NZ Windfarms Limited

Proposed $31.4 Million Pro-Rata Renounceable Rights Issue

Independent Adviser's Report

On the merits of a potential allotment of NWF shares pursuant to Rule 7(d) of the Takeovers Code; and

Appraisal Report

On the fairness of a potential allotment of NWF shares pursuant to NZSX Listing Rule 7.5.1

March 2010

Northington Partners
INVESTMENT BANKERS

Table of Contents

ABBREVIATIONS AND DEFINITIONS

Abbreviations used in this report are as follows:

AMP	AMP Capital Investors (New Zealand) Limited
Code	The Takeovers Code
EBIT	Earnings Before Interest and Tax
EBITA	Earnings Before Interest, Tax, and Amortisation
EBITDA	Earnings Before Interest, Tax, Depreciation, and Amortisation
Eligible Shortfall Investors	Institutional and other eligible shareholders and/or investors with whom the Company may attempt to place some or all of any Shortfall
FY	Financial Year Ending 30 June
GSJBW	Goldman Sachs JBWere
IPO	Initial Public Offer
Maximum Vector Shareholding	A total of 39.9% of the issued shares in NWF that may be held by Vector following the Potential Vector Allotment
Minimum Subscription Amount	$25.6 million
Northington Partners	Northington Partners Limited
NZSX	The main board equity security market operated by NZX
NZX	NZX Limited
NWF or Company	NZ Windfarms Limited
Panel	The Takeovers Panel
Possible Vector Underwriting Commitment	An underwriting commitment in relation to any Shortfall which the Company will attempt (but is not certain) to negotiate with Vector
Potential Vector Allotment	Proposed allotment of up to 83.8 million new NWF ordinary shares to Vector under the Rights Issue and the Possible Vector Underwriting Commitment
Rights Issue	A pro-rata renounceable rights issue to New Zealand resident shareholders intended to raise up to $31.4 million of additional capital
Shortfall	A shortfall in the take-up of rights entitlements by NWF shareholders
Shortfall Incentive Fee	A fee payable by NWF to GSJBW equal to 2.75% of the aggregate subscription monies received from the capital raising which GSJBW can use at its absolute discretion to facilitate uptake of the capital raising and minimize any Shortfall under the Rights Issue
Tyndall	Tyndall Investment Management NZ Limited
Vector	Vector Limited
VWAP	Volume Weighted Average Price

EXECUTIVE SUMMARY

BACKGROUND

NZ Windfarms Limited ("**NWF**" or "**Company**") is an electricity generation company that is currently developing a windfarm on the Te Rere Hau site in the Manawatu. The Company completed a significant capital raising process in June 2007 in which a total of approximately $75 million of new ordinary shares were issued. Vector Limited ("**Vector**") was established as a cornerstone shareholder in the Company as a result of this capital raising process, and currently holds 19.99% of the shares on issue.

NWF intends to raise up to $31.4 million of additional capital through a pro-rata renounceable rights issue to New Zealand resident shareholders ("**Rights Issue**"). Key terms of the Rights Issue are as follows (more detailed terms are set out in Section 1.2):

- Eligible shareholders will be entitled to subscribe for 8 new shares for every 3 shares they own at a subscription price of $0.15 per share;
- The minimum subscription amount to be raised is $25.6 million ("**Minimum Subscription Amount**");
- If the Minimum Subscription Amount is not achieved, the Rights Issue will not proceed and all subscription monies received by the Company will be refunded to subscribing shareholders;
- The lead manager and arranger of the Rights Issue is Goldman Sachs JBWere ("**GSJBW**");
- GSJBW is not underwriting the Rights Issue and it is unlikely that any other party will provide an underwriting commitment prior to commencement of the Rights Issue;
- If there is a shortfall in the take-up of rights entitlements by shareholders ("**Shortfall**"), the Company may place some or all of the Shortfall with institutional and other eligible shareholders and/or investors ("**Eligible Shortfall Investors**") pursuant to underwriting commitments negotiated by GSJBW on behalf of NWF. As one of the Eligible Shortfall Investors, Vector may commit to acquiring some of the Shortfall shares ("**Possible Vector Underwriting Commitment**").

Based on the outcomes from a selection of rights issues conducted in 2009, it is likely that the Rights Issue will produce an initial Shortfall. In this circumstance, any Eligible Shortfall Investor that has provided an underwriting commitment will be obliged to acquire additional shares beyond its pro-rata entitlement. In the case of Vector, an allotment of shares under the Rights Issue and the Possible Vector Underwriting Commitment (together the "**Potential Vector Allotment**") is likely to result in Vector's shareholding in the Company increasing beyond 20%. The Potential Vector Allotment is subject to a maximum Vector shareholding percentage in NWF of 39.9% ("**Maximum Vector Shareholding**") pursuant to the terms of the Possible Vector Underwriting Commitment. For the reasons set out in Section 1.3, the Potential Vector Allotment requires the approval of the Company's shareholders by ordinary resolution.

This report has been prepared by Northington Partners Limited ("**Northington Partners**") to assist the shareholders in NWF not associated with Vector in their determination of whether to approve or reject the Potential Vector Allotment.

ASSESSMENT OF MERITS

Our assessment of the merits of the Potential Vector Allotment is set out in Section 2.0. A summary of the key factors that we believe should be considered by NWF's shareholders is as follows:

- The Rights Issue is likely to produce an initial Shortfall. In this circumstance, Vector's shareholding is likely to increase from its current 19.99% level and will exceed 20% of NWF's issued capital at the completion of the Rights Issue;
- Vector's precise shareholding following the Potential Vector Allotment will be dependent on:
  - The uptake of rights by all shareholders;
  - The amount of any initial Shortfall that Vector agrees to take under the Possible Vector Underwriting Agreement; and
  - Whether any initial Shortfall is also placed with other Eligible Shortfall Investors pursuant to any underwriting commitments obtained by NWF similar to the Possible Vector Underwriting Agreement.
- We believe it is unlikely that Vector's shareholding will reach the Maximum Vector Shareholding following the Potential Vector Allotment. However, if this scenario was to eventuate, a Vector shareholding of 39.9% would have a material impact on the control position of the Company. In particular:
  - Vector would be able to veto any special resolution of the Company (requiring the support of 75% of shareholders voting and entitled to vote on the resolution), but would still require relatively widespread support from other shareholders to pass special resolutions; and
  - The overall influence that Vector would have in passing ordinary resolutions (requiring the support of 50% of shareholders voting and entitled to vote on any resolution) will clearly increase, although the practical impact on the voting outcomes for such resolutions may be limited if the investment objectives of Vector are similar to those of other major shareholders.
- We believe the most likely outcome following the Potential Vector Allotment is for Vector to have a shareholding of at least 25% but significantly below the Maximum Vector Shareholding. In this circumstance, although Vector would have a level of "negative control" over NWF through the ability to block special resolutions, on balance, we do not believe the change in the level of collective control held by smaller shareholders will be significant;
- If the Potential Vector Allotment is not approved by shareholders, the Rights Issue may not proceed given the uncertainty that would exist as to whether the Minimum Subscription Amount could be raised. Given that the alternative funding options available to NWF are limited (and offer shareholders no clear advantages when compared to the Rights Issue), we believe that it is unlikely that the necessary capital will be raised if the Rights Issue is not successful. NWF will become insolvent without additional capital;
- If NWF does become insolvent and is put into receivership, the windfarm will be incomplete and there will be claims on the assets of the Company from secured creditors. We believe that the realisable value to shareholders under a receivership will be significantly lower than if the Company continues as a going concern and is able to complete the windfarm development.

ASSESSMENT OF FAIRNESS

Based on our overall assessment of the merits of the Potential Vector Allotment, we conclude that the terms and conditions of the Potential Vector Allotment are fair to those shareholders not associated with Vector.

