



NZ WINDFARMS LTD

SIX MONTHLY REPORT

Balance Date 31 December 2005

Report Date 10 March 2006



New Zealand Energy – Changing Our World

**NZ WINDFARMS LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2005**

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It is exciting to be making this our first shareholder's report as a listed company. This report covers the six month period to 31 December 2005.

The highlight of this last period was undoubtedly the successful floating and listing of NZ Windfarms onto the NZAX, with sufficient funds to see the initial phase of construction of New Zealand's first indigenous wind farm – Te Rere Hau through to commissioning and commercial operation.

IPO

NZ Windfarms principle focus over this period was of course our Initial Public Offering, and subsequent listing on to the NZAX (www.nzx.com).

We are thrilled to have had so many people choose to be a part of this exciting project. NZ Windfarms now has over 630 shareholders who together provided more than \$4 million. As a consequence of this only being approximately half of the desired \$8 million sought by the company, some upfront capital expenditure previously incorporated in the prospectus for the IPO (dated 18 October 2005) has been deferred until after the second capital raising stage, scheduled for later in 2006.

These changes however will not affect our primary goal which is the completion and commissioning of the five turbines at Te Rere Hau.

Te Rere Hau wind farm

With our first capital raising successfully subscribed, we were able to start firming up the Te Rere Hau planning schedule before the Christmas and summer holiday period. A \$1.26 million deposit and progress payment was made for the first batch of turbines upon confirmation of the order on 31st December.

We also exercised the option with Aeolian Property Company Ltd in order to establish the necessary easements across the land.

Our discussions with the NP Power - Babcock & Brown consortium regarding taking a 50% stake in the Te Rere Hau wind farm were extended at a meeting on the 14 December 2005 due to delays with the due diligence process. The first payment of \$3 million originally due under the Memorandum of Understanding by 31 December 2005 has accordingly been delayed and will now be made if a final decision to proceed to a joint venture is made. This decision is now scheduled for the second quarter of 2006.

In the meantime, preparations for the project remain on-track, with the relevant regulatory, site preparation and manufacturing workstreams proceeding according to schedule.

Financial Results

The following six month accounts cover the period from 30 June 2005 until 31 December 2005. NZ Windfarms elected to adopt the new International Financial Reporting Standards (IFRS) ahead of the statutory time frame in order to simplify the process of reporting over the development and operation of the Te Rere Hau wind farm project. As a consequence there has been a change in financial reporting standards from NZ Financial Reporting Standards to International Financial Reporting Standards (IFRS) since the last report but this has not affected the content of the financial statements. The trading result is in line with the projections used for the prospectus, with the key results being:

	Current Period NZ\$'000	Previous Corresponding Period NZ\$'000
OPERATING REVENUE		
Trading revenue		
Other revenue	\$22	
Total Operating Revenue		
OPERATING SURPLUS (DEFICIT) AFTER TAX FOR THE PERIOD	(\$175)	(\$52)
NET SURPLUS (DEFICIT) ATTRIBUTABLE TO MEMBERS OF THE LISTED ISSUER	(\$175)	(\$52)
Equity at beginning of half year	\$728	
Equity at end of half year	\$4,199	(\$52)

Electricity Market Conditions

Over the period, interest in wind generation has continued to grow with intentions being announced for several more projects in various parts of the country. Wind energy has certainly come of age, with this continued level of activity demonstrating not only its financial viability but also the size of the market.

We also have a new Government. Unfortunately there has been less continuity with the Ministers of Energy and Climate Change. The intentions that have been signalled indicate that in the future we may see problems like the lack of transmission capacity feeding Auckland being solved by tenders offering generation, energy efficiency or transmission solutions, this in turn will provide increase opportunity to implement wind generation projects close to where the need for electricity is greatest. The Government has also re-affirmed its commitment to providing a genuine response to climate change. Whilst the method by which this will be achieved is not yet clear, nevertheless the future tradability of our carbon credits is assured.

There are also early indications that lake levels relevant to hydro-electric generation may be down on average which will no doubt be reflected in the wholesale electricity prices in the months to come.

Future Focus

Our main focus for the remainder of the current financial year is to progress work on the Te Rere Hau site to enable completion of the first five wind turbines during the third quarter. We will also be making plans for our next stage of capital raising for stage two of the Te Rere Hau project, prospecting for sites for future projects, and developing relationships with our potential partners.

