Windflow Technology Limited

Annual Report 2016

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Cover photo: the latest Class 2 Windflow 45-500 turbine installed September 2016 at Cuddyhouse Rd, Kingseat, near Edinburgh

Directors' Annual Review to 30 June 2016

Windflow Technology has continued to make progress in the year to 30 June 2016:

- Two turbines were shipped for installation in Scotland and were installed and commissioned 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.
- The Company is in discussion with potential licensees of the Company's technology.

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.

The 97 turbines at Te Rere Hau continue to run with availability well over 95%.

A gross profit of $1.2 million was achieved by the Windflow Group on revenue of $1.8 million. However the overall result after overheads and finance costs was a loss of $3.7 million. Trading conditions remain difficult and for some of the year parent company staff adopted part-time hours to reduce costs while the Group experienced ongoing delays in securing orders:

- UK sales prospects again progressed slowly due to a range of factors including planning and grid connection issues. For example grid constraint issues affecting many parts of Scotland as major transmission upgrade projects continue to be delayed. Planning permission for onshore wind turbines continued to be highly politicised in the UK, especially in England and Wales.
- The Windflow Group has progressed some new projects which were pre-accredited under the UK feed-in-tariff (FIT) scheme before September 30. As expected, grid issues and lack of certainty with the UK grid management and upgrades has resulted in some projects not proceeding.
- The UK Government's policy changes for onshore wind generation have effectively terminated short-term orders for single turbine installations. Consequently, the Company has decided to restrict Windflow's UK activity to maintenance of the UK fleet of eight Windflow 500s.
- The New Zealand market continues to be stagnant because of an oversupply of power.

Looking ahead to 30 June 2017:

- The Company is working towards arrangements whereby Windflow turbine designs are licensed by third parties to build turbines for large overseas markets.
- Windflow is working on other sales prospects that have arisen in the Pacific.
- Windflow expects to seek further capital to fund the strategy and the path to profitability.

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

We would like to take this opportunity to acknowledge the ongoing support of all shareholders, and in particular the Company's largest shareholder. As set out in Note 29, 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.

Directors' declaration

In the opinion of the directors of Windflow Technology Limited (the "Company"), the financial statements of Windflow Technology Limited for the year ended 30 June 2016 and notes, on pages 5 to 26:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Group as at 30 June 2016 and the results of its operations and cash flows for the 12 months ended on that date; and,
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

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

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

For and on behalf of the Board of Directors:

D. M. Clarke	Geoff Henderson
Chairman	Director
31 October 2016	31 October 2016

Audited Financial Statements

Consolidated Balance Sheet

As at 30 June 2016

	Note	2016 ($000's)	2015 ($000's)
Current assets			
Cash on hand and at bank	15	785	242
Trade and other receivables	16	562	1,009
Asset Held for Sale	16	-	649
Retentions	17	-	629
Inventory and w ork in progress	12	3,578	837
Value added goods and services tax refund		260	-
Total current assets		**5,185**	**3,366**
Non-current assets			
Property, plant & equipment	20	7,819	9,101
Capital w ork in progress	20	1,455	30
Intangible assets	21	1,080	1,429
Total non-current assets		**10,354**	**10,560**
Total assets		**15,539**	**13,926**
Equity			
Contributed capital	11	46,589	43,714
Foreign currency translation reserve		908	(1,612)
Accumulated losses		(50,227)	(45,992)
Equity attributable to the ow ners of the Company		(2,730)	(3,890)
Non-controlling Interests		(97)	(95)
Total equity		**(2,827)**	**(3,985)**
Current liabilities			
Trade and other payables	18	2,013	1,092
Loan from shareholder	19	16,229	15,670
Provisions	14	64	808
Value added goods and services tax		-	113
Total current liabilities		**18,306**	**17,683**
Non-current liabilities			
Provisions	14	60	228
Total non-current liabilities		**60**	**228**
Total equity and liabilities		**15,539**	**13,926**
Net tangible assets per ordinary share (cents)		(10.11)	(14.01)

The notes on pages 9 to 26 are an integral part of these financial statements.

For and on behalf of the Board of Directors who authorise these financial statements for issue on 31 October 2016:

Chairman

Director

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 ($000's)	2015 ($000's)
Operating revenue	5	1,801	2,371
Cost of sales		569	1,264
Gross profit / (loss)		**1,232**	**1,107**
Other revenue	5	1,225	224
Licensing revenue	5	-	1,335
Less:			
Depreciation	6	(688)	(459)
Amortisation of licences and patents	6	(345)	(256)
General and administration costs		(2,489)	(2,748)
Engineering costs		(606)	(1,008)
Research and development costs		(5)	(70)
Marketing costs		(227)	(399)
Wind farm development, operations & maintenance		(768)	(139)
Operating loss before finance income and expenses		**(2,671)**	**(2,413)**
Finance income	5	**3**	7
Finance expense		(1,012)	(662)
Loss before income tax		**(3,680)**	**(3,068)**
Income tax expense / (credit)		**-**	**-**
Loss for the year		**(3,680)**	**(3,068)**
Other comprehensive income:			
Exchange differences on translating foreign operations		2,540	**(1,612)**
Total comprehensive loss for the period attributable to the shareholders of Windflow Technology Limited		**(1,140)**	**(4,680)**
Total comprehensive loss for the year attributable to:			
Non-controlling interest		(22)	(95)
Owners of the parent		(1,118)	(4,585)
		(1,140)	**(4,680)**
Losses per share for loss attributable to the ordinary equity holders of the Company during the period:			
Basic and Diluted Loss per Share		**$(0.10)**	**$(0.12)**

The notes on pages 9 to 26 are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 30 June 2016

	Note	Ordinary Share Capital ($000's)	Preference Share Capital ($000's)	Foreign Currency Translation Reserve ($000's)	Retained Earnings ($000's)	Equity attributable to equity holders of the parent ($000's)	Equity Attributable to non-controlling Interests ($000's)	Total Equity ($000's)
Balance at 1 July 2014		**33,588**	**9,505**	**-**	**(42,543)**	**550**	**-**	**550**
Total comprehensive loss for the year		-	-	(1,612)	(2,973)	**(4,585)**	(95)	**(4,680)**
Preferential dividends	10	-	-	-	(476)	**(476)**	-	**(476)**
Redeemable Convertible Preference Shares	11	-	625	-	-	**625**	-	**625**
Issue costs of Preference Shares	11	-	(4)	-	-	**(4)**	-	**(4)**
Share conversion	11	4,512	(4,512)	-	-	-	-	**-**
Balance at 30 June 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	10	**-**	**-**	**-**	**(577)**	**(577)**	**-**	**(577)**
Redeemable Convertible Preference Shares	11	**-**	**2,875**	**-**	**-**	**2,875**	**-**	**2,875**
Issue costs of Preference Shares	11	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2016		**38,100**	**8,489**	**908**	**(50,227)**	**(2,730)**	**(97)**	**(2,827)**

The notes on pages 9 to 26 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2016

	Note	2016 ($000's)	2015 ($000's)
Cash flows from operating activities			
Cash receipts from customers			
Sales of turbines, power and components		1,792	3,204
Consulting Fees		16	137
Other		333	145
Interest received		3	7
Cash paid to suppliers and employees			
Suppliers		(4,484)	(3,240)
Employees		(1,586)	(2,349)
Warranties: agreement with New Zealand Windfarms	14	(996)	-
Other		(374)	-
Net cash used in operating activities		**(5,296)**	**(2,096)**
Cash flows from investing activities			
Disposal of property plant and equipment		1,932	854
Acquisition of property plant, equipment and capital WIP		(1,817)	(7,077)
Net cash used in investing activities		**115**	**(6,223)**
Cash flows from financing activities			
Dividends on redeemable convertible preference shares		(73)	(421)
Loan from a shareholder		4,832	8,465
Share capital issued		1,000	-
Issue costs of equity		-	(4)
Net cash from financing activities		**5,759**	**8,040**
Net increase (decrease) in cash and cash equivalents		**578**	**(279)**
Foreign currency translation adjustment on cash value at end of period		**(35)**	**52**
Cash and cash equivalents at beginning of the period		242	469
Cash and cash equivalents at end of the period		**785**	**242**

The notes on pages 9 to 26 are an integral part of these financial statements.

