



Windflow Technology Limited
Interim Report December 2016

Windflow Technology Limited
Interim Report to 31 December 2016

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Cover photo: the Windflow 45-500 Class 2 turbine running near Edinburgh, Scotland

Directors' Review

In the half-year to 31 December 2016, a gross profit of \$0.7 million was achieved by the Windflow Group on revenue of \$2.9 million. However the overall result after overheads and finance costs was a loss of \$1.5 million (compared with \$1.4 million in the prior corresponding period). Trading conditions remain difficult and some redundancies have been implemented in the UK, while some staff work part-time to reduce costs:

Windflow Technology's progress has been mixed:

- Two turbines were installed and commissioned in Scotland at the end of September. This includes a 50 Hz Class 2 45-500 prototype, which has been designed, completed and commissioned near Edinburgh
- All six W33-500 turbines already operating in Scotland, four owned by the Windflow Group, have performed reliably and earned significant revenue for their owners
- However the two new turbines have had a number of post-commissioning issues which have delayed their entry into normal operation. These are now resolved but have dragged on for several months in the case of the W45-500 prototype. At time of writing the W45-500 prototype has recently entered normal operation, so eight out of eight UK turbines are currently available.
- The UK market is currently not attractive for single turbine installations because of the phase-down of the Feed-in Tariff policy. Accordingly the Company has wound down its UK development team and has decided to reduce Windflow's UK activity to maintenance of the UK fleet of eight Windflow 500s.
- The Company has continued discussions with potential licensees of the Company's technology, but did not conclude a licence deal in 2016. This effort will continue in 2017, with a new emphasis being placed on our unique selling point being the synchronous generator, especially in the aftermath of a state-wide blackout in South Australia on September 28 which was at least in part attributable to the asynchronous technology used by the wind farms there. All Windflow turbines drive synchronous turbines, as enabled by the Company's patented TLG/LVS technology, which is scalable and readily adaptable for the 2 MW turbines which dominate the global market.
- Some progress has been made on shifting the supply chain for turbine components to low-cost countries (LCC), with major cost savings being achieved, and a major effort being put into Quality Control and Assurance:
 - Class 2 blades and all claddings for the 2016 build were supplied from China
 - A slewing bearing was supplied from China
 - Class 2 hub castings were procured from Korea.
- The CEO has visited Australia and three other Pacific nations regarding demonstration turbines as we shift our focus away from the UK. Discussions regarding these projects are ongoing.
- Recent Australian experience with renewable energy has highlighted the advantages of synchronous generators. In particular the September 28 blackout in South Australia has prompted a federal review of their National Electricity Market (NEM). This has identified the need for renewables to provide inertia and fault current capability, which neither the wind farms there, nor the many solar photovoltaic (PV) panels, presently provide. Windflow has provided a submission highlighting the fact that our turbine (almost uniquely in the wind industry) provides a synchronous wind turbine option, with 10% of New Zealand's wind power coming from our synchronous wind turbines (versus none of Australia's wind power). This issue will become more significant as countries like Australia (without much hydro resource) move to increase the amount of renewable power on the system. See also the text box on the following page.

- The New Zealand market continues to stagnate because of an oversupply of power and weak prices for carbon in the global emissions trading markets.

Looking back over the progress since establishment in 2001, Windflow has proven its innovative technologies, its Kiwi engineering prowess, and its ability to build and service turbines globally. The turbines at Te Rere Hau continue to run with availability well over 95%. Windflow can claim a technical success, no small feat for first production run of nearly 100 units, with the lightest turbines in the industry and a site that serves up hurricane force winds several times per year.

It is frustrating however that Windflow is yet to achieve commercial success, and has eroded rather than accumulated shareholder value, as recorded in the balance sheet using generally accepted accounting practice. Lack of a domestic market has meant that we have been unable to follow up Te Rere Hau with further projects in New Zealand. The UK market, which seemed so promising in 2010, has been beset by political uncertainty and ever-changing policy settings. At the same time, the global epicenter of the wind industry has moved to China and there has been strong downward pressure on turbine prices. Thus in some ways we are back to the beginning in that the company needs new injections of capital to put it on a more solid foundation financially, while following a new business plan based on licensing and LCC supply chains.

