



NZ Windfarms Ltd  
POWERED BY NATURE



NZ Windfarms Limited  
Financial Statements  
For the six months ended 31 December 2006  
Report date: 9 March 2007

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The past six months has been the most exciting in NZ Windfarms' short history. It has seen us move from being a small start-up company to a long term owner, operator and developer of wind farm assets.

### ***Te Rere Hau - Operation***

The performance of the five Stage 1 turbines continues to be superb – no matter how hard the wind blows, they simply keep spinning and generating power. Since commencing operation in September the turbines have:

- generated 1,442,000 kilowatt/hours (kWh) of electricity – enough to power 185 homes for a year
- generated 865 tonnes of carbon dioxide equivalent (CO<sub>2</sub>-e), having taken less than 5 weeks to repay the carbon debt created during construction
- earned over \$53,000 in electricity sales
- achieved availability of over 98 percent and compliance with power curve warranty
- demonstrated compliance with the resource consent noise conditions.

In summary, we could not be happier with the performance of Te Rere Hau Stage 1.

### ***Financial Result***

The period ended 31 December 2006 has seen the formation of our first wholly owned subsidiary NZWL-TRH Limited which holds the company's share of the Te Rere Hau joint venture assets. This now means that the Financial Results are reported on a Company and Group basis. The period has also seen a substantial shift in the Group's balance sheet, with a doubling of Total Assets to \$11.5 million. Net income was \$750,000, with the positive result reflecting a one-off gain on the transfer of assets into the joint venture with NP Power and Babcock & Brown. If the result was adjusted to remove the effect of this transfer the Group would have made a loss of \$328,000 – still \$72,000 better than our budget projections. Revenue for the period was behind budget due to the very wet summer and consequently low spot market electricity prices.

### ***Options Exercised***

All participants in our IPO in December 2005 received an equal number of tradable options that could be exercised at any time up to 29 September 2006. The final rate of conversion from options to shares was 86.2 percent – a very gratifying result and a vote of confidence for the company. These funds have now been directed into Stage 2 of the Te Rere Hau wind farm with an order for a further 14 Windflow 500 turbines being placed by the Joint Venture at the end of the six month period.

### ***Official Opening of the First 'Made in New Zealand' Wind Farm***

The official opening of our wind farm at Te Rere Hau was a wonderful success, with more than 200 guests in attendance. We were delighted to have the Prime Minister, the Rt. Hon. Helen Clark; the Minister of Energy, the Hon. David Parker; the Minister of Research, Science and Technology and MP for Palmerston North, the Hon. Steve Maharey; the Green Party Co-leader and Spokesperson for Energy, Climate Change and Conservation, the Hon. Jeanette Fitzsimons; and local Mayors Heather Tanguay and Ian McKelvie as our guests. Also joining us for the day were many other local dignitaries, VIPs, shareholders, contractors, staff, supporters and media. With the wind blowing at a healthy rate of 80 km/hr plus, the Prime Minister unveiled a plaque and flicked the switch to set the first five turbines generating.

### ***Te Rere Hau Joint Venture Established***

We were pleased to announce, in December, the completion of the Te Rere Hau Joint Venture with N.P. Power and Babcock & Brown WindPower, who are now 50/50 partners in the wind farm. Our partners are among the world's largest developers and owners of wind farms, with a current portfolio of 22 wind farms in six countries and a further 500 megawatts of renewable energy generation projects under development worldwide. As a consequence they bring a wealth of experience and international perspective that will allow us to accelerate the remaining stages of Te Rere Hau, reducing the time to full revenue generation and also potentially bringing forward the timetable on other projects.

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***Te Rere Hau Stage 2 – Turbines Ordered,  
Civil Works Under Way***

Following careful evaluation of the performance of the Stage 1 turbines, the Joint Venture management committee has placed an order for a further 14 turbines. It is expected that these will be installed at the end of 2007. In the meantime, work is under way to build new roads that will allow easy access to each of the Stage 2 turbine locations for the heavy equipment needed to construct the foundations and the underground electrical reticulation. These works are on track to be completed in April 2007.

***Office Shift – New Staff***

With the addition of new members of staff it became necessary to move into larger offices. We are now located on the top floor of 315 Manchester St, in Christchurch.

