



NZ Windfarms Ltd

New Zealand Energy - Changing Our World



Artist's Impression

NZ Windfarms Limited
Financial Statements
For the year ended 30 June 2006
Report date 1 August 2006



CONTENTS	Page
Chairman and Chief Executive Review	2
Balance Sheet	3
Income Statement	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 25

It is with pleasure that we report on our progress over the last twelve months. Since June 2005, NZ Windfarms has had a successful Initial Public Offering (IPO) and has become a public Company listed on the NZ Alternative Exchange (NZAX: NWF). We placed an order for five wind turbines in December 2005, and since then have completed the majority of site works on the Te Rere Hau wind farm to enable the turbines to be installed. It is expected that the first power will be exported into the PowerCo network from mid August.

IPO and Financial Results

The November 2005 IPO raised over \$4 million from more than 650 shareholders and in December 2005, the Company was listed on the NZAX (www.nzx.com). As a result of not achieving full subscription, some capital expenditure not immediately required for the development of the Te Rere Hau wind farm has been deferred until after the second capital raising stage scheduled for later in 2006. These actions ensured we had sufficient funds available to complete the initial five turbine batch at Te Rere Hau. The actual loss for the year to 30 June 2006 was \$355,575, compared to that projected of \$574,000.

Shares and Options

The head shares saw some limited trading over the year, with a share price of trading from \$1.10 to a high of \$1.30 and closing at \$1.22 giving us a market capitalisation of \$8,513,598 as at 30 June 2006.

All shareholders (except windlow Technology Limited) received an equivalent number of options to purchase shares at \$1.10, and these options may be taken up at any time until 29th September 2006. The options represent additional potential capital of \$4m for the Company if shareholders either take up their options or sell any excess options (NWFOA) so that new shareholders may buy shares. If shareholders do nothing with their options, then this potential capital for the Company is lost. Option forms can be downloaded from our website www.nzwindfarms.co.nz or can be requested from your broker or Link (formerly BK Registries).

Te Rere Hau Wind Farm

Site preparation has proceeded well despite some long runs of bad weather. At the time of writing, the roads are ready, and three of the five foundation pads are complete with the remaining two foundations boxed and ready to pour. Electrical cables are in place to connect the first batch to the local network. Towers, blades and nacelles are being readied for transport and will be arriving on site in early August. As each pad becomes ready, the towers will be installed, and the turbine blades and nacelles lifted up. The first power generation is expected to occur in mid August with all turbines installed and commissioned by September 2006, ready for the official opening on 15 September 2006.

Joint Venture Partners

Negotiations with our potential joint venture partners National Power and Babcock and Brown have continued in earnest over the past few months.

Building a Strong Business

The past year has also seen a significant expansion of the human capital of our Company with new staff appointments, plus investments in professional development and the establishment of a standing Audit & Risk Committee of the Board. This focus on strengthening the foundations of the business means that we are now in a much stronger position to take advantage of the many opportunities that this exciting industry is continually placing in our path.

The Year Ahead

The coming year will be one of consolidation and expansion. Consolidation - of the gains that have been made in governance and operational structures of the Company. Expansion - of our investment in the Te Rere Hau wind farm and development activities associated with other potential wind farm sites. In order to achieve these goals it will be necessary to raise additional capital, an activity which is currently timetabled for the fourth quarter of 2006.

Your Board looks to the future with confidence.

NZ WINDFARMS LIMITED
 Balance Sheet
 as at 30 JUNE 2006

As at	Notes	30/06/2006 NZ IFRS NZ\$	30/06/2005 NZ FRS NZ\$
Assets			
Non-current			
Property, plant and equipment	4	2,414,297	-
Turbine progress payments		338,000	
Intangible assets	3	798,159	1,056,709
Deferred tax	5	2,021	-
		3,552,477	1,056,709
Current			
Cash and cash equivalents		1,963,557	4,793
GST refund		113,222	114,052
Income tax refund		39,414	1
Trade and other receivables		66,267	-
		2,182,460	118,846
Total assets		5,734,937	1,175,555
Equity			
Equity attributable to shareholders			
Share capital	6	4,512,471	846,486
Retained earnings	6	(516,593)	(118,594)
Total equity		3,995,878	727,892
Liabilities			
Current			
Trade and other payables	7	900,504	39,032
Advance from Windflow Technology	12	838,555	408,631
		1,739,059	447,663
Total liabilities		1,739,059	447,663
Total equity and liabilities		5,734,937	1,175,555

Signed for and on behalf of the Board as at 1 August 2006



Vicki Buck
 Director



Juliet McKee
 Director/Chair of Audit and Risk

NZ WINDFARMS LIMITED
Income Statement
for the year ended 30 JUNE 2006

For the year to	Notes	30/06/2006 NZ IFRS NZ\$	30/06/2005 NZ FRS NZ\$
Income			
Sundry Income		11,802	-
Total income		11,802	-
Expenses			
Audit fees		10,700	-
Director's fees		99,000	-
Employment expenses		117,579	-
Lease and rental expenses	17	12,483	-
Other operating expenses		234,094	118,605
Operating expenses (excluding depreciation and intangible impairment)		473,856	118,605
Earnings before interest, tax, depreciation and intangible impairment		(462,054)	(118,605)
Impairment of intangible assets	3	11,568	-
Depreciation		4 573	-
Earnings before interest and tax		(474,195)	(118,605)
Interest income	8	116,753	11
Interest expense	8	(42,578)	-
Result for period		(400,020)	(118,594)
Tax expense, net	9	(2,021)	-
Net result for the period		(397,999)	(118,594)
Earnings per share			
Basic	10	(0.06)	(0.14)
Diluted	10	(0.04)	(0.14)

The notes on pages 7 - 25 form part of and are to be read in conjunction with the financial statements.