1.0 BACKGROUND AND SUMMARY OF THE RIGHTS ISSUE

1.1 BACKGROUND

NWF was initially established in 2004 as a vehicle to develop an electricity generation windfarm utilising wind turbines developed by Windflow Technology Limited. At the time of NWF's Initial Public Offer ("**IPO**") in December 2005, the Te Rere Hau site had been identified as the immediate development opportunity and appropriate resource consents for the windfarm had been obtained. Although NWF has subsequently considered a number of other sites for potential development, none of these options has been pursued and the Te Rere Hau site remains as the only windfarm that has been developed.

Development progress has been slower than was originally anticipated. While at the time of the IPO NWF projected that the final stage of Te Rere Hau would be completed in the financial year ending June 2009, 65 of the 97 consented turbines have been installed and the current expectation is that all 97 of the consented turbines will be in place by the end of the first quarter of 2011. NWF was granted resource consent on 4 February 2010 to place the remaining 32 turbines included in stage four of the development on better yielding sites compared to the original windfarm design. Since that time, an appeal has been lodged with the Environment Court. The Directors of NWF believe that the appellant's concerns can be addressed and management have commenced discussions with the aim to have the appeal withdrawn.

Proposed funding and ownership arrangements for the Te Rere Hau windfarm have also changed through time. As initially contemplated at the time of the IPO, NWF entered into an agreement with NP Power Pty Limited and Babcock and Brown Windpower Pty Limited (together "**NPBB**") to develop the windfarm on a 50%/50% joint venture basis ("**Te Rere Hau JV**"). One of the key provisions of this agreement (finalised in August 2006) was that 50% of the remaining capital costs of the Te Rere Hau site were to be funded by NPBB.

NWF completed its last major capital raising in June 2007 with the issuance of approximately $75 million in new shares. The shares were issued at a price of $1.10 per share, with the intention that the proceeds would be used to fund NWF's share of the capital costs for completing Te Rere Hau as well as to fund a range of other feasibility studies and potential windfarm developments. Vector was established as a cornerstone shareholder in NWF as part of this transaction, acquiring shares that represented a 19.99% shareholding after the issue was completed.

NWF's funding requirements have subsequently changed following the recent acquisition of NPBB's 50% interest in the Te Rere Hau JV for $20.1 million. Although NWF now has 100% ownership of the development and access to 100% of the future operating earnings, it is also responsible for 100% of the remaining capital expenditure. The Company is therefore now in the position where it must raise additional capital to complete the Te Rere Hau development. NWF's directors consider that it is in all shareholders' best interests to raise the capital via the Rights Issue. The Rights Issue:

- Ensures that all shareholders are given the opportunity to participate in the capital raising;
- Has been priced at a level ($0.15 per share) designed to encourage participation by as many shareholders as possible; and
- Although unlikely to be underwritten prior to the commencement of the offer, may enable any initial Shortfall to be placed with Eligible Shortfall Investors pursuant to underwriting commitments which the Company will attempt to obtain, thereby minimising any Shortfall.

Assuming that a sufficient number of shareholders who are eligible to participate in the Rights Issue do not subscribe for their full entitlement, there will be an initial Shortfall. In this circumstance, there is the potential that shares will be allotted to Vector under the Possible Vector Underwriting Commitment.

The allotment of NWF shares to Vector under the Rights Issue and the Possible Vector Underwriting Commitment would result in Vector owning a greater percentage of the total number of NWF shares on issue. The potential increase in Vector's shareholding percentage under various scenarios is set out in Section 2.2. Subject to Vector's shareholding not exceeding the Maximum Vector Shareholding, the precise shareholding percentage that Vector may own at the completion of the capital raising process will be dependent on:

- The uptake of the Rights Issue;
- The amount of any Shortfall that Vector takes pursuant to the Possible Vector Underwriting Commitment; and
- Whether any initial Shortfall is placed with Eligible Shortfall Investors other than Vector pursuant to any underwriting commitments (similar to the Possible Vector Underwriting Commitment) obtained by NWF.

1.2 KEY TERMS AND CONDITIONS OF THE RIGHTS ISSUE

Key terms and conditions of the proposed Rights Issue are set out in Table 1.

Table 1: Key Terms of the Proposed Rights Issue

Offer Term	Detail
Issue Price	A cash payment of $0.15 per share.
Issue Entitlement	Eligible shareholders will be entitled to acquire 8 new shares for every 3 shares they own.
Minimum Subscription Amount	The minimum subscription amount to be raised is $25.6 million. If this level is not achieved, the Rights Issue will not proceed and all subscription monies received by the Company will be refunded to subscribing shareholders.
Offer Period	It is currently envisaged that the Offer will be dispatched to shareholders on or about 7 April 2010 and will close on or about 29 April 2010.
Renounceability	Eligible shareholders will have the ability to sell all or part of their entitlement to rights under the Rights Issue.
No Initial Underwriting	GSJBW is not underwriting the Rights Issue and it is unlikely that any other party will provide an underwriting commitment prior to commencement of the Rights Issue.
Possible Underwriting Commitments	After commencement of the Rights Issue, the lead manager will attempt (but is not certain) to negotiate underwriting commitments with Eligible Shortfall Investors. Should the Rights Issue not be fully subscribed, the Company may place some or all of the initial Shortfall with any Eligible Shortfall Investor it was able to negotiate an underwriting commitment with.
Maximum Shareholding by Vector	Pursuant to the Possible Vector Underwriting Commitment (which is not certain to eventuate), Vector would agree to cap its maximum shareholding percentage at 39.9% after the allotment of shares under the Rights Issue and the Possible Vector Underwriting Commitment.

In connection with the Rights Issue outlined above:

- NWF will pay GSJBW a fee equal to 2.75% of the aggregate subscription monies received from the capital raising which GSJBW can use at its absolute discretion to facilitate uptake of the capital raising and minimize any Shortfall under the Rights Issue ("**Shortfall Incentive Fee**"); and

- GSJBW intends to use (but is not obliged to use) the Shortfall Incentive Fee to, amongst other things, encourage key institutional shareholders to take up their rights entitlements and, if possible, solicit underwriting commitments in respect of the Rights Issue.

1.3 REGULATORY REQUIREMENTS AND SCOPE OF THIS REPORT

Requirements of the Takeovers Code

NWF is a "Code Company" under the Code by virtue of the fact that it has more than 50 shareholders and through its listing agreement with NZX.

The fundamental rule of the Code prevents any entity from becoming the holder or controller of 20% or more of the voting rights in a Code Company other than via one of several courses of action prescribed in the Code. In relation to the Rights Issue, and specifically the Potential Vector Allotment, Rule 7(d) states that an entity may become the holder or controller of 20% or more of the voting rights in a Code company by an allotment of shares if that allotment has been approved by an ordinary resolution of the company in accordance with the Code.

Rule 16 of the Code sets out the information requirements for the notice of meeting containing the proposed resolution in respect of an allotment of shares pursuant to Rule 7(d). One of the requirements is for an Independent Adviser's Report that examines the merits of the proposed allotment having regard to the interests of the persons who may vote on the allotment. For the purposes of approving the Potential Vector Allotment, Vector and any of its associates as defined by the Code are unable to vote on the resolution.

This report represents the Independent Adviser's Report as required by the Code.

Requirements of the NZSX Listing Rules

The Potential Vector Allotment is subject to NZSX Listing Rule 7.5 (Issues and Buybacks of Securities Affecting Control). This rule requires that no issue of securities shall be made by a listed company if the issue will result in any person materially increasing their ability to exercise effective control of the issuer, unless the precise terms and conditions of the issue have been approved by an ordinary resolution. All shareholders are entitled to vote on the resolution except Vector and any other party that is an associated person (as defined by the NZSX Listing Rules) of Vector.

