



Windflow Technology Limited
Interim Report December 2015

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Contents

Directors' Review	2
Directors' Declaration	3
Unaudited Consolidated Interim Statements of Financial Position	4
Unaudited Consolidated Interim Statements of Comprehensive Income	5
Unaudited Consolidated Interim Statement of Changes in Equity	6
Unaudited Consolidated Interim Statements of Cash Flows	7
Notes to the Financial Statements	8

Directors' Review

The half year has seen significant developments tempered by ongoing slow progress in the United Kingdom. A Windflow Group trading loss of \$1.4 million was recorded compared with \$2.4 million for the prior corresponding period. The reduced trading loss is due to the profit on the sale of the Company's 50% interest in a UK turbine project. Now that the Group owns several operational turbines in Scotland electricity generation revenues are increasing, with more projects due for completion this calendar year.

The Directors are pleased to report that the Company reached agreement with its customer NZ Windfarms Limited ("NWF") over the outstanding issues between the companies, which settles all matters and outstanding sums owing between the two companies, relating to the warranties that Windflow provided in the 2005 sale and purchase agreement and subsequent related agreements. This is a full and final settlement and has resulted in the termination of two arbitrations initiated by NWF in 2014.

The agreement was approved by the Company's shareholders on 30 November 2015. The consideration included a cash sum of NZ\$1 million as well as convertible notes (convertible into ordinary shares in Windflow) issued to NWF. If NWF elects to convert all of these notes, NWF will hold nearly 9.9% of the Ordinary Shares in the Company.

Ninety-seven Windflow 500 turbines were installed at NWF's Te Rere Hau wind farm between 2006 and 2011. WTL has provided NWF with a licence to its designs and know-how to assure the wind farm's long-term maintainability. The turbines have all come to the end of their five-year warranty periods and continue to operate with high availability in challenging wind conditions. Now that full and final settlement has been reached, we look forward to a mutually beneficial ongoing relationship.

At the same November meeting, shareholders also approved an extension to the Company's loan facility with its largest shareholder. The Company can now simultaneously finance development projects for up to 11 turbines (formerly seven).

The Company is working towards arrangements whereby Windflow turbine designs are used by third parties to build turbines for large overseas markets.

The UK Government's policy changes for onshore wind generation have effectively terminated short-term orders for single turbine installations. Consequently, the Company has adopted a different approach in this market, targeting small to mid-size (10 MW and above) wind farm opportunities where economies of volume installation should enable a competitive offering, especially at sites with height sensitivity for landscape, radar or aviation reasons.

Looking ahead to the rest of calendar year 2016:

- The prototype 50 Hz Class 2A turbine is to be installed in Scotland in the third quarter of 2016. This will be an important milestone adding to Windflow's product range and addressing a larger market.
- Windflow will continue to seek licensees for major markets.
- Windflow expects to confirm further pre-accredited projects in the UK and continues to pursue potential external sales.
- Windflow will continue to work on other sales prospects that continue to arise.
- Low wholesale power prices are expected to persist in New Zealand. Accordingly Windflow will continue its focus on overseas markets.
- Windflow expects to record a loss for the full-year to 30 June 2016 due to a lack of turbine sales and ongoing delays with planning and grid infrastructure in the United Kingdom.
- 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 2015 and notes, on pages 4 to 13:

- 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 2015 and the results of its operations and cash flows for the 6 months ended on that date; and,
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgments and estimates.

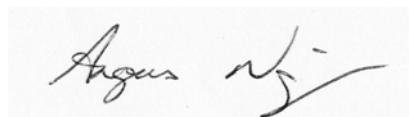
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the consolidated interim financial statements with the Financial Reporting Act 2013.

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
30 March 2016



Director
30 March 2016

Unaudited Consolidated Interim Statements of Financial Position

As at 31 December 2015

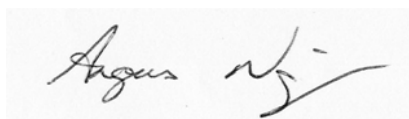
	Note	Unaudited 31 December 2015 (\$000's)	Audited 30 June 2015 (\$000's)
Current assets			
Cash on hand and at bank		370	242
Trade and other receivables		755	695
Prepayments	7	339	314
Asset held for sale			649
Retentions		-	629
Inventory and work in progress		885	837
Total current assets		2,349	3,366
Non-current assets			
Property, plant & equipment		8,617	9,131
Intangible assets		1,298	1,429
Total non-current assets		9,915	10,560
Total assets		12,264	13,926
Equity			
Contributed capital		44,713	43,714
Foreign currency translation reserve		(999)	(1,612)
Accumulated losses		(47,641)	(45,992)
Equity attributable to the owners of the Company		(3,928)	(3,890)
Non controlling interests		(134)	(95)
Total equity		(4,061)	(3,985)
Current liabilities			
Trade and other payables		1,033	1,092
Loan from shareholder	9	15,183	15,670
Provisions	8	-	808
Value added goods and services tax refund		109	113
Total current liabilities		16,325	17,683
Non-current liabilities			
Provisions	8	-	228
Total non-current liabilities		-	228
Total equity and liabilities		12,264	13,926
Net tangible assets per share		\$(0.16)	\$(0.27)

The notes on pages 8 to 13 are an integral part of these financial statements.