NZ WINDFARMS LIMITED
Statement of Changes in Equity
for the year ended 30 JUNE 2006

For the year to	Notes	30/06/2006 NZ IFRS NZ\$	30/06/2005 NZ FRS NZ\$
Equity at beginning of period		727,892	-
Net result for the period		(397,999)	(118,594)
Total recognised income and expense for the period		329,893	(118,594)
Issue of ordinary shares	6	3,665,985	846,486
Equity at end of period		3,995,878	727,892
Represented by:			
Share capital	6	4,512,471	846,486
Retained earnings	6	(516,593)	(118,594)
Total equity		3,995,878	727,892

The notes on pages 7 - 25 form part of and are to be read in conjunction with the financial statements.

NZ WINDFARMS LIMITED
Statement of Cash Flows
for the year ended 30 JUNE 2006

For the year to	Notes	30/06/2006 NZ IFRS NZ\$	30/06/2005 NZ FRS NZ\$
Operating activities			
Cash was received from:			
Sundry Income		1,307	-
Interest received		105,776	11
		107,083	11
Cash was applied to:			
Interest paid		154	-
RWT paid		39,413	-
Payments to suppliers and employees		393,781	5,029
		433,348	5,029
Net cash inflow (outflow) from operating activities	11	(326,265)	(5,018)
Investing activities			
Cash was applied to:			
Purchase of intangible assets		599,504	201,301
Purchase of fixed assets	4	2,023,856	-
		2,623,360	201,301
Net cash inflow (outflow) from investing activities		(2,623,360)	(201,301)
Financing activities			
Cash was provided from:			
Issue of ordinary shares	6	4,932,795	-
Advances from Windflow Technology	12	401,500	311,004
		5,334,295	311,004
Cash was applied to:			
Issue costs of equity	6	425,906	91,708
Advances to Windflow Technology	12	-	8,184
		425,906	99,892
Net cash inflow (outflow) from financing activities		4,908,389	211,112
Net increase/(decrease) in cash and cash equivalents		1,958,764	4,793
Cash and cash equivalents, beginning of year		4,793	-
Cash and cash equivalents, end of year		1,963,557	4,793
Cash and cash equivalents			
Term Deposit		1,438,792	-
Bank account		524,765	4,793
Ending cash and cash equivalents carried forward		1,963,557	4,793

The notes on pages 7 - 25 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. 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.

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.

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 International Financial Reporting Standards (IFRS) as developed and published by the International Accounting Standards Board and adopted as NZ GAAP.

The Company has voluntarily adopted IFRS from 1 July 2005 for reporting actual results. Comparative figures prior to 1 July 2005 have been prepared using New Zealand Financial Reporting Standards.

The adopting of IFRS reporting has resulted in no changes to the reported financial statements, or notes compared to the statutory annual report to 30 June 2005. The change to NZIFRS has not resulted in a restatement of comparative figures and the effect of moving to NZIFRS has not resulted in a material change in accounting treatments.

Measurement base

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

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 NZ Windfarms Limited. Once the turbines are complete unit and operating they will be recognised as property, plant and equipment and depreciated over their useful life. As at 30 June 2006 the company had a capital commitment to pay 48% of the balance of the contract for the purchase of 5 turbines.

The notes on pages 7 - 25 form part of and are to be read in conjunction with the financial statements.

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:

- Roothing 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. 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 interest expenses 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.

d. Accounting for income taxes

Income tax on the profit or loss for the year 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 year, and any adjustment to tax payable in respect of previous years.

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.

e. 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.

f. 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.

g. 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 include cash and cash equivalents in the balance sheet. These financial assets are recognised at their nominal value which is deemed to be equal to fair value.

h. 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 13.

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.

i. 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.

j. 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.

k. 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 impaired equally over time. The remaining useful life of the windrights is 69 years.

l. Development costs

Developments costs have been capitalised 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
- development costs have been incurred

m. 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.

n. Changes in accounting policies

The financial statements to the 30 June 2006 have been prepared under IFRS. The comparative financial statements to 30 June 2005 were prepared under New Zealand Financial Reporting Standards.

The adopting of IFRS reporting has resulted in no changes to the reported financial statements or notes to the accounts as contained in the statutory annual report to 30 June 2005.

3. Intangible assets

The cost to purchase the initial windrights from Windflow Technology Limited and the project development costs are recognised on the assumption of the following requirements:

- the windrights are separately identifiable and recognisable from other assets. A specific agreement was entered into for the purchase of the windright option for consideration.
- development costs are actual expenditures, and relate to the development of the Te Rere Hau project.
- the Company has control over the windright asset as it has legal rights to the underlying benefits provided by the windright agreement.
- the wind rights, project development costs incurred to date facilitate the construction and operation of a wind farm and will generate probable economic benefits.
- the wind rights and development costs are able to be reliably measured in relation to the expenditure incurred.

Intangible assets are carried at cost less annual impairment as there is no readily available market for the intangibles concerned.

All impairment charges are included in "impairment of intangible assets" in the Income Statement.

The following impairment periods and methods for intangible assets are disclosed below:

	Impairment method	Useful life
Windrights	Straight line	70 years
Capitalised development costs	Straight line	70 years

In assessing the useful life of all intangible assets reference was made to the underlying expected economic life of the wind rights agreement. This is 70 years. It has been assumed that although property, plant and equipment have useful lives less than 70 years that appropriate maintenance expenditure will be incurred to extend the economic life of applicable assets to 70 years.

