WINDFLOW

Windflow Technology Newsletter

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Since the last newsletter in July, Windflow Technology has made several positive announcements that, cumulatively, will add value and consolidate the company's long-term business prospects.

Our successful second stage capital raising warrants a special acknowledgement for the support of shareholders who have come forward with a further $3.18 million. This is in addition to the fully subscribed rights issue ($5.04 million) that was achieved in September last year in a much steadier market. All options were exercised at $3.30 per share, likewise the private placement of 175,566 shares that enabled us to achieve close to 80% of the original target of $10.59 million, a result that we were extremely satisfied with given the market conditions.

Having State Owned Enterprise and electricity generator/retailer Mighty River Power purchase a 19.95% cornerstone shareholding in mid-October, raised our issued capital to nearly 12 million shares.

The size of the total capital injection from capital raising combined with the purchase of a cornerstone shareholding by Mighty River Power is close to $17 million. This significant capital base will enable all R&D projects to be brought forward as outlined in the original prospectus document.

We are pleased to have the endorsement and interest of Mighty River Power, and believe the association will enhance our domestic and international growth opportunities. Our role as both project manager and wind turbine supplier to the proposed Long Gully wind farm, which Mighty River Power would own, highlights the opportunities and contribution that we are confident will continue to develop over time. See page 4 for an update on the Long Gully Wind Farm.

At the Te Rere Hau wind farm, we are working steadily towards the goal of having 30 new Windflow 500 turbines, representing Stage Two and the start of Stage Three, operational by the end of the year. The 64 turbines representing Stage Three and Four have been ordered and will keep the production team busy over the next year.

We have made steady progress with our pursuit of the Class 1A Edition 3 IEC certification. The formal design documentation process is nearing completion and the list of documents to be submitted is down to the last dozen or so.

While industries everywhere grapple with the fallout of the financial crisis, there are four important considerations in Windflow's favour. Firstly, we are in the right industry as wind power remains the fastest growing form of electicity generation. Secondly, our ability to service new orders is not reliant on a labyrinth of banking networks. Thirdly, our wind turbine design has fundamental weight and other cost advantages. Finally, our position as a local manufacturer inherently protects us against exchange rate fluctuations – in fact our competitive advantage is enhanced when the New Zealand dollar falls.

We are also becoming aware that the market is tending to realise the benefits of distributed energy and smaller community based wind farms. As a long time advocate of distributed generation, it is wonderful to finally see policies and initiatives being proposed and coming into effect to encourage more of these types of projects.

I look forward to meeting with many of our readers and shareholders at the Windflow Annual Meeting on 6 November.

Geoff Henderson.
CEO/Director

Te Rere Hau Update

The Te Rere Hau wind farm, jointly owned by NZ Windfarms and NP Power/Babcock and Brown, is now growing in size each day. For the first two years, the small five turbine wind farm on the Tararua ranges near Palmerston North has provided Windflow the opportunity to measure and improve the turbines' performance in extreme wind speeds. The significance of Te Rere Hau grows with every operational Windflow 500 installed. It is a showcase reference site that demonstrates, even in these early stages, the level of confidence around performance that the market needs.

Stage One Demonstrates Excellent Performance
In terms of performance wind turbines are typically measured by 'availability' which captures the amount of time the turbines are available to generate electricity, irrespective of wind speed. The Te Rere Hau wind farm was warranted at 95% availability and with Stage One consisting of only five turbines, the combined 'availability' drops by 20% whenever a turbine is undergoing preventive six-monthly maintenance checks or unscheduled maintenance.

Given this, we are extremely pleased with the performance of the Stage One turbines that have been installed since September 2006 on one of the windiest sites in the world. Stage One has averaged over 95% availability for its first two years, apart from a period during May and November 2007 when we took the opportunity to carry out gearbox upgrades and test each turbine in turn at their full 500 kW capacity.

Stage Two Construction Progress
NZ Windfarms and sub-contractors to have the roads, lay-down areas, foundations and electrical connections ready for the installation of the 28 Stage Two turbines. At the time of writing, 23 of the two-piece, 30 metre high towers have been installed on the efficient single pile foundations, and 10 nacelles with their two-bladed rotors are installed on their towers. Each turbine will start operating and generating electricity as it is connected to the new electrical line and commissioned. Nacelles from Windflow's Christchurch factory and blades from Wind Blades in Auckland continue to arrive at site and and it is planned that 30 turbines will be installed and generating by the end of the year.

On 30 September the Te Rere Hau developer and co-owner NZ Windfarms, placed the final order of 32 turbines with Windflow. This represents the balance of the resource consented total of 97 turbines. Stage Three and Stage Four turbines will be produced and installed over the next 12-18 months and Te Rere Hau will total 48.5 MW of New Zealand made wind turbines when complete.

