in Texas. A Windflow Group loss of \$2.3 million was recorded, but revaluation of its turbines in Scotland has enabled the overall result to be a surplus of \$0.9 million. Now that the Group owns multiple operational turbines in Scotland, it has been appropriate to revalue the turbines on a fair value basis, which in turn reflects their expected future earnings. The Group owns three operational turbines in Scotland including one which has been running since March 2013, and two which were commissioned in late 2014. A fourth Windflow 500, which was sold to a land-owner near Loch Ness, has been running in Scotland since late 2014. Two more turbines have recently been commissioned at the Monan Hill site on North Harris in the Outer Hebrides. This takes the total running in Scotland to six, of which five are Group-owned. The spectacular wintry photo below shows the three at the Monan Hill site, shortly after the third was installed in February (camouflaged at left against the snowy mountainside).



The setback in Texas has been that General Dynamics SATCOM has decided not to continue with its entry into the wind business and thus has terminated its licence agreement with Windflow. We understand this decision has arisen from a need to focus on core business, significant uncertainty about the US wind market and uncertainty about GD SATCOM's ability to establish a profitable wind turbine manufacturing operation. While this decision has naturally been disappointing, there are important positive aspects of the relationship with GD SATCOM.

Notably the Class 2A has been designed and prototyped as a valuable addition to Windflow's intellectual property. GD SATCOM is committed to completing the prototype. Installation and commissioning is now expected (after many delays) to be completed around Easter and Windflow continues to support this through the commissioning and operations phases. In addition, following the termination of the licence, substantial Class 2A tooling assets and components have been transferred to Windflow.

The major milestones for the six-months were:

- July – GD SATCOM decided not to continue in the wind business and terminated its licence. Subsequently Windflow and GD SATCOM concluded an agreement whereby GD SATCOM continues to provide warranty insurance to two projects in Scotland, Windflow will acquire assets including manufacturing tooling for the Class 2A turbine, and Windflow will have access to the Class 2A prototype for testing purposes. The US market continues to be hampered by political uncertainty, for example in December Congress decided to renew the Renewable Energy Production Tax Credit to the end of 2014, not 2015 as expected. It remains to be seen whether a further renewal will occur.
- August – the hundredth Windflow turbine was dispatched to New Holland Farm on the main island of Orkney. Subsequently four more turbines were dispatched before the end of December, one to Easter Aberchalder near Loch Ness and three to Monan Hill. The New Holland, Easter Aberchalder and the first of the Monan Hill turbines were installed and commissioned before the end of December.
- August – NZ Windfarms gave notice of dispute regarding some warranty matters that have been at issue for some time now. Subsequently NZ Windfarms referred the disputes to arbitration and the arbitrator has joined these disputes with an earlier matter for arbitration being the power curve warranty dispute. These should be determined by the arbitrator by the end of 2015.
- December – availability at Te Rere Hau for calendar year 2014 was 96%. NZ Windfarms' published reports confirm that availability (which quantifies turbine reliability) is the most consistent of the three factors which determine their revenue (wind speed and power price being the other two).

Subsequent to balance date:

- February – Windflow Hammer Ltd entered a limited liability partnership, New Holland Wind LLP, with the New Holland Farm owners, AP Bown Partnership whereby the Bowns increased their cash contribution to the project from around 20% to just under 50%.
- January-March - the second and third turbines have been erected at Monan Hill, North Harris and were commissioned by the end of March 2015.
- Restructuring: The parent company has been restructured with six staff made redundant in order to reduce costs while the Group experiences delays in securing sales orders.
- US Sales Agent: The Company and its United States based sales agent have agreed to a suspension of activities of between 4 and 6 months while there continues to be political uncertainty regarding tax incentives and the Group's former licensee experiences ongoing delays with the installation of the class 2A 60 Hz prototype that is awaited by the North American market.
- Conversion of 2013 Preference Shares: At the end of March, the directors decided to convert all of the 9,024,345 preference shares it issued in March 2013 into ordinary shares, with effect from 31 March 2015. This has resulted in 18,048,690 new ordinary shares being issued, in addition to the 20,597,264 ordinary shares previously on issue.



