



NZ WINDFARMS LTD

ANNUAL REPORT

30 June 2005



Artist's Impression

New Zealand Energy – Changing Our World



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DIRECTORS REVIEW 2005

Wind energy generation has now established itself as an economic electricity generation source in the New Zealand environment, assisting the country to replace generation from the declining Maui gas field and meet new demand from continuing economic growth.

Over the last three years, retail energy prices have risen at more than 6% per year (being twice the rate of inflation). Most commentators in the energy market expect the price of electricity to continue to rise over the next 20 years.

It is in this context that we present NZ Windfarms first Annual Report.

Te Rere Hau wind farm

A highlight of this financial year was gaining resource consent for our world class wind site, the Te Rere Hau wind farm on Aeolian Property Company Limited land on the Tararua ranges. The resource consent application for the wind farm was filed in August 2004 and consent was granted by the Palmerston North City Council commissioner in February 2005.

The appeal period closed three weeks later with three parties filing appeals, (one of these being NZ Windfarms' own appeal, which was lodged in order to remove ambiguity from the wording of some of the conditions).

After a successful mediation process with all appellants, the consent was formally signed by the Environment Court Judge on 30 May 2005

NZ Windfarms separation from Windflow Technology

As well as NZ Windfarms having its

own board and CEO, the necessary documentation has gone through which effectively splits ownership and assets from Windflow Technology in preparation for the initial public offering (IPO) later this year. This has capitalised NZ Windfarms with significant assets, in particular the carbon credits and wind rights to develop the Te Rere Hau wind farm.

100% of the shares on issue in NZ Windfarms are currently held by Windflow Technology. Consequently before NZ Windfarms can seek public investment, Windflow shareholders are need to approve the IPO at the upcoming AGM. A successful IPO will mean that NZ Windfarms will have enough capital to proceed with the first stages of Te Rere Hau.

Babcock & Brown/NP Power MOU

NZ Windfarms is prepared to carry out the Te Rere Hau wind farm project on its own but may carry it out as part of a joint venture. On the 31 March 2005, NZ Windfarms entered into a conditional memorandum of understanding to form a 50/50 joint venture for the Te Rere Hau wind farm with Babcock & Brown Windpower Pty Limited and NP Power Pty Limited. Babcock & Brown Windpower Pty Limited's parent company has substantial experience in the development financing and operation of wind and other renewable energy projects. NP Power Pty Limited's parent company is in the business of developing, owning or operating small and medium size electric generation facilities. If the parties agree to proceed, a formal joint venture agreement will be negotiated in the first half of 2006.



Carbon Credits

NZ Windfarms was previously awarded a contract for 519,000 carbon credits for the Te Rere Hau wind farm from the Government through its Projects to Reduce Emissions. The contract to award carbon credits in 2008 - 2012 is conditional on building the \$80 million Te Rere Hau wind farm. Therefore it is not reflected in NZ Windfarms financial statements as it does not meet the asset recognition requirements of the Financial Reporting Standards.

The Kyoto Protocol came into force in February 2005, resulting in an increasing global market for carbon credits. NZ Windfarms applied for pre qualification for the Dutch government's tender process for carbon credits. Although we did not pre qualify for this tender, we have submitted an Expression of Interest for Emission Reductions generated by JI projects under the Austrian JI/CDM

Programme, and are actively looking at other opportunities in this area. At the time of writing the European carbon market futures (EUA06) were trading at €22.55 (NZ\$39.46) (www.evomarkets.com). While this price does not currently apply to credits from non-European projects (for which the price has been around NZ\$10 to date), it gives an indication of the potential for carbon prices to increase if efficient international trading systems are introduced during the First Commitment Period of the Kyoto Protocol, 2008-2012.

Next steps

In anticipation of Windflow shareholders approving the Initial Public Offering, NZ Windfarms will be focused on raising capital for the initial stages of Te Rere Hau wind farm and arranging the electrical connections, civil works and other factors necessary to establish our first wind farm.