Notes to the Financial Statements

1. REPORTING ENTITY

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

The Company is an issuer for the purpose of the Financial Reporting Act 2013. The Financial Statements are those of the Group and have been prepared in accordance with the Financial Reporting Act 2013 and Companies Act 1993.

These audited financial statements were approved by the Board of Directors on 31 October 2016.

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

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

2. BASIS OF PREPARATION

a) **Functional and presentation currency**
Items included in the Financial Statements are measured using the New Zealand Dollar, the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in New Zealand dollars, which is the Group's functional and presentation currency. All values are rounded to the nearest thousand dollars ($000's).

b) **Measurement base**
The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the Group.

c) **Statement of compliance**
These financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards ('FRS') as applicable for profit oriented entities. The Financial Statements comply with International Financial Reporting Standards ('IFRS').

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

Details of material accounting judgements and assumptions are:

i. **Provisions for warranty.**
In determining the level of provision required for warranties, the Group has made judgements in respect of the expected performance of products and the cost of rectifying any items that do not meet contractual standards. Historical experience and the determinations of qualified employees have been used by management in determining the appropriate provision required.

ii. **Revenue recognition**
Operating revenue arising from the completion of a contract is calculated in accordance with the relevant stage of completion. The extent of completion is calculated with reference to the terms of the contract, the costs incurred and management input as to the stage of completion.

iii. **Estimation of the useful lives of assets**
The estimation of the useful lives of assets, including fixed life intangible assets and property, plant and equipment, has been based on historical experience, manufacturers' warranties, lease terms and management's judgement on the performance of the asset. Adjustments to useful lives are made when considered necessary.

iv. **Impairment of assets**
The Group assesses impairment of all assets at each reporting date, by evaluating conditions specific to the Group and to the particular assets held. The assessment made includes product and manufacturing performances, technology, economic environments and future product expectations. If an impairment exists the recoverable amount is determined and the asset written down to the recoverable amount.

v. **Preference share capital**
The redeemable convertible preference shares have been accounted for as equity because the Company has discretion to convert these shares to ordinary shares at any time during their five year period to maturity. This feature enables the Company to immediately extinguish any further liabilities in the form of dividends that accrue on a 10% annual rate of return, therefore this entire instrument has been accounted for as equity. The Company's Directors sought independent professional advice to confirm that this accounting treatment was appropriate, recognising that the terms of the issue are such that the dividends payable prior to conversion to ordinary shares need to be paid in cash (See also Note 11).

e) **Going concern**
These Financial Statements have been prepared on a going concern basis. In using the going concern basis for accounts preparation, the matters considered and assumptions made by the Directors in reaching this conclusion are detailed in Note 30.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below. These accounting policies have been applied consistently to all periods presented in these Financial Statements and by all Group entities. Certain comparative values have been changed to be consistent with these accounting policies (retentions / trade receivables).

a) **Basis of Consolidation**

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

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

ii. **Associates (equity accounted investees)**
Associate companies are companies in which the Group has significant influence, but not control, over the financial and operating policies of the entity so as to obtain benefit from its activities. Associate companies have been reflected in the Consolidated Financial Statements using the equity method, which shows the Group's share of retained surpluses or losses in the Consolidated Statement of Comprehensive Income, and its share of post-acquisition increases or decreases in net assets in the Consolidated Balance Sheet. Where the Group's share of losses exceed its interest in an associate, the carrying amount of the interest is reduced to nil and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of the investee.

iii. **Transactions eliminated on consolidation**
Intra-group balances, and any unrelated income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains.

b) **Revenue Recognition**

Operating revenues are recognised by reference to the stage of completion of the sales contract. Contract revenue is matched with contract costs incurred in reaching the relevant stages of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. Foreseeable losses on a contract are recognised in the Statement of Comprehensive Income immediately.

License fee income and sales of parts is recognised when an invoice is issued while electricity sales are accrued on the basis of kilowatt hours produced.

c) **Investment Revenue**
Investment revenue from investments and deposits is recognised on an accrual basis using the effective interest method.

d) **Foreign Currency Transactions and Balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as profit or loss within the Statement of Comprehensive Income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

e) **Inventories**
Inventory of component parts is recognised at lower of cost determined on a first-in first-out basis and net realisable value and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition. Provision has been made for any obsolete stock on hand and has been recognised within the Statement of Comprehensive Income.

Work in Progress includes the cost of direct materials, components, direct labour and an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

f) **Supplier Prepayments**
Supplier prepayments comprise deposits paid to suppliers and goods paid for but not on hand at a Group site. Typically such items include gearbox components, tower steel and nacelle claddings.

g) **Goods and Services Tax (GST) and UK Value Added Tax (VAT)**
The Financial Statements have been prepared on a GST/VAT exclusive basis, except that all receivables and payables have been shown GST/VAT inclusive to the extent that GST/VAT is payable or receivable on the transaction that gave rise to the payable or receivable.

h) **Interest Expense**
Where interest expense has been directly incurred in the construction of an asset the cost has been recognised to the cost of construction of the asset.

i) **Financial Instruments**
i. **Non-derivative financial instruments**
Non-derivative financial instruments are recognised within the Balance Sheet when the Group becomes party to a financial contract. They include cash, bank deposits, receivables, payables and investment in equities.

Recognition and measurement
Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and Cash Equivalents
Cash includes bank balances, demand deposits and other highly liquid investments readily convertible into cash as part of the Group's day-to-day cash management and are subject to an insignificant risk of changes in value.

Trade and Other Receivables
Trade receivables, which generally have terms of 30 to 60 days, are measured at cost, which approximates fair value at each reporting date. Recoverability of trade receivables is reviewed on an on-going basis. Individual debts that are known to be unrecoverable are written off when identified.

Trade and Other Payables
Trade and other payables are carried at amortised cost. Due to their short term nature they are not discounted.

ii. **Derivative financial instruments and hedging**
The Group uses derivative financial instruments to hedge its risk associated with foreign currency fluctuations arising from operational, financing and investment activities. Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and subsequently re-measured to their fair value at each reporting date. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as fair value hedges.

Fair Value Hedge
Changes in the fair value of derivatives that do not qualify as a cash flow hedge are recorded in the Statement of Comprehensive Income.

Cash flow Hedge
The effective portion of changes in the fair value of derivatives that are designated as qualifying as cash flow hedges is recognised in equity in the cash flow hedge reserve. Any ineffective portion is designated as a fair value hedge with the gain or loss recognised within the Statement of Comprehensive Income.

If the hedging instrument no longer meeting the criteria for hedge accounting expires, is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The accumulated gain or loss recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit and loss.

j) **Taxation**
Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or subsequently enacted at the reporting date, or any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit nor differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is possible that future profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

k) **Property, Plant and Equipment**
i. **Recognition and measurement**
Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment.

Cost includes expenditure directly attributable to the acquisition or construction of the asset.

When major components of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

ii. **Depreciation**
Depreciation is provided on a straight line basis on all property, plant and equipment at depreciation rates calculated to allocate the asset's cost, less the residual value, over its estimated useful life.

No depreciation is charged on partially constructed assets.

The estimated useful lives for the current and comparative periods are:

Operating Wind turbines	20 years
Demonstration Wind Turbine	10 years
Motor vehicles	5 years
Leasehold improvements	12 years
Office equipment	2 to 12 years
Equipment and tooling	1 to 14 years
Blade moulds	amortised over 50 pairs of blades

iii. **Disposals**

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognised within the Statement of Comprehensive Income.

l) **Intangible Assets**

Intangible assets that are acquired by the Group are recognised if it is probable that the expected future economic benefits relating to the intangible assets will accrue to the Company and the cost is able to be reliably measured.

Intangible assets including patents, licences and certifications that are assessed as having a finite life are amortised equally over their useful lives from the time the patent, licence or certification is available or registered.

Where estimated useful lives or recoverable values have diminished due to market conditions, amortisation is accelerated or the carrying value is impaired. Where the life of the intangible asset is finite, the value of the asset is amortised over the determined period.

m) **Impairments**

The carrying values of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount exceeds its recoverable amount. Impairments that directly affect the carrying value of assets are recognised as losses in the Statement of Comprehensive Income.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

i. **Impairment of receivables**

All significant receivables are individually reviewed by management and impairments or provisions are made if deemed necessary.

ii. **Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n) **Warranty Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments at the time value of money and the risks specific to the liability.