Construction continues on Stage 2 of the Te Rere Hau wind farm

Merit-Level Site Safe Certificate Awarded to Windflow Project Manager

André Holm, Windflow's Project Manager based in Palmerston North, has achieved the highest level in New Zealand in Site Safe Certificate in Construction Site Safety. This is a 40 credit Certificate focusing on construction health and safety, enabling workers and managers to better manage their personal safety, their companies' safety and workplace management systems, and the safety procedures and systems of subcontractors working on their sites.

André Holm stood out against the rest for his high level of achievement. He completed every course he attended with a Merit pass which means he was in the top 10% in every one of his assignments marked. André is the first graduate to achieve this level of excellence and demonstrated a consistently broad understanding of health and safety in construction based industries.

"It has been a great process and has provided me with useful tools and knowledge to help keep our team and contractors as safe as possible at the wind farm site," said Mr Holm. "We work in some very challenging conditions up on site and being able to take a coordinated and structured approach to safety definitely helps. Windflow takes the safety of everyone at the wind farm site, and in our factories, very seriously so I'm proud that this training is backed up by our excellent safety record".

Site Safe, in collaboration with Unitec, developed the Certificate in Construction Site Safety just three years ago in order to provide the essential training needed by the construction industry. Achieving the Certificate is recognition of a commitment to safety training.

Windflow Supplier Gains ISO 9001:2000

Christchurch based Windflow supplier Cresta Composites, a leader in industrial and commercial composites, has achieved ISO 9001:2000. Cresta Composites designs and manufactures the nacelle cladding for the Windflow 500.

"The importance of the ISO 9001:2000 accreditation cannot be underestimated," says Jules Ganley, Production Manager at Windflow. "While Windflow periodically audits its suppliers there is enormous value in having this process undertaken by a third party with established procedures. ISO 9001:2000 accreditation provides us with the assurance that our quality standards are being met and are supported by robust systems that are well documented".

Wind Blades a wholly owned subsidiary of Windflow, has already achieved ISO 9001:2000 and joint venture Wind Gears is working towards achieving accreditation.

IEC Certification

There are four main parts to achieving Class 1A, Edition 3 IEC Certification. These are: ISO 9001 Certification, Type Testing, Design Evaluation and Manufacturing Evaluation.

Windflow gained ISO 9001:2000 certification in June this year for the Windflow 500 wind turbine design, development and production as well as the activities involved in the installation and servicing of the turbines at wind farms.

The type testing component of the certification has been mostly completed over the last 18 months, with extensive data collection on the performance of the Gebbies Pass prototype by the University of Canterbury as our testing party. The testing has included: function and safety tests, load measurements, power quality and performance measurements and acoustic measurements. In addition procedures are required that meet ISO 9001 standards. The blade fatigue testing is continuing and we are currently testing "coupons" (small test pieces) which incorporate our new scarf-joint design. The tests to date have indicated that the new joint will meet all IEC requirements. Finalising this aspect also requires building a scarf-joint test blade at Wind Blades, which is now complete and ready to be set up for accelerated testing at Industrial Research Laboratories (IRL).

It is important to appreciate that all of the blade fatigue testing is being done to ensure Class 1A Edition 3 IEC certification – the most stringent level of certification. We understand that Windflow will be the first manufacturer to achieve certification to this standard.

The design evaluation is a very rigorous process, where changes required in one component may require a respecification (and recalculations) of other components. To date Windflow has submitted over 217 out of the 230 required design calculations, specifications and drawings to certifying body Lloyds Register. Approval from Lloyds Register of the complete set of documentation submitted, will be the final step in the IEC certification.

Lloyds Register has completed the manufacturing evaluation of Windflow's nacelle assembly practices and has approved them subject to final approval of our drawings.

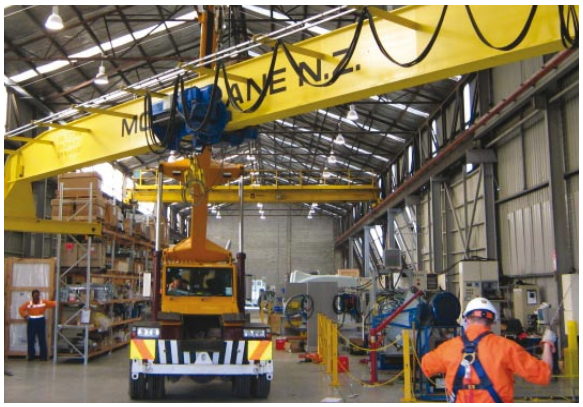
Gaining IEC certification remains our top priority in order to gain further orders.