NZ WINDFARMS LIMITED
Notes to the Financial Statements
for the year ended 30 June 2006

Changes in the next carrying amount of intangible assets are analysed as follows:

As at	30/06/2006 NZ\$	30/06/2005 NZ\$
Wind rights		
Opening gross carrying amount	600,305	600,305
Accumulated impairment	(8,576)	-
Closing carrying amount	591,729	600,305
Resource consent fees		
Opening gross carrying amount	-	246,982
Accumulated impairment	-	-
Closing carrying amount	-	246,982
Capitalised development costs		
Opening gross carrying amount	209,422	209,422
Accumulated impairment	(2,992)	-
Closing carrying amount	206,430	209,422
Total closing carrying amount	798,159	1,056,709
Impairment expense for the period		
Wind rights	8,576	-
Capitalised development costs	2,992	-
	11,568	-

NZ WINDFARMS LIMITED
Notes to the Financial Statements
for the year ended 30 JUNE 2006

4. Property, plant and equipment.

The carrying book value amounts of property, plant and equipment are analysed as follows:

As at	30/06/2006 NZ\$	30/06/2005 NZ\$
Office equipment		
Opening carrying amount	-	-
Additions	5,286	-
	5,286	-
Depreciation	(367)	-
Closing carrying amount	4,919	-
Plant and equipment		
Opening carrying amount	-	-
Additions	12,374	-
	12,374	-
Depreciation	(206)	-
Closing carrying amount	12,168	-
Foundations		
Opening carrying amount	-	-
Additions	149,075	-
	149,075	-
Depreciation	-	-
Closing carrying amount	149,075	-
Electrical		
Opening carrying amount	-	-
Additions	274,854	-
	274,854	-
Accumulated depreciation	-	-
Closing carrying amount	274,854	-
Roading		
Opening carrying amount	-	-
Additions	408,503	-
	408,503	-
Depreciation	-	-
Closing carrying amount	408,503	-
Resource consent capital work in progress		
Opening carrying amount	-	-
Additions	246,983	-
	246,983	-
Depreciation	-	-
Closing carrying amount	246,983	-
Turbines		
Opening carrying amount	-	-
Additions	1,317,795	-
	1,317,795	-
Depreciation	-	-
Closing carrying amount	1,317,795	-
Total property plant and equipment		
Opening carrying amount	-	-
Additions	2,414,870	-
	2,414,870	-
Depreciations	(573)	-
Closing carrying amount	2,414,297	-

The gross carrying amounts of property, plant and equipment are analysed as follows:

As at	30/06/2006 NZ\$	30/06/2005 NZ\$
Office equipment		
Gross Carrying amount	5,286	-
Accumulated depreciation	(367)	-
Closing carrying amount	4,919	-
Plant and equipment		
Gross Carrying amount	12,374	-
Accumulated depreciation	(206)	-
Closing carrying amount	12,168	-
Foundations		
Gross Carrying amount	149,075	-
Accumulated depreciation	-	-
Closing carrying amount	149,075	-
Electrical		
Gross Carrying amount	274,854	-
Accumulated depreciation	-	-
Closing carrying amount	274,854	-
Roading		
Gross Carrying amount	408,503	-
Accumulated depreciation	-	-
Closing carrying amount	408,503	-
Resource consent capital work in progress		
Gross Carrying amount	246,983	-
Accumulated depreciation	-	-
Closing carrying amount	246,983	-
Wind Turbines		
Gross carrying amount	1,317,795	-
Accumulated depreciation	-	-
Closing carrying amount	1,317,795	-
Total property plant and equipment		
Gross Carrying amount	2,414,870	-
Accumulated depreciation	(573)	-
Closing carrying amount	2,414,297	-

All depreciation charges are included in "depreciation" in the Income Statement.

5. Deferred tax assets and liabilities

The movement in deferred tax assets arising from temporary differences during the year is as follows:

As at	30/06/2006 NZ\$	30/06/2005 NZ\$
Opening balance	-	-
Timing differences tax effect:		
Accounting depreciation	189	-
Tax depreciation	(371)	-
Other timing difference	2,203	-
Closing balance	2,021	-
Accounting fixed assets carrying amount	2,414,297	-
Taxation fixed assets carrying amount	2,413,746	-
Net other timing difference	6,676	-
	(6,125)	-
Tax effect at 33%	(2,021)	-

Accumulated tax losses have not been recognized as a deferred tax asset.

6. Equity

As at	30/06/2006 NZ\$	30/06/2005 NZ\$
Opening issued equity	846,486	-
Net proceeds of shares issued & fully paid		
- issued during the period	4,072,559	846,486
- less issue costs	(420,324)	-
- options exercised during the period	13,750	-
Net proceeds of shares issued & fully paid	4,512,471	846,486
Retained earnings		
Opening balance	(118,594)	-
Net result for the period (after tax)	(397,999)	(118,594)
Closing retained earnings	(516,593)	(118,594)
Total equity	3,995,878	727,892

Share Capital

At 30 June 2006, share capital comprised 6,978,359 ordinary shares (30 June 2005: 846,586). The shareholding of 846,586 shares as at 30 June 2005 was split to have 3,000,000 shares on issue to Windflow Technology Limited on 25 August 2005. The Company issued a further 3,965,859 shares when it listed on the NZAX on 13 December 2005. The shares were issued with a value of \$1.10 per share to the public. Windflow Technology Limited shareholders were offered shares in the Company at \$1.00 per share.

Share Options

All shareholders who purchased shares when they were issued on 13 December 2005 were issued a tradable option. The option entitles the holder to subscribe for one share at an exercise price of \$1.10 per share. The option is exercisable at any time up to 29 September 2006. During the year to 30 June 2006, 12,500 shares were exercised at a price of \$1.10 per share.