The relative shareholding in NWF held by Vector after the completion of the Rights Issue is dependent on the participation in the Rights Issue by the other shareholders and the consequent number of shares issued to Vector under the Possible Vector Underwriting Commitment. If a relatively low number of other shareholders subscribe for their entitlement to shares under the Rights Issue, Vector could materially increase its ability to exercise or direct the exercise of effective control of NWF. However, even if we assume a high participation rate by other shareholders, Vector is likely to increase its shareholding percentage above the 20% level that could be argued to represent a material threshold in relation to control.

Listing Rule 6.2.2(a) requires that the notice of meeting to consider the ordinary resolution referred to above must be accompanied by an Appraisal Report. This report represents the Appraisal Report required by the NZSX Listing Rules.

Pursuant to Listing Rule 1.7.2, we note that:

(i) We believe that the shareholders entitled to vote on the resolution in relation to the Potential Vector Allotment will be provided with sufficient information on which to make an informed decision. The two main sources of information are this report and the Notice of Meeting;

(ii) We confirm that we have been provided with all of the information that we believe is required for the purposes of preparing this report; and

(iii) The material assumptions on which our opinion has been based are clearly set out in the body of this report.

Basis of Assessment

The reporting requirements of the NZX Listing Rules and the Code are not the same. In relation to the Potential Vector Allotment, Rule 18 of the Code requires that the Independent Adviser's Report assess the "*merits*" of the proposed allotment having regard to the interests of those persons who may vote to approve the allotment.

The exact meaning of the word "*merits*" is not prescribed in the Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered when assessing the merits of a transaction. Although the Takeovers Panel has published a guidance note about the role of an Independent Adviser, it is careful not to limit the scope of the assessment and states that the relevant factors that should be taken into consideration will depend on the features of the proposed allotment as well as the prevailing circumstances of the parties involved.

Reflecting the structure of the Rights Issue, our assessment of the merits of the Potential Vector Allotment is based on a consideration of:

- the consequences for the existing shareholders if the Potential Vector Allotment is approved or not approved;
- the potential range of outcomes that may result from the Rights Issue, assuming that the Potential Vector Allotment is either approved or not approved;
- the potential range of shareholdings held by Vector after the Rights Issue is completed, and the effective level of control that Vector may have in each scenario; and
- the overall terms of the Rights Issue and the courses of action open to all NWF shareholders to protect their existing investment in NWF.

The content required to be included in the Appraisal Report pursuant to the NZX Listing Rules is clearly set out in Rule 1.7.2. Among other things, the Report must state whether or not the reporter considers that the terms and conditions of the proposed transaction are "*fair*" to the NWF shareholders that are not associated with the transaction. Again, there is no statutory definition of "*fair*" or any specific guidance provided in the Listing Rules. It does seem however that the concept of "*fairness*" has a narrower definition than the interpretation of "*merits*" described above in relation to the Code.

We therefore believe that an assessment of the merits of the Potential Vector Allotment as required by the Code will satisfy the requirements of the Listing Rules for an assessment of the fairness of the Potential Vector Allotment.

Scope of this Report

This report is intended to provide NWF shareholders with relevant background to the Potential Vector Allotment, and sets out Northington Partners' assessment of the merits of the proposal that we believe should be considered by shareholders when deciding whether or not to vote for the relevant resolutions. The scope of our report is limited to an assessment of the Potential Vector Allotment and does not explicitly consider all of the factors that shareholders may take into account when deciding whether or not to subscribe for new NWF shares under the Rights Issue.

The report represents one source of information that shareholders may wish to consider when forming their own view on the Potential Vector Allotment. It is not possible to contemplate all shareholders' personal circumstances or investment objectives and our assessment is therefore general in nature. The appropriate course of action for each shareholder is dependent on their own unique situation.

2.0 MERITS OF THE POTENTIAL VECTOR ALLOTMENT

2.1 CURRENT POSITION AND PROSPECTS OF NWF

The overall focus of NWF has changed in the two years since the Company completed its last capital raising process. In May 2007, the Company projected that it would develop 50MW of wind-based generation capacity by 2010, with an expected annual energy output of 159 Gigawatt hours. Just under half of the projected generation capacity related to NWF's 50% share in the Te Rere Hau windfarm and the remainder was to be derived from other development projects. Although subsequent changes to the overall market environment have meant that the other development opportunities have not proceeded as expected, NWF has acquired the other 50% of the Te Rere Hau JV.

Completion of the Te Rere Hau windfarm is now the main focus of the Company. NWF has resource consents for a total of 121 turbines, of which 65 of a planned 97 turbines (67%) had been installed by the end of February 2010. Key features and milestones for the completion of the development are as follows:

- An application was lodged in May 2009 for a new resource consent[1], based on modelling that shows that an extension area adjoining the windfarm has a better wind resource than the area originally designated for Stage 4 of the development. The consent was approved on 4 February 2010 and one appeal has been lodged. The NWF Directors expect that the appellant's concerns can be addressed and that the appeal will be withdrawn;
- The potential impact of relocating the 32 Stage 4 turbines to the adjoining land is significant, representing a 25% increase in the projected output compared to the expected output under the original consents;
- NWF currently expects that, subject to securing the required funding, the remaining 32 turbines in Stage 4 of the development will be operational by the end of the first quarter of 2011. At that point, a total of 97 turbines will be in place on the completed windfarm;
- Total capital expenditure required to complete the Te Rere Hau development is budgeted at approximately $24.9 million, of which approximately 85% is required before the end of FY2011.

Given the current market environment and the ongoing level of uncertainty over the future economic feasibility of developing new windfarm sites, we believe that the current prospects for NWF are almost exclusively reliant on the successful completion of the Te Rere Hau development. Ongoing profitability is in turn a function of the reliability and efficiency of the Windflow Technology turbines used by NWF.

In December 2009, NWF negotiated a Loan Facility of $6.5 million with Vector. The loan was provided by Vector at NWF's request to allow the Company to meet working capital requirements and is required to be repaid in May 2010 (or upon completion of the Rights Issue, if earlier).

The capital that will be raised under the proposed Rights Issue is obviously an essential element of NWF's plan to complete the Te Rere Hau development, and is a requisite step in the process of maximising the value of the Company. If for any reason the Company cannot raise the capital to complete the development, the consequences will be dire. Given the unconditional commitment to purchase the remaining 32 turbines from Windflow Technology, the Company will quickly become insolvent and be left

[1] The new resource consent allows for two main changes to the original conditions. First, the 32 turbines initially planned for Stage 4 of the development can be relocated onto the adjoining land: Second, the new consent allows for a total of 56 turbines in Stage 4 (although we understand that current plans are still based on the development of just 32 turbines).

with an incomplete, sub-scale windfarm with very uncertain value. The value of the NWF shareholders' investment in this scenario is likely to be limited.

2.2 POSSIBLE OUTCOMES OF THE RIGHTS ISSUE

The relative shareholding in NWF that will be held by Vector after the completion of the Rights Issue is dependent on the uptake of the Rights Issue, the amount of any Shortfall that Vector takes pursuant to the Possible Vector Underwriting Commitment, and whether any initial Shortfall is placed with Eligible Shortfall Investors other than Vector pursuant to any underwriting commitments (similar to the Possible Vector Underwriting Commitment) obtained by NWF. Various scenarios are discussed below.

Minimum Control Position Scenario

If all shareholders subscribe for their entitlement to shares under the Rights Issue, then the maximum Rights Issue proceeds of approximately $31.4 million will be raised and there will be no change to any of the existing shareholders' proportional ownership of the Company. Under these circumstances, the Potential Vector Allotment would not take place and Vector's shareholding would remain at 19.99% (being the minimum control position Vector will have following the completion of the Rights Issue).

As illustrated in Table 2 below, under this scenario the only practical change will be an increase in the total number of NWF shares on issue and a proportional increase in the number of shares held by each individual shareholder.