***Looking Forward: New Farms, Capital Raising***

New farms: Subsequent to the period covered by this report, NZ Windfarms has taken a 16 percent stake in Windpower Maungatua Ltd, which holds the development rights to a wind farm site in the Otago region with approximately 20 megawatts capacity. Feasibility studies are continuing on this and a number of other possible wind farm locations. The Company is expecting to be in a position to decide the order of development of its next wind farms early in the new financial year.

Capital raising: Subsequent to the period covered by this report, NZ Windfarms has commenced work on its next capital raising. This is currently intended to be undertaken in the second quarter of 2007.

NZ WINDFARMS LIMITED

Balance Sheet

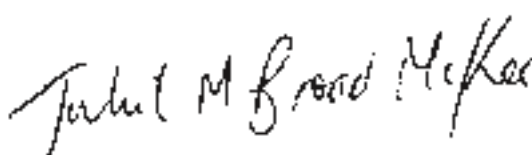
As at 31 December 2006

Company 30/6/06 NZ IFRS NZ\$	As at	Notes	Group		Company	
			31/12/06 NZ IFRS NZ\$	31/12/05 NZ IFRS NZ\$	31/12/06 NZ IFRS NZ\$	31/12/05 NZ IFRS NZ\$
<b>Assets</b>						
<b>Non-current</b>						
2,414,297	Property, plant and equipment	2	2,802,057	1,987	37,613	1,987
338,000	Turbine progress payments		1,323,000	1,260,000	-	1,260,000
798,159	Intangible assets		293,720	1,049,162	-	1,049,162
-	- Advance - Te Rere Hau Wind Farm Joint Venture	6	-	-	2,976,611	-
2,021	Deferred tax		1,363	-	1,363	-
<b>3,552,477</b>			<b>4,420,140</b>	<b>2,311,149</b>	<b>3,015,587</b>	<b>2,311,149</b>
<b>Current</b>						
1,963,557	Cash and cash equivalents	2	4,724,390	3,923,070	4,724,386	3,923,070
113,222	GST refund		483,961	197,872	300,662	197,872
39,414	Income tax refund		45,002	5,712	45,002	5,712
-	- Assets held for resale	3	674,000	-	674,000	-
66,267	Trade and other receivables		1,179,413	41,408	2,275,868	41,408
<b>2,182,460</b>			<b>7,106,766</b>	<b>4,168,062</b>	<b>8,019,918</b>	<b>4,168,062</b>
<b>5,734,937</b>	<b>Total assets</b>		<b>11,526,906</b>	<b>6,479,211</b>	<b>11,035,505</b>	<b>6,479,211</b>
<b>Equity</b>						
<b>Equity attributable to shareholders</b>						
4,512,471	Share capital	4	8,078,349	4,467,381	8,078,349	4,467,381
(516,593)	Retained earnings	4	236,268	(268,724)	1,437,429	(268,724)
<b>3,995,878</b>	<b>Total equity</b>		<b>8,314,617</b>	<b>4,198,657</b>	<b>9,515,778</b>	<b>4,198,657</b>
<b>Liabilities</b>						
<b>Non-current</b>						
-	- Deferred tax		-	36	-	36
-			-	36	-	36
<b>Current</b>						
900,504	Trade and other payables	2	2,139,180	1,470,387	650,805	1,470,387
-	- Retentions		204,187	-	-	-
838,555	Advance from Windflow Technology	7	868,922	810,131	868,922	810,131
<b>1,739,059</b>			<b>3,212,289</b>	<b>2,280,518</b>	<b>1,519,727</b>	<b>2,280,518</b>
<b>1,739,059</b>	<b>Total liabilities</b>		<b>3,212,289</b>	<b>2,280,554</b>	<b>1,519,727</b>	<b>2,280,554</b>
<b>5,734,937</b>	<b>Total equity and liabilities</b>		<b>11,526,906</b>	<b>6,479,211</b>	<b>11,035,505</b>	<b>6,479,211</b>
0.46	Net tangible assets per security		0.77	0.45	0.77	0.45

