



NZ Windfarms
POWERED BY NATURE

**NZ WINDFARMS LIMITED
PRELIMINARY ANNOUNCEMENT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010**

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NZ WINDFARMS LIMITED

PRELIMINARY ANNOUNCEMENT

On behalf of the Directors it is my pleasure to report on the progress the Company has made in the financial year to 30 June 2010.

The highlights in the financial year were commissioning the final Stage 3 turbines at the Te Rere Hau wind farm in November 2009, making a total of 65 commissioned turbines; receiving a favourable resource consent for the Eastern Extension of Te Rere Hau wind farm during February 2010 and the successful rights issue raising \$31,426,000 in May 2010.

The Company has also been able to get clarity over the likely impact of having turbines that have some differences to the design submitted by Windflow Technology Limited ("WTL") for IEC certification. A settlement agreement was completed with WTL in April 2010 which provides for WTL to make modification to the turbines supplied to NZ Windfarms or provide extended warranties to cover the issues provided.

The Company now has all the consents and funding in place to complete the construction of the final 32 turbines on the extension site which will yield significantly greater output than the remaining sites on the original consented site.

FINANCIAL PERFORMANCE

Financial performance for the year to 30 June 2010 was a loss before asset impairments, depreciation, amortisation, discount on acquisition and tax of \$533,000 (30 June 2009 – loss of \$626,000). This compares with the April 2010 prospectus forecast of a loss of \$435,000. The projected income from electricity sales was not achieved as the wind resource was lower during May and June than the projected long term average resource, and wholesale electricity prices were lower than projected due to above average hydro-lake levels from late April.

Revenue from electricity generation increased from \$812,000 in the 2009 financial year to \$4,147,000 as turbines were livened to the grid and became operational. However, this revenue increase was offset by higher operational costs and depreciation on the extra commissioned turbines. Electricity revenue has been impacted by lower than expected electricity prices resulting from higher than average inflows of water into the hydro lakes and lower demand due to the economic recession. Interest income of \$334,000 was \$2,604,000 less than in the 2009 financial year due to lower interest rates prevailing in the market and as a result of expending funds on the Te Rere Hau build programme.

The Company has entered into an emission reduction project agreement with the Crown in relation to the Te Rere Hau wind farm. The Company commenced earning emission reduction units on 1 January 2008 and earned 1,296 units during the year ended 31 December 2008 and 30,390 units during the year ended 31 December 2009. The 2008 and 2009 emission units were sold during the current year for \$18.75 per unit

During the year, the Company carried out a review of the carrying values of assets in accordance with NZ IAS 36 - Impairment of Assets, and made an impairment charge of \$6,300,000 in the 31 December 2009 Interim Financial Statements. The valuation of the Te Rere Hau wind farm assets is very sensitive to assumptions about discount rate and electricity price. In ascertaining the "fair value less costs to sell" in accordance with NZ IAS 36, the Company has applied a post-tax (nominal) discount rate of 10% (equivalent to a 11.8% pre-tax (nominal) discount rate), consistent with the discount rate factored into the Ministry of Economic Development's long run marginal cost modeling on which the adopted future price path is based. Accordingly this rate reflects the Ministry's estimate of the hurdle rate applied by a typical investor evaluating an electricity generation project.

After taking into account the asset impairment charge, depreciation, amortisation, discount on acquisition and tax, net loss for the year was \$7,593,000 (30 June 2009 – net profit of \$961,000). Total assets at 30 June 2010 were \$113,488,000 (30 June 2009 - \$94,413,000).

FUNDING

Following the successful capital raising in May 2010, the Company secured the financial resources to complete the Te Rere Hau wind farm and this remains the focus of the Company.

DIVIDEND

The 2010 Prospectus forecasted that no dividends are expected to be paid in the financial years ending 30 June 2010 and accordingly the Board has resolved that no dividend will be declared for the financial year ended 30 June 2010.

NZ WINDFARMS LIMITED

PRELIMINARY ANNOUNCEMENT (CONTINUED)

TE RERE HAU PROJECT

Since 30 June 2009 the overall focus has been to complete the Te Rere Hau project. The initial focus for the year was on completing the commissioning of all turbines up to Stage 3 at the Te Rere Hau wind farm and resolving the dispute with our turbine supplier, Windflow Technology Limited. In the second half of the year the focus was on completing all the steps necessary to allow the installation of the final 32 turbines on order on the area known as the Eastern Extension.

Resource Consent – Te Rere Hau Eastern Extension

On 26 March 2010 shareholders were advised that NZ Windfarms has clear consent from Tararua District Council to locate the 32 Batch 4 turbines in the Eastern Extension area. The Extension area has a better wind resource than the lower slopes of the original site.

Construction Progress

By 30 November 2009 all 28 Stage 2 turbines and 32 Stage 3 turbines had been fully commissioned, making a total of 65 turbines operational and producing electricity into the National Grid.

The construction works for stage 4 turbines installation on the Eastern Extension commenced as soon as the capital raising was completed and are now well underway. We have experienced some delays which have put our anticipated construction programme back by approximately four months but we are working to try and minimise the effect of these delays. Earthworks commenced during May 2010 and earthworks construction of the first 16 turbine sites is 80% complete. Foundations drilling has been completed for five turbine sites, four tower bases have been erected and work has commenced on power reticulation to the turbine sites.

The delay in completing commissioning of the last 32 turbines will have an impact on expected revenue for the 2011 year to the extent that revenue producing generation is delayed.

Windflow Technology Dispute

As reported in the 2010 Interim Report, in August 2009 we learned that none of the turbines supplied for the Te Rere Hau project would be of the design submitted by WTL for IEC Class 1A Certification as a number of design changes had been made to meet the requirements for certification. At that time WTL advised that to incorporate all the design changes in all turbines would require a fundamental refit of those turbines and the potential cost to do this could be as high as \$24 million. This meant it was essential we understood the impacts and risks of not having these design changes.

This issue took some time to resolve as it required third party review of the changes and the expected implications of not having the changes incorporated in the turbines installed at Te Rere Hau.

Following the review, the Company and WTL reached agreement on a monitoring programme with respect to some components in the early turbines at Te Rere Hau which were subsequently modified as part of WTL's IEC Certification process because they did not meet IEC requirements for a 20 year life. Agreement has been reached that, in respect of these components, the Company will retain a sum of \$966,200 plus GST (being the total estimated remediation cost) which will be released to WTL if and when remediation works are undertaken during the five year warranty period or, if prior to the end of the current five year warranty period a report from an independent consultant provides an opinion that the affected components can be expected to achieve a 20 year life and accordingly do not need to be upgraded. In the absence of such a report, any components not upgraded will be subject to a warranty from WTL that extends to the end of the 20 year design life, provided WTL remains the operations and maintenance contractor. Any retention held at the end of the five year warranty period is repaid once the extended 20 year warranty is provided.

In addition to dealing with the IEC design issue the settlement agreement also deals with the holding of retentions for outstanding work; the consequences of delaying installation of Batch 4 turbines and other miscellaneous issues. As a result of this all outstanding claims between both companies have been settled.

NZ WINDFARMS LIMITED PRELIMINARY ANNOUNCEMENT (CONTINUED)

Wind Rights Agreement

In a separate development, the wind rights agreement with Aeolian Property Company Limited ("APCL") was renegotiated to allow preferential development of the proposed extension to the existing consented wind farm area ("Eastern Extension"), ahead of full development of the APCL land. Under the wind rights agreement, the Company was prohibited from installing turbines within a 10 km radius of the Te Rere Hau site until the APCL land was fully developed with 97 turbines. APCL agreed to remove this restriction in exchange for an adjustment to the royalty rate applicable to the APCL land such that the royalty payable is equal to the royalty that would be expected if all 97 turbines had been installed on the APCL land. Adjustments have also been made to minimum annual royalty thresholds as part of the amendments to the agreement with APCL.