Looking ahead to the rest of calendar year 2015:

- The prototype 60 Hz Class 2A turbine is to be installed by GD SATCOM (with support from Windflow) at a site in West Texas. This will be an important milestone adding to Windflow's product range and addressing a larger market.
- Windflow will work to find a licensee for China, the USA and other markets.
- Windflow expects to confirm further projects in the UK, including external sales and a demonstration 50 Hz Class 2A turbine. Political uncertainty will be a factor holding back progress until after the general election in May.
- Windflow will continue to work on other sales prospects that arise from time to time.
- Windflow expects that warranty payments to NZ Windfarms will reduce as the last 32 turbines will have completed their five-year warranty periods by July. Parts that have been replaced in the last two years of the warranty period are subject to an extended two-year warranty in respect of the parts only. However risks remain in terms of unforeseen claims and the matters which have been referred to arbitration as discussed above, including disputed warranty claims.
- 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 record a loss for the full-year to 30 June 2015 due to ongoing delays in securing sales orders and sites where development can progress.
- Windflow expects to seek further capital to fund further projects in the UK. More information will be provided in due course.

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

## Directors' Declaration

In the opinion of the directors of Windflow Technology Limited (the "Company"), the consolidated interim financial statements of Windflow Technology Limited for the six months ended 31 December 2014 and notes, on pages 5 to 16:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company and the Group as at 31 December 2014 and the results of its operations and cash flows for the 6 months ended on that date.
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgments and estimates.

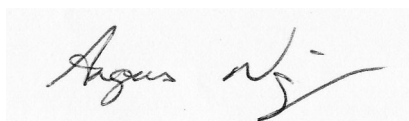
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the consolidated interim financial statements with the Financial Reporting Act 2013.

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

For and on behalf of the Board of Directors:



Chairman  
2 April 2015



Director  
2 April 2015

## Unaudited Consolidated Interim Statements of Financial Position

As at 31 December 2014

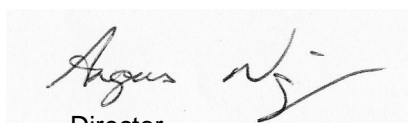
	Note	Unaudited 31 December 2014 (\$000's)	Audited 30 June 2014 (\$000's)
<b>Current assets</b>			
Cash on hand and at bank		860	469
Assets held for sale	7, 14a	725	-
Income earned not invoiced		934	753
Trade and other receivables		810	516
Prepayments	7	145	740
Retentions		350	440
Inventory and work in progress		856	1,762
Value added tax/goods and services tax refunds		715	30
<b>Total current assets</b>		<b>5,395</b>	<b>4,710</b>
<b>Non-current assets</b>			
Property, plant & equipment	3	9,674	2,525
Intangible assets		1,553	1,682
<b>Total non-current assets</b>		<b>11,227</b>	<b>4,207</b>
<b>Total assets</b>		<b>16,622</b>	<b>8,917</b>
<b>Equity</b>			
Contributed capital		43,718	43,093
Foreign currency exchange gains / (losses) on net investments		66	(30)
Revaluation reserve	3	3,147	-
Accumulated losses		(45,073)	(42,513)
Equity attributable to the owners of the Company		-	-
<b>Total equity</b>		<b>1,858</b>	<b>550</b>
<b>Current liabilities</b>			
Trade and other payables		2,283	1,476
Loan from shareholder	9	600	4,966
Provisions	8	854	1,777
<b>Total current liabilities</b>		<b>3,737</b>	<b>8,219</b>
<b>Non-current liabilities</b>			
Loan from shareholder	9	10,810	-
Provisions	8	217	148
<b>Total non-current liabilities</b>		<b>11,027</b>	<b>148</b>
<b>Total equity and liabilities</b>		<b>16,622</b>	<b>8,917</b>

The notes on pages 9 to 16 are an integral part of these financial statements.

For and on behalf of the Board of Directors who authorise these financial statements on 2 April 2015.