Each turbine commissioned includes warranty cover. The full warranty cover, which extended for five years, was in previous years expensed in the Statement of Comprehensive Income when the turbine was commissioned for a customer. This sum was then transferred to provisions for the likely expenditure arising from the warranty.

Various suppliers will also give warranties to the Company, which may offset the Company's gross cost for any warranty claims, and the amount of such recovery is based on an assessment of the probability that such recovery will eventuate.

At the end of each reporting period, the warranty records of all turbines are reviewed and the adequacy of the amounts provided for the remainder of the warranty period are reassessed. The provision will be increased or decreased depending on turbine history and expected future warranty expenses.

Any costs arising from the warranty during a period are charged to warranty expense and any warranty received from suppliers is credited to warranty monies received.

o) **Retentions**
Retentions represent the final payment of the selling price of the turbines that have been commissioned. These amounts are included in total revenue and are due and payable at specific periods following the commissioning of each turbine.

p) **Research and Development Costs**
Research costs are recognised as incurred in the Statement of Comprehensive Income.

Development costs are capitalised where future economic benefits are expected to exceed those costs, otherwise such costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred. Development expenditure, recognised as an intangible asset, is stated at cost and amortised in the Statement of Comprehensive Income over the period of expected benefits. All other development expenditure is expensed as incurred.

q) **Employee Entitlements**
A liability for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave is recognised in the Balance Sheet when it is probable that settlement will be required and that these costs are capable of being quantified. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at each reporting date.

Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured as the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

The Group contributes to defined contribution superannuation for employees. The expense is recognised in the Statement of Comprehensive Income when incurred. The Group's legal and constructive liability is limited to these contributions.

An employee share option scheme is offered to employees of the Company (refer Note 13). Employees within the Group are granted share appreciation rights, which can only be settled in cash ("cash settled transactions"). The cost of cash settled transactions is measured initially at fair value at the grant date based on the Black-Scholes-Merton model. This fair value is expensed over the period until the vesting date with the recognition of a corresponding liability. The liability is pre-measured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognised in employee benefits expense.

r) **Reserves**

i. **Cash flow hedge reserve**
A cash flow hedge reserve records gains or losses on forward foreign currency cash flow hedges that are recognised directly in equity.

ii. **Employee share entitlement reserve**
An employee share entitlement reserve recognises the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee.

s) **Loss per share**
The Group presents basic earnings / loss per share (EPS) data for its Ordinary Shares. Basic EPS is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of Ordinary Shares outstanding during the period. Diluted EPS has not been reported as International Accounting Standard 33: Earnings Per Share prohibits such disclosure when it will reduce the loss per share.

t) **Dividends of preference share capital**
Dividends payable on redeemable convertible preference shares accrue on a daily basis. Until paid, this liability is reflected as a current liability and directly through the statement of movement in equity, given the determination that this is an equity instrument (see Note 2 d) v.).

u) **Convertible Notes**
Interest payable on convertible notes accrues on a daily basis. Provision has been for the interest payable until the maturity date of the convertible notes. This liability is reflected as a current and non-current liability and has been recorded as an expense in the Statement of Comprehensive Income.

v) **Change in Accounting Policies**
There have been no changes to the accounting policies applied in the comparative period.

4. SEGMENTAL REPORTING

The Group operated in two separately reportable business segments; the Wind Turbines segment and the Licensing segment, which are reviewed by the chief operating decision maker. All other activities are aggregated as 'Corporate'. Transactions between reporting segments are accounted for on the accruals basis.

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

Licensing Segment: Derives revenue from licensing agreements with other manufacturers of wind turbines. In these financial statements all such revenue was from engineering services provided to GD SATCOM Technologies Inc., USA.

Corporate (All Other Segments): Represents the design and development of the Wind Turbine, general marketing and administration expenses; it includes all Group companies and their general administration income and expenses that are not applicable to the Licensing segment nor the Wind Turbines segment.

a) Business Segmental Analysis

	2016 Wind Turbines ($000's)	2016 Licensing ($000's)	2016 All Other Segments ($000's)	2016 Total ($000's)	2015 Wind Turbines ($000's)	2015 Licensing ($000's)	2015 All Other Segments ($000's)	2015 Total ($000's)
Total revenue : Sales to customers	2,868	-	161	3,029	2,437	1,335	165	3,937
Less:- Operating expenses	4,634	19	2,056	6,709	2,409	-	4,596	7,005
(Loss)/Profit before income tax	**(1,766)**	**(19)**	**(1,895)**	**(3,680)**	**28**	**1,335**	**(4,431)**	**(3,068)**
Assets and Liabilities								
Segment assets	13,567	65	1,907	15,539	10,435	83	3,408	13,926
Segment liabilities	17,244	-	1,122	18,366	16,216	-	1,695	17,911
Total equity	**(3,677)**	**65**	**785**	**(2,827)**	**(5,781)**	**83**	**1,713**	**(3,985)**

CASH FLOW	2016 Wind Turbines ($000's)	2016 Licensing ($000's)	2016 All Other Segments ($000's)	2016 Total ($000's)	2015 Wind Turbines ($000's)	2015 Licensing ($000's)	2015 All Other Segments ($000's)	2015 Total ($000's)
Cash receipts from customers								
Sales of turbines and components	1,792	-	-	1,792	3,204	-	-	3,204
Licensing revenue	-	-	-	-	-	-	-	-
Other	143	-	206	349	-	137	145	282
Interest received	-	-	3	3	-	-	7	7
sub-total	1,935	-	209	2,144	3,204	137	152	**3,493**
Cash paid to suppliers and employees								
Suppliers	2,355	-	2,129	4,484	2,355	-	833	3,188
Employees	1,062	-	524	1,586	1,062	-	1,287	2,349
Warranties: agreement with New Zealand Windfarms	996	-	-	996	-	-	-	-
Other	-	-	374	374	-	-	-	-
sub-total	4,413	-	3,027	7,440	3,417	-	2,120	**5,537**
Net cash used in operating activities	**(2,478)**	**-**	**(2,818)**	**(5,296)**	**(213)**	**137**	**(1,968)**	**(2,044)**

b) Geographic Revenue

Revenue from external customers by geographic locations is detailed below. Revenue is attributed to each geographic location based on the location of the customer. Movements in foreign currency exchange rates can impact funds received.

	2016 Wind Turbines ($000's)	2016 Licensing ($000's)	2016 All Other Segments ($000's)	2016 Total ($000's)	2015 Wind Turbines ($000's)	2015 Licensing ($000's)	2015 All Other Segments ($000's)	2015 Total ($000's)
New Zealand	52	-	161	213	458	-	165	623
United Kingdom and Europe	2,800	-	-	2,800	1,758	-	-	1,758
North America	16	-	-	16	221	1,335	-	1,556
Revenue	**2,868**	**-**	**161**	**3,029**	**2,437**	**1,335**	**165**	**3,937**

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

	2016 Wind Turbines ($000's)	2016 Licensing ($000's)	2016 All Other Segments ($000's)	2016 Total ($000's)	2015 Wind Turbines ($000's)	2015 Licensing ($000's)	2015 All Other Segments ($000's)	2015 Total ($000's)
New Zealand – sale of parts and assets	20	-	-	**20**	393	-	-	**393**
New Zealand - sale of electricity	33	-	-	**33**	57	-	-	**57**
United Kingdom – sale of electricity	1,406	-	-	**1,406**	980	-	-	**980**
United Kingdom – sale of turbines	1,215	-	-	**1,215**	693	-	53	**746**
North America – licensing income	-	-	-	**-**	-	1,335	-	**1,335**
North America – engineering services	16	-	-	**16**	221	-	-	**221**

c) Non-current Assets by Geographic Location

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

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

	2016 Wind Turbines ($000's)	2016 Licensing ($000's)	2016 All Other Segments ($000's)	2016 Total ($000's)	2015 Wind Turbines ($000's)	2015 Licensing ($000's)	2015 All Other Segments ($000's)	2015 Total ($000's)
New Zealand	24	65	1,081	1,170	-	83	1,539	1,622
United Kingdom and Europe	8,482	-	-	8,482	7,994	-	-	7,994
China	702	-	-	702	-	-	-	-
North America	-	-	-	-	944	-	-	944
Total non-current assets	**9,208**	**65**	**1,081**	**10,354**	**8,938**	**83**	**1,539**	**10,560**