A breakdown of shares issued during the year to 30 June 2006 follows.

For the year to		30/06/06	30/06/05
Ordinary shares issued		846,586	100
Share split	25-Aug-05	2,153,414	846,486
Ordinary shares issued - public \$1.00 / share	13-Dec-05	2,898,859	-
Ordinary shares issued - public \$1.10 / share	13-Dec-05	1,067,000	-
Share options exercised - \$1.10 / share		12,500	-
Total closing shares		6,978,359	846,586

All shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at the shareholders' meeting of NZ Windfarms Limited.

Dividends

No dividends are proposed by the directors for the year ended 30 June 2006. The Directors propose implementing a dividend policy of distributing 50% of available operating free cashflow once the Te Rere Hau wind farm is generating positive cashflow for the Company.

7. Trade and other payables

The fair values of trade and other payables have not been disclosed, Due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

For the year to	30/06/2006 NZ\$	30/06/2005 NZ\$
Trade payables	28,025	28,914
Trade payables - Windflow Technology Ltd	358,059	-
Trade payables - asset purchases	288,930	10,118
Accrued expenses	209,339	-
Employee entitlements	16,151	-
Total closing payables	900,504	39,032

8. Finance income and finance costs

Finance cost includes all interest-related income and expenses.

9. Income tax expense

For the year to	30/06/2006 NZ\$	30/06/2005 NZ\$
Result for the period before tax	(400,020)	(118,594)
Tax loss for period	(383,974)	(1,184)
	(16,046)	(117,410)
Expected tax expense at 33%	(5,295)	(38,745)
Adjustment for non deductible expenses		
- prospectus costs	-	38,746
- impairment of development costs	987	-
- other non deductible expenses	2,287	-
Prima facie tax at 33%	(2,021)	1
Represented by:		
Tax effect of deferred tax	(2,021)	-
Plus opening carrying amount	-	-
Closing carrying amount	(2,021)	-
Tax loss from previous periods	(1,184)	-
Tax loss for period	(383,974)	(1,184)
Tax loss carried forward	(385,158)	(1,184)

10. Earnings per share and dividends

Both the basic and diluted earnings per share are calculated using the net results attributable to shareholders of the Company as the numerator. Options were issued to all shareholders at the capital raising date 13 December 2005 at \$1.10. The options have to be exercised by 29 September 2005. It is assumed that 100% of the options issued 13 December 2005 will be exercised prior to 29 September 2006.

For the year to	30/06/2006	30/06/2005
Earnings (Loss)	\$ (397,999)	\$ (118,594)
Shares on issue	6,965,859	846,586
Share options exercised - \$1.10/share	12,500	-
Earnings per share	(0.06)	(0.14)

Diluted earnings per share

Shares on issue	6,978,359	846,586
Dilution effect of options if exercised	3,953,359	-
	10,931,718	846,586
Diluted earnings per share	(0.04)	(0.14)

11. Cash flow statement

For the year to	30/06/2006 NZ\$	30/06/2005 NZ\$
Reported net surplus (loss) after taxation	(397,999)	(118,594)
Non cash items	-	-
Depreciation	573	-
Impairment of intangible assets	11,568	-
Movement in deferred tax	(2,021)	-
Issue costs of equity	-	117,410
	(387,879)	(1,184)
Changes in working capital		
Trade and other payables	861,472	72
Trade and other receivables	(66,267)	-
GST	830	(3,905)
Income Tax	(39,413)	(1)
	756,622	(3,834)
Items classified as investing or financing		
Working capital relating to fixed assets	(729,014)	-
Working capital relating to equity raising	5,582	-
Interest capitalised on loan	28,424	-
Net cash flow from operating activities	(326,265)	(5,018)

12. Related party transactions

The Company's related parties include the Company's supplier of wind turbines, Windflow Technology Limited, who holds 43% of the shares in the Company as at 30 June 2006. (30 June 2005; 100%). 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. During the period ended 30 June 2006 the Company confirmed the purchase of five turbines from Windflow Technology Limited. The remaining capital commitment owing for the turbines at 30 June 2006 was \$1,512,000 (30 June 2005; \$0).

Windflow Technology has advanced funds to the Company to cover Company and wind farm setup costs and issue expenses. As at 30 June 2006 the amount owed to Windflow Technology was \$838,555 including accrued interest. (30 June 2005: \$408,631). 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 year ended 30 June 2006 was \$28,424. (30 June 2005: Nil)

The Company's key management and others are described below.

Key management personnel remuneration is included in the income statement figures. The remuneration packages do not incorporate share based incentives, termination benefits, long term benefits or post employment benefits.

Key related party shareholdings include:

Name of related party	Relationship	Number of shares	Options issued
Chris Freear and Sharee Freear	Chris Freear: Chief Executive Officer	5,000	5,000
Derek and Janice Walker	Derek Walker: Director	5,000	5,000
Barrie Leay	Director	10,000	10,000
Vicki Buck	Director	8,000	8,000
Keith McConnell and John McConnell	Keith McConnell: Director	10,000	10,000
Keith McConnell	Director	2,500	2,500

Directors' remuneration of \$99,000 was paid and expensed during the period. (30 June 2005: \$97,750).

For the period to 30 June 2005 \$97,750 directors fees were capitalised as "Development costs".