A put option agreement dated 22 December 2006 allows APCL to require NZ Windfarms to purchase the APCL land at a price calculated by reference to a formula which includes the value of the land as a grazing unit plus the net present value of the future royalty payments APCL will forego over the duration of the wind rights agreement and any renewals. In April 2010 as part of an agreement reached with APCL, New Zealand Windfarms and APCL have agreed that, instead of the formula, a fixed price of \$3.55 million (plus GST if applicable) shall apply if APCL exercises the put option any time between 30 June 2010 and 31 December 2010. On 8 July 2010 APCL served notice under the Put Option Agreement for purchase of the Te Rere Hau property. Settlement is expected to be completed by the end of August 2010.

Exercise of the put option extinguishes any requirement for the Company to pay royalties for turbines located on APCL land and gives NZ Windfarms ownership of the land on which the turbines are sited.

DIRECTORS AND STAFF

On 30 June 2010 Juliet McKee resigned as director of NZ Windfarms Limited. The Board undertook a process to identify a suitable replacement director and on 23 August 2010 the Company announced the appointment of Michael Allen as a director of the Company with effect from 1 September 2010. In accordance with the Company's constitution, this appointment runs until the next Annual General Meeting when he must retire and seek re-election by the shareholders.

Steve Cross gave the Board notice of his intention not to extend his contract beyond 31 July 2010 and in June the Company announced the appointment of Chris Sadler as its new Chief Executive Officer. From 10 August 2010, Chris Sadler will take over the responsibilities as Chief Executive of NZ Windfarms, before taking up the permanent role on 20 September 2010.

My thanks go to Directors and staff for their support over another challenging year.

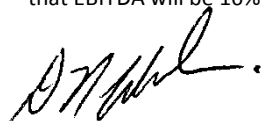
FUTURE PROSPECTS

Our top priorities remain the completion of the Te Rere Hau project and optimising the operation of the completed turbines.

By the end of the financial year we should have the project fully completed.

We are forecasting a profit for the year ended 30 June 2011, with the Company generating positive operating cash flows. The forecasts are based on average expected electricity price and wind levels. However, revenue is likely to be volatile due to the wide variability of both price and wind levels, with both factors essentially outside the Company's control. Some hedging of price is possible but to date the discount for obtaining price certainty for a short term variable volume product such as wind generation has been quite high. We continue to monitor this and assess the trade-offs between revenue certainty and the cost of achieving that certainty.

The delay in completing commissioning of the last 32 turbines will have an impact on expected revenue for the 2011 year. Based on the price and wind speed assumptions in the April 2010 Investment Statement forecasts, the latest forecast is that EBITDA will be 16% below the Investment Statement forecast for the year ended 30 June 2011.



Derek Walker
Chairman

25 August 2010



NZ Windfarms
POWERED BY NATURE

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010**

NZ WINDFARMS LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Group		Company	
		30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Income					
Electricity sales		4,147	812	-	-
Other income – sale of emission units		594	-	-	-
Gain on sale of investment		3	79	-	79
Other income		42	100	480	517
Total income (excluding interest income)		4,786	991	480	596
Administration expenses		299	454	280	376
Audit fees		45	34	45	25
Audit fees – other assurance services		32	-	32	-
Directors fees	15	233	230	233	230
Employment expenses		647	992	1,079	1,406
Insurance		414	180	26	23
Lease and rental expenses	19	768	527	39	34
Legal and consulting expenses		838	983	741	914
Te Rere Hau wind farm operational expenses		1,300	362	-	-
Loss on sale of assets for resale		12	-	12	-
Loss on liquidation of subsidiary		-	-	97	-
Impairment of property for resale		34	245	34	245
Impairment of advance to subsidiary entity		-	-	-	364
Impairment of non-current assets	13	6,300	693	-	-
Other operating expenses		289	518	243	343
Operating expenses (excluding depreciation and amortisation)		11,211	5,218	2,861	3,960
(Loss) before interest, depreciation, amortisation, discount on acquisition, non-controlling interest and tax		(6,425)	(4,227)	(2,381)	(3,364)
Amortisation	5	(436)	(57)	-	-
Depreciation	4	(3,190)	(1,044)	(50)	(35)
(Loss) before interest, discount on acquisition, non-controlling interest and tax		(10,051)	(5,328)	(2,431)	(3,399)
Interest income		334	2,938	334	2,831
Interest expense		(776)	(275)	(221)	-
(Loss) before discount on acquisition, non-controlling interest and tax		(10,493)	(2,665)	(2,318)	(568)
Discount on acquisition of investment		-	3,209	-	-
Net profit before non-controlling interest and tax		(10,493)	544	(2,318)	(568)
Income tax (benefit)	1	(2,900)	(407)	(610)	(43)
Net (loss)/profit for the year before non-controlling interest		(7,593)	951	(1,708)	(525)
Non-controlling interest		-	(10)	-	-
(Loss)/profit for the year and total comprehensive (loss)/income for the year	9	(7,593)	961	(1,708)	(525)
(Loss)/profit for the year and total comprehensive (loss)/income for the year attributable to:					
Equity holders of the parent		(7,593)	951	(1,708)	(525)
Non-controlling interest		-	10	-	-
		(7,593)	961	(1,708)	(525)
Earnings per share - basic and diluted	10	(0.07)	0.01	(0.02)	(0.01)

These financial statements should be read in conjunction with the notes to the financial statements on pages 11 to 39.

NZ WINDFARMS LIMITED
BALANCE SHEETS
AS AT 30 JUNE 2010

	Notes	Group		Company	
		30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Assets					
Current assets					
Cash and cash equivalents	12	18,832	10,476	18,812	10,258
Restricted short term deposits	16	4,637	4,637	4,637	4,637
Trade and other receivables	3	714	673	244	174
Assets held for resale	2	-	800	-	800
Income tax receivable		-	42	-	-
Total current assets		24,183	16,628	23,693	15,869
Non-current assets					
Property, plant and equipment	4	60,404	52,176	124	189
Turbine deposits		9,728	15,504	-	-
Intangible assets	5	5,830	5,943	-	-
Capital work in progress		10,151	3,854	-	-
Advance to subsidiary entities	15	-	-	84,590	68,072
Investments in subsidiaries	6	-	-	-	99
Deferred tax	7	3,192	308	779	160
Total non-current assets		89,305	77,785	85,493	68,520
Total assets		113,488	94,413	109,186	84,389
Liabilities					
Current liabilities					
Trade and other payables	8	3,722	7,773	492	3,111
Income tax payable		-	-	-	56
Current portion of finance lease	18	178	104	-	-
Total current liabilities		3,900	7,877	492	3,167
Non-current liabilities					
Finance lease	18	6,908	5,444	-	-
Total non-current liabilities		6,908	5,444	-	-
Equity					
Share capital	9	107,058	77,878	107,058	77,878
Retained (loss)/earnings	9	(4,378)	3,214	1,636	3,344
Equity attributable to equity holders of the Company		102,680	81,092	108,694	81,222
Total Equity		102,680	81,092	108,694	81,222
Total equity and liabilities		113,488	94,413	109,186	84,389
Net tangible assets per security		0.36	1.01	0.38	1.04

Signed for and on behalf of the Board as at 25 August 2010.




Director

Director

These financial statements should be read in conjunction with the notes to the financial statements on pages 11 to 39.

NZ WINDFARMS LIMITED
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Group		Company	
		30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Equity at beginning of year		81,093	80,142	81,222	81,747
(Loss)/profit for the year and total comprehensive (loss)/income for the year		(7,593)	961	(1,708)	(525)
		73,500	81,103	79,514	81,222
Issue of ordinary shares	9	29,180	-	29,180	-
Total comprehensive income attributable to non-controlling interests		-	(10)	-	-
Dividends		-	-	-	-
Equity at end of year		102,680	81,093	108,694	81,222
Represented by:					
Share capital	9	107,058	77,878	107,058	77,878
Retained (loss)/earnings	9	(4,378)	3,215	1,636	3,344
Total equity		102,680	81,093	108,694	81,223

These financial statements should be read in conjunction with the notes to the financial statements on pages 11 to 39.