From back left (clockwise): Chris Freear CEO; Keith McConnell Director; Barrie Leay Director; Vicki Buck Independent Director; Derek Walker Independent Chair; Juliet McKee Independent Director



NZ WINDFARMS LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
 FOR THE PERIOD ENDED 30TH JUNE 2005

	This Year	Last Year
	\$	\$
Notes		
Operating Revenue	1	
Interest Received	11	-
	11	-
Operating Expenses	2	
Amortisation of Wind Rights	-	-
Audit Fees	-	-
Directors Fees	-	-
Financing and Issue Costs todate	3 117,410	-
General and Administration Costs	1,195	-
Depreciation	-	-
	118,605	-
Net Deficit before Taxation	(118,594)	-
Provision for Taxation	-	-
Net Deficit after taxation	(118,594)	-

NZ WINDFARMS LIMITED
STATEMENT OF MOVEMENTS IN EQUITY
 FOR THE PERIOD ENDED 30TH JUNE 2005

	This Year	Last Year
	\$	\$
Equity at Beginning of Year	-	-
Less		
Net Deficit	(118,594)	-
Equity at End of Year	(118,594)	-



NZ WINDFARMS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT THE 30TH JUNE 2005

		This Year	Last Year
		\$	\$
	Notes		
Shareholders' Equity			
Share Capital	6	846,486	-
Retained Earnings Account	7	(118,594)	-
Total Shareholders' Equity		727,892	-
Current Liabilities			
Accounts Payable	8	39,032	-
Advance - Windflow Technology Ltd		408,631	-
Total Current Liabilities		447,663	-
Total Equity and Liabilities		1,175,555	-
<hr/>			
Current Assets			
Cash on Hand and at Bank		4,793	-
GST Refund Due		114,052	-
Tax Refund Due	4	1	-
Total Current Assets		118,846	-
Non Current Assets			
Fixed Assets	10	-	-
Intangible Assets	11	1,056,709	-
Total Non Current Assets		1,056,709	-
Total Assets		1,175,555	-

Signed for and on behalf of the Board

Director

Director

Dated



NZ WINDFARMS LIMITED
STATEMENT OF CASH FLOWS
 FOR THE PERIOD ENDED 30TH JUNE 2005

	This Year	Last Year
	\$	\$
Cash Flows from operating activities	18	
<i>Cash was provided from:</i>		
Interest Received	11	-
	<hr/>	<hr/>
	11	-
<i>Cash was disbursed to:</i>		
Payments to suppliers	1,124	-
Net GST	3,905	-
	<hr/>	<hr/>
	5,029	-
Net Cash Flows from operating activities	(5,018)	-
Cash flows from investing activities		
<i>Cash was provided from:</i>		
<i>Cash was disbursed to:</i>		
Purchase of intangible assets	201,301	-
	<hr/>	<hr/>
	201,301	-
Net Cash Flows from investing activities	(201,301)	-
Cash flows from financing activities		
<i>Cash was provided from:</i>		
Advances from Parent	311,004	-
	<hr/>	<hr/>
	311,004	-
<i>Cash was disbursed to:</i>		
Issue Costs of Equity	91,708	-
Advances to Parent	8,184	-
	<hr/>	<hr/>
	99,892	-
Net Cash Flows from financing activities	211,112	-
Net Increase (Decrease) in cash held	4,793	-
Cash at beginning of year	<hr/>	<hr/>
Cash at end of year	<hr/>	<hr/>
	4,793	-



NZ WINDFARMS LIMITED
STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 30TH JUNE 2005

REPORTING ENTITY

NZ Windfarms Limited is a company registered under the Companies Act 1993.

The financial statements of the Company have been prepared in accordance with the Financial Reporting Act 1993.

MEASUREMENT BASE

The accounting principles, recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis, are followed by the group.

NATURE OF BUSINESS

Wind farm development.

The Company operates solely within New Zealand.