13. Contingent assets and other contingent liabilities

Carbon Credits

The Company has entered into an emission reduction project agreement with the Crown in relation to the Te Rere Hau project. 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	tCO ₂ -e Tonnes of carbon dioxide
2008	103,800
2009	103,800
2010	103,800
2011	103,800
2012	103,800

The 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 accounts to 30 June 2006 do not recognise the value of the carbon credits as an asset given their realisation is based on a future event of implementing wind turbines that achieve a net emission reduction and also based on uncertainty around future carbon credit prices.

Resource Consent

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. The total rateable value of these properties as at September 2003 was \$1,086,000. NZ Windfarms Limited, if required to purchase these properties, would look to sell them immediately on the open market.

Joint Venture

NZ Windfarms Limited and a potential joint venture partner have entered into a memorandum of understanding that may result in a formal legal arrangement. The terms of the memorandum of understanding had not been executed as at 30 June 2006.

Share Options

Tradable options were issued to each shareholder who purchased shares on 13 December 2005 with an exercise price of \$1.10 per share. The number of shares issued with tradable share options was 3,965,859. If all the options are exercised prior to 29 September 2006 the increase in share capital and cash reserves would be \$4,362,445. As at 30 June 2006, 12,500 share options had been exercised for \$13,750. The potential maximum of options if all remaining options were exercised would be \$4,348,695.

14. Prospective financial information

The investment statement prospectus issued 18 October 2005 contained 5 year projection figures to 30 June 2010. The following information is a comparison of the projected financial statements of NZ Windfarms Limited from the 2005 prospectus for the year ended 30 June 2006 with the actual result for the same period.

Income Statement For the year to	Actual 30/06/2006 NZ IFRS NZ\$	Projections 30/06/2006 NZ IFRS NZ\$
Sundry Income	11,802	-
Total income	11,802	-
Audit fees	10,700	10,000
Directors fees	99,000	120,000
Employment expenses	117,579	225,000
Lease and rental expenses	12,483	18,000
Other operating expenses	234,094	157,000
Operating expenses (excluding depreciation and intangible impairment)	473,856	530,000
Earnings before interest, tax, depreciation and intangible impairment	(462,054)	(530,000)
Impairment of intangible assets	11,568	14,000
Depreciation	573	24,000
Earnings before interest and tax	(474,195)	(568,000)
Interest income	116,753	39,000
Interest expense	(42,578)	(29,000)
Result for period	(400,020)	(558,000)
Tax expense, net	(2,021)	16,000
Net result for the period	(397,999)	(574,000)

NZ WINDFARMS LIMITED
Notes to the Financial Statements
for the year ended 30 JUNE 2006

Statement of Cash Flows For the year to	Actual 30/06/2006 NZ IFRS NZ\$	Projections 30/06/2006 NZ IFRS NZ\$
Operating activities		
Cash was received from:		
Trading revenue	-	-
Sundry Income	1,307	-
Interest received	105,776	39,000
	107,083	39,000
Cash was applied to:		
Interest paid	154	29,000
RWT Paid	39,413	-
Payments to suppliers and employees	393,781	595,000
	433,348	624,000
Net cash inflow (outflow) from operating activities	(326,265)	(585,000)
Cash was applied to:		
Purchase of intangible assets	599,504	-
Purchase of fixed assets	2,023,856	6,860,000
	2,623,360	6,860,000
Net cash inflow (outflow) from investing activities	(2,623,360)	(6,860,000)
Financing activities		
Cash was provided from:		
Issue of shares	4,932,795	8,000,000
Advances from Windflow Technology	401,500	797,000
	5,334,295	8,797,000
Cash was applied to:		
Issue costs of equity	425,906	565,000
Debt repayments	-	1,206,000
	425,906	1,771,000
Net cash inflow (outflow) from financing activities	4,908,389	7,026,000
Net increase/(decrease) in cash and cash equivalents	1,958,764	(419,000)
Cash and cash equivalents, beginning of year	4,793	5,000
Cash and cash equivalents, end of year	1,963,557	(414,000)
Cash and cash equivalents		
Term Deposit	1,438,792	-
Bank account	524,765	(414,000)
Ending cash and cash equivalents carried forward	1,963,557	(414,000)

NZ WINDFARMS LIMITED
Notes to the Financial Statements
for the year ended 30 JUNE 2006

Balance Sheet as at	Actual 30/06/2006 NZ IFRS NZ\$	Projections 30/06/2006 NZ IFRS NZ\$
Assets		
Non-current		
Property, plant and equipment	2,414,297	6,836,000
Turbine progress payments	338,000	
Intangible assets	798,159	1,043,000
Deferred Tax	2,021	-
	3,552,477	7,879,000
Current		
Cash and cash equivalents	1,963,557	-
GST refund	113,222	-
Income tax refund	39,414	-
Trade and other receivables	66,267	201,000
	2,182,460	201,000
Total assets	5,734,937	8,080,000
Equity		
Equity attributable to shareholders		
Share capital	4,512,471	8,281,000
Retained earnings	(516,593)	(693,000)
Total equity	3,995,878	7,588,000
Liabilities		
Non-current		
Deferred tax	-	16,000
	-	16,000
Current		
Bank overdraft	-	414,000
Trade and other payables	900,504	62,000
Advance from Windflow Technology Limited	838,555	-
	1,739,059	476,000
Total liabilities	1,739,059	492,000
Total equity and liabilities	5,734,937	8,080,000

The major variances between the projections and actual are as follows:

The 2005 capital raising resulted in \$4 million capital being raised.

As a consequence some upfront capital expenditure such as electrical connection previously incorporated in the prospectus has been deferred until after the second capital raising stage scheduled for later in 2006.

15. Capital Commitments

During the period ended 30 June 2006, the Company confirmed the purchase of five turbines from Windflow Technology Limited. Remaining capital payments owing as at 30 June 2006 are \$1,512,000 (30 June 2005: Nil).