NZ WINDFARMS LIMITED
CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Group		Company	
		30 June 2010	30 June 2009	30 June 2010	30 June 2009
		\$000's	\$000's	\$000's	\$000's
Operating activities					
Cash was received from:					
Trading revenue		4,145	793	-	-
Sundry income		636	427	480	533
Income tax received (paid)		58	(17)	(65)	8
Interest received		305	4,750	305	4,642
		5,144	5,953	720	5,183
Cash was applied to:					
Interest paid		776	275	221	-
Payments to suppliers and employees		4,913	3,939	5,333	2,882
		5,689	4,214	5,544	2,882
Net cash (outflow)/inflow from operating activities	11	(545)	1,739	(4,834)	2,301
Investing activities					
Cash was provided from:					
Sale of property, plant and equipment		-	7	-	4
Sale of assets held for resale		754	-	754	-
Sale of investment		-	-	2	180
Sale of intangible assets		-	180	-	-
		754	187	756	184
Cash was applied to:					
Purchase of intangible assets		1,018	2,382	-	-
Purchase of property, plant and equipment, turbine deposits and capital work in progress		17,618	29,864	30	115
Purchase of investment		-	50	-	50
Purchase of remaining interest in Te Rere Hau wind farm		2,100	17,079	-	18,575
Purchase of assets held for resale		-	550	-	550
		20,736	49,925	30	19,290
Net cash (outflow)/inflow from investing activities		(19,982)	(49,738)	726	(19,106)
Financing activities					
Cash was provided from:					
Related party loan		6,500	-	6,500	-
Issue of ordinary shares		31,426	-	31,426	-
		37,926	-	37,926	-
Cash was applied to:					
Issue costs of equity		2,246	-	2,246	-
Advance to subsidiary		-	-	16,518	31,400
Finance lease		297	52	-	-
Related party loan		6,500	-	6,500	-
		9,043	52	25,264	31,400
Net cash inflow (outflow) from financing activities		28,883	(52)	12,662	(31,400)
Net increase/(decrease) in cash and cash equivalents		8,356	(48,051)	8,554	(48,205)
Cash and cash equivalents, beginning of year		10,476	58,527	10,258	58,463
Cash and cash equivalents, end of year		18,832	10,476	18,812	10,258
Cash and cash equivalents					
Short term deposits		14,075	8,175	14,075	8,175
Bank account and on call deposits		4,757	2,301	4,737	2,083
Ending cash and cash equivalents carried forward		18,832	10,476	18,812	10,258

These financial statements should be read in conjunction with the notes to the financial statements on pages 11 to 39.

NZ WINDFARMS LIMITED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2010

REPORTING ENTITY AND STATUTORY BASE

NZ Windfarms is a profit oriented company 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.

NZ Windfarms Limited (the Company) is a company registered under the Companies Act 1993 of New Zealand and listed on the New Zealand Stock Exchange (NZSX).

Financial statements for the Company and consolidated financial statements (Group) are presented. The consolidated financial statements of NZ Windfarms Limited as at 30 June 2010 comprise the Company and its 100% owned subsidiary NZWL-TRH Limited.

BASIS OF PREPARATION

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 2009, the Financial Reporting Act 1993 and Companies Act 1993 and prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit oriented entities. The Group and Parent financial statements comply with International Financial Reporting Standards (IFRS) and have been prepared on a going concern basis.

The financial statements are expressed in New Zealand dollars which is the Company's functional currency.

MEASUREMENT BASE

The measurement base adopted in the preparation of these financial statements is historical cost, modified by measuring assets held for resale at fair value less costs to sell.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying value of assets and liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable in the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following accounting policies and notes:

- Carrying value, impairment and useful life of property, plant and equipment - accounting policy, notes 4 and 13.
- Carrying value and impairment of intangible assets - accounting policy, notes 5 and 13.

NZ WINDFARMS LIMITED
STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by all NZ Windfarms companies.

Basis of consolidation

Subsidiaries are those entities controlled directly by the NZ Windfarms Group. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Group financial statements are prepared from the financial statements of the the Company and its subsidiaries using the purchase method of consolidation. All significant inter-company transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated on consolidation.

Investments in subsidiaries are recorded at cost less any impairment in the parent's financial statements.

Revenue recognition

NZ Windfarms recognises revenue on services it provides and on delivery of electricity to customers.

Emission reduction units are recognised on a calander year basis after taking into account the number of units earned during the year less abatements incurred by suppliers on behalf of NZ Windfarms. The emission reduction units will be recognised as an asset at fair value the time the Crown issues the units.

Interest

Interest income and expenses are recognised on an accruals basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, when appropriate, a shorter period to the net carrying amount of the financial instrument. Where interest cost has been directly incurred in the construction of an asset the cost has been capitalised to the cost of construction of the asset.

Taxation

The taxation expense charged to earnings represents the sum of the current payable and deferred tax.

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.

Tax losses are recognised when utilisation of the losses is probable.

Deferred tax is recognised 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. Future tax benefits are recognised where realisation of the asset is probable.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax rates that have been enacted or substantively enacted by the balance sheet date.

Assets held for resale

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

NZ WINDFARMS LIMITED
STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

Trade and other receivables

Trade receivables are recorded initially at fair value plus transaction costs. Subsequent to initial recognition trade receivables are measured at amortised costs less any provision for bad or doubtful accounts. Trade receivables are subject to credit risk exposure.

Property, plant and equipment

Property, plant and equipment is stated at cost, and other than land, is depreciated in equal instalments over their estimated economic lives. For constructed assets, depreciation commences when construction is completed and where appropriate, the asset has been commissioned.

The economic lives have been estimated as follows:

Roading	50 years
Foundations	50 years
Electrical	20 to 50 years
Buildings	40 years
Turbines	20 years
Office equipment	5 years
Plant and equipment	5 years
Motor vehicles	4 years

All assets are included at acquisition cost less subsequent accumulated depreciation and accumulated impairment losses.

Turbine deposits

Turbine deposit payments represent deposits paid on turbines not commissioned.

Capital work in progress

Capital work in progress includes the cost of turbine components where title has been transferred to the Group and work in progress on wind farm infrastructure assets. When turbines are commissioned they are transferred from capital work in progress to property, plant and equipment.

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.

The Group capitalises the direct costs associated with obtaining land use resource consents to build wind farms. Capitalised costs include external direct costs of services consumed, including expert advice directly associated with the land use consents, payroll and direct payroll-related costs for employees (including contractors) directly associated with the project. Resource consents are recognised as indefinite life intangible assets, are initially recorded at cost and subsequent to initial recognition are subject to an annual impairment test.

Intangible assets are amortised on a straight line basis over their estimated useful lives. Where estimated useful lives or recoverable values have diminished due to market conditions, amortisation is accelerated or the carrying value impaired.

Emission reduction units are recognised as an asset at fair value at the time the Crown issues the units.

NZ WINDFARMS LIMITED
STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

Financial assets and liabilities

The Company's financial assets include cash, trade and other receivables, advances to subsidiary entities and equity investments. These financial assets are recognised at their fair value at initial recognition. Financial assets are classified as either 'loans and receivables' or 'available for sale' financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest method. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost and are classified as available for sale.

The Company's financial liabilities include overdrafts, trade and other payables. These financial liabilities are measured initially at fair value, net of transaction costs, and subsequently at amortised cost using the effective interest method.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages, salaries, annual leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

All provisions made in respect of employee benefits are expected to be settled within 12 months and are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Leases

The Group leases certain plant and equipment and land and buildings.

Finance leases, which effectively transfer to the Group substantially all of the risks and benefits of ownership of the leased item, are capitalised at the lower of the fair value of the assets or present value of the minimum lease payments. The leased assets and corresponding liabilities are recognised and the leased assets are depreciated over the period the Group is expected to benefit from their use. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Statement of Comprehensive Income.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of net profit in equal instalments over the period of the lease. Lease incentives received are recognised as an integral part of the total lease payments made and also spread on a basis representative of the pattern of benefits expected to be derived from the leased asset.

Impairment of assets

At each balance sheet date, management reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

NZ WINDFARMS LIMITED
STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

Statement of cash flows

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments. The following terms are used in the statement of cash flows:

Operating activities are the principle revenue generating activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash and cash equivalents.

Financing activities are the activities that result on changes in the size and composition of the contributed equity and borrowings.