5. REVENUE

	2016 ($000's)	2015 ($000's)
Operating revenue:		
Sale of turbines to customer	-	693
Sale of electricity generated	1,438	1,037
Maintenance fees	137	47
Other	206	252
Sale of turbine components	20	342
	1,801	**2,371**
Licensing revenue:	**-**	**1,335**
Other revenue:		
Consultancy fees	16	81
Foreign currency	(6)	38
Profit on disposal of assets	1,215	105
Sundry income	-	-
	1,225	**224**
Interest received	**3**	**7**
Total revenue	**3,029**	**3,937**

6. OPERATING EXPENSES

	2016 ($000's)	2015 ($000's)
Operating expenses include:		
Amortisation of licences and patents	345	256
Depreciation	688	459
Research and development	5	70
Audit fees – prior year	-	53
– current year	40	44
Directors' fees	83	83
Rent and leases	283	217
Employee benefit expense:		
Wages and salaries	1,622	2,388
Defined contribution superannuation	22	22

7. DIRECTORS' COMPENSATION

	2016 ($000's)	2015 ($000's)
Salaries and remuneration	161	192
Directors' fees	83	83

8. EARNINGS PER SHARE

	2016	2015
Weighted average number of shares on issue	38,645,952	25,109,436
Additional shares if all preference shares converted by the Company	53,521,740	49,808,253
Additional shares if all convertible notes converted to shares	4,250,000	-
Additional shares if all staff options converted	974,499	1,783,288
Total potential shares	**97,392,191**	**76,700,977**
	($000's)	**($000's)**
Loss for the period	**(3,680)**	**(3,068)**
Basic and Diluted earnings/(loss) per share	$(0.10)	$(0.12)

On 30 November 2015 the Company's shareholders approved an agreement with New Zealand Windfarms Limited (NWF). The consideration included 4,250,000 convertible notes (each convertible into one ordinary share in Windflow). If NWF elects to convert all of these notes, NWF will hold nearly 9.9% of the Ordinary Shares in the Company.

In 2015, the number of additional shares includes the number of ordinary shares allotted during that year that are not included in the 2015 weighted average number.

The potential additional ordinary shares are anti-dilutive as they would reduce the loss per share, which is prohibited by the accounting standard.

9. TAXATION

	2016 ($000's)	2015 ($000's)
Operating deficit	(3,680)	(3,068)
Prima facie taxation expense at 28% (2014: 28%)	(1,030)	(859)
Add back permanent differences:		
Amortisation of intangibles	96	72
Current year's loss for which no deferred tax benefit is recognised	(934)	(787)
Income tax	-	-

The deferred tax benefit of the Group as at 30 June 2016 is $12.0 million (2015: $11.0 million). This has not been recognised in the financial statements due to the lack of certainty that such benefits will be able to be utilised by the Company.

10. DIVIDENDS

The Company declared and accrued preferential dividends of $577,000 for the year ended 30 June 2016 (2015: $475,956).

During the year the Company allotted 5,750,000 Redeemable Convertible Preference Shares with a nominal value of $2,875,000 and paying dividends at 10% from December 2016 on $1 million and from July 2017 on $1,875,000 (see Note 11). The preferential dividends are cumulative and payable quarterly.

During the remaining period to maturity from 1 July 2016 to 14 January 2019, cash dividends of $2.0 million are scheduled to be paid on the Preference Shares unless they are redeemed or converted (see also Notes 2d)v. and 11).

No ordinary dividend was declared or paid during the year (2015: nil).

11. CONTRIBUTED CAPITAL

	2016 ($'000s)	2015 ($'000s)
Balance at beginning of year	43,714	43,093
Redeemable Convertible Preference Shares	2,875	625
Issuing costs of Preference Shares	-	(4)
Balance at end of year	**46,589**	**43,714**

Number of ordinary shares

	2016	2015
Balance at beginning of year	38,645,952	20,597,264
Conversion of Preference Shares	-	18,048,688
Balance at end of year	**38,645,952**	**38,645,952**

Number of redeemable convertible preference shares

	2016	2015
Balance at beginning of year	12,090,580	19,864,925
Allotted during the year	5,750,000	1,250,000
Conversion to Ordinary Shares	-	(9,024,345)
Balance at end of year	**17,840,580**	**12,090,580**

On 1 December 2015 and 30 June 2016 the Company allotted 2,000,000 and 3,750,000 Redeemable Convertible Preference Shares respectively. The total capital raised amounted to $2,875,000 from which was deducted costs of raising capital totalling $665. The Redeemable Convertible Preference Shares do not have voting rights except on matters affecting those shares. They bear a 10% per annum preferential dividend commencing 12 months after their allotment date, which is then payable quarterly, and these may be redeemed by the Company at their issue price of $0.50 at any time from 18 months after their allotment date, until their 5 year maturity date. They may be converted to ordinary shares by either the Company or the holder at any time and will be converted by the Company to ordinary shares if not redeemed by the 5 year maturity date. If converted by the holder they will convert to ordinary shares at 1:1. If converted by the Company they will convert into 3 ordinary shares for 1 preference share.

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

12. INVENTORY AND WORK IN PROGRESS

	2016 ($000's)	2015 ($000's)
Inventory on hand	382	837
Prepaid inventory	193	-
Work in progress	3,003	-
Inventory and work in progress	**3,578**	**837**

Group inventory on hand of $382,486 is net of an obsolescence provision of $62,558 (2015: $38,841) reflecting the age of some inventory held by the Company. Work-in-progress is turbines being manufactured and wind farm development costs of a project to be sold in 2016.

13. SHARE OPTION PLANS

a) **Employee Share Options**
The Company, on 19 December 2002, entered into a cash settled share option plan for the benefit of all employees of the Company who have attained the age of twenty years and who have been employed by the Company for at least one year. The selection of the participants and the number of shares are determined by the Directors. Any offer of an option is at a price equal to the market price at the date of the resolution by the Directors to make an offer. No options were offered in the year ended 30 June 2016.

Share options granted comprise:

	2015	2014	2013	2012	Total
Exercise Price	$0.07	$0.20	$0.21	$0.23	
Expiry Date	30/06/2017	16/08/2016	31/07/2017	30/06/2017	
Balance at 30 June 2015	402,129	240,031	476,000	665,128	**1,783,288**
Granted during year	-	-	-	-	**-**
Lapsed during the year	96,428	79,400	299,000	333,961	**808,789**
Balance at 30 June 2016	**305,701**	**160,631**	**177,000**	**331,167**	**974,499**

Share Options Outstanding
The weighted average remaining contractual life for the share options outstanding at 30 June 2016 is 11 months (2015: 23 months). The exercise prices for options outstanding at the end of the year, and the prior year, were $0.23, $0.21, $0.20 or $0.07. No options were granted in the year ended 30 June 2016. The weighted average fair value of options granted in 2015 was $0.07.

No cash settled awards vested during the year to 30 June 2016 (2015: nil). In determining fair value, weighted average volatility was assessed at 117% based on experience over the previous 12 month period, a nil dividend expectation was assumed and the 2.75% risk free interest rate was assumed based on the 10 year NZ Government Bond Yield.

b) **Royalty Share Options**
The Company, on the 22 January 2002, entered into an agreement wherein a royalty was payable to Mr Henderson for each wind turbine sold or retained by the Company (other than any turbines retained as demonstration turbines). The amount of the royalty is currently $5,000 per turbine plus 10,000 share options of $1.00 each. The total number of options able to be issued is limited so that if exercised they do not represent more than either 1,000,000 shares in Windflow Technology Ltd or more than 20% of the issued share capital of Windflow Technology Ltd.

Each option to purchase shares shall expire 7 months after the end of the calendar quarter. The option price is $1.00, or if a market price for Windflow Technology Ltd shares has been established at a level which raises concerns for the Directors that the option price is not fair and reasonable to existing shareholders, the option price will be determined as the average market price in the last month of the quarter less one third.

There were no royalty options issued or outstanding or exercised during the year (2015: nil).

14. WARRANTY PROVISIONS

	Warranties		Convertible Notes interest	
	2016 ($000's)	2015 ($000's)	2016 ($000's)	2015 ($000's)
Balance at beginning of period	1,036	1,925	-	-
Amounts added to warranty provision	-	174	128	-
Amount released from warranty provision	(1,036)	(1,063)	(4)	-
Balance at end of period	**-**	**1,036**	**124**	**-**
Expected to be utilised within one year	-	808	64	-
Provision for extended warranty period	-	228	60	-
Balance at end of period	**-**	**1,036**	**124**	**-**

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. 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.