Signed for and on behalf of the Board as at 9 March 2007



Derek Walker  
Chairman



Juliet McKee  
Director/Chair of Audit and Risk

NZ WINDFARMS LIMITED

**Income Statement**

For the six months ended 31 December 2006

Company 12 months 30/6/06 NZ IFRS NZ\$	For the period to	Notes	Group 6 months 31/12/06 NZ IFRS NZ\$	Group 6 months 31/12/05 NZ IFRS NZ\$	Company 6 months 31/12/06 NZ IFRS NZ\$	Company 6 months 31/12/05 NZ IFRS NZ\$
<b>Income</b>						
11,802	Trading revenue		146,943	-	240,000	-
<b>11,802</b>	<b>Total income</b>		<b>146,943</b>	<b>-</b>	<b>240,000</b>	<b>-</b>
10,700	Audit fees		1,625	-	1,625	-
99,000	Directors' fees		49,500	50,188	49,500	50,188
117,579	Employment expenses		147,657	54,782	147,657	54,782
12,483	Lease and rental expenses		26,388	7,200	16,623	7,200
-	Share of JV Expenses		-	-	23,389	-
234,094	Other operating expenses		228,558	53,060	187,991	53,060
<b>473,856</b>	<b>Operating expenses (excluding depreciation and intangible amortisation)</b>		<b>453,728</b>	<b>165,230</b>	<b>426,785</b>	<b>165,230</b>
<b>(462,054)</b>	<b>Earnings before interest, tax, depreciation and intangible amortisation</b>		<b>(306,785)</b>	<b>(165,230)</b>	<b>(186,785)</b>	<b>(165,230)</b>
11,568	Amortisation of intangible assets		5,784	7,548	5,784	7,548
573	Depreciation		3,091	90	3,091	90
<b>(474,195)</b>	<b>Earnings before interest and tax</b>		<b>(315,660)</b>	<b>(172,868)</b>	<b>(195,660)</b>	<b>(172,868)</b>
116,753	Interest income		73,604	22,834	73,604	22,834
(42,578)	Interest expense		(42,725)	(60)	(42,725)	(60)
-	Gain on transfer of assets to JV	6	1,081,161	-	2,162,322	-
-	Loss on recognition of property for resale at fair value	3	(42,861)	-	(42,861)	-
<b>(400,020)</b>	<b>Result for period</b>		<b>753,519</b>	<b>(150,094)</b>	<b>1,954,680</b>	<b>(150,094)</b>
(2,021)	Tax expense, net		658	36	658	36
<b>(397,999)</b>	<b>Net result for the period</b>		<b>752,861</b>	<b>(150,130)</b>	<b>1,954,022</b>	<b>(150,130)</b>
<b>Earnings per share</b>						
(0.06)	Basic		0.07	(0.02)	0.19	(0.02)
(0.04)	Diluted		0.07	(0.02)	0.19	(0.02)

*The notes on pages 8-17 form part of and are to be read in conjunction with the financial statements.*

NZ WINDFARMS LIMITED

**Statement of Changes in Equity**

For the six months ended 31 December 2006

Company		Group		Company	
12 months	For the period to	6 months	6 months	6 months	6 months
30/6/06		31/12/06	31/12/05	31/12/06	31/12/05
NZ IFRS		NZ IFRS	NZ IFRS	NZ IFRS	NZ IFRS
NZ\$	Notes	NZ\$	NZ\$	NZ\$	NZ\$
727,892	<b>Equity at beginning of period</b>	3,995,878	727,892	3,995,878	727,892
(397,999)	Net result for the period	752,861	(150,130)	1,954,022	(150,130)
<b>329,893</b>	<b>Total recognised income and expense for the period</b>	<b>4,748,739</b>	<b>577,762</b>	<b>5,949,900</b>	<b>577,762</b>
3,665,985	Issue of ordinary shares	3,565,878	3,620,895	3,565,878	3,620,895
-	Dividends	-	-	-	-
<b>3,995,878</b>	<b>Equity at end of period</b>	<b>8,314,617</b>	<b>4,198,657</b>	<b>9,515,778</b>	<b>4,198,657</b>
<b>Represented by:</b>					
4,512,471	Share capital	8,078,349	4,467,381	8,078,349	4,467,381
(516,593)	Retained earnings	236,268	(268,724)	1,437,429	(268,724)
<b>3,995,878</b>	<b>Total equity</b>	<b>8,314,617</b>	<b>4,198,657</b>	<b>9,515,778</b>	<b>4,198,657</b>

*The notes on pages 8-17 form part of and are to be read in conjunction with the financial statements.*

NZ WINDFARMS LIMITED  
**Statement of Cash Flows**  
For the period ended 31 December 2006