The Company also confirmed construction contracts for electrical, roading and foundations for the construction of the first batch of five. The capital commitments outstanding as at 30 June 2006 are \$548,142 (30 June 2005: Nil).

16. Risk management objectives and policies

The Company is exposed to a variety of financial, operating and investing risks. Key risks that affect the Company include:

Supply of Turbines

The Company has negotiated the Turbine Purchase Agreement with Windflow Technology Limited for the supply of 97 wind turbines on a batch by batch basis. This is the first production run of these turbines, therefore there is a risk of equipment failure, especially with the initial units. The Turbine Purchase Agreement has well defined performance requirements and in the event that the Windflow 500 performance is such that there is a material breach of the Agreement, the Company has the right to cancel the agreement and choose alternative suppliers thus ensuring that its planned development program continues.

Achieving Good Prices for the Sale of Electricity

The Company intends to sell electricity on the wholesale market. As the current demand for electricity in New Zealand is increasing faster than supply, it is likely that the electricity offered for sale by the Company would be purchased. There is uncertainty about the returns that can be achieved from the sale of electricity based on the wholesale electricity spot price.

Carbon Credits

The Company is entitled to receive emission reduction units if it achieves minimum contracted emission reduction targets. The Company plans to trade its right to receive these emission reduction units in return for cash. The announcement by the NZ Government to withdraw from the proposed carbon tax does not affect the Company's existing contract for emission reduction units.

17. Operating Leases

NZ Windfarms minimum operating lease payments are as follows:

For the year to	30/06/2006 NZ\$	30/06/2005 NZ\$
Lease payments expensed during the year	12,483	-
Lease commitments:		
Within 1 year	8,985	-
1 to 5 years	128,899	-
More than 5 years	3,243,242	-

NZ WINDFARMS LIMITED
Notes to the Financial Statements
for the year ended 30 JUNE 2006

To establish a wind farm, NZ Windfarms Limited has entered into the Wind Rights Option Agreement. This agreement provides for an easement to be granted to allow the establishment of a wind turbine generating facility on the land known as the Te Rere Hau site. In exchange for easement access a royalty is payable based on gross revenue from the wind farm. The wind right agreement is for a maximum period of 75 years. The maximum life of royalty payments is 25 years for this note disclosure.

DIRECTORY

The Directors of NZ Windfarms Limited are:

Derek Walker, Chairman of Directors
41A Elmira Ave, Palmerston North

Derek is a professional electrical engineer and a member of the Institute of Directors. He is presently a professional company director and business consultant with previous experience in a variety of senior management positions to Chief Executive level. His association with wind farms began in 1998 with the building of the Tararua Wind Farm when he was CEO of Central Power who funded and built the farm (it has since been sold to TrustPower). Derek is presently a director of a number of other companies including Palmerston North Airport Limited, Quotable Value Limited, and, The Bio Commerce Centre Limited, and is a trustee of the Central Energy Trust.



Vicki Buck, Director
14 Jane Deans Close, Christchurch

Vicki Buck She has an M.A.(Hons) degree and was Mayor of Christchurch from 1989 until she stood down in 1998. Since then she has been heavily involved in establishing two new state schools in Christchurch. Her experience as a director spans boards as diverse as the Reserve Bank, start-up companies, and through to Prime Ministerial Task Forces. She is also a director of Aquaflow Bionomic Corporation.



Juliet McKee, Director
23A Braithwaite St, Wellington

Juliet was appointed to NZ Windfarms in February 2004. Her board experience covers a range of organisations including publicly listed companies, private companies, state enterprises, statutory bodies, and not-for-profit organisations. She is a Fellow of the NZ Institute of Directors. Juliet's primary focus is economic and strategic planning and advising on corporate governance structures, in New Zealand and offshore (Asia, Middle East, Pacific and Africa). Juliet was appointed as an Honorary Fellow to the School of Government at Victoria University of Wellington in 2004. She was awarded the Commonwealth Medal in 1990 for services to the Community and the Queen's Service Order for public services in 1996.



Keith McConnell, Director
12 Balfour Rd, Auckland

Keith has served as Chief Executive Officer of a number of commercial entities over the last 15 years. These include John Edmond Limited, Donaghy Downs Pty Limited, The Power Company Limited, United Electricity Limited, Paykel Limited and most recently Fruehauf Pacific Limited. His involvement with wind energy first arose during his tenure with The Power Company Limited where he sponsored a wind testing programme at three sites in Southland. Keith has also been involved in several successful start-up ventures (eg Metering Systems Limited and Supply Solutions) and has a good understanding of the issues involved in such ventures.

Keith is also a director of Windflow Technology Limited.



Barrie Leay, Director
45 Ledbury Rd, Nelson

Barrie was until mid-1997 Executive Director of the Electricity Supply Association of New Zealand. Subsequently he was elected as the founder Chairman of the APEC Energy Business Network in the Asia Pacific region, where he has been a leading figure in the reforms of electricity industries and the establishment of competitive electricity markets in New Zealand and other APEC economies. Barrie is currently Chairman of Windflow Technology Limited (WTL), Aquaflow Bionomic Corporation Limited, Bio Refineries Limited, ThePacific.net Limited, Ecodyne Limited, ASCE Corporation Limited, Suntech Power Limited and is a Director of several other companies.