15. CASH ON HAND AND AT BANK

	2016 ($000's)	2015 ($000's)
Trading accounts balances	758	215
Deposits held as security	27	27
Balance at end of year	**785**	**242**

As at 30 June 2016 the Company had $15,000 deposited as security with a financial institution as security in respect of the NZAX (2015: $15,000) and $12,000 for the company credit cards (2015: $12,000). The Company earned interest on term deposits at 3.5%. As at 30 June 2015 the Company also had a deposit of $16,100 for forward foreign exchange contracts.

16. TRADE AND OTHER RECEIVABLES

	2016 ($000's)	2015 ($000's)
Trade and other receivables	28	194
Accrued income	436	501
Prepayments made	98	314
Asset held for sale	-	649
Balance at end of year	**562**	**1,658**

In 2016 no allowance for doubtful debts was made (2015: nil).

Accrued income relates to the sale of electricity. Prepayments are deposits for United Kingdom turbine projects and prepaid operating expenses.

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

17. RETENTIONS

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

	2016 ($000's)	2015 ($000's)
Within one year	-	629

The retentions were fully released as part of a full and final settlement of all matters with NZ Windfarms that was approved by shareholders on 30 November 2015.

18. TRADE AND OTHER PAYABLES

	2016 ($000's)	2015 ($000's)
Trade payables	1,133	589
Staff annual leave entitlements	102	93
Sundry creditors and accruals	778	410
Balance at end of year	**2,013**	**1,092**

The Directors consider the carrying amounts in the Balance Sheet to be a reasonable approximation of their fair value.

19. SHAREHOLDER LOAN

In July 2012, a construction financing agreement (Shareholder Loan Facility) was reached with a shareholder, David Iles, wherein the Company, together with its wholly owned subsidiaries Windflow UK Limited (WUK) and Windflow Hammer Limited (WHL), would undertake up to 3 wind turbine projects in Scotland (the "Projects"). From January 2014 this financing agreement increased to up to 7 wind turbine projects (the "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 £10.88 million (NZ$20.5 million as at 30 June 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 covenantors and guarantors of WUK's obligations.

As at 30 June 2016 the aggregate liability under these loans was $16.2 million (2015: $15.7 million) with a security over the 'wind turbine' fixed assets $8.4 million, assets under construction of $1.4 million and work in progress and inventories of $3.6 million.

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

The loan facilities incorporate the following documents:

i. Term Loan Agreement wherein interest will accrue on the amounts advanced to WUK from the date of draw down at a rate of 20% per annum compounding daily, equivalent to an annual percentage rate of 22.134% per annum. Repayments under the Term Loan Agreement are scheduled to commence on the date that is 3 years from the date of each loan agreement. No repayments are required before January 2017.
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%.

20. FIXED ASSETS: PROPERTY, PLANT & EQUIPMENT

	Office Equipment	Plant & Equipment	Leasehold Improvements	Motor Vehicles	Wind Turbine & Components	Assets under Construction	Total
Cost	**($000's)**	**($000's)**	**($000's)**	**($000's)**	**($000's)**	**($000's)**	**($000's)**
Balance at 30 June 2014	498	1,332	150	79	2,964	322	5,345
Additions	6	1,130	-	-	6,305	30	7,471
Transfers to Wind Turbines	-	-	-	-	322	(322)	-
Disposals	-	(67)	-	(10)	(664)	-	(741)
Foreign currency translation adjustment	-	-	-	-	315	-	315
Balance at 30 June 2015	**504**	**2,395**	**150**	**69**	**9,242**	**30**	**12,390**
Additions	**8**	**138**	**2**	**23**	**130**	**1,580**	**1,881**
Disposals	**-**	**(64)**	**-**	**-**	**-**	**(29)**	**(93)**
Foreign currency translation adjustment	**(3)**	**(11)**	**-**	**(3)**	**(925)**	**(126)**	**(1,068)**
Balance at 30 June 2016	**509**	**2,458**	**152**	**89**	**8,447**	**1,455**	**13,110**
Depreciation and impairment losses							
Balance at 30 June 2014	451	1,131	68	59	1,111	-	2,820
Depreciation / amortisation for year	27	194	12	6	220	-	459
Disposals	-	-	-	(2)	(15)	-	(17)
Foreign currency translation adjustment	-	-	-	-	(3)	-	(3)
Balance at 30 June 2015	**478**	**1,325**	**80**	**63**	**1,313**	**-**	**3,259**
Depreciation / amortisation for year	**23**	**238**	**13**	**5**	**410**	**-**	**689**
Disposals	**-**	**(29)**	**-**	**-**	**-**	**-**	**(29)**
Foreign currency translation adjustment	**(1)**	**(5)**	**-**	**-**	**(77)**	**-**	**(83)**
Balance at 30 June 2016	**500**	**1,529**	**93**	**68**	**1,646**	**-**	**3,836**
Carrying amounts							
At 30 June 2014	47	201	82	20	1,853	322	2,525
At 30 June 2015	**26**	**1,070**	**70**	**6**	**7,929**	**30**	**9,131**
At 30 June 2016	**9**	**929**	**59**	**21**	**6,801**	**1,455**	**9,274**

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

Impairment
During the financial year the property, plant and equipment of the Group have been examined for impairment. See Note 30 on going concern, explaining the uncertainties affecting going concern and the potential adverse impact on the above assets.

Capital commitments
The Group had capital commitments as at 30 June 2016 of $1.1 million (2015: $2.9 million).

Borrowing costs
Assets under construction include borrowing costs of $18,000.

21. INTANGIBLE ASSETS

	Licences and Patents	Development Costs	Total
Cost	**($000's)**	**($000's)**	**($000's)**
Balance 30 June 2014	936	2,563	3,499
Net exchange differences	3	-	3
Balance 30 June 2015	**939**	**2,563**	**3,502**
Net exchange differences	**(4)**	**-**	**(4)**
Balance 30 June 2016	**935**	**2,563**	**3,498**
Amortisation and impairment losses			
Balance 30 June 2014	856	961	1,817
Amortisation for the year	-	256	256
Balance 30 June 2015	**856**	**1,217**	**2,073**
Amortisation for the year	**15**	**330**	**345**
Balance 30 June 2016	**871**	**1,547**	**2,418**
Carrying amounts			
At 30 June 2014	80	1,602	1,682
At 30 June 2015	**83**	**1,346**	**1,429**
At 30 June 2016	**64**	**1,016**	**1,080**

a) **Patents**
Management has assessed the value of patents in respect of prospective sales and licensing opportunities, also taken the indicators in Note 30 on going concern into consideration, and is satisfied that the carrying value of this item is not impaired.

b) **Development costs (International Electrotechnical Commission (IEC) Type Approval Certification)**
Development costs primarily relate to costs incurred during the development phase of the group's Class 1A, 2 bladed, 500 kW turbines, which achieved International Electrotechnical Commission (IEC) certification under the IEC standard 61400:1 2005 on 17 September 2010. No costs relating to research have been capitalised. Development costs primarily consist of specialist internal labour and other directly attributable items. The Board has assessed the carrying value of the unamortised Development Costs in respect of prospective export sales and licensing opportunities and is satisfied that the carrying value of this item is not impaired at 30 June 2016 (2015: $nil impairment).

Included within the carrying amount of Development Costs at 30 June 2016 is $nil of IEC certification costs (2015: $90,394). The IEC certification expired during the year and although has not been renewed at reporting date, can be renewed for a further five year term for an estimated cost of $80,000, which the group expects to do.

See Note 30 on going concern, explaining the uncertainties affecting going concern and the potential adverse impact on the above assets.

22. SUBSIDIARY AND ASSOCIATED COMPANIES

a) Subsidiaries within the Group comprise:

	Nature of business	Interest percentage 2016	Interest percentage 2015
Windflow UK Ltd	Trading	100	100
Windflow Hammer Ltd	Trading	100	100
Hammer Westray LLP	Trading	100	100
Monan Wind Company Ltd	Trading	90	90
Wind Blades Ltd	Non trading	100	100
Windflow International Ltd	Non trading	100	100
Our Wind Ltd	Non trading	100	100

b) Associated companies within the Group comprise:

	Nature of business	Interest percentage 2016	Interest percentage 2015
Windpower Otago Ltd	Non trading	20	20

23. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, foreign currency and interest rate risk arise in the normal course of the Group's business.

a) **Policy disclosure**

i) *Credit risk*

To the extent that the Group has a receivable from another party, there is a credit risk in the event of non-performance by that counter party. Financial instruments, which potentially subject the Group to credit risk, principally consist of bank balances, receivables, and term deposits.