Company 12 months 30/6/06 NZ IFRS NZ\$	For the period to	Notes	Group 6 months 31/12/06 NZ IFRS NZ\$	6 months 31/12/05 NZ IFRS NZ\$	Company 6 months 31/12/06 NZ IFRS NZ\$	6 months 31/12/05 NZ IFRS NZ\$
<b>Operating activities</b>						
<i>Cash was received from:</i>						
-	Trading revenue		44,171	-	44,171	-
1,307	Sundry income		10,495	-	10,495	-
105,776	Interest received		79,928	9,048	79,928	9,048
<b>107,083</b>			<b>134,594</b>	<b>9,048</b>	<b>134,594</b>	<b>9,048</b>
<i>Cash was applied to:</i>						
154	Interest paid		25,243	60	25,243	60
39,413	RWT paid		5,588	-	5,588	-
393,781	Payments to suppliers and employees		711,216	111,029	702,262	111,029
<b>433,348</b>			<b>742,047</b>	<b>111,089</b>	<b>733,093</b>	<b>111,089</b>
<b>(326,265)</b>	<b>Net cash inflow (outflow) from operating activities</b>	<b>5</b>	<b>(607,453)</b>	<b>(102,041)</b>	<b>(598,499)</b>	<b>(102,041)</b>
<b>Investing activities</b>						
<i>Cash was provided from:</i>						
-	Sale of fixed assets		1,483,726	-	2,967,450	-
<i>Cash was applied to:</i>						
599,504	Purchase of intangible assets		-	-	-	-
2,023,856	Purchase of fixed assets		3,184,747	2,077	3,184,747	2,077
<b>2,623,360</b>			<b>3,184,747</b>	<b>2,077</b>	<b>3,184,747</b>	<b>2,077</b>
<b>(2,623,360)</b>	<b>Net cash inflow (outflow) from investing activities</b>		<b>(1,701,021)</b>	<b>(2,077)</b>	<b>(217,297)</b>	<b>(2,077)</b>
<b>Financing activities</b>						
<i>Cash was provided from:</i>						
4,932,795	Issue of ordinary shares	4	3,738,921	4,072,559	3,738,921	4,072,559
-	Half share of capital contributions to JV		1,492,682	-	-	-
401,500	Advances from Windflow Technology	7	-	401,500	-	401,500
<b>5,334,295</b>			<b>5,231,603</b>	<b>4,474,059</b>	<b>3,738,921</b>	<b>4,474,059</b>
<i>Cash was applied to:</i>						
425,906	Issue costs of equity	4	162,296	451,664	162,296	451,664
-	Advances to Windflow Technology	7	-	-	-	-
<b>425,906</b>			<b>162,296</b>	<b>451,664</b>	<b>162,296</b>	<b>451,664</b>
<b>4,908,389</b>	<b>Net cash inflow (outflow) from financing activities</b>		<b>5,069,307</b>	<b>4,022,395</b>	<b>3,576,625</b>	<b>4,022,395</b>
1,958,764	Net increase/(decrease) in cash and cash equivalents		2,760,833	3,918,277	2,760,829	3,918,277
4,793	Cash and cash equivalents, beginning of year		1,963,557	4,793	1,963,557	4,793
<b>1,963,557</b>	<b>Cash and cash equivalents, end of year</b>		<b>4,724,390</b>	<b>3,923,070</b>	<b>4,724,386</b>	<b>3,923,070</b>
<b>Cash and cash equivalents</b>						
1,438,792	Term deposit		3,001,028	2,015,000	3,001,028	2,015,000
524,765	Bank account		1,723,362	1,908,070	1,723,358	1,908,070
<b>1,963,557</b>	<b>Ending cash and cash equivalents carried forward</b>		<b>4,724,390</b>	<b>3,923,070</b>	<b>4,724,386</b>	<b>3,923,070</b>

The notes on pages 8-17 form part of and are to be read in conjunction with the financial statements.

## 1. Corporate information

NZ Windfarms Limited (the "Company") is a company registered under the Companies Act 1993 of New Zealand and listed on the New Zealand Stock Alternative Exchange ("NZAX"). The Company's registered office is Grant Thornton (Christchurch) Limited, Level 9, 47 Cathedral Square, Christchurch. The Company details are available from the Companies Office website.

Financial statements for the Company (separate financial statements) and consolidated financial statements are presented. The consolidated financial statements of NZ Windfarms Limited as at and for the six months ended 31 December 2006 comprise of the Company and its 50 percent interest in the joint venture – Te Rere Hau Wind Farm Joint Venture. ("TRH joint venture") with these assets held by NZWL-TRH Limited a wholly owned subsidiary.

The Company is a profit-oriented Company that is in the business of development and operation of wind power generation assets for the purpose of generating and selling electricity.