STAFF

<i>Chief Executive Officer</i>	Chris Freear
<i>Office Manager</i>	Liz Edwards
<i>Projects Manager</i>	Andrew McCarthy
<i>Solicitors</i>	Anthony Harper Lawyers 47 Cathedral Square Christchurch
<i>Accountants</i>	Grant Thornton (Christchurch) Limited 47 Cathedral Square Christchurch
<i>Auditor</i>	Goldsmith Fox PKF 250 Oxford Terrace Christchurch
<i>Share Registry</i>	Link Market Services Limited 138 Tancred St Ashburton
<i>Bankers</i>	National Bank Limited 20 Main North Road Christchurch
<i>Insurance Brokers</i>	Marsh Limited Level 4, 233 Cambridge Terrace Christchurch

CORPORATE GOVERNANCE

Introduction

The Board of Directors is elected by the shareholders and is responsible for the corporate governance of 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 laws and standards.

The Board establishes the objectives of the company and is engaged in ongoing strategic planning in order to meet these objectives. 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 recommended by the New Zealand Securities Commission in February 2004. Reference has also been made to the Corporate Governance Best Practice Code (the NZX code).

Board Composition and Membership

As at the 30th June 2006 the Board comprised five Directors. This included an independent non-executive Chairman, and four non-executive Directors, comprising two independent Directors. The Board has a broad base of energy, engineering, financial, political, legal and other knowledge, experience and expertise to meet its objectives.

The details and background of the Directors are detailed elsewhere within 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 Company's Constitution.

The Board held twelve meetings during the financial period ended 30th June 2006. In addition to these formal meetings the Board meets on other occasions to debate strategic and financial deliberations.

Chief Executive Officer

The Board is responsible for the evaluation of the Chief Executive Officer against his key performance objectives and is responsible for the setting of these objectives on a periodic basis and ensuring that they are an appropriate measure.

The Chief Executive Officer provides a report to the Audit and Risk Committee and the Board on a monthly basis that includes a summary of the Company's activities for the period including financial reports. The Board receives regular briefings from the Chief Executive Officer on strategic issues.

Directors' Shareholdings as at the 30th June 2006

Directors' disclosure of their shareholdings pursuant to Section 148 of the Companies Act 1993 and the NZAX listing rule are shown as at 30 June, 2006 in the list below.

Name of related party	Date	Relationship	Number of shares	Options per share	Consideration per share
Derek and Janice Walker	13/12/05	D Walker: Director	5,000	5,000	\$1.10
Barrie Leay	13/12/05	Director	10,000	10,000	\$1.00
Vicki Buck	13/12/05	Director	8,000	8,000	\$1.00
Keith McConnell and John McConnell	13/12/05	K McConnell: Director	10,000	10,000	\$1.00
Keith McConnell	13/12/05	Director	2,500	2,500	\$1.00
Keith McConnell	13/12/05	Director	2,500	2,500	\$1.00

Independence of Directors

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

It has been determined by the Board that all of the Directors were independent except for Mr Barry Leay and Mr Keith McConnell. Mr Leay and Mr McConnell are both Directors of Windflow Technology Limited being the supplier of turbines to the Te Rere Hau wind farm and a 43% shareholder in the Company. Mr McConnell has carried out strategic consultancy exercises on behalf of the Company on a fee paying basis.

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. These relationships are noted in the Interests Register.

Audit and Risk Committee

Due to the size of the Company there has only been one Board Committee established to assist in the execution of the Board's responsibilities. The Audit and Risk Committee at the end of the financial year comprised Juliet McKee and Keith McConnell. Independent Director Juliet McKee chairs the committee.

The audit and risk management committee is responsible for monitoring the ongoing effectiveness of risk management activities. The committee monitors trends in the Company's risk profile and considers papers on how the business manages or mitigates key risk exposures. It implements risk management through its business processes of planning, budgeting, investment and project analysis, and operations management.

The committee also monitors and oversees the quality of financial reporting and financial management. In order to achieve this the committee considers accounting and audit issues and makes recommendations to the Board of Directors as required and monitors the role, responsibility and performance of external audit.

The Chief Executive Officer and Chair of the Board attends each monthly committee meeting by invitation as do the chartered accountant advisors and auditor when required.

All other matters are conducted at the regular full Board meetings.

ETHICAL STANDARDS

Code of Ethics

The Company expects all its employees and Directors to maintain the highest 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 behavior and accountability.

Conflicts of Interest

If conflicts of interest do exist at law then the policy of the Board is that Directors must declare their interest and do 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 NZ Windfarms Limited or Windflow Technology Limited shares under the NZAX Listing Rules and the Securities Markets Act 1988.

Audit Governance and Independence

The Board approved the reappointment of Goldsmith Fox PKF Audit as Auditors for the year ended 30th June 2006. Shareholders approved the Board setting the remuneration of the Auditors at the Annual General Meeting 6 October 2005.

The work of the External Auditors is limited to audit and related work only and the Company is committed to auditor independence. The Board through the audit and risk committee annually reviews the independence and objectivity of the External Auditors. No employees, Partners or Directors of the Audit firm hold shares in the Company. In addition the lead audit partner must rotate after a maximum of seven years, and the External Auditor must confirm annually its commitment to strict procedures to ensure independence.

Representatives of the Company's External Auditors, Goldsmith Fox PKF Audit have been invited to the Annual General Meeting.

Reporting and Disclosure

Annual and Interim Six Monthly Reports in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the NZAX Listing Rules are communicated on a periodic basis to all shareholders. The Annual Report is audited.

A web site is maintained and contains regular updates to shareholders via quarterly newsletters.

Shareholder Relations

The Board's policy is to ensure that shareholders are informed of all major and strategic developments affecting the Company's state of affairs. All major disclosures are posted to the Company's web site on a timely basis. Regular media releases are made and the Company releases all material information to NZX under continuous disclosure requirements.