Table 2: Shareholding Positions Assuming Full Uptake of Rights Entitlements

Shareholder	Pre-Rights Issue Shareholding (No. Shares)	Pre-Rights Issue Shareholding (%)	Rights Issue Entitlement (No. Shares)	Entitlement Take-up (%)	Post-Rights Issue Shareholding (No. Shares)	Post-Rights Issue Shareholding (%)
Vector	15,704,000	19.99%	41,877,333	100%	57,581,333	19.99%
Other Institutions[2]	21,957,900	27.95%	58,554,400	100%	80,512,300	27.95%
Minority Shareholders	40,897,297	52.06%	109,059,459	100%	149,956,756	52.06%
Total	**78,559,197**	**100.00%**	**209,491,192**		**288,050,389**	**100.00%**

Source: Northington Partners Analysis

Based on the outcomes from a selection of rights issues completed in 2009 (summarised in Table 3 below), the scenario illustrated above is unlikely to eventuate as it is improbable that all of the rights will be taken up. Excluding Allied Farmers, the initial shortfall for the other recent issues has ranged between about 5% and 10%.

[2] In this report, "Other Institutions" referred to in all tables means, collectively, AMP Capital Investors (New Zealand) Limited ("**AMP**"), Tyndall Investment Management NZ Limited ("**Tyndall**"), New Zealand Super Fund, Rotorua Trust Perpetual Capital, and Accident Compensation Corporation.

Table 3: Selection of Rights Issues Completed in 2009

2009 Rights Issues	Start Date	Rights Issue Size ($M)	Initial Shortfall
Pike River Coal Limited	3-Mar-09	41.0	8.2%
Allied Farmers Limited	14-Apr-09	7.5	44.4%
Fisher & Paykel Appliances Holdings Limited	27-May-09	142.9	4.9%
Skellerup Holdings Limited	3-Sep-09	21.5	8.1%
Pyne Gould Corporation Limited	23-Sep-09	236.6	11.3%
PGG Wrightson Limited	20-Nov-09	180.7	4.9%

Source: Company Announcements to NZX

In our view, more relevant and likely scenarios for NWF shareholders to consider are set out below.

Maximum Control Position Scenario

As described in Section 1.0 above, Vector's maximum shareholding in NWF following the allotment of shares under the Rights Issue and the Possible Vector Underwriting Commitment cannot exceed the Maximum Vector Shareholding (being 39.9% of the issued shares of the Company). This outcome will only materialise if there is a significant Shortfall. Whether the Maximum Vector Shareholding will in fact be reached is dependent on:

- The extent of the initial Shortfall; and
- The extent to which other Eligible Shortfall Investors acquired additional shares under any underwriting commitments similar to the Possible Vector Underwriting Commitment.

Two scenarios under which Vector's shareholding could reach or get close to the Maximum Vector Shareholding are presented in Table 4 and Table 5 below:

Table 4: No Minority Uptake and 50% Shortfall Uptake by Other Institutional Shareholders

Shareholder	Pre-Rights Issue Shareholding (%)	Entitlement Uptake (%)	Entitlement Uptake (No. Shares)	Shortfall Taken (% of Entitlement)[3]	Shares Issued under underwriting commitments	Post-Rights Issue Shareholding (%)
Vector	19.99%	100.00%	41,877,333	100.00%	41,877,333	39.79%
Other Institutions	27.95%	100.00%	58,554,400	49.66%	29,076,952	43.85%
Minorities	52.06%	0%	-	0%	-	16.36%
Total	**100.00%**		**100,431,733**		**70,954,285**	**100.00%**

Source: Northington Partners Analysis

[3] Under possible underwriting arrangements, the maximum Shortfall entitlement is likely to be one times the entitlement under the Rights Issue.

Table 5: Low Minority Uptake and No Shortfall Uptake by Other Institutional Shareholders

Shareholder	Pre-Rights Issue Shareholding (%)	Entitlement Uptake (%)	Entitlement Uptake (No. Shares)	Shortfall Taken (% of Entitlement)	Shares Issued under underwriting commitments	Post-Rights Issue Shareholding (%)
Vector	19.99%	100.00%	41,877,333	100.00%	41,877,333	39.82%
Other Institutions	27.95%	100.00%	58,554,400	0%	-	32.23%
Minorities	52.06%	26.50%	28,900,757	0%	-	27.95%
Total	**100.00%**		**129,332,490**		**41,877,333**	**100.00%**

Source: Northington Partners Analysis

As with the full take-up scenario, we believe that these relatively extreme outcomes are also unlikely. Both are reliant on very low participation in the Rights Issue by minority shareholders, and a relatively low participation by Other Institutions in taking up additional rights resulting from the Shortfall. In our view, assuming most of the larger institutional shareholders elect to take up their full rights entitlement, it would seem more probable that Vector's shareholding following the Rights Issue will be closer to one of the various mid-case control position scenarios presented below.

Mid-Case Control Position Scenarios

There are numerous permutations that will ultimately influence the relative shareholding in NWF held by Vector after the completion of the Rights Issue. Table 6 and Table 7 below set out two mid-case scenarios which achieve the Minimum Subscription Amount and which we believe are more likely than the two extremes represented by the Minimum Control Position and Maximum Control Position Scenarios outlined above.

Table 6: Varying Shortfall Positions with Maximum Uptake by Other Institutional Shareholders

Shortfall in Take-up by Minority Shareholders	Vector's Post-Rights Issue Shareholding (100% Entitlement plus 100% Shortfall Uptake) (%)	Other Institutions' Collective Post-Rights Issue Shareholding (100% Entitlement plus 100% Shortfall Uptake) (%)	Minority Shareholders' Post-Rights Issue Shareholding (%)
10%	21.57%	30.16%	48.27%
20%	23.15%	32.37%	44.48%
30%	24.73%	34.57%	40.70%

Source: Northington Partners Analysis

Table 7: Varying Shortfall Positions with Partial Uptake by Other Institutional Shareholders

Shortfall in Take-up by Minority Shareholders	Vector's Post-Rights Issue Shareholding (100% Entitlement plus 100% Shortfall Uptake) (%)	Other Institutions' Collective Post-Rights Issue Shareholding (100% Entitlement plus 50% Shortfall Uptake) (%)	Minority Shareholders' Post-Rights Issue Shareholding (%)
10%	22.22%	29.51%	48.27%
20%	24.45%	31.07%	44.48%
30%	26.68%	32.62%	40.70%

Source: Northington Partners Analysis

As illustrated, the shareholding percentage for Vector under the mid-case control scenarios is likely to fall within the range of about 22% to 27%. For the purposes of our analysis, and given the relevance of a shareholding equal to or exceeding 25% (see Section 2.3 below), we have assumed Vector will hold at least 25% of all shares on issue in NWF at the completion of the Rights Issue.

2.3 VECTOR CONTROL POSITION AFTER THE RIGHTS ISSUE

Vector currently owns 19.99% of the Company and has some measure of control as the cornerstone shareholder. We understand Vector is an active shareholder, and currently has the ability to appoint two directors to the NWF Board of Directors. The impact on Vector's control position in the Company following the Rights Issue is dependent on which of the various scenarios described in Section 2.2 ultimately eventuates.

Minimum Control Position Scenario

Under this scenario, there would be no change to any shareholder's proportional shareholding and Vector's control position would therefore be unchanged from its current position. As previously discussed, we consider this scenario is unlikely to eventuate.

Maximum Control Position Scenario

Although we believe that the Maximum Control Position Scenario is also unlikely to eventuate, an increase in Vector's proportional shareholding to 39.9% under this scenario will have a material impact on the control position of the Company. First, Vector will be in a position to veto special resolutions of the Company (which require support from at least 75% of shareholders entitled to vote and voting on the relevant matter). Second, the overall influence that Vector will have in passing ordinary resolutions will clearly increase. Ordinary resolutions require support from more than 50% of the shareholders entitled to vote and voting on the resolution.