Chairman



Director

## Unaudited Consolidated Interim Statements of Comprehensive Income

For the 6 months ended 31 December 2014

	Note	Unaudited 31 December 2014 (\$'000's)	Unaudited 31 December 2013 (\$'000's)
Operating revenue	4	700	373
Cost of sales		783	517
<b>Gross profit / (loss)</b>		<b>(83)</b>	<b>(144)</b>
Other revenue		181	96
Licensing revenue	4	1,335	641
<b>Less:</b>			
Depreciation		(167)	(93)
Amortisation of licences and patents		(129)	(129)
General and administration costs		(850)	(973)
Engineering costs		(629)	(635)
Research and development costs		(68)	(39)
Marketing costs		(675)	(465)
Wind farm development, operations & maintenance		(1,254)	(1,044)
Operating loss before finance income and expenses		<b>(2,339)</b>	<b>(2,785)</b>
Finance income		5	-
<b>Loss before income tax</b>		<b>(2,334)</b>	<b>(2,785)</b>
Income tax expense / (credit)		-	(3)
<b>Loss for the period</b>		<b>(2,334)</b>	<b>(2,788)</b>
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operations		96	(30)
Revaluation of Wind Turbines	3	3,147	-
<b>Other comprehensive income for the period</b>		<b>3,243</b>	<b>(30)</b>
<b>Total comprehensive income for the period</b>		<b>909</b>	<b>(2,818)</b>
Losses per share for loss attributable to the ordinary equity holders of the Company during the period:			
Basic Loss per Share	5	<b>\$(0.12)</b>	<b>\$(0.14)</b>
Diluted Loss per Share	5	<b>\$(0.03)</b>	<b>\$(0.07)</b>

The notes on pages 9 to 16 are an integral part of these financial statements.



## Unaudited Consolidated Interim Statement of Changes in Equity

For the 6 months ended 31 December 2014

	Ordinary Share Capital	Preference Share Capital	Revaluation Reserve	Foreign Exchange Gains / Losses	Retained Earnings	Total Equity
Note	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
<b>Balance at 1 July 2013</b>	33,588	4,339	-	-	(37,131)	796
Total comprehensive loss	-	-	-	(30)	(2,788)	(2,818)
Preferential dividends	-	-	-	-	(226)	(226)
<b>Balance at 31 December 2013</b>	33,588	4,339	-	(30)	(40,145)	(2,248)
<b>Balance at 1 January 2014</b>	33,588	4,339	-	(30)	(40,145)	(2,248)
Total comprehensive loss	-	-	-	-	(2,144)	(2,144)
Preferential dividends	-	-	-	-	(224)	(224)
Redeemable Convertible Preference Shares	-	5,420	-	-	-	5,420
Issue costs of Preference Shares	-	(254)	-	-	-	(254)
<b>Balance at 30 June 2014</b>	33,588	9,505	-	(30)	(42,513)	550
<b>Balance at 1 July 2014</b>	33,588	9,505	-	(30)	(42,513)	550
Total comprehensive loss	-	-	-	96	(2,334)	(2,238)
Redeemable Convertible Preference Shares	-	625	-	-	-	625
Revaluation Reserve 3	-	-	3,147	-	-	3,147
Preferential dividends 6	-	-	-	-	(226)	(226)
<b>Balance at 31 December 2014</b>	33,588	10,130	3,147	66	(45,073)	1,858

The notes on pages 9 to 16 are an integral part of these financial statements.



## Unaudited Consolidated Interim Statements of Cash Flows

For the 6 months ended 31 December 2014

	Note	Unaudited 31 December 2014 (\$000's)	Unaudited 31 December 2013 (\$000's)
<b>Cash flows from operating activities:</b>			
Cash receipts from customers:			
Sales of turbines and components		184	106
Licensing revenue		-	830
Other		185	10
Interest received		5	3
Cash paid to suppliers and employees:			
Suppliers		(2,443)	(2,589)
Employees		(1,110)	(1,128)
Other		(173)	(195)
<b>Net cash used in operating activities</b>		<b>(3,352)</b>	<b>(2,963)</b>
<b>Cash flows from investing activities:</b>			
Acquisition of property plant, equipment and capital WIP		(2,807)	(20)
<b>Net cash used in investing activities</b>		<b>(2,807)</b>	<b>(20)</b>
<b>Cash flows from financing activities:</b>			
Issue of redeemable convertible preference shares		625	-
Loan from a shareholder		5,925	3,065
<b>Net cash from financing activities</b>		<b>6,550</b>	<b>3,065</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>391</b>	<b>82</b>
Cash and cash equivalents at beginning of the period		469	188
<b>Cash and cash equivalents at end of the period</b>		<b>860</b>	<b>270</b>

The notes on pages 9 to 16 are an integral part of these financial statements.