NZ WINDFARMS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

30/06/2005	As at		31/12/2005	31/12/2004
NZFRS		Notes	NZ IFRS	NZFRS
NZ\$			NZ\$	NZ\$
	Assets			
	Non-current			
-	Property, plant and equipment		1,987	-
-	Turbines in Construction		1,260,000	-
1,056,709	Intangible assets		1,050,662	160,778
1,056,709			2,312,649	160,778
	Current			
4,793	Cash and cash equivalents		3,923,070	5,062
114,052	GST refund		198,060	22,488
1	Income tax refund		5,712	-
-	Trade and other receivables		41,408	-
118,846			4,168,250	27,550
1,175,555	Total assets		6,480,899	188,328
	Equity			
	Equity attributable to shareholders			
846,486	Share capital	3	4,492,134	-
(118,594)	Retained earnings		(293,478)	(51,890)
727,892	Total equity		4,198,656	(51,890)
	Liabilities			
	Non-current			
-	Long term financial liabilities		-	-
-	Deferred tax		36	-
-			36	-
	Current			
39,032	Trade and other payables		1,472,075	9,479
408,631	Advance from Windflow Technology		810,131	230,739
447,663			2,282,206	240,218
447,663	Total liabilities		2,282,242	240,218
1,175,555	Total equity and liabilities		6,480,898	188,328
-4.4%	Returns on assets % (EBIT divided by total assets)		-3.0%	
-7.1%	Return on equity % (Net income divided by shareholders equity)		-4.2%	
61.5%	Debt to equity ratio		54.4%	

Signed for and on behalf of the Board as at 10 March 2006

Director

Director

NZ WINDFARMS LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2005

12 months 30/06/2005 NZFRS NZ\$	For the period to	Notes	6 months 31/12/2005 NZ IFRS NZ\$	6 months 31/12/2004 NZFRS NZ\$
-	Trading revenue		-	-
-	Total income		-	-
-	Audit fees		-	-
-	Directors fees		49,500	-
-	Employment expenses		54,782	-
-	Lease and rental expenses		7,200	-
118,605	Other operating expenses		78,502	51,890
118,605	Operating expenses (excluding depreciation and intangible impairment)		189,984	51,890
(118,605)	Earnings before interest, tax, depreciation and intangible impairment		(189,984)	(51,890)
-	Impairment of intangible assets		7,548	-
-	Depreciation		90	-
(118,605)	Earnings before interest and tax		(197,622)	(51,890)
11	Interest income		22,834	-
-	Interest expense		(60)	-
(118,594)	Result for period		(174,848)	(51,890)
-	Tax expense, net		36	-
(118,594)	Net result for the period		(174,884)	(51,890)
	Earnings per share			
(0.14)	Basic		(0.03)	(518.90)
(0.14)	Diluted		(0.03)	(518.90)

NZ WINDFARMS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2005

12 months 30/06/2005	For the period to		6 months 31/12/2005	6 months 31/12/2004
NZFRS NZ\$		Notes	NZ IFRS NZ\$	NZFRS NZ\$
-	Equity at beginning of period		727,892	-
(118,594)	Net result for the period		(174,884)	(51,890)
(118,594)	Total recognised income and expense for the period		553,008	(51,890)
846,486	Issue of ordinary shares	3	3,645,648	-
727,892	Equity at end of period		4,198,656	(51,890)
Represented by:				
846,486	Share capital	3	4,492,134	-
(118,594)	Retained earnings		(293,478)	(51,890)
727,892	Total equity		4,198,656	(51,890)

NZ WINDFARMS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2005

12 months 30/06/2005 NZFRS NZ\$	For the period to	Notes	6 months 31/12/2005 NZ IFRS NZ\$	6 months 31/12/2004 NZFRS NZ\$
	Operating activities			
	<i>Cash was received from:</i>			
-	Trading revenue		-	-
11	Interest received		9,048	-
11			9,048	-
	<i>Cash was applied to:</i>			
-	Interest paid		60	-
5,029	Payments to suppliers and employees		135,782	92,669
5,029			135,842	92,669
(5,018)	Net cash inflow (outflow) from operating activities	8	(126,794)	(92,669)
	Investing activities			
	<i>Cash was applied to:</i>			
201,301	Purchase of intangible assets		846,487	-
-	Purchase of fixed assets		2,077	-
201,301			848,564	-
(201,301)	Net cash inflow (outflow) from investing activities		(848,564)	-
	Financing activities			
	<i>Cash was provided from:</i>			
-	Issue of ordinary shares		4,919,046	-
311,004	Advances from Windflow Technology		401,500	185,739
311,004			5,320,546	185,739
	<i>Cash was applied to:</i>			
91,708	Issue costs of equity	3	426,911	88,328
8,184	Advances to Windflow Technology		-	-
99,892			426,911	88,328
211,112	Net cash inflow (outflow) from financing activities		4,893,635	97,411
4,793	Net increase/(decrease) in cash and cash equivalents		3,918,277	4,742
-	Cash and cash equivalents, beginning of year		4,793	320
4,793	Cash and cash equivalents, end of year		3,923,070	5,062
	Cash and cash equivalents			
-	Term Deposit		2,015,000	-
4,793	Bank account		1,908,070	5,062
4,793	Ending cash and cash equivalents carried forward		3,923,070	5,062

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2005

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. 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.