The Group monitors the credit quality of its investments and manages its exposure to credit risk. The ability of the Group to limit its credit risk is constrained by having a small number of customers.

ii) *Liquidity risk*

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an on-going basis. The Group is undertaking certain strategies to meet its medium term business plan (refer Note 30).

iii) *Foreign Exchange Risk*

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

iv) *Interest Rate Risk*

The Group has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates. The Group endeavours to deposit funds at the best available rate, for the selected term, at a range of registered banks. At each reporting date, there were no term deposits held for periods greater than 90 days. The Group has an interest bearing debt as detailed in Note 19.

b) **Quantitative disclosures**

i) *Credit risk*

The carrying amount of financial assets in the Balance Sheet represents the Group's maximum credit exposure.

The Group does not have any significant concentrations of non-customer credit risk apart from advances to associated companies as disclosed in the Balance Sheet and its deposits with New Zealand registered banks as disclosed in Note 15. Funds are held at registered banks with a Standard and Poor's credit rating of not less than AA.

There is a credit risk arising in that the Group has a small number of customers. The risk arising from this is closely managed. No collateral is held, nor any credit enhancement, for this risk, other than the ability to offset amounts receivable from one customer against accepted warranty payments due to that company. The Directors are satisfied with the management of this exposure. At this stage in the development of the Company it has not been possible to diversify this credit risk.

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

	2016 ($000's)	2015 ($000's)
Not past due	28	77
Past due 31-60 days	-	15
Past due 61-90 days	-	72
Past due 91-120 days	-	30
Past due 121 days	-	-
Balance at end of the period	**28**	**194**

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

ii) *Liquidity risk*

The Group had secured borrowings of $16.2 million as at 30 June 2016 (2015: $15.7 million), see Note 19. Other financial liabilities are comprised of the short terms payables disclosed in Note 18.

The Group monitors its future cash requirements through rolling cash flow forecasts.

30-Jun-16	Carrying amount ($'000s)	Less than 12 months ($'000s)	1 - 2 years ($'000s)	2 - 5 years ($'000s)
Non derivative financial liabilities				
Trade and other payables	2,013	2,013	-	-
Shareholder loan	16,229	16,229	-	-
Derivative financial liabilities				
FX exchange contracts fully hedged	21	21	-	-

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

iii) *Foreign Exchange Risk*
At the reporting date, the Group had exposure to foreign currency risk through the operations, assets and liabilities of its UK subsidiaries. The Group takes out forward cover contracts for major transactions in foreign currencies. At 30 June 2016 the Group had a notional value of $323,107 of fully hedged forward exchange contracts (2015: $nil).

Underlying exposure
A 5% weakening of the NZD against the British Pound (GBP) at 30 June 2016 would have (increased)/decreased equity and increased/(decreased) the loss by the amounts shown below:

	2016 ($000's)		2015 ($000's)	
Currency	**Equity**	**P&L**	**Equity**	**P&L**
GBP	198	(28)	109	(12)

A 5% strengthening of the NZD against GBP at 30 June 2016 would have had the opposite effect.

iv) *Interest rate risk*
At the reporting date, the Group had financial liabilities, but no exposure to interest rate derivatives. All cash and term deposits held by the Group were short term. The Group is not exposed to any variable interest rate risks as all interest-bearing liability instruments have specified fixed interest rates (see Note 19).

c) **Capital Management**
When managing capital (contributed capital and accumulated losses (see Statement of Changes in Equity)), the Directors' objective is to ensure the Group continues as a going concern, as well as maintaining optimal returns for shareholders and benefits for other stakeholders.

The Group's capital is managed at Company level. The Group's capital structure is managed to ensure that the funds sourced from shareholders and external debt is maintained at a level which minimises the credit or liquidity risk to the Group. Adjustments are made, with Board approval, to the structure in light of economic conditions at the time. There were no changes to objectives, policies or processes during the current financial year.

The Company is listed on the NZ Alternative Stock Exchange, with obligations to inform the shareholders and the market of any matters which affect the capital of the Company. This includes changes to the capital structure, new share issues, dividend payments and any other significant matters which could affect the credit-worthiness or liquidity of the Group.

The Group is not currently, and was not subject to any external capital requirements in either reporting period.

See also Note 30, Going Concern.

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

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

30-Jun-16	Note	Held to maturity ($000's)	Loans and receivables ($000's)	Other amortised cost ($000's)	Total carrying amount ($000's)	Fair value ($000's)
Assets						
Cash and cash equivalents	15	-	785	-	**785**	**785**
Retentions	17	-	-	-	-	-
Trade and other receivables	16	-	562	-	**562**	**562**
Total current assets		-	1,347	-	1,347	1,347
Total assets		**-**	**1,347**	**-**	**1,347**	**1,347**
Current Liabilities						
Trade and other payables	18	-	-	2,013	**2,013**	**2,013**
Loan from shareholder	19	-	-	16,229	**16,229**	**16,229**
Total liabilities		**-**	**-**	**18,242**	**18,242**	**18,242**

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

24. RELATED PARTY DISCLOSURES

a) **Transactions with key management personnel:**
Key management personnel are classified as any persons, including the Directors, who have the authority and responsibility for planning, directing and controlling the activities of the Group.

i) *Loans to Directors*
There were no loans to Directors issued during the period to 30 June 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**

Person	Transaction	Note	Transaction value 2016	Transaction value 2015	Balance outstanding 2016	Balance outstanding 2015
A Napier, Director	Management services	(1)	$ 58,315	$ 21,935	$ 6,993	-
G Henderson, Director, CEO	Employee salary and remuneration		$ 160,755	$ 192,049	-	-

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

c) **Key management personnel compensation**

	2016 ($000's)	2015 ($000's)
Short term employee benefits	676	669

d) **Transactions with a shareholder**

The shareholder providing a loan facility is the Company's largest shareholder and a related party (see Note 19). The same shareholder purchased $2,875,000 of redeemable convertible preference shares during the year (see Note 11) (2015: $0.6 million).

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

	2016 ($000's)	2015 ($000's)
Net Deficit	**(3,680)**	**(3,068)**
Add / (Less) Non-cash items:		
Amortisation of licences & patents	345	256
Depreciation	688	459
(Profit)/Loss on sale of fixed asset	(1,215)	(105)
Other	441	433
	259	1,043
Cash flow from operations before working capital changes	**(3,421)**	**(2,025)**
Movements in working capital:		
Increase/(Decrease) in accounts payable excluding asset purchases	553	(380)
Increase/(Decrease) in leave entitlements	9	(44)
Increase/(Decrease) in accruals	(136)	92
Movement in provisions	(912)	(969)
(Increase)/Decrease in other assets	649	(649)
(Increase)/Decrease in accounts receivable & accrued income	231	383
(Increase)/Decrease in inventory & work in progress	(2,741)	925
(Increase)/Decrease in prepayments made	216	426
(Increase)/Decrease in retentions	629	2
Increase/(Decrease) in Goods and Services Tax and Value Added Tax	(373)	143
Increase/(Decrease) in Preferential dividends payable	-	-
Net movements	(1,875)	(71)
Net cash flows from operating activities	**(5,296)**	**(2,096)**

26. OPERATING LEASES

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

	2016 ($000's)	2016 ($000's)	2016 ($000's)	2015 ($000's)	2015 ($000's)	2015 ($000's)
	Leases	**Contingent rents**	**Total**	**Leases**	**Contingent rents**	**Total**
Less than 1 yr	27	41	68	74	30	104
More than 1 year and less than 5 years	76	186	262	95	119	214
After 5 years	256	912	1,168	438	950	1,388

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

27. SEASONALITY OF OPERATIONS

The operations are not subject to seasonal fluctuations but are subject to the effects of the timely completion of orders.

28. CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 30 June 2016.

29. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

a) Shareholder letter of support

On 7 September 2016 the Company's largest shareholder provided the Company with a letter of support that is a significant factor in the Directors' consideration that the Company remains a going concern. See also Note 30.

b) UK restructuring

On 18 October 2016 the Company announced its decision to restructure its UK operations to solely maintenance of the UK fleet of eight Windflow 500 turbines. The restructuring is expected to reduce annual overheads by approximately £330,000 (approximately $560,000 New Zealand Dollars at the present exchange rate).

30. GOING CONCERN ASSUMPTION

As at 30 June 2016 the Group had negative equity of $2.8 million (30 June 2015: negative equity of $4.0 million).

The Directors expected to undertake significant capital raising in 2016. The reduction in negative equity is partly attributable to $2.9 million of shares issued in the financial year. The nature and timing of any substantial capital raising 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. During the year ended 30 June 2016 progress with licensing, turbine sales and turbine project developments have fallen short of expectations.

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 in part because the budgeted financial performance for the year to 30 June 2016 assumed more orders than have been achieved from the United Kingdom. Those expected orders have been curtailed in part by actions of the UK Government and in part by grid connection issues.

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 30 June 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.

Independent auditor's report

To the shareholders of Windflow Technology Limited

We were engaged to audit the accompanying consolidated financial statements of Windflow Technology Limited and its subsidiaries ("the group") on pages 5 to 26. The financial statements comprise the consolidated balance sheet as at 30 June 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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

Basis for disclaimer of opinion

An audit would ordinarily involve performing procedures to obtain audit evidence about the amounts and disclosures in the group financial statements. The procedures selected would ordinarily depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

The disclosure at note 30 of the financial statements describes the use of the going concern assumption in the presentation of the financial statements.

The group incurred a net loss of $3.68 million during the year ended 30 June 2016 and has negative working capital of $13.121 million at balance date.

As disclosed in more detail in note 30 the financial statements have been prepared on a going concern basis, the validity of which is contingent on generating sufficient cash to fund overheads, which, in turn, is dependent upon one or more of the following occurring:

- Ongoing access to the shareholder Loan Facility to fund turbine projects and
- Obtain further third party sales and development projects in the UK and/or
- Achieve turbine sales in other markets; and/or

- Obtain licensing and engineering services revenue; and/or
- Obtain new finance as required for more development projects; and/or
- Sell some or all of the turbine projects owned by the Group; and/or
- Obtain further equity injections from existing or new shareholders.

Wherever possible, the group has provided us with all information we requested. However, there are multiple uncertainties associated with the likelihood of these future events occurring and we have therefore, been unable to obtain sufficient appropriate audit evidence upon which to form an opinion as to whether application of the going concern assumption remains appropriate and whether adjustments to the carrying values of assets and liabilities are required.

Our audit opinion on the financial statements for the year ended 30 June 2015 was modified on the same basis. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

Disclaimer of opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements on pages 5 to 26.

KPMG

1 November 2016
Christchurch

Corporate Governance

The Board of Directors is elected by the shareholders and is responsible for the corporate governance of Windflow Technology Limited ("the Company"). The Board is the final body responsible for the decision making within the Company and has the requirement to work to enhance the value of the Company in the interests of the Company and its shareholders.

Corporate Governance encompasses the requirement for the Board to discharge such responsibilities, to be accountable to the shareholders and other stakeholders for the performance of the Company and to ensure that the Company is compliant with the applicable laws and standards.

The Board establishes the vision, direction and goals of the Company and is engaged in ongoing strategic planning. It provides an oversight of compliance and risk, it measures and monitors management performance and it sets in place the policy framework within which the Company operates.

The Board monitors financial results and compares them to the budgets and annual plans at the regular monthly meetings.

The following headings reflect the corporate governance principles of the NZX Corporate Governance Best Practice Code.

Board Composition and Membership

As at the 30 June 2016 the Board comprised four Directors. These included Michael Chick, a non-executive Chairman, Geoff Henderson an executive Director (the Chief Executive Officer), Angus Napier and Heugh Kelly the other two non-executive Directors.

The Board has a broad base of energy, marketing, sales, engineering, financial, legal and other skills, experience and expertise.

The details and background of the Directors are described later in this Annual Report.

The Chairman is elected by the Board of Directors and it is his role to manage the Board in the most effective manner and to provide a conduit between the Board and the Chief Executive Officer. He has no significant external commitments that conflict with this role.

Procedures for the operation of the Board, including the appointment and removal of Directors, are governed by the Constitution.

The Board held twelve regular scheduled monthly meetings during the 12 month period ended 30th June 2016. In addition to these formal meetings the Board met on other occasions both in person and by telephone conference, to discuss specific issues.

Directors' Shareholdings as at the 30th June 2016

There is a Share Option Plan with Mr G Henderson, the Chief Executive Officer, which relates to royalties payable under licence. This is detailed within note 13b to the Financial Statements.

The Directors' disclosure of their shareholdings pursuant to the New Zealand Exchange's Alternative Market (NZAX) listing rule are shown as at 30 June 2016 in the list below.

Ordinary Shares Held

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

Preference Shares Held

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

Independence of Directors

To be "independent" a Director must, in the opinion of the Board, be removed from any relationship or business that could interfere materially or be reasonably perceived to interfere materially with the exercise of his or her independent judgement.

It has been determined by the Board that of the four Directors two were independent, while Mr Geoff Henderson is also the Chief Executive Officer and Mr Angus Napier has been Acting Chief Financial Officer since April 2015.

All Directors are required to immediately advise if any new relationships would interfere with such independence and so enable the Board to consider and determine the materiality of the relationship.

Board Committees

During the financial year there were no Board Committees in operation. All matters are considered at the regular full Board meetings.

Ethical Standards

Code of Ethics

The Company expects all its employees and Directors to maintain high ethical standards.

The Directors support the principles set out in the "Codes of Proper Practice for Directors" issued by the Institute of Directors in New Zealand. Whilst recognizing that the Code expresses principles and does not purport to determine the detailed course of conduct by Directors on any particular matter, the Directors are committed to the highest standards of behaviour and accountability.

Interests Register

In accordance with the Companies Act 1993 the Company maintains an Interest Register in which the particulars of certain transactions and matters involving Directors are recorded. There were no entries required in the Interests Register that relate to the Company or its subsidiaries during the financial year.

Conflicts of Interest

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

Insider Trading

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

Audit Governance and Independence

Shareholders approved the Board setting the remuneration of the Auditors at the Annual Meeting in November 2015. KPMG was appointed as the Company Auditor for the year ended 30th June 2016.

The work of the external Auditor is limited to audit and related work and the Company is committed to auditor independence. The Board annually reviews the independence and objectivity of the external Auditors. No employees, Partners or Directors of the Audit firm hold shares in the Company.

Representatives of the Company's external Auditor (KPMG) will be invited to the Annual General Meeting.

Directors' Remuneration

From February to November 2015, the Directors waived payment of fees owing to the difficult trading conditions.

The remuneration package of the Chief Executive Officer as at the 30 June 2016 was $160,755 (2015: $192,049).

The following table summarises the remuneration paid to the Directors for the period to 30 June 2016:

Name	Directors Fees	Remuneration	Other Fees
Michael Chick	$32,583		
Geoff Henderson	$16,041	$160,755	
Heugh Kelly	$16,041		
Angus Napier	$18,958		$58,315

Fees for management services supplied to the Company by the Directors are disclosed in note 24 of the Financial Statements. No other benefits were received by the Directors of the Company. Reimbursements of appropriate costs (mainly travel to meetings) were made.

Reporting and Disclosure

Annual and Interim Reports in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the NZAX Listing Rules are communicated on a periodic basis to all shareholders.

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

The Chief Executive Officer and other Senior Officers have conducted regular information meetings and discussions with shareholders and interested persons.

Risk Management

The Company has a policy of identifying, assessing and managing risks arising from its business direction and also from the strategic environment. It implements risk management through its business processes of planning, budgeting, investment and project analysis, and operations management.

Shareholder Relations

The Board's policy is to ensure that shareholders are informed of all material and strategic developments affecting the Company's state of affairs.

All material disclosures are disclosed to the NZX and posted to the Company's web site on a timely basis. Media releases are made and copied to shareholders by email.

Company Secretary

Terry Moon has been Company Secretary since June 2005, co-ordinating the reporting and compliance requirements of the Company throughout the financial year.

OTHER STATUTORY INFORMATION

Employee Remuneration

For the period to 30 June 2016, there were 8 employees in the Group who earned more than NZD $100,000.