However the situation is quite different from 2001. Back then we had yet to build the prototype. Now we have proven technical advantages around power:weight ratio, robustness in turbulence, gearbox durability and synchronous generation. The Company is confident that those advantages are fundamental and validate the large investment that has been made to date in Windflow Technology.

Moving forward in 2017, the Company will continue to seek licensing partners to build Windflow's designs for large overseas markets. In addition it expects to:

- progress other sales prospects that have arisen in the Pacific and Australia
- seek further capital to fund the strategy and path to profitability.

We would like to acknowledge the ongoing support of all shareholders, and in particular the Company's largest shareholder. On 7 September 2016 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.

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

South Australia and Synchronous Generation

As this report is being finalised, the latest news from South Australia is that its government (on 14 March 2017) has adopted a new energy plan "to rebuild confidence in the reliability of supply".

Among other things this will improve system stability by increasing the amount of inertia provided by synchronous generation on their system, and require that future renewable generation additions provide other attributes associated with synchronous generation.

We see this happening because South Australia is a world-leader in terms of adding new renewables to a fossil-thermal power base. By comparison New Zealand has added new renewables to a largely hydro base: however most countries have largely fossil-thermal systems.

As the 21st century progresses we expect more countries to come up against the issues that have driven South Australia to this step. Europe has already done something similar in introducing a new regulation (EU 2016/631) which enables network operators to require renewable generators to provide inertia and other ancillary services.

The issues are technically complex and a little like good earthquake engineering in that nobody notices the advantages of a synchronous generator until things start to get shaky. But we see an opportunity for Windflow in the excellent dynamic properties and inherent cost-effectiveness of its synchronous wind turbines.

While it will take time to convert this opportunity into revenue, this will be a significant focus for Windflow in 2017, which will feature strongly in its licensing efforts to mid-size and large turbine manufacturers, as well as its sales efforts in Australia and the Pacific.

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 2016 and notes, on pages 5 to 14:

- 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 2016 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
16 March 2017



Director
16 March 2017

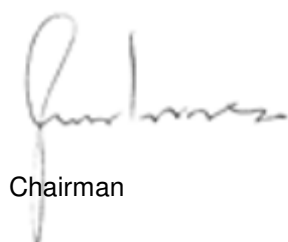
Unaudited Consolidated Interim Statements of Financial Position

As at 31 December 2016

	Note	Unaudited 31 December 2016 (\$000's)	Audited 30 June 2016 (\$000's)
Current assets			
Cash on hand and at bank		370	785
Trade and other receivables	7	2,952	562
Inventory and work in progress		2,833	3,578
Value added goods and services tax refund		-	260
Total current assets		6,154	5,185
Non-current assets			
Property, plant & equipment		9,319	7,819
Capital work in progress		-	1,455
Intangible assets		948	1,080
Total non-current assets		10,267	10,354
Total assets		16,421	15,539
Equity			
Contributed capital		46,588	46,589
Foreign currency translation reserve		1,736	908
Accumulated losses		(52,842)	(50,227)
Equity attributable to the owners of the Company		(4,519)	(2,730)
Non controlling interests		(109)	(97)
Total equity		(4,628)	(2,827)
Current liabilities			
Trade and other payables		1,512	2,013
Loan from shareholder	9	19,010	16,229
Provisions	8	85	64
Value added goods and services tax		403	-
Total current liabilities		21,010	18,306
Non-current liabilities			
Provisions	8	39	60
Total non-current liabilities		39	60
Total equity and liabilities		16,421	15,539
Net tangible assets per share		\$(0.14)	\$(0.11)

The notes on pages 9 to 14 are an integral part of these financial statements.

For and on behalf of the Board of Directors who authorise these financial statements on 16 March 2017.