For and on behalf of the Board of Directors who authorise these financial statements on 30 March 2016.



Chairman



Director

Unaudited Consolidated Interim Statements of Comprehensive Income

For the 6 months ended 31 December 2015

	Note	Unaudited 31 December 2015 (\$000's)	Unaudited 31 December 2014 (\$000's)
Operating revenue	4	953	700
Cost of sales		173	783
Gross profit / (loss)		780	(83)
Other revenue	4	1,205	181
Licensing revenue		-	1,335
Less:-			
Depreciation		(257)	(167)
Amortisation of licences and patents		(131)	(129)
General and administration costs		(1,288)	(671)
Engineering costs		(296)	(697)
Marketing costs		(143)	(675)
Wind farm development, operations & maintenance		(671)	(1,254)
Operating loss before finance income and expenses		(801)	(2,160)
Finance income		1	5
Finance expense		(618)	(179)
Loss before income tax		(1,418)	(2,334)
Income tax expense / (credit)		-	-
Loss for the period		(1,418)	(2,334)
Other comprehensive income:			
Exchange differences on translating foreign operations		620	96
Revaluation of wind turbines		-	3,147
Other comprehensive income for the period		620	3,243
Total comprehensive (loss)/income for the period attributable to the shareholders of Windflow Technology Limited		(798)	909
Total comprehensive (loss)/income for the period attributable to:			
Non-controlling interest		(46)	(22)
Owners of the parent		(753)	931
		(798)	909
Losses per share for loss attributable to the ordinary equity holders of the Company during the period:			
Basic Loss per Share	5	\$(0.04)	\$(0.12)
Diluted Loss per Share	5	\$(0.02)	\$(0.03)

The notes on pages 8 to 13 are an integral part of these financial statements.

Unaudited Consolidated Interim Statement of Changes in Equity

For the 6 months ended 31 December 2015

	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 2014		33,588	9,505	0	(42,543)	0	550
Total comprehensive loss for the year		0	0	(1,612)	(2,973)	(95)	(4,680)
Preferential dividends		0	0	0	(476)	0	(476)
Redeemable Convertible Preference Shares		0	625	0	0	0	625
Issue costs of Preference Shares		0	(4)	0	0	0	(4)
Share conversion		4,512	(4,512)	0	0	0	-
Balance at 30 June 2015		38,100	5,614	(1,612)	(45,992)	(95)	(3,985)
Total comprehensive loss for the year		0	0	620	(1,372)	(46)	(798)
Exchange differences on translating foreign operations		0	0	(7)	0	7	-
Preferential dividends	6	0	0	0	(277)		(277)
Redeemable Convertible Preference Shares	5	0	1,000	0	0	0	1,000
Issue costs of Preference Shares		0	(1)	0	0	0	(1)
Balance at 31 December 2015		38,100	6,613	(999)	(47,641)	(134)	(4,061)

The notes on pages 8 to 13 are an integral part of these financial statements.

Unaudited Consolidated Interim Statements of Cash Flows

For the 6 months ended 31 December 2015

	Note	Unaudited 31 December 2015 (\$000's)	Unaudited 31 December 2014 (\$000's)
Cash flows from operating activities			
Cash receipts from customers			
Sales of turbines and components		16	184
Other		884	185
Interest received		1	5
Cash paid to suppliers and employees			
Suppliers		(2,358)	(2,443)
Employees		(968)	(1,110)
Other		(4)	(173)
Net cash used in operating activities		(2,429)	(3,352)
Cash flows from investing activities			
Disposal of property plant and equipment		1,862	-
Acquisition of property plant, equipment and capital WIP		(112)	(2,807)
Net cash used in investing activities		1,750	(2,807)
Cash flows from financing activities			
Issue of redeemable convertible preference shares	5	1,000	625
Dividends on redeemable convertible preference shares	6	(73)	-
Loan from a shareholder		(119)	5,925
Issue costs of equity		(1)	-
Net cash from financing activities		807	6,550
Net increase (decrease) in cash and cash equivalents		128	391
Cash and cash equivalents at beginning of the period		242	469
Cash and cash equivalents at end of the period		370	860