The Company operates solely within New Zealand.

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## 2. Statement of accounting policies

### Reporting entity

The Company is an issuer for the purposes of the Financial Reporting Act 1993 and the financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). The financial statements of the Company have been prepared in accordance with the Securities Act 1978, Securities Regulation 1983, the Financial Reporting Act 1993 and prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) as developed and published by the International Accounting Standards Board and adopted as NZ GAAP.

The Company has voluntarily adopted NZ IFRS from 1 July 2005 for reporting actual results.

These interim financial statements have been prepared under NZ IAS 34 Interim Financial Statements and must be read in conjunction with the annual report to 30 June 2006.

### Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of the profit and loss and the balance sheet are on an historical cost basis except for the following:

- Assets held for resale are measured at fair value less cost of sale.

### Specific accounting policies

The following specific accounting policies which materially affect the measurement of profit and loss, balance sheet position and cash flows have been applied.

#### a. Turbine progress payments

Turbine progress payments are recorded as progress payments until ownership has transferred to Te Rere Hau Wind Farm Joint Venture. Once the turbines are a complete unit and operating they will then be recognised as property, plant and equipment and depreciated over their useful life. As at 31 December 2006 the company had a 50 percent share of the TRH joint venture capital commitment to pay 70% of the balance of the contract for the purchase of 14 turbines.

**b. Property, plant and equipment**

Property, plant and equipment are stated at cost and, other than land, are depreciated in equal instalments over their estimated economic lives. Where construction has not been completed on property, plant and equipment depreciation has not been calculated.

The economic lives have been estimated as follows:

- Roading 50 years
- Foundations 50 years
- Electrical 50 years
- Buildings 40 years
- Turbines 20 years
- Office equipment 5 years
- Plant and equipment 5 years

All assets are included at acquisition cost less subsequent depreciation.

**c. Assets held for resale**

An asset is recognised as being held for resale, if it is available for sale in its present condition and a sale is highly probably within the next 12 month period. Assets held for resale are measured at the lower of the assets carrying value and fair value less costs to sell.

**d. Statement of cash flows**

The statement of cash flows has been prepared using the direct method.

Definitions are:

**1) Operating activities**

All transactions and other events that are related to the operation of the Company and includes interest expense on funds borrowed.

**2) Investing activities**

All transactions relating to the acquisition and disposal of long term assets and other investments not included in cash equivalents.

**3) Financing activities**

The change in equity and debt capital structure of the reporting entity and the cost of servicing the equity capital.

**4) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, investments in term deposits, bank overdrafts and other highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**e. Accounting for income taxes**

Income tax on the profit or loss for the Period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the Period, and any adjustment to tax payable in respect of previous Periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are provided in full. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

**f. Income and expense recognition**

Revenue is recognised upon the delivery of goods or services to customers. Operating expenses are recognised in the income statement upon utilisation of services or at the date of origin. Interest income and expenses are reported on an accruals basis.

**g. Equity**

Share capital is determined using the issue price of shares that have been issued. Share capital is recognised as proceeds are received, net of direct issue costs. Costs incurred relating to the capital raising process are offset against gross proceeds received from the capital raising process. Brokerage costs have been included in direct issue costs.

Retained earnings include all current and prior period results as disclosed in the income statement.

**h. Financial liabilities and assets**

The Company's financial liabilities include overdrafts, trade and other payables. These are included in balance sheet line items "bank overdraft" and "trade and other payables".

Trade payables are recognised at their nominal value.

The Company's financial assets includes cash and cash equivalents, which are included in the balance sheet. These financial assets are recognised at their nominal value which is deemed to be equal to fair value.

**i. Contingent assets and liabilities**

Probable inflows of economic benefits may result from the realisation of carbon credits. These carbon credits and other probable inflows of economic benefits that do not meet the recognition criteria of an asset are considered contingent assets until earned. These are described along with the Company's contingent liabilities in note 8. The Company has an entitlement to 50 percent of these carbon credits as they are now an asset of the TRH joint venture.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognised in the balance sheet.

**j. Goods and services tax**

The Company is registered for GST and the financial statements have been prepared on a GST exclusive basis. The balances of GST refunds or payments due are included in the balance sheet.

**k. Trade and other receivables**

Trade receivables are projected to be due within 30 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure.

The fair value of trade and other receivables is deemed to be a reasonable approximation to the carrying amount. No writedown has therefore been applied.