Contingent assets and liabilities

Inflows of economic benefits should result from emission units when they have been issued by the Crown. The emission units and other probable inflows of economic benefits that arise from past events and whose existence will only be confirmed by the occurrence or non occurrence of an uncertain future event are considered a contingent assets.

In cases where the possible outflow of economic resource as a result of past event and whose existence will only be confirmed only by the occurrence of non occurrence of one of more uncertain future events of the 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.

Goods and Services Tax (GST)

The financial statements have been prepared on a GST exclusive basis, with the exception of trade receivables and payables, which include invoiced GST.

Comparatives

The classification and presentation of items in the financial statements is consistent in the current and comparative periods.

Changes in accounting policies

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

New accounting standards not adopted

The following new accounting standards have impacted current year disclosures and accounting policies in the financial statements:

NZ IAS 1- Presentation of Financial Statements (revised 2007)

This has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. In particular there is a new more detailed Consolidated Statement of Comprehensive Income.

NZ IFRS 8 - Operating Segments

This is a disclosure Standard that has resulted in minor changes to the Group's disclosures.

NZ WINDFARMS LIMITED
STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

Amendments to NZ IFRS 7 - Financial Instruments –Disclosures

The amendments to NZ IFRS 7 expand the disclosures required in respect of liquidity risk.

We are not aware of any standards in issue but not yet effective which would materially impact the amounts recognised or disclosed in the financial statements.

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

1. INCOME TAX EXPENSE

	Group		Company	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$000's	\$000's	\$000's	\$000's
(Loss)/profit for the year before tax	(10,493)	544	(2,318)	(568)
Expected tax (benefit)/expense at 30%	(3,148)	163	(695)	(170)
Adjustment recognised in the current year in relation to the current tax of prior years	1	(44)	-	(41)
Tax losses foregone upon windup of investment	19	-	-	-
Deferred tax expense arising on acquisition of remaining share of Joint Venture	-	172	-	-
Adjustment for non deductible expenses and non-assessable income				
Capital profit on sale of investment	(1)	(24)	28	(24)
Impairment of intangible assets	-	205	-	-
Discount on acquisition of investment	-	(963)	-	-
other non deductible expenses	1	84	1	192
	(3,128)	(407)	(666)	(43)
Effect of change in tax rate	228	-	56	-
Total tax (benefit)	(2,900)	(407)	(610)	(43)
Represented by:				
Current	(16)	(62)	9	48
Deferred	(2,884)	(345)	(619)	(91)
Income tax benefit	2,900	(407)	610	(43)
Tax loss from previous years	4,417	-	-	-
Tax loss for year	13,096	4,417	2,777	-
Tax loss carried forward	17,513	4,417	2,777	-

The deferred tax rate change in 2010 is to reflect the change in corporate tax rate from 30c to 28c effective from 1 July 2011.

2. ASSETS HELD FOR RESALE

The Company entered into put option deeds with three owners of land directly adjoining the Te Rere Hau wind farm. The put options allowed the land owners a period of time during which they had the option of selling their property at market value to NZ Windfarms Limited. Three land owners exercised their option to sell their properties to the Company. This land is surplus to the wind farm or Company's requirements.

One of the properties was sold during the 2008 financial year at a profit of \$3,000, net of the 2007 impairment. The second property was sold in August 2009 and the third in February 2010 for a net loss of \$12,000.

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

3. TRADE AND OTHER RECEIVABLES

As at	Group		Company	
	30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Trade debtors	183	263	45	45
Interest receivable	83	54	83	54
Prepayments	273	74	92	42
Goods and Services Tax	175	282	24	33
Closing balance	714	673	244	174

No allowance has been made for doubtful debtors (2009: nil) and no receivables are past due at balance date (2009: nil).

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

4. PROPERTY, PLANT AND EQUIPMENT

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

As at	Group		Company	
	30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Office equipment				
Opening carrying amount	131	102	100	102
Additions	29	56	21	26
Purchase of remaining interest in Te Rere Hau wind farm	-	7	-	-
	160	165	121	128
Depreciation	(40)	(34)	(33)	(28)
Closing carrying amount	120	131	88	100
Plant and equipment				
Opening carrying amount	680	199	82	62
Disposals	(40)	(145)	(40)	(55)
Additions	120	472	4	79
Purchase of remaining interest in Te Rere Hau wind farm	-	189	-	-
	760	715	46	86
Depreciation	(70)	(35)	(15)	(4)
Closing carrying amount	690	680	31	82
Motor Vehicles				
Opening carrying amount	5	16	7	9
Disposals	-	(8)	-	-
Additions	-	-	-	-
	5	8	7	9
Depreciation	(2)	(3)	(2)	(2)
Closing carrying amount	3	5	5	7
Foundations				
Opening carrying amount	3,053	837	-	-
Additions	114	1,191	-	-
Purchase of remaining interest in Te Rere Hau wind farm	-	1,042	-	-
	3,167	3,070	-	-
Depreciation	(65)	(17)	-	-
Closing carrying amount	3,102	3,053	-	-
Electrical				
Opening carrying amount	6,230	317	-	-
Disposals	(72)	(4)	-	-
Additions	2,100	2,907	-	-
Purchase of remaining interest in Te Rere Hau wind farm	-	3,219	-	-
	8,258	6,439	-	-
Depreciation	(481)	(209)	-	-
Closing carrying amount	7,777	6,230	-	-

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at	Note	Group		Company	
		30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Roading					
Opening carrying amount		2,870	1,327	-	-
Additions		761	167	-	-
Purchase of remaining interest in Te Rere Hau wind farm		-	1,423	-	-
		3,631	2,917	-	-
Depreciation		(64)	(47)	-	-
Closing carrying amount		3,567	2,870	-	-
Wind Turbines					
Opening cost		39,207	1,334	-	-
Additions		3,501	14,477	-	-
Transfer from capital work in progress		3,854	4,283	-	-
Transfer from turbine deposits		6,368	10,452	-	-
Impairment	13	(5,317)	-	-	-
Purchase of remaining interest in Te Rere Hau wind farm		-	9,358	-	-
		47,613	39,904	-	-
Depreciation		(2,468)	(697)	-	-
Closing carrying amount		45,145	39,207	-	-
Total property, plant and equipment					
Opening carrying amount		52,176	4,132	189	173
Disposals		(112)	(157)	(40)	(55)
Additions		6,625	19,272	25	106
Transfer from capital work in progress		3,854	4,283	-	-
Transfer from turbine deposits		6,368	10,452	-	-
Impairment		(5,317)	-	-	-
Purchase of remaining interest in Te Rere Hau wind farm		-	15,238	-	-
		63,594	53,220	174	224
Depreciation		(3,190)	(1,044)	(50)	(35)
Closing carrying amount		60,404	52,176	124	189

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Represented by:

As at	Group		Company	
	30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Office equipment				
Gross Carrying amount	215	184	170	153
Accumulated depreciation	(95)	(53)	(82)	(53)
Closing carrying amount	120	131	88	100
Plant and equipment				
Gross carrying amount	798	718	55	91
Accumulated depreciation	(108)	(38)	(24)	(9)
Closing carrying amount	690	680	31	82
Motor Vehicles				
Gross carrying amount	9	8	11	10
Accumulated depreciation	(6)	(3)	(6)	(3)
Closing carrying amount	3	5	5	7
Foundations				
Gross carrying amount	3,198	3,084	-	-
Accumulated depreciation	(96)	(31)	-	-
Closing carrying amount	3,102	3,053	-	-
Electrical				
Gross carrying amount	8,520	6,492	-	-
Accumulated depreciation	(743)	(262)	-	-
Closing carrying amount	7,777	6,230	-	-
Roading				
Gross carrying amount	3,742	2,982	-	-
Accumulated depreciation	(175)	(112)	-	-
Closing carrying amount	3,567	2,870	-	-
Wind Turbines				
Gross carrying amount	54,637	39,995	-	-
Accumulated depreciation	(3,440)	(788)	-	-
Impairment	(5,782)	-	-	-
Closing carrying amount	45,145	39,207	-	-
Total property, plant and equipment				
Gross carrying amount	70,848	53,463	236	254
Accumulated depreciation	(4,662)	(1,287)	(112)	(65)
Impairment	(5,782)	-	-	-
Closing carrying amount	60,404	52,176	124	189

Included in electrical are assets under finance lease of \$6,903,534 (2009 – \$5,530,000)

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

5. INTANGIBLE ASSETS

Costs directly associated with obtaining land use consents for the Te Rere Hau wind farm are recognised as an indefinite life intangible assets as the land use consent to which these costs relate is for an indefinite period.