## Notes to the Financial Statements

### 1. General Information

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

Nature of business		Interest percentage	
		2014	2013
Wind Blades Ltd	Non trading	100	100
Windflow International Ltd	Non trading	100	100
Windflow UK Ltd	Trading	100	100
Windflow Hammer Ltd	Trading	100	100
Hammer Westray LLP	Trading	100	100
Our Wind Ltd	Trading	100	100
Monan Wind Company Ltd	Trading	90	n/a
New Holland LLP	Non trading	100	n/a
Windpower Otago Ltd	Non trading	20	20

The Company is an issuer for the purpose of the Financial Reporting Act 2013. These Financial Statements have been prepared in accordance with the Financial Reporting Act 2013. The Company has elected not to separately report the financial statements of the Parent Company.

The Company is profit oriented and undertakes wind turbine development and manufacturing, and operates in New Zealand, the United Kingdom and the United States of America. The Group is not subject to impacts of seasonality or cyclicity.

### 2. Basis of Preparation of Half Year Report

The Group is a profit-oriented company and this condensed consolidated interim financial information for the six months ended 31 December 2014 has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). These financial statements comply with NZ IAS 34 ‘Interim Financial Reporting’ and with International Accounting Standard 34 (IAS 34).

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the period ended 30 June 2014, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

#### Change in Accounting Policy

The Company has changed the accounting policy of the Wind Turbines class of non-current assets from ‘historical cost net of accumulated depreciation and impairment losses’ to ‘fair value’, in accordance with NZ IFRS 13, Fair Value Measurement.

### 3. Significant Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the period ended 30 June 2014 except for revaluation of the operating Wind Turbines non-current assets to fair value in accordance with NZ IFRS 13, Fair Value Measurement.

#### Revaluation of Wind Turbines non-current assets

The basis of revaluation to fair value is management’s assessment of the expected free cash flow applying a market discount rate sourced from an independent report on the United Kingdom market where the Wind Turbines are located. A key assumption is that the turbines will generate electricity as forecast without unexpected curtailment by the local distribution infrastructure.

The Directors consider fair value better informs the reader of the value of these assets. This has had a material impact on the Company’s assets by increasing the value of these non-current assets by \$3.1 million.

In the current period and prior periods the Company has owned one other wind turbine at Gebbies Pass that is principally used for research and development. That turbine continues to be valued at historic cost net of

accumulated depreciation and impairment losses with a net book value of nil as at 31 December 2014 and 30 June 2014.

#### 4. Segmental Reporting

The Group has been operating in two separately reportable business segments; the Wind Turbines segment and the Licensing segment. The Group's Licensee terminated its licence in July 2014. All other activities are aggregated as 'all other segments'. Transactions between reporting segments are accounted for on the accruals basis. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

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

**Licensing Segment:** Derives revenue from licensing agreements with other manufacturers of wind turbines. In these financial statements all such revenue was from terminating the licence with GD SATCOM Technologies Inc., USA, in July 2014.

**All Other Segments:** Represents the design and development of wind turbines, general marketing and administration expenses; it includes the parent and subsidiary companies and their general central administration income and expenses that are not applicable to the Licensing Segment nor the Wind Turbines Segment.