**l. Intangible assets**

Intangible assets are recognised if it is probable that 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 are assumed to be amortised equally over time. The remaining useful life of the windrights is 68½ years.

**m. Development costs**

Developments costs have been capitalised as part of the construction cost of the fixed tangible assets on the basis of the following features:

- costs incurred allow the development of the wind farm project
- development costs were necessarily incurred to establish the wind farm project and form the foundation for further development of the wind farm
- the development costs are recognised on the basis that capital raising has provided funds for the installation of wind turbines on the Te Rere Hau site

**n. Impairment**

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Income Statement.

**o. Basis of consolidation for joint venture**

The TRH joint venture is an entity, whose activities the Company has joint 50 percent control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. The Company's interest in TRH joint venture is accounted for using the proportionate method.

The balance sheet on consolidation includes the assets and liabilities of NZ Windfarms Limited and its 50 percent share of the TRH joint venture on a line by line basis.

The income statement includes the income and expenses of NZ Windfarms Limited and a 50% share of the TRH joint venture on a line by line basis.

The joint venture agreement between the two parties ascribed a total value to the intangible assets transferred to the TRH joint venture. This resulted in an accounting gain to NZ Windfarms Limited. The intangible assets recognised in the TRH joint venture meet the recognition criteria and impairment test under NZ IAS 38. This evaluation is undertaken on a periodic basis. The 50 percent share of the accounting gain on transfer of the assets to the joint venture has been eliminated on consolidation.

Intra-group balances, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

**p. Retentions**

Retention payments due are recognised as liabilities in the balance sheet when the construction of each stage has been completed. In TRH joint venture retentions on construction costs of the turbines and civil works for Stage 1 have been recognised as liabilities. The Company's 50 percent share of these retentions has been recognised on consolidation.

**q. Changes in accounting policies**

There have been no changes in accounting policies. All policies have been applied on a basis consistent with those used in previous years.

**3. Assets held for resale**

As part of the resource consent process the Company has entered into some put option deeds with owners of land directly adjoining the wind farm site. These put options allow the land owners a period of time during which they have the option of selling their property at market value to NZ Windfarms Limited. During the Period a land owner exercised their option to sell their property to the Company. This land is surplus to the wind farm requirements and efforts to sell the property have commenced. It is expected the sale will take place within the next 12 months.

An impairment loss of \$42,861 on the measurement of the assets for resale to the lower of its carrying cost and its fair value less selling costs has been recognised in the income statement.

**4. Capital and Reserves**

**Reconciliation of movement in capital and reserves**

Company		Group		Company	
12 months	As at	6 months	6 months	6 months	6 months
30/6/06		31/12/06	31/12/05	31/12/06	31/12/05
NZ\$		NZ\$	NZ\$	NZ\$	NZ\$
846,486	Opening issued equity	4,512,471	846,486	4,512,471	846,486
	<b>Net proceeds of shares issued &amp; fully paid</b>				
4,072,559	- issued during the period	-	4,072,559	-	4,072,559
(420,324)	- less issue costs	(173,043)	(451,664)	(173,043)	(451,664)
13,750	- options exercised during the period	3,738,921	-	3,738,921	-
<b>4,512,471</b>	<b>Net proceeds of shares issued &amp; fully paid</b>	<b>8,078,349</b>	<b>4,467,381</b>	<b>8,078,349</b>	<b>4,467,381</b>
	<b>Retained earnings</b>				
(118,594)	Opening balance	(516,593)	(118,594)	(516,593)	(118,594)
(397,999)	Net result for the period (after tax)	752,861	(150,130)	1,954,022	(150,130)
<b>(516,593)</b>	<b>Closing retained earnings</b>	<b>236,268</b>	<b>(268,724)</b>	<b>1,437,429</b>	<b>(268,724)</b>
<b>3,995,878</b>	<b>Total equity</b>	<b>8,314,617</b>	<b>4,198,657</b>	<b>9,515,778</b>	<b>4,198,657</b>

NZ WINDFARMS LIMITED  
**Notes to the Financial Statements**  
For the six months ended 31 December 2006