The notes on pages 8 to 13 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	
		2015	2014
Wind Blades Ltd	Non trading	100	100
Windflow International Ltd	Non trading	100	100
Windflow UK Ltd	Trading (UK)	100	100
Windflow Hammer Ltd	Trading (UK)	100	100
Hammer Westray LLP	Trading (UK)	100	100
Our Wind Ltd	Trading	100	100
Monan Wind Company Ltd	Trading (UK)	90	90
Windpower Otago Ltd	Non trading	20	20
New Holland LLP	Sold 16 July 2015 (UK)	0	100

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 2015 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 2015, 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

As at 31 December 2014 the Company revalued operating wind turbines to ‘fair value’, which increased the value of fixed assets and generated a revaluation reserve of \$3.147 million. During the audit of the financial statements for the year ended 30 June 2015, the revaluation was reversed and all assets reported at historic cost net of accumulated depreciation and impairment losses, in accordance with NZ IAS 16, Property Plant and Equipment.

3. Significant Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the period ended 30 June 2015.

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, selling, 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

Revenue	Unaudited 31 December 2015 Wind Turbines (\$000's)	Unaudited 31 December 2015 Licensing (\$000's)	Unaudited 31 December 2015 All Other Segments (\$000's)	Unaudited 31 December 2015 Total (\$000's)	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)
From external customers	2,068	-	90	2,158	652	1,335	229	2,216
Segment revenues	2,068	-	90	2,158	652	1,335	229	2,216
Less:- Operating expenses	1,813	-	1,763	3,576	783	-	3,671	4,454
(Loss)/Profit before income tax	255	-	(1,673)	(1,418)	(131)	1,335	(3,442)	(2,238)

Assets and Liabilities	Unaudited 31 December 2015 Wind Turbines (\$000's)	Unaudited 31 December 2015 Licensing (\$000's)	Unaudited 31 December 2015 All Other Segments (\$000's)	Unaudited 31 December 2015 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)
Segment assets	10,675	-	1,589	12,264	10,768	-	5,854	16,622
Segment liabilities	15,432	-	893	16,325	11,782	-	2,982	14,764
Total equity	(4,756)	-	696	(4,061)	(1,014)	-	2,872	1,858

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 December 2015 Wind Turbines (\$000's)	Unaudited 31 December 2015 Licensing (\$000's)	Unaudited 31 December 2015 All Other Segments (\$000's)	Unaudited 31 December 2015 Total (\$000's)	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)
New Zealand	36	-	90	126	517	-	46	563
United Kingdom and Europe	2,002	-	-	2,002	-	-	183	183
North America	30	-	-	30	135	1,335	-	1,470
Revenue	2,068	-	90	2,158	652	1,335	229	2,216

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 2015 Wind Turbines (\$000's)	Unaudited 31 December 2015 Licensing (\$000's)	Unaudited 31 December 2015 All Other Segments (\$000's)	Unaudited 31 December 2015 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)
New Zealand	6	-	1,420	1,426	-	-	1,939	1,939
United Kingdom and Europe	7,642	-	-	7,642	2,268	-	-	2,268
North America	847	-	-	847	-	-	-	-
Total non-current assets	8,495	-	1,420	9,915	2,268	-	1,939	4,207

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.

5. Earnings Per Share

	31 December 2015	31 December 2014
Weighted average number of shares on issue	34,133,780	19,722,264
Additional shares if all preference shares converted	46,783,909	54,757,927
Additional shares if all staff options converted	1,236,018	1,783,288
Total potential shares	82,153,707	76,263,479
	(\$000's)	(\$000's)
Loss for the period	(1,418)	(2,334)
Basic earnings/(loss) per share	\$(0.04)	\$(0.12)
Diluted earnings/(loss) per share	\$(0.02)	\$(0.03)

On 1 December 2015 \$1 million was received for the issue of 2 million redeemable convertible preference shares issued on the same terms as the existing preference shares.

6. Dividends

The preferential dividends have been accrued in accordance with the terms in the prospectus but not paid for the September and December 2015 quarters while the Company has had negative shareholders' funds. No ordinary dividend was declared or paid during the half-year (2014: nil).

7. Prepayments

The reduction in prepayments as at 31 December 2015 relates to deposits on turbines which have now been commissioned and the deposits transferred to sales, development costs and non-current assets.