Chairman



Director

Unaudited Consolidated Interim Statements of Comprehensive Income

For the 6 months ended 31 December 2016

	Note	Unaudited 31 December 2016 (\$000's)	Unaudited 31 December 2015 (\$000's)
Operating revenue	4	2,942	953
Cost of sales		2,248	173
Gross profit / (loss)		695	780
Other revenue		-	1,205
Licensing revenue		-	-
Less:-			
Depreciation		(325)	(257)
Amortisation of licences and patents		(131)	(131)
General and administration costs		(1,474)	(1,288)
Engineering costs		(361)	(296)
Marketing costs		(88)	(143)
Wind farm development, operations & maintenance		(236)	(671)
Operating loss before finance income and expenses		(1,920)	(801)
Finance income		1	1
Finance expense		(403)	(618)
Loss before income tax		(2,324)	(1,418)
Income tax expense / (credit)		-	-
Loss for the period		(2,324)	(1,418)
Other comprehensive income:			
Exchange differences on translating foreign operations		828	620
Total comprehensive (loss)/income for the period attributable to the shareholders of Windflow Technology Limited		(1,496)	(798)
Total comprehensive (loss)/income for the period attributable to:			
Non-controlling interest		(19)	(46)
Owners of the parent		(1,477)	(753)
		(1,496)	(798)
Losses per share for loss attributable to the ordinary equity holders of the Company during the period:			
Basic Loss per Share	5	\$(0.06)	\$(0.04)

The notes on pages 9 to 14 are an integral part of these financial statements.

Unaudited Consolidated Interim Statement of Changes in Equity

For the 6 months ended 31 December 2016

	Note	Ordinary Share Capital (\$'000's)	Preference Share Capital (\$'000's)	Foreign Currency Translation Reserve (\$'000's)	Retained Earnings (\$'000's)	Total Equity Attributable to owners of the Group (\$'000's)	Equity Attributable to non- controlling Interests (\$'000's)	Total Equity (\$'000's)
Balance at 1 July 2015		38,100	5,614	(1,612)	(45,992)	(3,890)	(95)	(3,985)
Total comprehensive loss for the year		-	-	2,540	(3,658)	(1,118)	(22)	(1,140)
Foreign currency translation		-	-	(20)	-	(20)	20	-
Preferential dividends		-	-	-	(577)	(577)	-	(577)
Redeemable Convertible Preference Shares		-	2,875	-	-	2,875	-	2,875
Balance at 30 June 2016		38,100	8,489	908	(50,227)	(2,730)	(97)	(2,827)
Total comprehensive loss for the period		-	-	828	(2,304)	(1,477)	(19)	(1,496)
Exchange differences on translating foreign operations		-	-	-	-	-	7	7
Preferential dividends	6	-	-	-	(311)	(311)	-	(311)
Issue costs of Preference Shares		-	(1)	-	-	(1)	-	(1)
Balance at 31 December 2016		38,100	8,488	1,736	(52,842)	(4,519)	(109)	(4,628)

The notes on pages 9 to 14 are an integral part of these financial statements.

Unaudited Consolidated Interim Statements of Cash Flows

For the 6 months ended 31 December 2016

	Note	Unaudited 31 December 2016 (\$000's)	Unaudited 31 December 2015 (\$000's)
Cash flows from operating activities			
Cash receipts from customers			
Sales of turbines and components		112	16
Other		654	884
Interest received		1	1
Cash paid to suppliers and employees			
Suppliers		(3,246)	(2,358)
Employees		(1,040)	(968)
Other		221	(4)
Net cash used in operating activities		(3,298)	(2,429)
Cash flows from investing activities			
Disposal of property plant and equipment		-	1,862
Acquisition of property plant, equipment and capital WIP		(640)	(112)
Net cash used in investing activities		(640)	1,750
Cash flows from financing activities			
Issue of redeemable convertible preference shares		-	1,000
Dividends on redeemable convertible preference shares		-	(73)
Loan from a shareholder	9	3,525	(119)
Issue costs of equity		(1)	(1)
Net cash from financing activities		3,524	807
Net increase (decrease) in cash and cash equivalents		(415)	128
Cash and cash equivalents at beginning of the period		785	242
Cash and cash equivalents at end of the period		370	370

The notes on pages 9 to 14 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	
		2016	2015
Windflow UK Ltd	Trading (UK)	100	100
Windflow Hammer Ltd	Trading (UK)	100	100
Hammer Westray LLP	Trading (UK)	100	100
Monan Wind Company Ltd	Trading (UK)	90	90
Wind Blades Ltd	Non trading	100	100
Our Wind Ltd	Non trading	100	100
Windflow International Ltd	Non trading	100	100
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, manufacturing and licensing, and principally operates in New Zealand and the United Kingdom. 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 2016 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 2016, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