## 5. Cash flow statement

Company 12 months 30/6/06 NZ\$	For the period to	Group		Company	
		6 months 31/12/06 NZ\$	6 months 31/12/05 NZ\$	6 months 31/12/06 NZ\$	6 months 31/12/05 NZ\$
(397,999)	<b>Reported Net Surplus (Loss) after Taxation</b>	752,861	(150,130)	1,954,022	(150,130)
	- <b>Non Cash Items</b>	-	-	-	-
573	Depreciation	3,091	90	3,091	90
11,568	Impairment of intangible assets	5,784	7,548	5,784	7,548
(2,021)	Movement in deferred tax	658	36	658	36
28,424	Interest capitalised on Windflow Technology Loan	30,367	-	30,367	-
	- Impairment of assets held for resale	42,861	-	42,861	-
	- Share of JV loss	-	-	23,389	-
	- Capital gain on transfer of asset to JV	(1,081,161)	-	(2,162,322)	-
(359,455)		(245,539)	(142,456)	(102,150)	(142,456)
	<b>Changes in working capital</b>				
861,472	Trade and other payables	564,677	171,354	(923,699)	171,354
(66,267)	Trade and other receivables	(1,113,146)	(41,408)	(2,209,601)	(41,408)
830	GST	(370,739)	(83,820)	(187,440)	(83,820)
(39,413)	Income Tax	(5,588)	(5,711)	(5,588)	(5,711)
756,622		(924,796)	40,415	(3,326,328)	40,415
	<b>Items classified as investing or financing</b>				
(729,014)	Working capital related to fixed assets	566,311	-	2,840,726	-
5,582	Working capital related to equity raising	(10,747)	-	(10,747)	-
	- Working capital related to capital contributions	7,318	-	-	-
(326,265)	<b>Net cash flow from operating activities</b>	<b>(607,453)</b>	<b>(102,041)</b>	<b>(598,499)</b>	<b>(102,041)</b>

## 6. Advance to Te Rere Hau Wind Farm Joint Venture

NZ Windfarms Limited, NPBB Pty Limited owned by Babcock & Brown Windpower Pty Limited and N. P. Power Pty Limited entered into a joint venture agreement on the 6th October 2006. This agreement became unconditional on 29 December 2006.

Stage 1 costs of construction undertaken by NZ Windfarms Limited were sold to the TRH joint venture on 29 December 2006. The Company also transferred all of its intangible assets including resource consent costs, windrights and entitlement to Emission Reduction Units for an agreed value of \$3,000,000 which was matched by the other joint venture party in cash. The Company now has a 50 percent interest in the TRH joint venture.

This initial contribution has resulted in a gain on transfer of asset to the TRH joint venture. This gain is shown in the income statement.

Initial contribution to joint venture	3,000,000
Less book value of intangible assets	
Resource Consents	250,238
Wind rights	587,441
	<hr/>
Gain on transfer of assets to joint venture	2,162,321

The Company transferred 100 percent of the assets of the Te Rere Hau Wind Farm on 29 December 2006, and also was entitled to reimbursement of some project establishment and setup costs.

In the future all the income, expenditure and capital expenditure related to the Te Rere Hau Wind Farm will be incurred by the TRH joint venture, and the Company has an obligation to meet 50 percent of operating and capital construction commitments as well as receive 50 percent of net operating surpluses.

## 7. Related party transactions

### Turbine supply

The Company's related parties include the Company's supplier of wind turbines, Windflow Technology Limited who holds 29 percent of the shares in the Company as at 31 December 2006. (31 December 2005; 43 percent. 30 June 2006; 43 percent). Windflow Technology Limited or its subsidiaries did not take up shares in the public offer dated 13 December 2005.

Contractual terms for the supply of wind turbines have been agreed and priced on an arms length basis between the Company and Windflow Technology Limited and these terms have been novated to TRH joint venture. During the period ended 31 December 2006 the TRH joint venture confirmed the purchase of fourteen turbines from Windflow Technology Limited. The Company's 50 percent share of the remaining capital commitment owing for the turbines at 31 December 2006 was \$3,787,000 (31 December 2005; \$0, 30 June 2006; \$1,512,000).

Windflow Technology has advanced funds to the Company to cover Company and wind farm setup costs and Public Offer expenses. As at 31 December 2006 the amount owed to Windflow Technology was \$868,922 including accrued interest. (31 December 2005; 810,131, 30 June 2006: \$838,555). The agreement to advance funds requires repayment by 14 December 2007. If the advance is not repaid then NZ Windfarms can elect to either pay additional interest or issue shares at \$1.00 per share up until 14 December 2007. Net interest paid and credited to the loan for the Period ended 31 December 2006 was \$30,367 (31 December 2005; \$0, 30 June 2006: \$28,424).