8. Provision for warranties

	6 months 31 December 2015 (\$000's)	6 months 31 December 2014 (\$000's)	12 months Audited 30 June 2015 (\$000's)
Balance at beginning of period	1,036	1,925	1,925
Amounts added to warranty provision	-	-	174
Amount released from warranty provision	(1,036)	(854)	(1,063)
Balance at end of period	-	1,071	1,036
Expected to be utilised within one year	-	854	808
Provision for remainder of warranty period	-	217	228
Balance at end of period	-	1,071	1,036

The warranty provisions were extinguished as part of a full and final settlement of all matters with NZ Windfarms that was approved by shareholders on 30 November 2015. The key aspects of the agreement are covered in the Directors' Review.

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") and from 30 November 2015 it increased by 4 turbines to a maximum of 11 wind turbine projects.

The Shareholder Loan Facility provides for advances up to £10,880,000 (NZ\$23,545,687 as at 31 December 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 covenanters and guarantors of WUK's obligations.

As at 31 December 2015 the aggregate liability under these loans was \$15.2 million, (30 June 2015: \$15.7 million) with a security over the 'wind turbine' non-current assets and assets under construction valued at \$7.6 million, and prepayments, work in progress and stock valued at \$1.2 million. (The comparative figure for 30 June 2015 in aggregate of 'wind turbine' non-current assets, assets held for sale, assets under construction, prepayments, work in progress and stock was \$10.4 million). At the date of signing these financial statements the aggregate liability under these secured loans had increased to \$16.3 million and the related assets to \$9.3 million.

The Statement of Cash Flows states that a net \$0.1 million of loan principal was repaid during the half-year and

The loan liability is recorded as a current liability as the lender can call the loans while the Company has negative shareholders' funds. The lender has undertaken not to call the loans before 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%.

From 1 November 2015 the interest rate reduced to 5% per annum compounding daily, equivalent to an annual percentage rate of 5.13%.

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 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

Mr A Napier, Director, provided management services of \$37,900 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 \$1 million of redeemable convertible preference shares in the half-year.

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

	6 months 31 December 2015 (\$000's)	6 months 31 December 2014 (\$000's)	12 months Audited 30 June 2015 (\$000's)
Net Deficit	(1,418)	(2,334)	(3,068)
Less Non-cash items:			
Amortisation of licences & patents	131	129	256
Depreciation	257	167	459
(Profit)/Loss on disposal of fixed asset	(1,205)	-	(105)
Finance expense accrued	618	179	662
Other	440	(83)	(125)
	241	392	1,147
Cash flow from operations before working capital changes	(1,177)	(1,942)	(1,921)
Movements in working capital:			
Increase/(Decrease) in accounts payable excluding asset purchases	(346)	(314)	(380)
Increase/(Decrease) in accruals	73	(473)	92
Increase/(Decrease) in provisions	(1,036)	(980)	(969)
Increase/(Decrease) in leave entitlements	(26)	20	(44)
(Increase)/Decrease in other assets	649	895	(649)
(Increase)/Decrease in accounts receivable & accrued income	(60)	294	383
(Increase)/Decrease in stock & WIP	(48)	(906)	925
(Increase)/Decrease in prepayments	(25)	(595)	426
(Increase)/Decrease in retentions	(629)	90	2
Increase/(Decrease) in Goods and Services Tax and Value Added Tax	(4)	684	143
Increase/(Decrease) in Preferential dividends payable	200	(125)	(52)
Net movements	(1,252)	(1,410)	(123)
Net cash flows from operating activities	(2,429)	(3,352)	(2,044)

12. Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2015. For the prior comparative period the Group had unquantified contingent liabilities relating to warranty commitments that have now expired (see Note 9).

13. Capital Commitments

The Group had capital commitments amounting to \$3.4 million as at 31 December 2015 for UK development projects (2014:\$800,000).

14. Significant Events After the Reporting Date

There have been no significant events after the reporting date.

15. Going Concern Assumption

As at 31 December 2015 the Group had negative equity of \$4.1 million (30 June 2015: negative equity of \$4.0 million).

The Directors expect to undertake capital raising in 2016. The nature and timing will depend on progress with growing revenue from its various activities (licensing, engineering services, turbine sales, turbine project developments and electricity sales) and ongoing support of shareholders.

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; and
- Ongoing access to the shareholder Loan Facility to fund turbine projects; and
- Obtain new licensees of the Group's technology, and/or
- Obtain further third party sales and development projects, and/or
- Obtain new finance as required for more development projects, and/or
- Sell some or all of the completed turbine projects in the UK.

The material uncertainty arises because the budgeted financial performance for the year to 30 June 2016 assumed more orders than have been achieved from the United Kingdom. However, those expected orders have been curtailed by actions of the UK Government.

In summary, based on the Group's continued progress and prospects, together with 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 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. If sufficient new sales and new licensees are not able to be achieved together with sufficient short-term shareholder support, 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 a material negative affect on shareholders' equity.