3. Significant Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the period ended 30 June 2016.

4. Segmental Reporting

The Group has been operating with one separately reportable business segment during the reporting period, the Wind Turbines segment. 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	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December
	2016	2016	2016	2016	2015	2015	2015	2015
	Wind Turbines	Licensing	All Other Segments	Total	Wind Turbines	Licensing	All Other Segments	Total
	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)
From external customers	2,861	-	81	2,942	2,068	-	90	2,158
Segment revenues	2,861	-	81	2,942	2,068	-	90	2,158
Less:- Operating expenses	2,948	-	2,317	5,265	1,813	-	1,763	3,576
(Loss)/Profit before income tax	(87)	-	(2,236)	(2,324)	255	-	(1,673)	(1,418)
Assets and Liabilities	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited	Audited	Audited
	31 December	31 December	31 December	31 December	30 June	30 June	30 June	30 June
	2016	2016	2016	2016	2016	2016	2016	2016
	Wind Turbines	Licensing	All Other Segments	Total	Wind Turbines	Licensing	All Other Segments	Total
	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)
Segment assets	15,994	64	363	16,421	13,567	65	1,907	15,539
Segment liabilities	19,390	-	1,659	21,049	17,244	-	1,122	18,366
Total equity	(3,396)	64	(1,296)	(4,628)	(3,677)	65	785	(2,827)

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	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December
	2016	2016	2016	2016	2015	2015	2015	2015
	Wind Turbines	Licensing	All Other Segments	Total	Wind Turbines	Licensing	All Other Segments	Total
	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)	(\$'000's)
New Zealand	-	-	81	81	36	-	90	126
United Kingdom and Europe	2,861	-	-	2,861	2,002	-	-	2,002
North America	-	-	-	-	30	-	-	30
Revenue	2,861	-	81	2,942	2,068	-	90	2,158

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 2016 Wind Turbines (\$'000's)	Unaudited 31 December 2016 Licensing (\$'000's)	Unaudited 31 December 2016 All Other Segments (\$'000's)	Unaudited 31 December 2016 Total (\$'000's)	Audited 30 June 2016 Wind Turbines (\$'000's)	Audited 30 June 2016 Licensing (\$'000's)	Audited 30 June 2016 All Other Segments (\$'000's)	Audited 30 June 2016 Total (\$'000's)
New Zealand	220	64	1,006	1,290	24	65	1,081	1,170
United Kingdom and Europe	8,441	-	-	8,441	8,482	-	-	8,482
China	536	-	-	536	702	-	-	702
North America	-	-	-	-	-	-	-	-
Total non-current assets	9,197	64	1,006	10,267	9,208	65	1,081	10,354

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 2016	31 December 2015
Weighted average number of shares on issue	38,645,952	34,133,780
Additional shares if all preference shares converted	53,521,740	46,783,909
Additional shares if all staff options converted	813,868	1,236,018
Total potential shares	92,981,560	82,153,707
	(\$'000's)	(\$'000's)
Loss for the period	(2,324)	(1,418)
Basic earnings/(loss) per share	\$(0.06)	\$(0.04)

6. Dividends

Since 1 July 2015 preferential dividends of \$880,771 have been accrued in accordance with the terms in the prospectus but have not been paid while the Company has had negative shareholders' funds (2015: \$273,242). No ordinary dividend was declared or paid during the half-year (2015: nil).

7. Trade and other receivables

The increase from 30 June 2016 relates to the sale of a commissioned wind turbine, partly offset by a reduction in accrued sale of power income.

8. Provisions

	Convertible Notes interest			Warranties		
	6 months Unaudited 31 December 2016 (\$000's)	6 months Unaudited 31 December 2015 (\$000's)	12 months Audited 30 June 2016 (\$000's)	6 months Unaudited 31 December 2016 (\$000's)	6 months Unaudited 31 December 2015 (\$000's)	12 months Audited 30 June 2016 (\$000's)
Balance at beginning of period	124	-	-	-	1,036	1,036
Amounts added to provision	-	-	128	-	-	-
Amount released from provision	-	-	(4)	-	(1,036)	(1,036)
Balance at end of period	124	-	124	-	-	-
Expected to be utilised within one year	85	-	64	-	-	-
Provision for remainder of warranty period	39	-	60	-	-	-
Balance at end of period	124	-	124	-	-	-

The warranty provisions were extinguished on 30 November 2015 as part of a full and final settlement of all matters with NZ Windfarms that was approved by shareholders. The agreement included Convertible Notes that pay interest for 3 years until maturity unless converted at the option of the holder. Provision has been made for the maximum interest payable

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. This financing agreement has since increased to up to 11 wind turbine projects (the "Projects") that may be located worldwide.