SPECIFIC ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of the financial performance, financial position and cash flows are set out below:

Revenue Recognition

Revenues are recognised when services are performed.

Investment Revenue

Interest revenue from investments and fixed deposits is recognised on an accruals basis.

Goods and Services Tax

The accounts have been prepared on a GST exclusive basis; except that all receivables and payables are shown GST inclusive to the extent that GST is payable or receivable on the transaction that gave rise to the payable or receivable.

Taxation

Taxation recognised in the Statement of Financial Performance for the period is based on the accounting result, adjusted for timing differences between accounting and income taxation rules.

Any income tax expenses charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

A deferred tax benefit relating to tax losses is recognised only if there is a virtual certainty of realisation.

There is no deferred tax asset or liability as at the 30th June 2005.



NZ WINDFARMS LIMITED
STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 30TH JUNE 2005 (Continued)

Valuation of Assets

Receivables

Receivables are stated at their estimated realisable value.

Intangibles

1. Resource Consent Charges

Costs to date have been recognised as an asset but no amortisation has taken place.

Further charges are anticipated to be incurred and will be capitalised in due course.

2. Wind Rights

Wind rights have been acquired from the parent company, Windflow Technology Limited.

The Directors of NZ Windfarms Limited had determined that the fair value of these wind rights is the original cost price incurred by Windflow Technology Limited. Note amortisation has taken place within the financial statements of Windflow Technology Ltd but the book value as at date of transfer was not deemed to be their fair value.

Fair value and a summary of the terms and conditions in regard to the acquisition of these items, as originally determined by the Directors of Windflow Technology Limited was listed under clauses 7 and 11, note 17.4 of the Windflow Technology Limited Prospectus, dated 9th July 2001. Refer also to the Windflow Technology Limited Prospectus dated 28th July 2003 Statement of Accounting Policies, subheading "Licences" on page 21. The values determined by these prospectuses included not only wind rights but also licences granted, only the wind rights have been transferred to NZ Windfarms Limited.

3. Wind Farm Development Costs

Costs to date have been recognised as an asset but no amortisation has taken place.

Changes in Accounting Policies

This is the first year of trading.

There have been no changes in accounting policies during the year.



NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2005

	30 th June 2005	30 th June 2004
1. Operating Revenue		
Operating Revenue includes:		
Interest Received	11	-
	11	-
2. Operating Expenses		
Operating Expenses include:		
Amortisation of Wind Rights	-	-
Audit Fees	-	-
-		
Depreciation	-	-
Directors' Fees	-	-
Interest – Bank overdraft	7	-
Prospectus Costs	117,410	-
Director's Fees Capitalised to Intangible Asset item "Wind Farm Development Costs to date"	97,750	-
3. Prospectus Costs		
Accounting Fees	34,137	-
Design and Preparation Costs	56,370	-
Legal Fees	17,520	-
Marketing Expenses	8,757	-
Other Expenses	626	-
	117,410	-
4. Taxation		
Operating Deficit	(118,594)	-
Prima facie taxation expense at 33%	-	-
<i>Plus taxation effect of permanent differences</i>		
Prospectus Costs	117,410	-
	117,410	-
Deficit and losses carried forward for taxation purposes	(1,184)	-
Resident Withholding Tax deducted	1	-
Tax Refund Due	1	-



NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2005 (Continued)

	30 th June 2005	30 th June 2004
5. Imputation Credit Account		
Balance at beginning of period	-	-
Income Tax refunded during the year	-	-
	-----	-----
Income tax payments during the year:	-	-
Resident Withholding Tax paid	1	-
	-----	-----
Balance at end of period	(1)	-
	-----	-----
6. Share Capital		
Balance at beginning of period	-	-
Ordinary Shares Issued	846,486	-
	-----	-----
Total Share Capital	846,486	-
	-----	-----
Number of shares on issue	846,486	100
All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.		
7. Retained Earnings Account		
Balance at beginning of the period	-	-
Net Deficit for the period	(118,594)	-
	-----	-----
Balance at end of year	(118,594)	-



NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2005 (Continued)

	30 th June 2005	30 th June 2004
8. Current Liabilities		
Current liabilities consist of accounts payable and accruals, which are unpaid as at the period end.		
Trade Payables	28,914	-
Trade Payables – Asset Purchases	10,118	-
Employee entitlements	-	-
Advance from Parent (Windflow Technology Ltd)	408,631	-
	-----	-----
	447,663	-
9. Current Assets		
<u>Accounts Receivable</u>		
Trade Receivables	-	-
<u>Other</u>		
Cash on Hand and at Bank	4,793	-
GST Refund Due	114,052	-
Tax Refund Due	1	-
	-----	-----
	118,846	-
10. Fixed Assets		
	-	-
	-----	-----
Total Fixed Assets	-	-
	-----	-----



NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2005 (Continued)

	30 th June 2005	30 th June 2004
11. Intangible Assets		
Fair value of wind rights	600,304	-
Resource Consent charges to date	246,983	-
Wind Farm Development costs to date	209,422	-
	-----	-----
	1,056,709	-

The ownership of the wind rights were transferred from the parent company, Windflow Technology Limited, on the 30th June 2005 to NZ Windfarms Limited by way of an agreement between the Companies. The consideration for the wind rights was determined to be the cost value, not including any amortisation, incurred by Windflow Technology Limited on the transfer from Wind Torque Limited.

No amortisation has taken place since the transfer.

The ownership of the Resource Consent charges were transferred from the parent company, Windflow Technology Limited, on the 30th June 2005 to NZ Windfarms Limited by way of an agreement between the Companies. The consideration for the resource consent was determined to be the cost value.

Wind Farm Development costs comprises Directors fees, salary reimbursements to Windflow Technology Limited, marketing and administrative expenses capitalised to date.

No amortisation has been calculated during the period.

12. Commitments

Windflow Technology Limited has assigned to NZ Windfarms Limited the benefit of and the obligations under a Wind Rights Option Agreement dated 30th June 2005. The Aeolian Property Company Ltd has consented to this assignment under its rights from a previous agreement.

This agreement places certain obligations upon NZ Windfarms Limited in regard to the unconditional ordering and supply of turbines and these will impact upon the rights so transferred, if not fulfilled.

There are a number of agreements in place which are contingent on the release and success of the proposed initial public offering by NZ Windfarms Limited.

Capital Commitments as at balance date totalled \$ nil.
 (30th June 2004 \$ nil.)

13. Contingent Liabilities

The resource consent process is ongoing and costs related to this are still being incurred. This note should be read in conjunction with Note 15, "Proposed Capital Commitments".

As at the 30th June 2005 no contingent liabilities existed. (30th June 2004 \$ nil.)

14. Comparative Figures

The Company did not trade from the date of incorporation to the 30th June 2004.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005 (Continued)

15. Proposed Capital Commitments

The following projected expenditure is anticipated if the proposed initial public offering is completed by NZ Windfarms Limited.

The projected capital commitments are year 2006 \$ 7.151 million, 2007 \$ 30.6 million.

Reference should be made to the Prospectus to be released in September 2005.

16. Financial Instruments

Credit Risk

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

The Company monitors the credit quality of its investments and manages its exposure to credit risk.

Concentrations of credit risk

The Company does not have any significant concentrations of credit risk apart from its deposits with a large and reputable bank.

Currency Risk

The Company has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities.

Such activities are not of a material nature.

Interest Rate Risk

The Company has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates.

Credit Facilities

The Company has no credit facilities, other than trade creditors.

Fair Values

The estimated fair values of financial instruments do not differ from the carrying values.

17. Significant Events After Balance Date

There were no other significant events after balance date.

18. Related Party Disclosures

All related party transactions are at normal market terms and conditions.

No related party debts have been written off or forgiven.

The Company has reimbursed Windflow Technology Limited for various payments made on behalf of the Company, this includes a re charge of the salary incurred by Windflow for Mr Chris Freear.