The costs to acquire the connection rights of the Te Rere Hau transmission asset to the National Grid has been included as an intangible asset and amortised over the useful life of the asset.

Intangible assets are carried at cost less annual amortisation over the estimated useful lives of the assets.

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

	Amortisation method	Useful life
Te Rere Hau Wind Farm Connection Agreement	Straight line	20 years
Land Use Consent - Te Rere Hau	Not applicable	Indefinite

Changes in the net carrying amount of intangible assets follow:

As at	Note	Group		Company	
		30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Wind rights					
Opening carrying amount		-	378	-	-
Impairment		-	(376)	-	-
Amortisation		-	(2)	-	-
Closing carrying amount		-	-	-	-
Land Use Consent					
Opening carrying amount		475	301	-	-
Purchase of remaining interest in Te Rere Hau wind farm		-	182	-	-
Additions		842	309	-	-
Impairment		-	(317)	-	-
Closing carrying amount		1,317	475	-	-
Grid Connection					
Opening carrying amount		5,468	626	-	-
Purchase of remaining interest in Te Rere Hau wind farm		-	2,762	-	-
Additions		-	2,135	-	-
Impairment	13	(518)	-	-	-
Amortisation		(436)	(55)	-	-
Closing carrying amount		4,513	5,468	-	-
Total closing carrying amount		5,830	5,943	-	-
Amortisation expense for the Year					
Wind rights		-	2	-	-
Grid connection		436	55	-	-
		436	57	-	-

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

6. INVESTMENTS IN SUBSIDIARIES

As at	% Held		Balance Date	Incorporated
	30 June 2010	30 June 2009		
NZWL -TRH Limited	100%	100%	30 June	New Zealand
WindPower Maungatua Limited	-	50%	30 June	New Zealand

NZWL-TRH Limited is a 100% direct subsidiary of the Company. NZWL-TRH Limited holds the Company's interest in the Te Rere Hau wind farm.

WindPower Maungatua Limited was a 50% direct subsidiary of the Company until, following a resolution by its shareholders, was removed from the Companies Office Register on 26 February 2010. The Company previously held Board control of WindPower Maungatua Limited.

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

7. DEFERRED TAX

The movement in deferred tax assets and liabilities during the year follows:

As at	Group		Company	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$000's	\$000's	\$000's	\$000's
Opening balance	308	(37)	160	69
Temporary differences tax effect:				
Prior year over/(under) provision	128	(33)	15	5
Deferred tax arising on purchase of remaining interest in Te Rere Hau wind farm	-	(172)	-	-
Accounting depreciation	957	330	15	10
Tax depreciation	(3,589)	(1,200)	(19)	(13)
Accounting amortisation	131	-	-	-
Tax amortisation	(62)	-	-	-
Accounting loss/(profit) on fixed assets disposals	-	6	-	5
Tax loss/(profit) on fixed assets disposals	-	(5)	-	(4)
Effect of finance lease	(117)	-	-	-
Impairment of assets	1,890	-	-	-
Impairment of property held for resale	(101)	74	(101)	74
Provisions	(16)	30	(26)	24
Accrued employee benefits	(37)	(10)	(37)	(10)
	(815)	(980)	(153)	91
Effect of change in income tax rate from 30% to 28%	122	-	-	-
	(693)	(980)	(153)	91
Unused tax losses	3,963	1,325	818	-
Transfer of losses from subsidiary	-	-	98	-
Tax losses foregone upon windup of investment	(19)	-	-	-
Other	(16)	-	(89)	-
	3,928	307	828	-
Effect of change in income tax rate from 30% to 28%	(350)	-	(56)	-
	3,578	-	772	-
Closing balance	3,192	307	779	160
Represented by:				
Accounting fixed assets carrying amount	(80,283)	(65,591)	(124)	(189)
Taxation fixed assets carrying amount	73,825	61,558	81	163
Accounting intangible assets carrying amount	(5,830)	(5,943)	-	-
Taxation intangible assets carrying amount	6,434	5,997	-	-
Impairment of property held for resale	-	522	-	335
Provisions	170	-	50	157
Accrued employee benefits	16	67	16	67
Tax effect of finance lease	(438)	-	-	-
Other	(5)	-	(18)	-
Unused tax losses	17,513	4,417	2,777	-
	11,401	1,027	2,783	533
Tax effect at 28% (2009:30%)	3,192	308	779	160

Utilisation of the Group's recognised tax losses is considered probable. The ability to utilise the losses is also dependent on meeting certain Inland Revenue Department rules, including those in respect of shareholder continuity

No movements in deferred tax have been recognised directly in equity.

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

8. TRADE AND OTHER PAYABLES

For the year to	Group		Company	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$000's	\$000's	\$000's	\$000's
Trade payables	1,138	1,479	246	341
Other payable - purchase of remaining interest in Te Rere Hau wind farm	-	2,100	-	2,100
Retentions	1,864	3,258	-	-
Accrued expenses	683	776	209	510
Employee entitlements	37	160	37	160
Closing balance	3,722	7,773	492	3,111

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

9. EQUITY

The movements in equity follow:

As at	Group		Company	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$000's	\$000's	\$000's	\$000's
Opening issued equity	77,878	77,878	77,878	77,878
Net proceeds of shares issued and fully paid				
Issued during the year	31,426	-	31,426	-
Less issue costs	(2,246)	-	(2,246)	-
Closing issued equity	107,058	77,878	107,058	77,878
Retained earnings				
Opening balance	3,215	2,253	3,344	3,869
Net (loss)/profit	(7,593)	961	(1,708)	(525)
Closing retained earnings	(4,378)	3,214	1,636	3,344
Closing balance	102,680	81,092	108,694	81,222

Share Capital

At 30 June 2010 share capital comprised 288,063,584 ordinary shares (30 June 2009: 78,559,197). During the year 209,504,387 shares were issued as part of a capital raising. The shares are fully paid and have no par value.

All ordinary shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at shareholder meetings of NZ Windfarms Limited.

Share Option Scheme

At a Special General Meeting held on 28 May 2007, shareholders resolved to pass the NZ Windfarms Share Option Scheme for Directors and the then Chief Executive Officer. The scheme also allows options to be issued to other employees in the future. No shareholder approval is required for the subsequent issues.

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

9. EQUITY (CONTINUED)

Directors Vicki Buck and Derek Walker, and former Directors Barrie Leay and Keith McConnell and Juliet McKee have been allocated 100,000 share options each and the then Chief Executive Officer, Chris Freear, 250,000 share options. At 30 June 2010 no options had been triggered or exercised and no options were forfeited during the financial year (2009: nil). There is no fair value adjustment of the options included as an operating expense at 30 June 2010 (2009: \$nil)

Dividends

No dividends are proposed by the Directors for the year ended 30 June 2010.

10. EARNINGS PER SHARE

The basic and diluted earnings per share are calculated using the net result attributable to shareholders of the Company as the numerator.