##### a) Business Segmental Analysis

	Unaudited 31 Dec 2014 Wind Turbines (\$000's)	Unaudited 31 Dec 2014 Licensing (\$000's)	Unaudited 31 Dec 2014 All Other Segments (\$000's)	Unaudited 31 Dec 2014 Total (\$000's)	Unaudited 31 Dec 2013 Wind Turbines (\$000's)	Unaudited 31 Dec 2013 Licensing (\$000's)	Unaudited 31 Dec 2013 All Other Segments (\$000's)	Unaudited 31 Dec 2013 Total (\$000's)
Revenue								
From external customers	652	1,335	229	2,216	72	641	301	1,014
From other segments	-	-	-	-	-	-	-	-
Segment revenues	652	1,335	229	2,216	72	641	301	1,014
Less:- Operating expenses	783	-	3,671	4,454	1,240	-	2,559	3,799
(Loss)/Profit before income tax	(131)	1,335	(3,442)	(2,238)	(1,168)	641	(2,258)	(2,785)
	Unaudited 31 Dec 2014 Wind Turbines (\$000's)	Unaudited 31 Dec 2014 Licensing (\$000's)	Unaudited 31 Dec 2014 All Other Segments (\$000's)	Unaudited 31 Dec 2014 Total (\$000's)	Audited 30 June 2014 Wind Turbines (\$000's)	Audited 30 June 2014 Licensing (\$000's)	Audited 30 June 2014 All Other Segments (\$000's)	Audited 30 June 2014 Total (\$000's)
Assets and Liabilities								
Segment assets	10,768	-	5,854	16,622	4,516	80	4,321	8,917
Segment liabilities	11,782	-	2,982	14,764	5,610	-	2,757	8,367
Total equity	(1,014)	-	2,872	1,858	(1,094)	80	1,564	550

##### 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. Differences in foreign currency transactions can impact funds received.

	Unaudited 31 Dec 2014 Wind Turbines (\$000's)	Unaudited 31 Dec 2014 Licensing (\$000's)	Unaudited 31 Dec 2014 All Other Segments (\$000's)	Unaudited 31 Dec 2014 Total (\$000's)	Unaudited 31 Dec 2013 Wind Turbines (\$000's)	Unaudited 31 Dec 2013 Licensing (\$000's)	Unaudited 31 Dec 2013 All Other Segments (\$000's)	Unaudited 31 Dec 2013 Total (\$000's)
Revenue								
New Zealand	517	-	46	563	-	-	257	257
United Kingdom and Europe	-	-	183	183	72	-	-	72
North America	135	1,335	-	1,470	-	641	44	685
Total Revenue	652	1,335	229	2,216	72	641	301	1,014

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

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

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

	Unaudited 31 December 2014 Wind Turbines (\$000's)	Unaudited 31 December 2014 Licensing (\$000's)	Unaudited 31 December 2014 All Other Segments (\$000's)	Unaudited 31 December 2014 Total (\$000's)	Audited 30 June 2014 Wind Turbines (\$000's)	Audited 30 June 2014 Licensing (\$000's)	Audited 30 June 2014 All Other Segments (\$000's)	Audited 30 June 2014 Total (\$000's)
<b>Non-current assets</b>								
New Zealand	-	-	1,804	1,804	-	-	1,939	1,939
United Kingdom and Europe	8,382	-	-	8,382	2,268	-	-	2,268
Asia	89	-	-	89	-	-	-	-
North America	952	-	-	952	-	-	-	-
<b>Total non-current assets</b>	<b>9,423</b>	<b>-</b>	<b>1,804</b>	<b>11,227</b>	<b>2,268</b>	<b>-</b>	<b>1,939</b>	<b>4,207</b>

The operating turbine non-current assets of the Group are in the United Kingdom. These turbines are classified in the same group, with the aim of producing power income to the Group. The revaluation of these turbines has increased the UK non-current assets from \$5.3 million to \$8.4 million.

## 5. Earnings Per Share

	<b>31 December 2014</b>	<b>31 December 2013</b>
Weighted average number of shares on issue	20,159,764	20,159,764
Additional shares if all preference shares converted	54,757,927	18,048,690
Additional shares if all staff options converted	1,783,288	1,334,688
<b>Total potential shares</b>	<b>76,700,979</b>	<b>39,543,142</b>
	<b>(\$000's)</b>	<b>(\$000's)</b>
<b>Loss for the period</b>	<b>(2,334)</b>	<b>(2,788)</b>
Basic earnings/(loss) per share	\$(0.12)	\$(0.14)
Diluted earnings/(loss) per share	\$(0.03)	\$(0.07)

## 6. Dividends

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

## 7. Prepayments

The reduction in prepayments as at 31 December 2014 relates to deposits on turbines which have now been commissioned and the deposits transferred to sales, current assets held for sale and non-current assets.