Of the four Directors two Directors are also Directors of Windflow Technology Limited.

The Directors fees paid to these two Directors are as follows:

P B Leay	\$ 15,500,	K J McConnell	\$ 15,500
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It is proposed that the advances completed by Windflow Technology Limited, as at the 30th June 2005, will be repaid by way of an issue of shares by NZ Windfarms Ltd to Windflow.



NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2005 (Continued)

	30 th June 2005	30 th June 2004
19. Reconciliation of reported deficit with cash flows from operating activities		
Net Deficit	(118,594)	-
Less <i>Non Cash Items and non operating items:</i>		
Issue Costs of Equity	117,410	-
	-----	-----
	117,410	-
	-----	-----
Cash Flow from Operations before working capital changes	(1,184)	-
 <i>Movements in Working Capital</i>		
Increase (Decrease) in accounts payable excluding asset purchases	72	-
Decrease (Increase) in tax refund	(1)	-
Decrease (Increase) in accounts receivable & interest accrued	-	-
Decrease (Increase) in GST Receivable excluding intangible assets	(3,905)	-
	-----	-----
	(3,834)	-
	-----	-----
Net Cash Flows from Operating Activities	(5,018)	-
	=====	=====



DIRECTORY

The Directors of NZ Windfarms Ltd are:



Derek Walker, Chairman
41A Elmira Ave, Palmerston North

Derek is a professional electrical engineer and a member of the Institute of Directors and the Institute of Management. 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's governance experience includes Palmerston North Airport Limited, Palmerston North City Holdings, The Bio Commerce Centre, and the Central Energy Trust.

Vicki Buck, Independent Director
14 Jane Deans Close, Christchurch

Vicki is the Development Manager at Christchurch Polytechnic Institute of Technology. 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. She is also a director of Jade Stadium Ltd and Brylton Software Ltd.



Juliet McKee, Independent Director
23A Braithwaite St, Wellington

Juliet is an economist and company director whose board appointments include Warren and Mahoney, and St James Theatre Trust Wellington. Previous board appointments include Wellington International Airport, Coast Health Care, Taranaki Healthcare and the NZ Broadcasting Commission. She is a Fellow of the Victoria University School of Government and a Fellow of the NZ Institute of Directors. Previous assignments include reporting for the BBC in Tunisia, a financial analysis for Shell in West Africa and three years service with the Commonwealth Secretariat in London and the United Nations in Geneva. She was awarded the Commonwealth Medal in 1990 and a QSO for public service in 1996.

Barrie Leay, Director
45 Ledbury Rd, Nelson

Barrie is currently Chairman of Windflow Technology Limited, Ecodyne Limited, Broadband Networks Limited, Bio Refineries Limited, SwimmingFish Pacific Limited, he is also a Director of ThePacific.net, Pantenna Limited Managing e-services Limited, and founder Chairman of the APEC Energy Business Network in the Asia Pacific region. Barrie 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.





DIRECTORY (continued)

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 Ltd, Donaghy Downs Pty Ltd, The Power Company Ltd, United Electricity Ltd, Paykel Ltd and most recently Fruehauf Pacific Ltd. His involvement with wind energy first arose during his tenure with The Power Company Ltd 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 Ltd and Supply Solutions) and has a good understanding of the issues involved in such ventures.

Staff Chris Freear (Acting CEO)

Solicitor
Anthony Harper Lawyers
Level 5, Anthony Harper Building
47 Cathedral Square
Christchurch

Accountant
Grant Thornton
9th Floor, Anthony Harper Building
47 Cathedral Square
Christchurch

Auditor
Goldsmith Fox PKF
236 Armagh St
Christchurch

Share Registry
BK Registries Ltd
138 Tancred St
Ashburton

Bankers
National Bank
665 Colombo St
Christchurch

Insurance Brokers
Marsh Limited
Level 4, 233 Cambridge Terrace
Christchurch



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