As at	Group		Company	
	30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Net (loss)/profit for the year	(7,593)	961	(1,708)	(525)
Weighted average shares on issue over year	111,276	78,559	111,276	78,559
Basic earnings per share	\$(0.07)	\$0.01	\$(0.02)	\$(0.01)
Diluted earnings per share				
Net (loss)/profit for the year	(7,593)	961	(1,708)	(525)
Weighted average shares on issue over year	111,276	78,559	111,276	78,559
Dilution effect of exercisable options for Directors and Chief Executive Officer	-	-	-	-
	111,276	78,559	111,276	78,559
Diluted earnings per share	\$(0.07)	\$0.01	\$(0.02)	\$(0.01)

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

11. RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATIONS

For the year to	Notes	Group		Company	
		30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Net (loss) profit attributable to equity holders of the company		(7,593)	961	(1,708)	(525)
Non Cash Items					
Depreciation	4	3,190	1,044	50	35
Amortisation of intangible assets	5	436	57	-	-
Taxation		(2,884)	(345)	(619)	(91)
Discount on Acquisition		-	(3,209)	-	-
Impairment of advance to subsidiary entity		-	-	-	364
Impairment of non-current assets	13	6,300	693	-	-
Impairment of assets held for resale		34	245	34	245
Loss/(Gain) on sale of assets		12	-	12	-
Surplus attributable to minority interest		-	(10)	-	-
(Gain)/loss on sale of investment		(3)	(79)	97	(79)
		(508)	(643)	(2,134)	(51)
Changes in working capital					
Trade and other payables		(78)	474	(2,620)	536
Interest accrued		(29)	1,812	(29)	1,812
Other current assets		70	96	(51)	4
Net cash flow from operating activities		(545)	1,739	(4,880)	2,301

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

12. CASH AND CASH EQUIVALENTS

As at	Group		Company	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$000's	\$000's	\$000's	\$000's
Operating accounts	52	245	32	27
On call accounts	4,705	2,056	4,705	2,056
Short term deposits	14,075	8,175	14,075	8,175
	<u>18,832</u>	<u>10,476</u>	<u>18,812</u>	<u>10,258</u>

13. ASSET IMPAIRMENT

During the year, in preparing the December 2009 Interim Financial Statements, the Company carried out a review of the carrying values of assets in accordance with NZ IAS 36 -Impairment of Assets, and as a result an impairment charge of \$6,300,000 has been recognised in the Financial Statements.

The valuation of the Te Rere Hau wind farm assets is very sensitive to assumptions about discount rate and electricity price. In ascertaining the "fair value less costs to sell" in accordance with NZ IAS 36, the Company has applied a post-tax (nominal) discount rate of 10% (equivalent to a 11.8% pre-tax (nominal) discount rate), consistent with the discount rate factored into the Ministry of Economic Development's long run marginal cost modelling on which the adopted future price path is based. Accordingly this rate reflects the Ministry's estimate of the hurdle rate applied by a typical investor evaluating an electricity generation project. An increase in the discount rate of 0.1% would cause a further \$920,000 in impairment to be recognised, for a corresponding decrease in the discount rate there would be an equal but opposite impact on the impairment to be recognised.

The wholesale electricity price path used in the discounted cash flow model to determine fair value is based on Energy Hedge forward price contracts through to 2012. Post 2012 the price path is based on the Ministry of Economic Development ("MED") Energy Outlook reference scenario which was published in September 2009.

The impairment charge has been included in Statement of Comprehensive Income as follows:

- Impairment of Property, plant and equipment - \$5,317,000
- Impairment of Capital work in progress - \$465,000
- Impairment of Intangible assets - \$518,000

The Company carried out a further review at 30 June 2010 and determined that no further impairment was required, nor was any previously recognised impairment required to be reversed.

14. FINANCE INCOME AND FINANCE COSTS

Finance costs include all interest-related income and expenses. Where interest cost has been directly incurred in the construction of an asset, this cost has been capitalised to the cost of construction of the asset. To date there has been no capitalised interest.

15. RELATED PARTY TRANSACTIONS

Vector Limited is a related party due to Michael Stiassny and Simon Mackenzie being Directors of NZ Windfarms Limited and a Director and the Chief Executive of Vector Limited respectively. Vector Limited holds a cornerstone shareholding of 22.11% in NZ Windfarms Limited.

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

On 16 December 2009 NZ Windfarms entered into a Bridging Loan Facility Agreement with Vector Limited for up to \$6,500,000, which ensured that the Company has sufficient funds until the May 2010 capital raising was completed. The term of the loan facility was not to run beyond 30 May 2010, and it was expected that the loan facility will be fully repaid from the proceeds of the capital raising.

The principal amount of the Loan exceeded 10% of NZ Windfarms "average market capitalisation" (as defined in Listing Rule 1.6.1). On 20 November 2009 NZX Limited waived the requirement for NZ Windfarms to comply with Listing Rule 9.2.1 in relation to the Loan, subject to certain conditions all of which have been met.

Key terms of the loan included:

- Security by way of a charge over all the assets of NZ Windfarms Limited and its subsidiary NZWL-TRH Limited.
- Interest of 15% per annum.
- Default interest of 20% per annum.
- An arrangement fee of 1% of the facility amount (paid during the period), and an ongoing line fee of 2% per annum of the facility amount per annum, payable quarterly in arrears.

The Company drew down \$6,500,000 against the loan facility until the proceeds of the May 2010 capital raising were received. The loan was repaid on 5 May 2010. Interest expense of \$221,000 was recognised for the year in relation to this loan.

Vector Limited has entered into an agreement with NZ Windfarms Limited to provide general electricity services. In the year ended 30 June 2010 \$120,000 fees have been accrued to Vector Limited (2009 - \$70,000).

Management fees

The Company has provided advances to its subsidiary in order for it to fund its operations, including funding construction of the Te Rere Hau wind farm. The borrowings are interest free and repayable on demand. The balances of the advances at 30 June 2010 follow:

- NZWL-TRH Limited - \$84,590,000 (30 June 2008 - \$68,072,000)

The Company has been appointed by its subsidiary, NZWL-TRH Limited (formerly the Te Rere Hau Joint Venture) to manage the construction and operation of the Te Rere Hau wind farm. The Company received management fees from NZWL-TRH Limited during the current financial year. The management fees have been agreed between the Company and NZWL-TRH Limited and are subject to a management agreement. Management fees charged during the year to 30 June 2010 were \$480,000 (30 June 2009: \$480,000).

Management fees capitalised in NZWL-TRH Limited (and the Joint Venture) as a cost of construction of fixed assets were \$432,000 (30 June 2009: \$432,000) with \$48,000 (30 June 2009: \$48,000) expensed in the Statement of Comprehensive Income.

Internal profits on the management fees, where applicable, have been eliminated in the Group accounts.

Key management

Key management personnel short term employee benefits, including remuneration to Directors, was \$810,000 during the year ended 30 June 2010 (2009: \$702,000).

Directors' remuneration

Directors' remuneration of \$232,500 was paid and expensed during the year (30 June 2009: \$230,000).

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

Key related party shareholdings are as follows:

Name of related party	Relationship	Number of shares
Derek and Janice Walker	Derek Walker, Director	73,333
Vicki Buck	Director	132,000

16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Carbon credits

The Company has entered into an emission reduction project agreement with the Crown in relation to the Te Rere Hau wind farm. The agreement requires completion of minimum milestones and the generation of 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 year to 31 December.

Year	Tonnes of carbon dioxide tCO₂-e
2010	113,000
2011	131,000
2012	131,000

An international market for carbon credits is emerging and allows the trading of carbon credits between parties. The current international market price of emission units ("ERU's") has been in the range of Euro 11.00 to Euro 12.00 per tonne and and of Assigned Amount Units ("AAU's") has been in the range of NZ\$9.00 to NZ\$17.00 per tonne.

The Company commenced earning emission reduction units on 1 January 2008 and earned 1,296 units during the year ended 31 December 2008 and 30,390 units during the year ended 31 December 2009. The 2008 and 2009 emission units were sold during the current year for \$18.75 per unit. There are no forward contracts to sell emission units earned from 1 January 2010. Emission reduction units are recognised on a calendar year basis after taking into account the number of units earned during the year less abatements incurred by suppliers on behalf of NZ Windfarms.

The emission reduction units will be recognised as an asset at fair value the time the Crown issues the units.

Bank guarantee

The Company has provided a bank guarantee to a supplier of \$4,637,000 (2009: \$4,637,000), which is secured by way of a term deposit with ANZ National Bank Limited.

In July 2010 the Company replaced the ANZ National Bank Limited guarantee of \$4,637,000 with a Bank Guarantee from Bank of New Zealand of \$11,266,000 to the same supplier. The obligation of Bank of New Zealand under the guarantee terminates on 31 July 2011 when it is anticipated that it will be replaced by a similar 12 month guarantee. The Bank of New Zealand guarantee is secured by a Security Interest over the Group's present and after-acquired property.