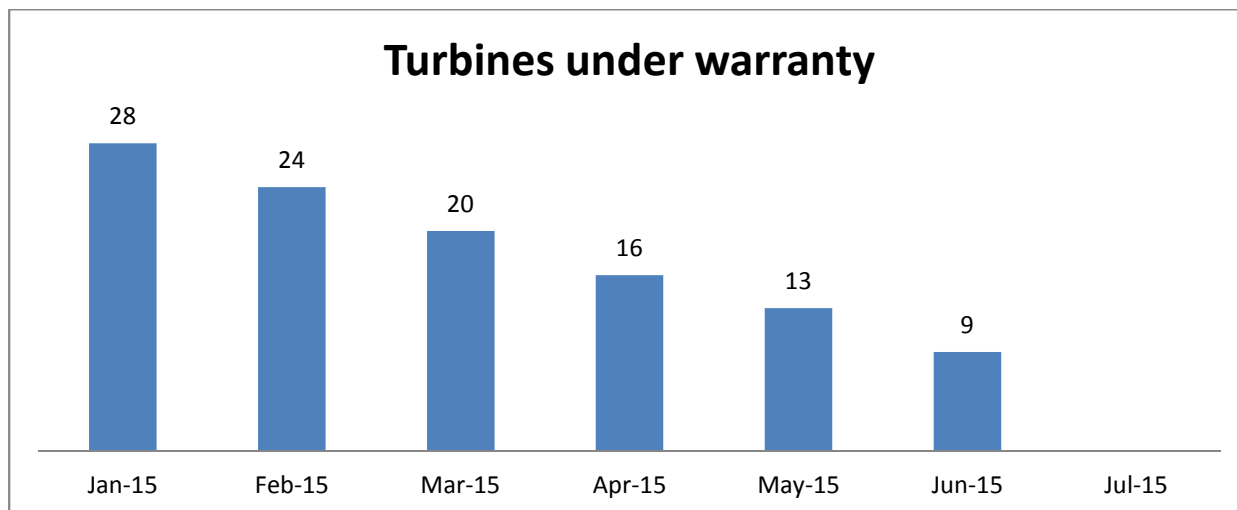
## 8. Provision for warranties

	<b>6 months 31 December 2014 (\$000's)</b>	<b>6 months 31 December 2013 (\$000's)</b>	<b>12 months Audited 30 June 2014 (\$000's)</b>
<b>Balance at beginning of period</b>	<b>1,925</b>	<b>2,907</b>	<b>2,907</b>
Amounts added to warranty provision	-	1,376	1,326
Amount released from warranty provision	(854)	(1,488)	(2,308)
Increase/(decrease) in discounted amount	-	(388)	-
<b>Balance at end of period</b>	<b>1,071</b>	<b>2,407</b>	<b>1,925</b>
Expected to be utilised within one year	854	1,604	1,629
Provision for remainder of warranty period	217	803	296
<b>Balance at end of period</b>	<b>1,071</b>	<b>2,407</b>	<b>1,925</b>

Warranty provisions are an estimate of the future costs to fulfill 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 as are

required for a warranty repair to last for 2 years following the date of that repair. The number of turbines under warranty as at 31 December 2014 was 32, falling to nil by 1 July 2015.

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



The provision includes possible future failures of specific components, where there has historically been a higher than expected failure rate and an estimated 'miscellaneous' provision based on the historic general costs anticipated from a turbine through the warranty period to 1 July 2015.

During the 2010 financial year, the Company and NZ Windfarms Ltd ("NZ Windfarms") reached agreement on a monitoring programme with respect to some components in the early turbines at Te Rere Hau which were subsequently modified as part of the Company's International Electrotechnical Commission Certification (IEC) process because they did not meet IEC requirements for a 20 year life. Under this agreement, NZ Windfarms is retaining a sum of \$304,000 from the turbine sale price (the original total agreed in 2010 that could be retained was \$966,200). This sum is being released to the Company as the Company discharges certain obligations during the 5 year warranty period, outlined as follows. Upgrade works may be undertaken or 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. In the absence of such a report, the Company will provide a 20 year warranty against failure of those particular components. The Company has provided against the expected cost of these obligations.