Special resolutions typically relate to what can be thought of as "major transactions" for the subject company, and include proposals such as changes to the company constitution and acquisitions or divestments with transaction values that exceed certain thresholds. Under NWF's current shareholding structure, no single shareholder is in a position to unilaterally determine if a special resolution is passed or not, although we note that Vector's current shareholding means that it can already potentially exercise a significant vote against a special resolution. For example, if Vector was to cast its vote in the same manner as a relatively small number of other large shareholders, their aggregate votes could be sufficient to defeat the resolution. However, if we assume that the investment objectives of Vector are closely aligned with those of all of the other major shareholders, the practical impact of the Potential Vector Allotment on its ability to block special resolutions may be limited. In terms of passing special resolutions, Vector would still need relatively widespread support from a range of other shareholders, a position which in practice may not be materially different from the current position.

In some cases where a single shareholder holds or controls less than 50% of the voting rights on issue and the remaining shares are spread across a large number of minority shareholders, the dominant shareholder can have effective control because they can often approve ordinary resolutions in situations where a sufficient number of minority shareholders do not vote. Although the possibility of this outcome is certainly increased under the Maximum Control Position Scenario, we suggest that this issue is limited to some extent because of the presence of other institutional shareholders on the NWF shareholder register. These investors collectively own just under 28% of the shares on issue and will take an active interest in any resolution that must be considered by shareholders; the presence of the institutional investors should therefore act as a counterbalance to poor participation by minority shareholders.

On balance, we also suggest that Vector's increased influence over the passing of ordinary resolutions is strictly in line with the increase in the proportional shareholding that will take place if the Potential Vector Allotment is completed. Although Vector could not unilaterally pass ordinary resolutions if the Maximum Vector Shareholding is reached, it could do so with the support of a small group of existing institutional shareholders. However, if we assume again that the investment objectives of Vector are closely aligned with those of all of the other major shareholders, the practical impact of the Potential Vector Allotment on the voting outcomes for ordinary resolutions may be limited.

Mid-Case Control Position Scenarios

We believe a Mid-Case Control Position Scenario where Vector attains a shareholding of at least 25% (but significantly below the Maximum Vector Shareholding) is the most likely outcome of the Rights Issue. Although such an outcome would provide Vector with some level of "negative control" over NWF via the ability to block special resolutions, on balance, we do not believe that the resulting change in the level of collective control currently held by the smaller shareholders will be significant. Under this scenario, Vector will not achieve effective control of the Company as a result of the Potential Vector Allotment, and any further increases in Vector's shareholding percentage will remain subject to a new shareholder approval process as required by the Code (and potentially the Listing Rules).

2.4 PRICING OF THE RIGHTS ISSUE

The subscription price for shares allotted under the Rights Issue is $0.15 per share. Based on the volume-weighted average share price ("**VWAP**") for the last 20 trading days to 25 February 2010 ($0.44 per share), the proposed issue price represents a 34% discount to the theoretical ex-rights share price ("**TERP**"). Details of the calculation of the TERP for this particular Rights Issue are set out in Table 8 below:

Table 8: Calculation of the Theoretical Ex-Rights Share Price

	Component	Amount / Value	Calculation Basis
A	Current Shares on Issue	78,559,197	
B	Volume Weighted Average Share Price (to 25 February)	$0.44	
C	Current Market Capitalisation	$34,566,047	A x B
	Rights Entitlement Ratio	8 for 3	
D	Maximum New Shares Issued	209,491,192	(A / 3) x 8
E	Rights Issue Price	$0.15	
F	New Capital Raised	$31,423,679	D x E
G	Theoretical Market Capitalisation (After Rights Issue)	$65,989,725	C + F
H	Shares on Issue After Rights Issue	288,050,389	A + D
I	Theoretical Ex-Rights Price (TERP)	$0.23	G / H
	Rights Issue Price Discount to TERP	34%	
J	Indicative Rights Value	$0.08	I - E

Source: Northington Partners Analysis

The appropriate discount to TERP incorporated into the issue price for any rights issue is a matter of subjective judgment. In NWF's case, it requires striking a balance between encouraging broad participation in the Rights Issue by all shareholders and not unduly facilitating the acquisition of discounted NWF shares by key institutional shareholders (under possible underwriting commitments) at the expense of minority shareholders who are not in a position to participate. The proposed issue price of $0.15 per share represents a discount of approximately 34% to NWF's TERP (based on a market share price of $0.44 per share), a level that is generally consistent with the range of discounts observed in a selection of similar rights issues conducted in 2009 (as set out in Table 9 below).

Table 9: Discounts to TERP for a Selection of Rights Issues in 2009

2009 Rights Issues	Discount to TERP
Metlifecare Limited	55.9%
Nuplex Industries limited	37.8%
Pike River Coal Limited	10.6%
Allied Farmers Limited	26.6%
AMP NZ Office trust	16.0%
NZX Limited	43.9%
Fisher & Paykel Appliances Holdings Limited	40.4%
Tower Limited	21.1%
Skellerup Holdings Limited	23.3%
Pyne Gould Corporation Limited	33.0%
PGG Wrightson Limited	26.8%
Average	**30.5%**

Source: Northington Partners Analysis

The calculation of TERP as outlined above implicitly assumes that the observed market capitalisation of the Company is a reasonable proxy for the underlying intrinsic value of the issued equity. Considering the overall circumstances of the Rights Issue and the scope of this report, we have not completed a formal valuation of NWF as the basis for a direct comparison to the chosen subscription price for new shares issued under the Rights Issue. From the minority shareholders' point of view, we do not believe the selected issue price should be regarded as a significant issue when deciding whether to approve the Potential Vector Allotment for the following reasons:

- Vector will only acquire additional shares over and above its existing entitlement if other shareholders choose not to subscribe for their full entitlement;
- If other shareholders are not in a position to exercise their rights and subscribe for their full entitlement, the rights can be sold to other parties. The party that acquires the rights to subscribe for NWF shares will presumably only do so if they intend to exercise those rights;
- We are not in a position to determine the likely market value for the rights that may be traded by existing shareholders who decide not to subscribe for their full entitlement of shares, or whether the rights will be tradeable at all. However, if the market determines that the subscription price under the Rights Issue does represent a material discount to the intrinsic value of the shares, we would expect that:

- Existing shareholders will be more inclined to subscribe for their full entitlement of shares under the Rights Issue; and
- It is more likely that existing shareholders who are not in a position to participate in the Rights Issue will be able to sell their rights to other market participants.

We therefore conclude that if the market perceives that the issue price is substantially lower than the underlying fair value, Vector is unlikely to acquire a significant number of shares as a result of the Possible Vector Underwriting Commitment. On balance, we suggest that the issue price of $0.15 (being the same price Vector will pay for the Potential Vector Allotment) is fair to all shareholders other than Vector.

2.5 FUNDING ALTERNATIVES

If NWF's shareholders do not approve the necessary resolutions required for the Potential Vector Allotment, there will be increased doubt as to whether the proceeds from the Rights Issue will reach the Minimum Subscription Amount. Unless the Minimum Subscription Amount is raised, all subscription monies received under the Rights Issue will be refunded and the Company will need to consider alternative funding sources.