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 2005 as contained in the registered prospectus dated 18 October 2005. Relevant IFRS accounting policies can be viewed in the prospectus dated 18 October 2005. A copy of the prospectus is available from the companies office website or directly from the company.

3. Capital and Reserves

Reconciliation of movement in capital and reserves

12 months 30/06/2005 NZ\$	As at	6 months 31/12/2005 NZ\$	6 months 31/12/2004 NZ\$
-	Opening issued equity	846,486	-
	Net proceeds of shares issued & fully paid		
846,486	- issued during the period	4,072,559	-
-	- less issue costs	(426,911)	-
846,486	Net proceeds of shares issued & fully paid	4,492,134	-
	Retained earnings		
-	Opening balance	(118,594)	-
(118,594)	Net result for the period (after tax)	(174,883)	(51,890)
(118,594)	Closing retained earnings	(293,477)	(51,890)
727,892	Total equity	4,198,657	(51,890)

4. Related party transactions

The Company's related parties include the companies supplier of wind turbines, Windflow Technology who holds 43% or 3,000,000 shares in the Company as at 31 December 2005. (30 June 2005; 100% 846,586 shares, 31 December 2004; 100% 100 shares). Windflow Technology 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. During the period ended 31 December 2005 the Company confirmed the purchase of five turbines from Windflow Technology with a purchase price of \$3,150,000 (excluding GST). The progress payment owing for the turbines at 31 December 2005 was \$1,417,500 inclusive of GST 000 (30 June 2005: \$0, 31 December 2004: \$0).

Windflow Technology has advanced funds to the Company to cover company and windfarm setup costs and issue expenses. As at 31 December 2005 the amount owed to Windflow Technology was \$810,131 (30 June 2005: \$408,631, 31 December 2004: \$230,739).

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	D 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 \$50,188 was paid during the period. (31 December 2004: \$0). For the period to 30 June 2005 \$97,750 directors fees were capitalised as "Development costs".

5. 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.

Funds raised from the initial public offering were to be used to repay the advances from Windflow Technology. The Turbine Purchase Agreement also provides funding arrangements for the first five turbines. Where the proceeds of the capital raising are insufficient for NZ Windfarms to make payments outright to Windflow Technology then an agreed proportion of the funds raised are paid to Windflow Technology, and must also pay at least 50% of its gross income in principal and interest payments until the turbines are paid for. If after four years after the date of the Turbine Purchase Agreement debt remains outstanding to Windflow Technology, NZ Windfarms must issue further \$1 shares to Windflow Technology in satisfaction of these debts or part thereof.

The Company's key management and others as 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.

The 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

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 31 December 2005 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 windfarm 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. The total rateable value of these properties as at September 2003 was \$1,086,000. NZ Windfarms, if required to purchase these properties, would look to sell them immediately on the open market.

Joint Venture

NZ Windfarms and a potential joint venture partner have entered into a memorandum of understanding that may result in a formal legal arrangement by 30 June 2006. The terms of the memorandum of understanding have not been executed as at 31 December 2005.

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 \$4,362,445 000 (30 June 2005: \$0, 31 December 2004: \$0).

6. 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 2006.

7. Capital Commitments

During the period ended 31 December 2005, the Company confirmed the purchase of five turbines from Windflow Technology for \$3,150,000 (30 June 2005: \$0, 31 December 2004: \$0). The deposit on the turbines of \$1,260,000 has been accounted for in the balance sheet.

The Company also confirmed a contract for upgrading of the local Power Co network line for stage 1 of the project: \$485,000 000 (30 June 2005: \$0, 31 December 2004: \$0).

8. Cash flow statement

12 months 30/06/2005 NZ\$	For the period to	6 months 31/12/2005 NZ\$	6 months 31/12/2004 NZ\$
(118,594)	Reported Net Surplus (Loss) after Taxation	(174,884)	(51,890)
	Non Cash Items		
-	Depreciation	90	-
-	Impairment of intangible assets	7,548	-
-	Movement in deferred tax	36	-
-	Development Cost Capitalised	-	(98,441)
117,410	Issue costs of equity	-	88,328
(1,184)		(167,210)	(62,003)
	Changes in working capital		
72	Trade and other payables	171,355	(8,177)
-	Trade and other receivables	(41,408)	-
(3,905)	GST	(83,820)	(22,489)
(1)	Income Tax	(5,711)	-
(3,834)		40,416	(30,666)
(5,018)	Net cash flow from operating activities	(126,794)	(92,669)