The Shareholder Loan Facility provides for advances of up to £10,880,000 (NZ\$19.2 million as at 31 December 2016 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 2016 the aggregate liability under these loans was \$19.0 million, (30 June 2016: \$16.2 million) with a security over the 'wind turbine' non-current assets valued at \$9.3 million, and prepayments, work in progress and stock valued at \$3.0 million. (The comparative figure for 30 June 2016 in aggregate of 'wind turbine' non-current assets, assets held for sale, assets under construction, prepayments, work in progress and stock was \$13.4 million). At the date of signing these financial statements the aggregate liability under these secured loans had increased to \$19.5 million and the related assets to \$12.1 million.

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 October 2017.

The loan facilities incorporate the following documents:

- Term Loan Agreement wherein interest will accrue on the amounts advanced to WUK from the date of draw down at a rate of 20% per annum compounding daily, equivalent to an annual percentage rate of 22.134% per annum. Repayments under the Term Loan Agreement are scheduled to commence on the date that is 3 years from the date of each loan agreement. By agreement with the Lender, no repayments are required before October 2017.
- General Security Agreement (in respect of parts and assemblies of the turbines owned by the Company).
- Guarantee and Indemnity wherein the Company and WHL jointly and severally guarantee WUK's obligations to the lender under the Term Loan Agreement.
- Debenture over the assets of WUK granting a general and floating charge over all the assets and undertakings of WUK securing its obligations under the loan (English law).
- Debenture over the assets of WHL granting a general and floating charge over the assets and undertakings of WHL, securing WHL's obligations as guarantor of WUK's obligations under the loan (English law).
- Floating Charge over assets of WHL granting a general and floating charge over project equipment owned by WUK and the Company securing WUK's obligations under the loan (as the borrower under the Term

Loan Agreement) and the Company's obligations as guarantor of WUK's obligations to the lender (Scottish Law).

- 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 2016 (2015: 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, who retired as a Director on 7 December 2016, provided management services of \$34,666 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 \$2.9 million of redeemable convertible preference shares in the year ended 30 June 2016.

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

	6 months 31 December 2016 (\$000's)	6 months 31 December 2015 (\$000's)	12 months Audited 30 June 2016 (\$000's)
Net Deficit	(2,324)	(1,418)	(3,680)
Less Non-cash items:			
Amortisation of licences & patents	131	131	345
Depreciation	325	257	688
(Profit)/Loss on disposal of fixed asset	-	(1,205)	(1,215)
Finance expense accrued	403	618	-
Other	(350)	640	441
	510	441	259
Cash flow from operations before working capital changes	(1,814)	(977)	(3,421)
Movements in working capital:			
Increase/(Decrease) in accounts payable excluding asset purchases	(633)	(346)	553
Increase/(Decrease) in accruals	138	73	(136)
Increase/(Decrease) in provisions	-	(1,036)	(912)
Increase/(Decrease) in leave entitlements	(6)	(26)	9
(Increase)/Decrease in other assets	-	649	649
(Increase)/Decrease in accounts receivable & accrued income	(2,338)	(60)	231
(Increase)/Decrease in stock & WIP	745	(48)	(2,741)
(Increase)/Decrease in prepayments	(53)	(25)	216
(Increase)/Decrease in retentions	-	(629)	629
Increase/(Decrease) in Goods and Services Tax and Value Added Tax	663	(4)	(373)
Net movements	(1,484)	(1,452)	(1,875)
Net cash flows from operating activities	(3,298)	(2,429)	(5,296)

12. Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2016 (2015: nil).

13. Capital Commitments

The Group had no capital commitments as at 31 December 2016 (2015: \$3.4 million for UK development projects).

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 2016 the Group had negative equity of \$4.6 million (30 June 2016: negative equity of \$2.9 million).

The Directors expect to undertake capital raising in 2017. 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
- Obtain new licensees of the Group's technology, and/or
- Ongoing access to the shareholder Loan Facility to fund turbine projects; and/or
- Obtain further third party sales and development projects, and/or
- Sell some or all of the completed turbine projects in the UK.

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 2017, 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.