At NWF's current stage of development, significant debt funding is not a viable solution because of the Company's significant operational risks (particularly around the wind-farm development completion timeframe) and the maintainable earnings profile of the Company. Until these risk factors are at least partially mitigated, we do not believe that NWF is an appropriate candidate for traditional bank funding lines. Funding alternatives are therefore limited, and we suggest that the alternative structures that could be used to raise the necessary funding offer minority shareholders no clear advantages when compared to the proposed Rights Issue. In broad terms, alternative funding methods appear limited to:

- **Back-up Loan from Vector**: An additional and longer-term loan could be sought from Vector, similar to the short-term loan advance made by Vector in December 2009. However, it is far from certain that Vector would agree to provide such a loan or, if it were to agree to do so, that its required loan terms would be acceptable to the Company. A loan agreement would also place Vector in a stronger position (as a secured creditor) compared to other shareholders in the event of a winding up of the Company. Therefore, we believe this funding alternative is less certain and less attractive for shareholders other than Vector when compared to the proposed Rights Issue.
- **Re-Priced Rights Issue:** If shareholders do not approve the resolutions allowing the Potential Vector Allotment, we believe it will be difficult for NWF to find an alternative party to consider a conditional underwriting commitment on similar terms and conditions. In these circumstances, the Company could conceivably consider proceeding with an amended rights issue, priced at a deeper discount to encourage greater shareholder participation. Such a process would require significant additional time and cost. In our view, the limited timeframe for meeting NWF's capital requirements and the uncertainty over the outcome from an alternative rights issue mean that this option would not be attractive.
- **Private Placement:** The required capital could possibly be raised via a private placement of new shares to new or existing institutional shareholders. However, in the prevailing market environment and considering NWF's current position, we are strongly of the view that the issue price that will be required to attract new institutional investors will reflect a significant discount to current market prices. Because existing minority shareholders would have no ability to participate in this form of capital raising, any new share issues at a discount to market values may be detrimental to those shareholders' positions. Shareholder approval would be required if any further placement to Vector was contemplated, or if proposed placement would result in any other shareholder owning 20% or more of the NWF shares on issue.

When all of NWF's circumstances are considered, we suggest that the proposed Rights Issue is a reasonable mechanism by which to raise the required capital. Minority shareholders who wish to maintain their relative shareholding position can do so by subscribing for their full entitlement for new shares on the same terms as all other shareholders. The key advantage of the Possible Vector Underwriting Commitment to minority shareholders is that it improves the probability that the Minimum Subscription Amount will be met and that the Company will secure sufficient funding to complete the Te Rere Hau development. Minority shareholders need to compare the benefits of a more certain (yet not guaranteed) funding position against any perceived downside that may arise from Vector potentially increasing its control position in the Company as a result of the Potential Vector Allotment.

2.6 IMPLICATIONS FOR REJECTING THE POTENTIAL VECTOR ALLOTMENT

If shareholders vote to reject the Potential Vector Allotment, there is a reasonable chance that the Rights Issue will not proceed due to the uncertainty created around whether the Minimum Subscription Amount could be achieved. In this case, the Company will not have sufficient funding to meet projected cashflow requirements for more than a few months and will not have the means to complete the development of the wind farm as planned.

As discussed in Section 2.5, the Rights Issue (coupled with the Potential Vector Allotment) therefore appears a reasonable mechanism to raise the required capital, particularly when compared to the limited alternative funding options.

If the Company does become insolvent and is put into receivership, the outcome for shareholders is unknown. The wind farm will be incomplete, and there will be claims on the assets of the Company from secured creditors. We suggest that the realisable value to shareholders under a receivership scenario may be considerably lower than the value to shareholders if the Company continues as a going concern and is able to complete development of the wind farm.

2.7 ASSESSED FAIRNESS OF THE POTENTIAL VECTOR ALLOTMENT

For the purposes of the Listing Rules requirements, we conclude that the terms and conditions of the Potential Vector Allotment are fair to those shareholders not associated with Vector. This conclusion reflects our overall assessment of the merits of the Potential Vector Allotment as discussed above.

3.0 PROFILE OF NZ WINDFARMS

3.1 BACKGROUND AND HISTORY OF NWF

3.1.1 Establishment and Strategy

NWF was established in 2004 by Windflow Technology Limited ("**Windflow**") to own and operate windfarms that use Windflow turbines.

The Company proposed to develop a diversified portfolio of generation assets in strategic distribution locations across New Zealand. The Company did not seek to compete with large scale generation developers, aiming instead to focus on the use of smaller turbines (between 0.5MW and 1.5MW capacity rating) which it believed would allow the Company to target locations on which the installation of large scale turbines would be difficult and costly. More recently, following acquisition of the 50% NPBB interest in Te Rere Hau, the Company has stopped investigating new development sites and has focused its efforts on completing the Te Rere Hau windfarm.

3.1.2 Summary of NWF Key Milestones

Key milestones in the development of NWF are summarised in Table 10 below:

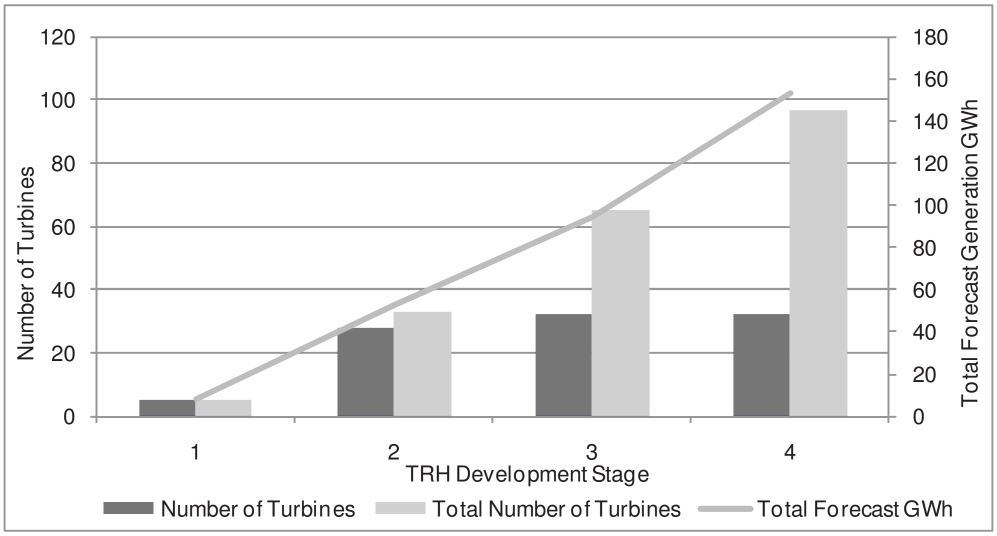
Table 10: Key Milestones in the Development of NWF

Date	Milestone
November 2004	NWF was established and incorporated.
May 2005	The Te Rere Hau windfarm was consented.
December 2005	Approximately $4 million was raised through an IPO, resulting in the issue of 3,965,859 shares at between $1.00 and $1.10 each. Attached to these new shares were options (on a one-for-one basis). Prior to their expiry in September 2006, 3,411,519 options were exercised at $1.10 raising a further $3.75 million.
September 2006	Stage 1 of the Te Rere Hau windfarm (consisting of 5 turbines) was officially opened.
December 2006	Execution of the Te Rere Hau JV with NPBB.
May 2007	Construction of Stage 2 of the Te Rere Hau windfarm (consisting of 28 turbines) commenced.
June 2007	Completion of a $75 million capital raising, under which Vector become a 19.99% cornerstone shareholder. A total of 68,181,819 new shares were issued at $1.10 per share.
December 2008	NWF acquired the 50% interest which NPBB held in the Te Rere Hau JV for $20.1 million.
December 2008	The first turbines in Stage 2 of the Te Rere Hau windfarm were commissioned, with Stage 2 being completed in May 2009.
March 2009	The first of 32 Stage 3 turbines were commissioned, with Stage 3 completed in November 2009.
May 2009	NWF submitted a resource consent application to install 56 turbines on an area adjoining the consented Te Rere Hau windfarm.
December 2009	NWF agreed a Loan Facility for $6.5 million with Vector. The loan was provided for working capital purposes and is to be repaid in May 2010 (or upon completion of the Rights Issue, if earlier).
February 2010	Consent received to install up to 56 turbines on the extension area of the Te Rere Hau windfarm. (The consent is subject to appeal, but the NWF Directors are confident that the appeal will be withdrawn).