Negative pledge

At 30 June 2010 the Company had undertaken that it will not create or permit to arise or exist over its assets any Security Interest other than a Permitted Security Interest (as defined) during the term of a 20 year agreement to lease an internal electricity gathering system that connects the onsite sub-station to the Trustpower sub-station, which in turn connects to

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

the national grid (refer notes 18 and 19). The Company had provided the supplier with a bank bond for 50% of the bonded sum.

In July 2010 the Company provided the supplier with a bank guarantee for 100% of the bonded sum and the negative pledge was terminated.

Litigation

There is an outstanding appeal underway by Concrete structures (NZ) Limited relating to civil work for Stage 1 of the Te Rere Hau wind farm. The Company's exposure to this claim is not considered material.

17. CAPITAL COMMITMENTS

As at 30 June 2010 the Group had confirmed the purchase of 32 turbines from Windflow Technology Limited. The Company's capital commitment as at 30 June 2010 was \$5,244,000 (30 June 2008: \$22,003,000).

The Group has also entered into construction contracts for roading and foundations for the construction of the wind farm. The Group's capital commitments outstanding as at 30 June 2010 for these costs is \$1,610,000 (30 June 2009: \$1,289,000).

18. FINANCE LEASE

On 8 October 2007 the subsidiary Company, NZWL-TRH Limited entered into a 20 year agreement to lease an internal electricity gathering system, which connects turbines to the onsite sub-station. The finance lease commenced in September 2008. At the end of the lease NZWL-TRH Limited has the option to acquire the assets for a nominal price. There are no finance leases in the Company.

The lease liability follows:

As at	Minimum future lease payments		Present value of minimum future lease payments	
	Group		Group	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$000's	\$000's	\$000's	\$000's
Non-cancellable lease commitments:				
Within 1 year	740	638	179	104
1 to 5 years	2,958	2,550	878	538
More than 5 years	9,799	9,032	6,030	4,906
Minimum lease payments	13,497	12,220	7,087	5,548
less future finance charges	(6,410)	(6,672)	-	-
Present value of minimum lease payments	7,087	5,548	7,087	5,548

Included in the Financial Statements as:

Finance lease – current	178	104
Finance lease – non-current	6,908	5,444

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

19. OPERATING LEASES

The Group has three operating leases and the minimum operating lease payments follow:

As at	Group		Company	
	30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Lease payments expensed during the year	768	527	39	34
Non-cancellable lease commitments:				
Within 1 year	838	976	9	34
1 to 5 years	3,282	3,848	-	9
More than 5 years	10,871	14,041	-	-
	14,991	18,865	9	43

The Company is party to a wind rights agreement covering the Te Rere Hau Wind Farm site that the first 65 installed turbines are located. The landowner owns the land on which the 65 currently installed turbines are located. Under the agreement, in return for the wind farm development rights, the Company pays the landowner a royalty that is the higher of:

- a defined annual minimum payment; or
- a percentage of electricity revenue earned from the turbines on landowner's land.

The royalty percentage in turn is linked to electricity price levels and turbine availability.

The wind rights granted under the agreement are initially for a term of 25 years which commenced on 25 August 2005, with five rights of renewal of ten years each. Royalty percentages are reviewed upon the exercise of a right of renewal.

During the financial year ended 30 June 2010 the wind rights agreement with the landowner was renegotiated to allow preferential development of the proposed extension to the existing consented wind farm area, ahead of full development of the land. Under the wind rights agreement, the Company was prohibited from installing turbines within a 10 km radius of the Te Rere Hau site until the land was fully developed (97 turbines). The landowner agreed to remove this restriction in exchange for an adjustment to the royalty rate applicable to the land such that the royalty payable is equal to the royalty that would be expected if all 97 turbines had been installed on the land. Adjustments have also been made to minimum annual royalty thresholds as part of the amendments to the agreement with the landowner.

On 8 October 2007, the Group entered into a 20 year agreement to lease an internal electricity gathering system that connects the onsite sub-station to the Trustpower sub-station, which in turn connects to the national grid. The finance lease commenced in September 2008.

The Company leases office premises under an operating lease. The lease runs for a period of one year with an option to renew the lease for a further two years. The lease payment is reviewed every two years to reflect market rentals.

20. PUT OPTION AGREEMENT

A put option agreement dated 22 December 2006 allows the landowner to require NZ Windfarms to purchase the land that the Te Rere Hau wind farm is located. The property owner could not exercise the put option until 1 July 2010. In April 2010 it was agreed with the landowner that a fixed price of \$3.55 million (plus GST if applicable), representing current market value of the land, shall apply if the landowner exercises the put option any time between 30 June 2010 and 31 December 2010.

On 8 July 2010 the landowner served notice under the Put Option Agreement for purchase of the Te Rere Hau property. Settlement was completed on 19 August 2010.

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company and Group is exposed to a variety of financial, operating and investing risks.

Key risks that affect the Company include:

Electricity price risk

The Group sells electricity on the wholesale spot market. This market sets price according to demand and accordingly there is uncertainty about the returns that can be achieved from the sale of electricity based on the wholesale electricity spot price.

A decrease in the average electricity spot price of \$10/MWh would have decreased electricity revenue by approximately \$783,000 (2009: \$184,000). For an increase in average electricity spot price of \$10/MWh there would be an equal and opposite impact on profit.

Concentration of credit risk

In the normal course of business, the Company incurs credit risk from transactions with financial institutions and other counterparties e.g. for the sale of electricity. The Company has a Treasury Policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and approved by the Board of Directors and are monitored on a regular basis.

Financial instruments which potentially subject the Company to credit risk consist of cash, funds on deposit and trade receivables.

The Company places its cash and funds on deposit with approved registered banks with limits on the amount of exposure to any one financial institution.

Electricity generated from the Te Rere Hau wind farm is sold on the spot market to the Clearing Manager (Energy Clearing House Limited). The Clearing Manager acts as a broker for all the wholesale market participants, meaning a concentration of credit risk. The Group does not generally require or hold collateral against credit risk.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Carbon credits

The Group is entitled to receive emission reduction units from the Te Rere Hau wind farm project if it achieves contracted emission reduction conditions. The Group plans to trade these emission reduction units in return for cash (refer to Note 16).

Liquidity risk

Liquidity risk is monitored by continuously forecasting actual cash flows and matching the maturity profiles of financial assets and liabilities.

Interest rate risk

The Company's income and operating cash flows are affected by changes in market interest rates. The Company has been primarily exposed to interest rate risk as a result of placing surplus funds from its May 2007 capital raising on short term deposits.

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

A decrease in the average deposit interest rates by 100 basis points would have decreased interest income by approximately \$19,000 (2009: \$39,000). For an increase in average deposit rates by 10 basis points there would be an equal and opposite impact on profit.

Fair values of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents, Trade and other receivables, Trade and other payables.

The carrying amounts of these balances are approximately equivalent to their fair value because of the short term to maturity and because surplus funds on deposit are placed with approved registered banks with limits on the amount of exposure to any one financial institution.

22. SEGMENT ANALYSIS

The Group has adopted NZ IFRS 8 Operating Segments, with effect from 1 April 2009. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (which is the Board of Directors ('the Board')), in order to allocate resources to the segment and to assess its performance.

The NZ Windfarms Group operates in one industry, being the generation for sale of electricity into the national grid in New Zealand.

As there is only one reportable segment for the Group the segment profit represents profit earned for the segment after all costs including all administration costs, directors' salaries, interest revenue, finance costs and income tax expense. The Board makes resource allocation decisions to this segment based on the expected cash flows and results of Group operations as a whole. No operations were discontinued during the year. For the purposes of monitoring segment performance and allocating resources to the segment, the Board monitors the tangible, intangible and financial assets attributable to the segment. All assets are allocated to the reportable segment.

23. IMPUTATION CREDIT ACCOUNT

Dividends paid by New Zealand resident companies may include imputation credits representing the taxation already paid by the Company on the profits distributed. New Zealand resident shareholders may claim a tax credit equal to the value of the imputation credit attached to the dividends. Overseas shareholders in general are not entitled to claim the benefit of imputation credits.