Factory Upgrading

The Windflow nacelle assembly factory in Christchurch is undergoing changes to improve throughput, quality control and efficiency. Although the original plan was to sublease the back part of the factory (around 800 square metres) it has been decided to utilise the entire factory much earlier to achieve a better flow through the production line which will also enable increased production capacity as required.

As part of these changes the floor at the back of the factory has been resurfaced to bring it up to the same standard as the existing factory space. A new 15 tonne gantry crane has also been installed which allows the production team to lift all components as well as completed nacelles without needing to bring in cranes for this.

The changes will not affect Windflow's production obligations to the Te Rere Hau wind farm.



The new 15 tonne gantry crane being installed in the factory

Welcome New Staff

Willie Otto – Electrical Engineer

Willie is a power systems engineer who joined Windflow in August 2008. Originally from South Africa, Willie began his career in the South African power utility. In 2004 he moved to New Zealand where he worked for Maunsell in Auckland where he led the power system analysis group. Willie brings with him excellent knowledge of generation connection and transmission planning. Willie has a wife and a baby son and is an outdoor enthusiast.

Mark Scanlon - Electrician

Mark joined Windflow in September 2008 after having been working with the manufacturing team on contract basis through Applied Automation for half a year. Mark has a background in industrial installation, maintenance and automation. Mark is originally from Westport, but has been living in Christchurch many years. In his free time Mark likes surfing, mountain biking, tramping and reading.

Craig Bennett – Electrician

Craig joined the Windflow manufacturing team in September 2008. Craig has worked as an automotive storeman in the army and after that 10 years in electrical automation. Craig came to us after two years as a wind turbine technician with Vestas in Palmerston North. Originally from Timaru, Craig moved back to the South Island with his wife and three kids aged 9, 7 and 4. Craig has interests in gymnastics, triathlons, softball and rugby.

Upcoming Events

Annual Meeting

Thursday 6 November 7.30pm
ManCan House,
Cnr Manchester Street and Cambridge Terrace. The annual meeting notice and 2008 Annual Report can be downloaded from our website.

The annual meeting will also be webcast live
(and archived) on our website
www.windflow.co.nz.

Long Gully Wind Farm Information Evenings

Tuesday 18 November 5:30-8:00 pm
Brooklyn Resource Centre,
36 Jefferson St,
and
Wednesday 19 November 5:30-8:00 pm
St Ninian's Church Hall,
Cnr Newcombe Cresent and Karori Rd,
For more information check:
www.longgully.co.nz

Open Days Gebbies Pass Wind Turbine

Sunday 7 December
and Sunday 1 February, 3–5pm
Meeting point and car parking:
Wheatsheaf Tavern in Teddington.
Bus will leave 3pm, 3.30pm, 4pm and 4.30pm to transport you to the Windflow 500 turbine in Gebbies Pass.
Bring some warm, wind-proof clothes and good shoes!
In case of cancellation due to bad weather on the day, please check:
www.windflow.co.nz
or ring Sheralee on 021946333

Open Day – Windflow Factory

Visit the factory
and see the new layout of the production.

Thursday 18 December, 4-7pm,
Please RSVP by Monday 15 December to: rsvp@windflow.co.nz or
phone 03 365 8960

Long Gully Wind Farm

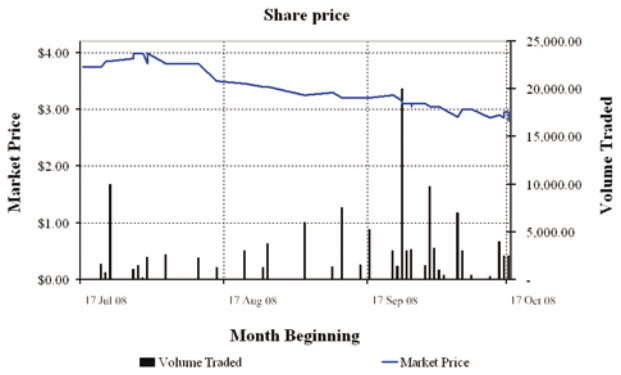
Windflow Project Managers Tim Armitage and Emma Patrick have been dedicating much their time to progressing studies and consultations of the proposed Long Gully wind farm which will be owned and operated by Mighty River Power.

Connell Wagner has been appointed to manage the Resource Consent application and assessments of environmental effects are underway. These include ecology, acoustics, visual effects, landscape assessment, traffic, civil and geotechnical engineering, radar and telecommunications, cultural and archaeological.

An initial layout of up to 28 Windflow 500 turbines has been proposed and will be refined after the environmental assessments and consultation. Information on this exciting project can be found at www.longgully.co.nz.

Windflow staff in front of the two first nacelles to leave the factory for Te Rere Hau

Share graph



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