Remuneration Range NZ$	Number of Employees
160 001 – 180 000	1
140 001 – 160 000	1
120,001 – 140,000	-
110,001 – 120,000	4
100,000 – 110,000	2

Directors' Indemnity and Insurance

The Company has Directors' and Officers Liability Insurance to the sum of $10,000,000 in aggregate. The Company also obtained Directors and Officers Insurance of $10,000,000 in aggregate in relation to prospectuses issued by the Company.

Subsidiaries and Directors Thereof

Windflow Technology Limited has seven subsidiary companies with directors as set out below. The Company's Directors do not receive separate director remuneration, nor do they have interests to disclose, in relation to the subsidiaries.

Subsidiaries	Those charged with Governance
Windflow UK Ltd	Michael Chick, Angus Napier, Geoff Henderson, Heugh Kelly
Windflow Hammer Ltd	Michael Chick, Angus Napier, Geoff Henderson, Heugh Kelly
Hammer Westray Limited Liability Partnership	Michael Chick, Angus Napier, Geoff Henderson, Heugh Kelly
Monan Wind Company Limited	Geoff Henderson, Andy Strowbridge, David Wake
Our Wind Ltd (non-trading)	Morgan Williams, Jeanette Fitzsimons, Duncan Currie, Geoff Henderson
Wind Blades Ltd (non-trading since 1 July 2014)	Peter Brooking, Geoff Henderson
Windflow International Ltd (non-trading)	Geoff Henderson, Heugh Kelly

Donations

The Company's Directors have decided that no donations to charity will be made until the Company has paid an ordinary dividend to its shareholders. No donations have been made on behalf of the Company or any of its subsidiaries in the financial year ended 30 June 2016.

Audit Fees

Fees paid to the Auditor to audit the Company accounts and Company Share Register totalled $40,000 for the year ending 30 June 2016. No fees were paid to the Auditor in respect of other work undertaken for the Company. None of the Company's subsidiaries have been separately audited in the year to 30 June 2016.

Shareholder Information

The ordinary shares of the Company are listed on the NZAX. The information in the disclosures below has been taken from the Company's register at 20 October 2016.

Twenty Largest Ordinary Shareholdings

Shareholder	Address	Ordinary Shares	%	Preference Shares
David Iles	USA	16,268,267	42.10	17,000,000
Mercury N Z Limited	Auckland	2,382,496	6.16	
New Zealand Central Securities Depository Ltd	Auckland	1,697,853	4.39	1,500
Delane Wycoff	USA	1,100,000	2.85	
Geoff Henderson	Christchurch	905,564	2.34	41,250
Jennifer Henderson	Christchurch	750,000	1.94	
Sheila Kolstad	Christchurch	330,000	0.85	40,000
Health Consultants Ltd	Kerikeri	310,000	0.80	
Ian Shearer & Mary Newman	Wellington	253,816	0.66	42,303
Jeanette Fitzsimons	Thames	251,513	0.65	
Reda Holdings Limited	Switzerland	241,000	0.62	
Brett Whiston	Auckland	231,379	0.60	38,563
Anthony Bowen	Christchurch	214,379	0.55	
Angus Napier & Emma Napier	Wellington	204,000	0.53	48,750
FNZ Custodians Limited	Wellington	200,353	0.52	
Michael Chick	Christchurch	200,000	0.52	82,500
James Cone	Wellington	190,312	0.49	
Gary Baxter	Whangarei	179,273	0.46	
J&T Gribben Family Account	Auckland	165,000	0.43	
Lyndall Henderson	Australia	148,443	0.38	
	TOTALS	**26,223,648**	**67.84**	**17,294,866**

Distribution of Shareholders

Holdings Ranges	Number of Holders	Number of Ordinary Shares	% of Issued Capital
1 - 1,000	106	62,042	0.16
1,001 - 5,000	322	925,649	2.40
5,001 - 10,000	149	1,127,112	2.92
10,001 – 50,000	229	5,448,317	14.10
50,001 - 100,000	36	2,474,363	6.40
Greater than 100,000	40	28,608,471	74.02
Totals	**882**	**38,645,954**	**100.00**

Substantial Security Holders

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received and the Company's register of disclosures of substantial holdings, the following persons were substantial security holders in the Company at 20 October 2016.

Shareholder	Number of shares directly held		% of Ordinary Shares Held
	Ordinary Shares	Preference Shares	
David Iles	16,268,267	17,000,000	42.10
Mighty River Power Limited	2,382,496		6.16
Totals	**18,650,763**	**17,000,000**	**48.26**

The total number of issued voting securities as at 30th June 2016 was 38,645,954.

The Directors of the Company

Michael Chick, Board Chairman
7 Glyn Wye Lane, Hanmer Springs

Michael Chick has 40 years of experience in medium and high technology companies focused on international growth since qualifying in electrical engineering in Wales. Until 2009 he was CEO of Tait Ltd, a Christchurch based radio company, where he remains a Trustee of its controlling shareholder, in addition to being Chairman of a medium sized electronic company. Michael has held CEO/MD positions in a number of different companies having also undertaken a successful management buyout of one of the operations. He is a Chartered Engineer and Fellow of the Institution of Engineering and Technology. Michael is also director and chairman of the company's subsidiary Windflow UK Ltd and joined the Boards of both Companies to assist them to successfully build upon the strong engineering base to one with equally strong commercial capability.

Geoff Henderson, Director and Chief Executive Officer
50 Waiwetu Street, Fendalton, Christchurch

A registered mechanical engineer, Geoff Henderson has been involved in wind power engineering for thirty years, including seven years in California and England working at the forefront of wind power technology. During that time he invented the torque limiting gearbox (TLG) system which has been patented in New Zealand, Australia, and the USA. In 1994 he received the Communications Award from the Institution of Professional Engineers (IPENZ) for his contribution to the engineering profession as a proponent of wind power. Geoff is past-chairman of the Canterbury Branch of IPENZ and in 2005 was elected a Fellow of IPENZ. He is a registered professional engineer (PE) with the State of California. He is also a director of six companies in which the Company has shares, Wind Blades Ltd, TRH Services Ltd, Our Wind Ltd, Windpower Otago Ltd, Windflow UK Ltd and Windflow International Ltd (non-trading).

Heugh Kelly, Director
69F Wilson Road, Warkworth

Heugh Kelly is a barrister and solicitor with over 20 years experience of commercial law. Educated at Auckland Grammar School and the University of Auckland, he has been in practice on his own account since 1984. He is a director of the Environmental Defence Society which is a position he has held since 1981 and was a member of the legal committee of the Maruia Society for some years.

Angus Napier, Director
220 Cockayne Rd, Ngaio, Wellington

Angus Napier qualified as a Chartered Accountant and was for many years a member of the Institute of Chartered Accountants in England and Wales and in New Zealand. Prior to April 2000 Angus held a variety of full-time employment positions, most latterly as Senior Advisor, State-Owned Enterprises, to the Crown Company Monitoring Advisory Unit within the Treasury. Earlier positions were Internal Audit Manager, Standard Chartered Bank, Hong Kong; and financial management consultancy and external audit roles with KPMG Peat Marwick, in New Zealand, Hong Kong and England. Since 2000 his focus has been as an Independent Management Consultant.

Management Team	Chief Executive Officer	Geoff Henderson
	UK General Manager	Andy Strowbridge
	Company Secretary	Terry Moon
	Supply Chain Manager	Mike Palmer
	Licensing Manager	Chris Holsonback

Solicitor

Lane Neave Lawyers
137 Victoria St
Christchurch

Registered Office

HFK Ltd
4/567 Wairakei Road
Christchurch

Auditor

KPMG
62 Worcester Boulevard
Christchurch

Share Registry

Link Market Services Ltd
138 Tancred St
Ashburton

Bankers

Bank of New Zealand
81 Riccarton Rd
Christchurch

Insurance Brokers

Marsh Limited
Level 1, 447 Blenheim Rd
Christchurch

Principal Suppliers

Gearbox	Moventas Australia
Electrical Control	Bremca Ltd of Christchurch
Hub	A&G Price Ltd of Thames
Generator	Mecc Alte of Italy
Hydraulics	Eaton Hydraulics Group of Auckland
Pallet	Allied Industrial Engineering of Kawerau
Tower	SIAG Tube and Tower GmbH of Germany