Source: NWF with Northington Partners Summary

A summary of the four stages of turbine installation and the total forecast generation of the Te Rere Hau windfarm is set out below in Figure 1.

Figure 1: NWF Development and Planned Production



The consent for the extension on the Te Rere Hau windfarm allows for an additional 24 turbines on the new area, which may be installed following the 32 planned Stage 4 turbines. Should conditions prove that the installation of these additional turbines is economically beneficial in the future, the Te Rere Hau windfarm could consist of up to 121 turbines, with a generation capacity of 60.5 MW.

3.1.3 Other NWF Investments

In 2007, NWF acquired a 16% stake in Windpower Maungatua Limited, which holds the development rights for a windfarm site near Dunedin, with the potential for 20 megawatts of generation. NWF increased its stake from 16% to 50% in 2008. Subsequent work showed that this project was unlikely to be viable and Windpower Maungatua Limited is in the final stages of being removed from the Companies Register.

3.2 OVERVIEW OF NWF'S PERFORMANCE AND CURRENT POSITION

3.2.1 General

Success for NWF will be dependent on the successful completion of the Te Rere Hau windfarm and the production of cost-efficient electricity over the life of the capital equipment on the windfarm. NWF's revenue is determined by the output of the turbines and the prevailing electricity prices at the time the electricity is sold on the market. The Company will only be able to generate superior returns on investment compared to the industry average if the turbines are able to perform better than those of other windfarms and generate higher levels of output in relation to the capital cost of the windfarm.

In regard to the electricity that the Te Rere Hau windfarm produces, NWF is a price-taker and therefore has little control over the price at which its electricity is sold. Provided that turbines are available to generate electricity, revenue is driven by the level of production and the market price of the electricity when it is sold.

3.2.2 Performance of the Te Rere Hau Windfarm

Since the installation of the first turbines, a number of performance issues have been experienced including some build problems, parts failures, and generator overheating issues. As these issues have arisen, NWF has worked with the turbine supplier to identify and resolve the problems. The Directors of the Company delayed the ordering and installation of subsequent turbines over the course of the windfarm development as these issues with the turbines were encountered and addressed by the supplier.

In line with the lower number of installed turbines and reduced availability, the electricity generation and sales levels from the Te Rere Hau windfarm have also been lower than those originally forecast and projected by the Company in the 2005 and 2007 prospectuses.

During 2009, Windflow advised the Directors of NWF that the Windflow turbines would not receive the International Electrotechnical Committee ("**IEC**") Standard WT-01:2003 (IEC Class 1A Certification) which Windflow had been working towards, and which the Directors of NWF had expected when the orders for the turbines were placed. The Te Rere Hau windfarm turbines will not gain certification due to a number of changes made to the turbine design as part of the IEC Certification process. Not all of these design changes have been incorporated in turbines supplied at Te Rere Hau.

This matter has been the subject of extensive review by NWF. NWF and Windflow are in the process of resolving the commercial issues arising from the review.

3.3 FINANCIAL SUMMARY

3.3.1 Statement of Financial Performance

The Statement of Financial Performance for the years ended 30 June 2007, 2008 and 2009, and the six month interim period to 31 December 2009 is shown in Table 11 below.

Table 11: NWF Statement of Financial Performance

	Year Ended 30 June 2007 Actual (000s)	Year Ended 30 June 2008 Actual (000s)	Year Ended 30 June 2009 Actual (000s)	Half-year Ended 31 Dec 2009 Actual (000s)
Electricity Sales	$78	$162	$812	$1,590
Gain on Sale of Investment			$79	
Other Income	$240	$78	$100	
Total Income	$318	$240	$991	$1,590
Operating costs	($1,388)	($2,201)	($5,218)	($2,634)
EBITDA	**($1,070)**	**($1,961)**	**($4,227)**	**($1,044)**
Asset Impairments				($6,329)
Depreciation and Amortisation	($72)	($158)	($1,101)	($1,795)
Gain on Transfer of Assets to Joint Venture	$1,081	$0	$0	
EBIT	**($61)**	**($2,119)**	**($5,328)**	**($9,168)**
Net Interest	$525	$5,773	$2,665	($136)
Result for Period Before Tax	**$464**	**$3,654**	**($2,663)**	**($9,304)**
Discount on Acquisition of Investment			$3,209	
Net Profit Before Tax	**$464**	**$3,654**	**$544**	**($9,304)**

Table 11: NWF Statement of Financial Performance (Continued)

	Year Ended 30 June 2007 Actual (000s)	Year Ended 30 June 2008 Actual (000s)	Year Ended 30 June 2009 Actual (000s)	Half-year Ended 31 Dec 2009 Actual (000s)
Income Tax (Expense) / Credit	($112)	($1,238)	$407	$2,769
Result for Period Before Minority Interest	**$352**	**$2,416**	**$951**	**($6,535)**
Minority Interest	**$0**	**$2**	**$10**	**$0**
Net Profit After Tax	**$352**	**$2,418**	**$961**	**($6,535)**

Source: NWF

The main features of NWF's financial performance can be summarised as follows:

- Revenue from electricity sales has generally increased through time as further turbines have been installed on the windfarm;
- Following a major capital raising in 2007, orders and installation of new turbines were slower than expected (due to the performance issues with the turbines) and, accordingly, interest income was high in FY2008 coupled with lower than forecast electricity sales;
- High levels of interest income in FY2009 offset higher operating costs and larger depreciation charges as turbines were installed in Stages 2 and 3 of the windfarm;
- Low electricity prices and lower turbine availability resulted in low electricity sales for the six months to 31 December 2009 (FY2010). Together with increased depreciation and operating costs, the Company made a loss after tax for the period of $6.5 million.

3.3.2 Statement of Financial Position

Table 12 below presents the financial position of NWF as at the end of the last three full financial years and as at 31 December 2009.

Table 12: NWF Statement of Financial Position

	Year Ended 30 June 2007 Actual (000s)	Year Ended 30 June 2008 Actual (000s)	Year Ended 30 June 2009 Actual (000s)	Half-year Ended 31 Dec 2009 Actual (000s)
Equity				
Share Capital	$77,866	$77,878	$77,878	$77,878
Retained Earnings	($165)	$2,253	$3,214	($3,321)
Minority Interests	$0	$10	$0	$0
Total Equity	$77,701	$80,141	$81,092	$74,557
Current Liabilities				
Trade and Other Payables	$3,099	$3,868	$7,877	$9,740
Other Payables – Acquisition of JV				
Total Current Liabilities	$3,099	$3,868	$7,877	$9,740

Table 12: NWF Statement of Financial Position (Continued)

	Year Ended 30 June 2007 Actual (000s)	Year Ended 30 June 2008 Actual (000s)	Year Ended 30 June 2009 Actual (000s)	Half-year Ended 31 Dec 2009 Actual (000s)
Non-Current Liabilities				
Finance Lease			$5,444	$5,388
Deferred Tax Liabilities	$37	$37	$0	$0
Total Non Current Liabilities	$37	$37	$5,444	$5,388
Total Liabilities	$3,136	$3,905	$13,321	$15,128
Total Liabilities and Shareholders' Equity	**$80,837**	**$84,046**	**$94,413**	**$89,685**
Current Assets				
Cash and Cash Equivalents	$71,675	$63,164	$15,113	$246
Restricted Short Term Deposits				$4,712
Income Tax Refund	$31	$0	$42	
Assets Held for Sale	$956	$495	$800	$321
Trade and Other Receivables	$694	$2,545	$673	$1,100
Total Current Assets	$73,356	$66,204	$16,628	$6,379
Non-Current Assets				
Property, Plant and Equipment	$3,442	$8,246	$52,176	$59,492
Turbine Deposits	$3,218	$8,114	$15,504	$9,728
Intangible Assets	$292	$679	$5,943	$5,203
Capital Work in Progress	$524	$795	$3,854	$5,797
Investments	$5	$8	$0	
Deferred Tax	$0	$0	$308	$3,086
Total Non Current Assets	$7,481	$17,842	$77,785	$83,306
Total Assets	**$80,837**	**$84,046**	**$94,413**	**$89,685**

Source: NWF

In relation to the financial position of the Company, we note:

- Following the significant capital raising in 2007, NWF's cash balance has progressively decreased as the Company has continued to develop the Te Rere Hau windfarm. The Company's fixed assets have increased accordingly;
- Current liabilities have increased to $9.7 million as at 31 December 2009 (FY2010) as NWF has disputed some payments to Windflow. There has also been an increase in retentions held against commissioned turbines as the number of turbines commissioned through the year increased.