**Notes to the Financial Statements**

For the six months ended 31 December 2006

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**Management fees**

The Company has been appointed by the TRH joint venture to manage the construction and on-going operation of the Te Rere Hau Wind Farm site. The Company received management fees from the TRH joint venture in which the company has a 50 percent interest. The management fees have been agreed and priced on an arms-length based between the Company and TRH joint venture and are subject to a management agreement. Management fees charged during the period to 31 December 2006 were \$240,000. (31 December 2005: \$0; 30 June 2006: \$0).

The management fees have been capitalised as a cost of construction of fixed assets within the joint venture.

**Key management**

Key management personnel remuneration is included in the income statement figures. The Chief Executive Officer was paid \$79,541 during the six months to 31 December 2006. (31 December 2005: \$35,877; 30 June 2006: \$70,531) The remuneration packages do not incorporate share-based incentives, termination benefits, long term benefits or post employment benefits.

**Related party shareholding**

<b>Name of related party</b>	<b>Relationship</b>	<b>Number of shares</b>
Chris Freear and Sharee Freear	Chris Freear: Chief Executive Officer	10,000
Derek and Janice Walker	Derek Walker: Director	10,000
Barrie Leay	Director	20,000
Vicki Buck	Director	16,000
Keith McConnell and John McConnell	Keith McConnell: Director	20,000
Keith McConnell	Director	5,000

Directors remuneration of \$49,500 was paid and expensed during the period. (31 December 2005; 50,188; 30 June 2006: \$99,000).

During the period the following consultancy fees were paid to the directors;

Derek Walker \$5,000

Keith McConnell \$1,000

## 8. Contingent assets and other contingent liabilities

### Carbon Credits

The Company prior to entering the TRH joint venture entered into an emission reduction project agreement with the Crown in relation to the Te Rere Hau Wind Farm project. This contract was transferred to the TRH joint venture and the company now has a 50 percent entitlement to any benefits, arising from the agreement. This agreement details completion of minimum milestones and the generation of the following maximum emission reductions. This then invokes the entitlement to emission reduction units saleable on the open market.

The following table details maximum emission reduction unit entitlements as per the agreement with the Crown. Figures below are for the years to 31 December.

Year	Tonnes of carbon dioxide
2008	103,800
2009	103,800
2010	103,800
2011	103,800
2012	103,800

The joint venture company is unlikely to achieve the entitled maximum emission reduction units in 2008 under the current build program.

An international market for carbon credits is emerging and allows the trading of carbon credits between parties. There is no market for carbon credits within New Zealand at this stage, but the Company expects a market to develop over time. The current international market price of carbon credits ranges from NZ\$10 to NZ\$50 per tonne based on current information. The transfer of intangible assets to the TRH joint venture has crystallised a capital value for carbon credits. This represents an entitlement to future income streams from carbon credits. Within the joint venture the farm has started generating electricity and when the abatement period begins from 1 January 2008, Emission Reduction Units (ERU's), carbon credits and income are expected to be generated. The entitlement to carbon credits asset will be tested for impairment every year.

The consolidated financial statements do not recognise any carbon credit assets as the Company's 50 percent share is reversed on consolidation.

### Resource consent

As part of the resource consent process the Company has entered into put option deeds with owners of land directly adjoining the wind farm site. These put options allow the land owners a period of time during which they have the option of selling their property at market value to NZ Windfarms Limited. During the period one of these options was exercised (see note 3). The total rateable value of the remaining properties as at September 2006 was \$890,000. NZ Windfarms Limited, if required to purchase these properties, would look to sell them immediately on the open market.

## **9. Capital commitments**

During the period ended 31 December 2006, the joint venture confirmed the purchase of fourteen turbines from Windflow Technology Limited. The Company's remaining 50 percent share of capital payments owing as at 31 December 2006 are \$3,787,000 (31 December 2005, \$3,150,000; 30 June 2006: 1,512,000).

The joint venture also confirmed construction contracts for electrical, roading and foundations for the construction of the second batch of fourteen. The Company's remaining 50 percent share of capital commitments outstanding as at 31 December 2006 are \$250,000 (31 December 2006 \$485,000; 30 June 2006: \$548,142).

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## **10. Prospective financial information**

The investment statement prospectus issued 18 October 2005 contained 5 year projection figures to 30 June 2010. Annual figures were provided. Given these are interim 6 monthly accounts no comparison to annual prospectus figures is made. These comparisons will be undertaken in the annual report to 30 June 2007