The movements in the imputation credit account are detailed below:

For the year to	Company	
	30 June 2010 \$000's	30 June 2009 \$000's
Credit at beginning of the year	(1,190)	(1,198)
Income tax refunded	33	8
	(1,157)	(1,190)

24. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

On 8 July 2010 the landowner on which the first 65 turbines at Te Rere Hau wind farm are located gave notice under the put option agreement requiring the Company to acquire the land at the price of \$3.55 million. Settlement completed on 19 August 2010 (also refer to note 20 above).

In July 2010 the Company entered into a banking arrangement with Bank of New Zealand. Pursuant to the arrangement the Company replaced the ANZ National Bank Limited guarantee of \$4,637,000 to a supplier with a Bank Guarantee of \$11,266,000 to the same supplier. The obligation of Bank of New Zealand under the guarantee terminates on 31 July 2011.

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

when it is anticipated that it will be replaced by a similar 12 month guarantee. The Bank of New Zealand guarantee is secured by a Security Interest over the Group's present and after-acquired property.

25. PROSPECTIVE FINANCIAL INFORMATION

The Combined Investment Statement and Prospectus issued on 7 April 2010 for NZ Windfarms renounceable Rights Issue contained two years' prospective financial information to 30 June 2010 and 2011.

The following information is a comparison of the prospective financial statements from the 7 April 2010 prospectus for the year ended 30 June 2010 with actual results for the same period.

NZ Windfarms Limited		
Consolidated Statements of Comprehensive Income		
For the year to	Actual	Prospective
	30 June 2010	30 June 2010
	\$000's	\$000's
Profit and Loss Account		
Income		
Electricity sales	4,147	4,735
Other income	639	475
Total income (excluding interest income)	4,786	5,210
Operating expenses		
Te Rere Hau Wind Farm operational expenses	1,300	1,095
Lease and rental expenses	768	1,012
Directors' fees	233	233
Employment expenses	647	705
Insurance costs	414	455
Legal and consulting	838	826
Loss on sale of property held for resale	12	15
Bank and other funding costs	115	98
Other operating expenses	550	530
Operating expenses (excluding asset impairment, depreciation and amortisation)	4,877	4,969
(Loss) profit before asset impairments, amortisation, depreciation, interest and tax	(91)	241
Impairment of non-current assets	6,300	6,300
Impairment of property held for resale	34	29
Amortisation	436	428
Depreciation	3,190	2,928
(Loss)/profit before interest and tax	(10,051)	(9,444)
Interest income	334	328
Interest expense	(776)	(1,004)
(Loss)/profit before tax	(10,493)	(10,120)
Income tax (benefit)	(2,900)	(3,014)
Total comprehensive (loss) attributable to equity holders of the parent	(7,593)	(7,106)

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

NZ Windfarms Limited		
Consolidated Balance Sheets		
As at	Actual	Prospective
	30 June 2010	30 June 2010
	\$000's	\$000's
Assets		
Current assets		
Cash and cash equivalents	18,832	13,725
Restricted short term deposits	4,637	4,712
Trade and other receivables	714	1,558
Total current assets	24,183	19,995
Non-current assets		
Property, plant and equipment	60,404	69,209
Turbine deposits	9,728	8,512
Capital work in progress	10,151	10,331
Intangible assets	5,830	5,682
Deferred tax	3,192	3,331
Total non-current assets	89,305	97,065
Total assets	113,488	117,060
Liabilities		
Current liabilities		
Trade and other payables	2,278	1,769
Retentions	1,444	1,748
Current portion of finance lease	178	118
Total current liabilities	3,900	3,635
Non-current liabilities		
Finance lease	6,908	9,729
Total non-current liabilities	6,908	9,729
Total liabilities	10,808	13,364
Net assets	102,680	103,696
Equity		
Share capital	107,058	107,587
Retained deficit	(4,378)	(3,891)
Equity attributable to equity holders of the company	102,680	103,696

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

NZ Windfarms Limited

Consolidated Statements of Changes in Equity

For the year to	Actual 30 June 2010 \$000's	Prospective 30 June 2010 \$000's
Equity at the beginning of year	81,093	81,093
Net (loss)/profit attributable to equity holders of the company	(7,593)	(7,106)
	73,500	73,987
Shares issued	31,426	31,424
Cost of shares issued	(2,246)	(1,715)
	102,680	103,696
Represented by:		
Share capital	107,058	107,587
Retained deficit	(4,378)	(3,891)
Total equity	102,680	103,696

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

NZ Windfarms Limited

Consolidated Prospective Cash Flow Statement

For the year to	Actual 30 June 2010 \$000's	Prospective 30 June 2010 \$000's
Operating activities		
Cash was received from:		
Trading revenue	4,145	5,066
Sundry income	636	475
Interest received	305	325
Income tax refund	58	33
	5,144	5,899
Cash was applied to:		
Payments to suppliers and employees	4,748	4,636
Interest paid	941	1,025
	5,689	5,661
Net (outflows)/inflows from operating activities	(545)	238
Investing activities		
Cash was received from:		
Sale of assets held for resale	754	756
	754	756
Cash was applied to:		
Purchase of property, plant and equipment and capital work in progress	17,618	24,316
Purchase of investments	2,100	2,100
Purchase of intangible assets	1,018	836
	20,736	27,252
Net (outflows) from investing activities	(19,982)	(26,496)
Financing activities		
Cash was received from:		
Related party loan	6,500	5,750
Issue of ordinary shares	31,426	31,424
	37,926	37,174
Cash was applied to:		
Related party loan	6,500	5,750
Issue costs of equity	2,246	1,715
Finance lease	297	127
	9,043	7,592
Net inflows from financing activities	28,883	29,582
Net increase in cash and cash equivalents	8,356	3,324
Cash and cash equivalents, beginning of year	10,476	10,401
Cash and cash equivalents, end of year	18,832	13,725

NZ WINDFARMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2010

The major reasons for the differences between the prospective and actual financial information are as follows:

Consolidated Statements of Comprehensive Income

The income from electricity sales projected in the April 2010 prospectus was not achieved as the wind resource was lower than the projected long term average resource and wholesale electricity prices were lower than projected due to above average hydro-lake levels in the second six months of the financial year.

Consolidated Balance Sheets

Total current assets are greater than projected due to delays in the supply of turbine components and the delay in construction of Stage 4 of the Te Rere Hau wind farm which resulted in actual cash reserves being higher than that included in the prospective financial information.

Non-current assets are less than projected due to delays in the supply of turbine components and in the construction of Stage 4 of the Te Rere Hau wind farm, including the commencement of a further finance lease to connect Stage 4 turbines to the on-site substation.

Consolidated Cash Flow Statements

The net increase in cash and cash equivalents is greater than projected due to the delays in payment of turbine components and in the construction of Stage 4 of the Te Rere Hau wind farm.

AUDIT REPORT

AUDIT REPORT TO THE SHAREHOLDERS OF NZ WINDFARMS LIMITED

We have audited the financial statements on pages 7 to 39. The financial statements provide information about the past financial performance and financial position of NZ Windfarms Limited and group as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 11 to 16.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of NZ Windfarms Limited and group as at 30 June 2010 and of the results of operations and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the financial statements presented by the Board of Directors.

Basis of Opinion

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

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

We conducted our audit in accordance with New Zealand Auditing Standards. 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 obtain reasonable assurance that the financial statements are 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 statements.

Other than in our capacity as auditor, and investigating accountants on the director's prospective financial statements, we have no relationship with or interests in NZ Windfarms Limited or any of its subsidiaries.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by NZ Windfarms Limited as far as appears from our examination of those records; and
- the financial statements on pages 7 to 39:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of the financial position of NZ Windfarms Limited and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 August 2010 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Christchurch, New Zealand

This audit report relates to the financial statements of NZ Windfarms Limited and group for the year ended 30 June 2010 included on NZ Windfarms Limited's website. The Board of Director's is responsible for the maintenance and integrity of NZ Windfarms Limited's website. We have not been engaged to report on the integrity of NZ Windfarms Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 25 August 2010 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.