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

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

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

- b) The Company has provided a turbine availability warranty wherein the turbine availability across the wind farm must be greater than 95% for the year. The penalty for non-compliance is a make-good calculation for the lost revenue up to the 95% availability. The availability percentage for the wind farm for the year ended 31 December 2014 was 95.8%. No future provision is therefore considered necessary in respect of this item.
- c) The Company has provided a warranty to NZ Windfarms for power curve performance of 95%. The realisation of any claim under this warranty crystallises as the turbines exit their 5 year warranty period on 1 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.

The provisions are 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.

## 9. 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. From January 2014 this financing agreement increased to up to 7 wind turbine projects (the "Projects").

The Shareholder Loan Facility provides for advances up to £7,380,000 (NZ\$14,663,522 as at 31 December 2014 exchange rate) to WUK to fund the Projects, provided certain conditions set out in the loan documents are satisfied. The Company and WHL are covenanters and guarantors of WUK's obligations.

As at 31 December 2014 the aggregate liability under these loans was \$11.4 million, (30 June 2014: \$5.0 million) with a security over the 'wind turbine' non-current assets, assets held for sale and assets under construction valued at \$10.4 million, and prepayments, work in progress and stock valued at \$1.0 million. (The comparative figure for 30 June 2014 in aggregate of 'wind turbine' non-current assets, assets under construction, prepayments, work in progress and stock was \$4.6 million). At the date of signing these financial statements the aggregate liability under these secured loans had increased to \$13.2 million.

The Statement of Cash Flows states \$5.9 million was received as loans during the half-year, and \$625,000 was received for the issue of redeemable convertible preference shares.

As at 30 June 2014, the loan liability of \$5.0 million was recorded as a current liability as the Company was planning to sell its wind turbine projects and repay the loan before 30 June 2015. The Company now intends retaining the related assets and the loan liability is apportioned between current (\$0.6 million) and non-current (\$10.8 million) liabilities.

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%.

## 10. 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 31 December 2014 (2013: nil).

#### ii) Key management personnel compensation

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

### b) Payments to directors

Mr A Napier, Director, provided management services of \$6,655 at normal commercial rates.

### c) Transactions with a shareholder

The shareholder providing a loan facility is the Company's largest shareholder and a related party (see Note 9). The same shareholder purchased \$625,000 of redeemable convertible preference shares in the half-year.

## 11. Reconciliation Of Reported Deficit With Cash Flows From Operating Activities

	6 months 31 December 2014 (\$000's)	6 months 31 December 2013 (\$000's)	12 months Audited 30 June 2014 (\$000's)
<b>Net Deficit</b>	<b>(2,334)</b>	<b>(2,788)</b>	<b>(4,962)</b>
Less Non-cash items:			
Amortisation of licences & patents	129	129	257
Depreciation	167	93	190
Loss on sale of fixed asset	-	-	-
Impairment provision	-	-	-
Other	96	(30)	760
<b>Total Non-cash items</b>	<b>392</b>	<b>192</b>	<b>1,207</b>
<b>Cash flow from operations before working capital changes</b>	<b>(1,942)</b>	<b>(2,596)</b>	<b>(3,755)</b>
Movements in working capital:			
Movement in accounts payable excluding asset purchases	(314)	381	(1,021)
Movement in holiday pay	20	(8)	(7)
Decrease in accruals	(473)	(231)	(87)
Movement in provisions	(854)	(494)	982
Increase/Decrease in other assets	895	-	224
Movement in maintenance accrual	(126)	126	(524)
Movement in accounts receivable & interest accrued	294	(297)	(1,073)
Decrease in stock & WIP	(906)	(162)	(343)
Movement in prepayments	(595)	553	10
Movement in retentions	90	-	23
Movement in GST/VAT	684	(110)	155
Preferential dividends payable	(125)	(125)	125
<b>Net movements</b>	<b>(1,410)</b>	<b>(367)</b>	<b>(1,536)</b>
<b>Net cash flows from operating activities</b>	<b>(3,352)</b>	<b>(2,963)</b>	<b>(5,291)</b>