STATUTORY INFORMATION AS AT 30 JUNE 2006

Interests Register in Transactions

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. The following table summarizes the Directors' interests in entities with which the Company has, or may in future have, transactions:

Director		Nature of Interest
Barrie Leay	Windflow Technology Limited	Director/Shareholder
Keith McConnell	Windflow Technology Limited	Director/Shareholder
	Wind Blades Limited	Director
Vicki Buck	Windflow Technology Limited	Shareholder

On 13 December 2005 NZ Windfarms Limited was split and separately listed from its parent Company Windflow Technology Limited. Keith McConnell and Barry Leay were Directors of both companies.

Directors' Remuneration

The current annual Directors fee paid to all Directors within the Company is \$99,000 per annum. Each Director receives \$18,000 and the Chairman receives \$27,000.

Consultancy fees totaling \$5,375 were paid to one Director, Mr K McConnell.

The following table summarises the remuneration for the period to 30 June 2006 of the Directors of NZ Windfarms Limited:

Name	Directors Fees	Other	Fees
Barrie Leay	NZWL	\$18,000	-
Keith McConnell	NZWL	\$18,000	\$5,375
Vicki Buck	NZWL	\$18,000	-
Juliet McKee	NZWL	\$18,000	-
Derek Walker	NZWL	\$27,000	-

No other benefits were received by the Directors of the Company. Reimbursements of appropriate costs (mainly travel to meetings) were made.

Directors' Indemnity and Insurance

The Company has Directors' & Officers' Liability Insurance to the sum of \$3,000,000 in the aggregate.

Subsidiaries and Directors Thereof

NZ Windfarms has no subsidiaries.

Employee Remuneration

For the year to 30 June 2006, there were no employees who earned more than \$100,000.

Donations

The Company made no donations during the year.

Shareholder Information

The ordinary shares of NZ Windfarms Limited are listed on the New Zealand Stock Exchange's Alternative Market (NZAX). The information in the disclosures below has been taken from the Company's register at 30th June 2006.

Twenty Largest Ordinary Shareholders

Shareholder	Address	Shares	%
Windflow Technology Limited	Christchurch	3,000,000	42.99
Anthony Anselmi, Deidre Anselmi and Ross Alleman	Te Kuiti	200,000	2.87
Macquarie Equities Custodians Limited	Wellington	100,000	1.43
Delane Wycoff	Nebraska, USA	70,359	1.01
Reda Holdings Limited	Geneva, Switzerland	70,000	1.00
Fitzallan Investments Limited	Christchurch	50,000	0.72
Gandar Hawes Trust	Fielding	50,000	0.72
Ralph Silvester	Warkworth	50,000	0.72
Caroline Stockdale	Auckland	42,000	0.60
Ian&Stephanie Cowan	Christchurch	40,000	0.57
Angus & Emma Napier	Wellington	40,000	0.57
Chris Marshall & William Parsons	Christchurch	35,000	0.50
Garry & Clare Carleton	Christchurch	30,000	0.43
John Gribben	Auckland	30,000	0.43
Anthony & Dorothy Mallard	Christchurch	30,000	0.43
Marian Melhuish	Wellington	30,000	0.43
Geoffrey & Reihana Robinson	Port Charles	30,000	0.43
Ian Wiseman	Brunei	30,000	0.43
Stephen & Juliet Manning, and Peter Kennedy	Christchurch	27,000	0.39
Hugh Brown	Auckland	25,000	0.36
Charles Newton	Christchurch	25,000	0.36
TOTALS		4,004,3595	57.39

Options

All Shareholders who purchased shares in the IPO also received an equivalent number of tradable options (NZFOA). These need to be exercised on or before 29 September 2006.

Distribution of Shareholders

Holdings Ranges	Number of Holders	Number of Shares	%
1-1,000	122	121,000	1.73
1,001-5,000	362	1,226,300	17.57
5,001-10,000	105	932,300	13.36
10,001-50,000	57	1,258,400	18.03
50,001-100,000	3	240,359	3.44
100,001-1,000,000	1	200,000	2.87
1,000,001- and over	1	3,000,000	42.99
Totals	651	6,978,359	100.00

Substantial Security Holders

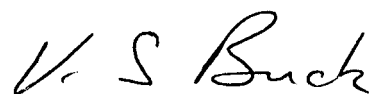
The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received, the following persons were substantial security holders in the Company at 30th June 2006.

Shareholder	Number of shares directly held	%
Windflow Technology Limited	3,000,000	42.99

The total number of issued voting securities as at 30th June 2006 was 6,978,359.

Directors' Statement

The Annual Report is dated 1 August 2006 and is signed on behalf of the Board by:



Vicki Buck
Director



Juliet McKee
Director/Chair of Audit and Risk

**AUDIT REPORT
TO THE SHAREHOLDERS OF NZ WINDFARMS LIMITED**

We have audited the attached financial report on pages 3 to 25. The financial report provides information about the past financial performance and financial position of the company as at 30 June 2006. This information is stated in accordance with the accounting policies set out on pages 7 to 10.

Directors' Responsibilities

The Directors are responsible for the preparation of a financial report which gives a true and fair view of the financial position of the company as at 30 June 2006 and of the results of operations and cash flows for the year ended 30 June 2006.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial report presented by the Directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial report, and
- whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial report.

Other than in our capacity as auditors we have no relationship with or interests in the company.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
 - the attached financial report complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the financial position of the company as at 30 June 2006 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 1 August 2006 and our unqualified opinion is expressed as at that date.

Goldsmith Fox PKF

CHRISTCHURCH

Notes