## 12. Contingent Liabilities

- a) **Component Defects/Failure:** As disclosed in Note 8, the Company has made specific and miscellaneous provisions for the cost of repair or replacement of turbine components which break down by reason of defective manufacture or material inside their 5 year warranty period.
- b) **Sound Level performance:** As disclosed in Note 8, the Company has provided a Sound Level warranty in respect of the turbines.
- c) **Power curve:** As discussed in Note 8, the Company has provided NZ Windfarms with a warranty for power curve performance of 95% which crystallises as the turbines exit their 5 year warranty period on 1 July 2015. The calculation of the power curve performance contains several adjustments, some of which remain to be agreed with NZ Windfarms. A program has been in place to finalise the adjustments and to seek NZ Windfarms' agreement. NZ Windfarms has expressed its intent to seek compensation under this warranty as each turbine exits its warranty period. The Company disputes any liability. Accordingly, no provision has been made in these Financial Statements.

## 13. Capital Commitments

The Group had capital commitments amounting to \$800,000 as at 31 December 2014 (2013:\$ 570,000).

## 14. Significant Events After the Reporting Date

- a) **New Holland LLP:** In February 2015 Windflow Hammer Ltd completed a limited liability partnership agreement that reduces the Group's ownership of the New Holland wind turbine project to 50.1%.
- b) **Monan Wind Company Ltd:** The second and third turbines have been erected and were commissioned by the end of March 2015.
- c) **Restructuring:** The parent company has been restructured with six staff made redundant in order to reduce costs while the Group experiences delays in securing sales orders.
- d) **US Sales Agent:** The Company and its United States based sales agent have agreed to a suspension of activities of between 4 and 6 months while there continues to be political uncertainty regarding tax incentives and the Group's former licensee experiences ongoing delays with the installation of the class 2A 60 Hz prototype that is awaited by the North American market.
- e) **Conversion of 2013 Preference Shares:** At the end of March, the directors decided to convert all the preference shares it issued in March 2013 into ordinary shares, with effect from 31 March 2015. The total of preference shares which have been converted is 9,024,345, resulting in 18,048,690 new ordinary shares being issued, in addition to the 20,597,264 ordinary shares previously on issue.

## 15. Going Concern Assumption

As at 31 December 2014 the Group had equity of \$1.8 million.

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

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

The significant element of uncertainty arises because:

- An alternate approach to accelerate UK sales was adopted in June 2014. It will be the second quarter of 2015 before the Group can properly assess the success of the new approach.
- GD SATCOM's decision of July 2014 not to continue in the wind industry has created a gap in the Group's revenue expectations. We are working with parties to progress our US market entry, but we do not anticipate any new US revenue sources this financial year.
- NZ Windfarms Limited is seeking arbitration of significant warranty claims declined by Windflow and it is likely that the potential claim overhang will continue to affect future business opportunities.

The budgeted financial performance for the year to 30 June 2015 assumed the commencement of a steady flow of orders from the United Kingdom, however, delays continue to be experienced. Factors contributing to these delays are:

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

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

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

Windflow has made some progress and passed positive milestones in the half-year to 31 December 2014, albeit with some delays.

In summary, based on the Group's continued progress and prospects in its 1-2-3 strategy, together with opportunities in the UK market, and short term shareholder support, the Directors consider the going concern assumption to be a valid basis on which to prepare these Financial Statements. This conclusion was reached giving due regard to circumstances likely to affect the company within the period to 31 December 2015, and to circumstances which may occur beyond that date which may affect the going concern assumption.

The Directors stress that there exists significant risk because of the delays which have affected the Group to date and which may continue to affect it. If sufficient new sales are not able to be achieved and in particular if the UK market opportunities are unable to be realised, the Directors would have to re-consider the going concern assumption and take appropriate action. If that process results in the Directors concluding that the Group was no longer a going concern, the net assets of the Company and the Group would reduce significantly and this would likely result in significant negative equity.