3.3.3 Statement of Cash Flows

The audited statement of cash flows for NWF for the last three completed financial years, and for the six month period to 31 December 2009, are set out in Table 13 below.

Table 13: NWF Statement of Cash Flows

	Year Ended 30 June 2007 Actual (000s)	Year Ended 30 June 2008 Actual (000s)	Year Ended 30 June 2009 Actual (000s)	Half-year Ended 31 Dec 2009 Actual (000s)
Cash Flows From Operating Activities				
Trading Revenue	$290	$115	$793	$1,318
Sundry Income	$11	$78	$427	
Interest Received	$270	$4,283	$4,750	$185
Income Tax Refund				$32
Interest Paid	($26)	($25)	($275)	
Tax Paid	($64)	($1,171)	($17)	($339)
Payments to Suppliers and Employees	($910)	($1,811)	($3,939)	($2,416)
Net Cash Flows From Operating Activities	**($429)**	**$1,469**	**$4,231**	**($1,220)**
Cash Flows From Investing Activities				
Sale of Property, Plant and Equipment	$2,333	$0	$7	
Sale of Assets Held for Resale	$507	$374	$0	$440
Sale of Intangible Assets	$205	$0	$180	
Purchase of Intangible Assets	($0)	($285)	($2,382)	($836)
Purchase of Property, Plant and Equipment, Turbine Deposits and Capital Work in Progress	($5,845)	($9,187)	($29,864)	($7,388)
Purchase of Investments	($5)	($102)	($50)	($2,100)
Purchase of Remaining Interest in TRH Windfarm			($17,079)	
Purchase of Assets Held for Resale	($1,148)	($640)	($550)	
Net Cash Flows From Investing Activities	**($3,953)**	**($9,840)**	**($49,738)**	**($9,884)**
Cash Flows From Financing Activities				
Issue of Ordinary Shares	$78,739	$0	$0	
Half Share of Capital Contributions to Joint Venture	$1,500	$0	$0	
Related Party Loan				$1,000
Issue Costs of Equity	($5,233)	($140)	$0	
Finance Lease Payments	($0)	($0)	($52)	($51)
Advance to Subsidiary	($0)	($0)	($0)	
Advance to Windflow Technology Limited	($912)	($0)	($0)	
Net Cash Flows From Financing Activities	**$74,094**	**($140)**	**($52)**	**$949**
Net Increase / (Decrease) in Cash Held	**$69,712**	**($8,511)**	**($48,051)**	**($10,155)**

Source: NWF

3.4 NWF OWNERSHIP AND SHARE PRICE HISTORY

The current issued capital of NWF consists of 78,559,197 fully paid ordinary shares. Vector is the cornerstone investor and holds 19.99% of the voting shares. AMP and Tyndall are also significant shareholders with stakes of 11.87% and 8.21% respectively. The remaining 47,086,844 shares are owned by approximately 2,500 shareholders, with an average shareholding of approximately 18,400 shares. The top 20 shareholders in NWF as at 23 February 2010 are set out in Table 14 below.

Table 14: Top 20 Shareholders in NWF

Shareholder	Number of Shares	Proportional Interest (%)
New Zealand Central Securities	19,464,529	24.78%
Vector Limited	15,704,000	19.99%
Custodial Services Limited	5,048,380	6.43%
Windflow Technology Limited	3,000,000	3.82%
Rotorua Trust Perpetual Capital	2,000,000	2.55%
Custodial Services Limited	1,391,025	1.77%
Hsu-Cheng Yang	910,000	1.16%
Anthony John Anselmi, Deidre Patricia Anselmi & Others	700,000	0.89%
Wolfgang Rehfus	700,000	0.89%
Custodial Services Limited	674,350	0.86%
David Walter Iles	535,000	0.68%
Custodial Services Limited	506,300	0.64%
Custodial Services Limited	394,000	0.50%
Sheng-Fei Wang	297,000	0.38%
FNZ Custodians Limited	244,194	0.31%
Po-Hui Chi	200,000	0.25%
Investment Custodial Services	193,379	0.25%
ASB Nominees Limited	192,464	0.24%
Caroline Claire Stockdale	172,200	0.22%
Angus Robert Kennedy Napier & Emma Napier	164,200	0.21%
Total Top 20 Shareholders	**52,491,021**	**66.82**%
Remaining 2,537 Shareholders	26,068,176	33.18%
Total Shares Outstanding	**78,559,197**	**100.00%**

Source: NWF

Substantial shareholders in NWF as at 23 February 2010 are set out below.

Table 15: Substantial Shareholders in NWF

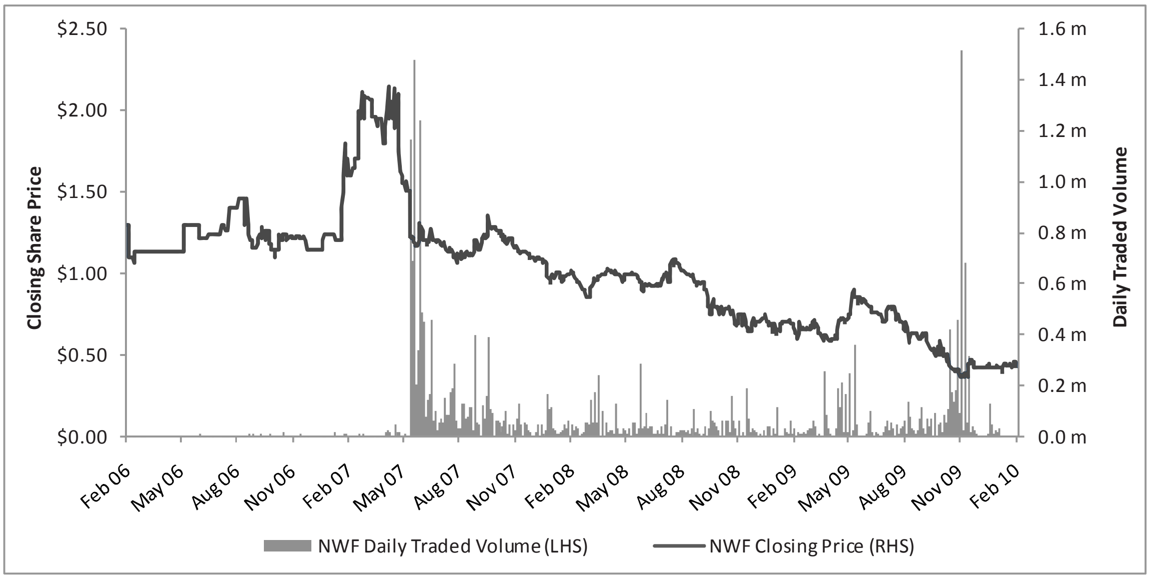
Shareholder	Number of Shares	Proportional Interest (%)
Vector Limited	15,704,000	19.99%
AMP Capital Investors (New Zealand) Limited	9,321,152	11,87%
Tyndall Investment Management NZ Limited	6,446,841	8.21%

Source: NZX Substantial Shareholder Announcements for NWF

3.5 SHARE PRICE PERFORMANCE

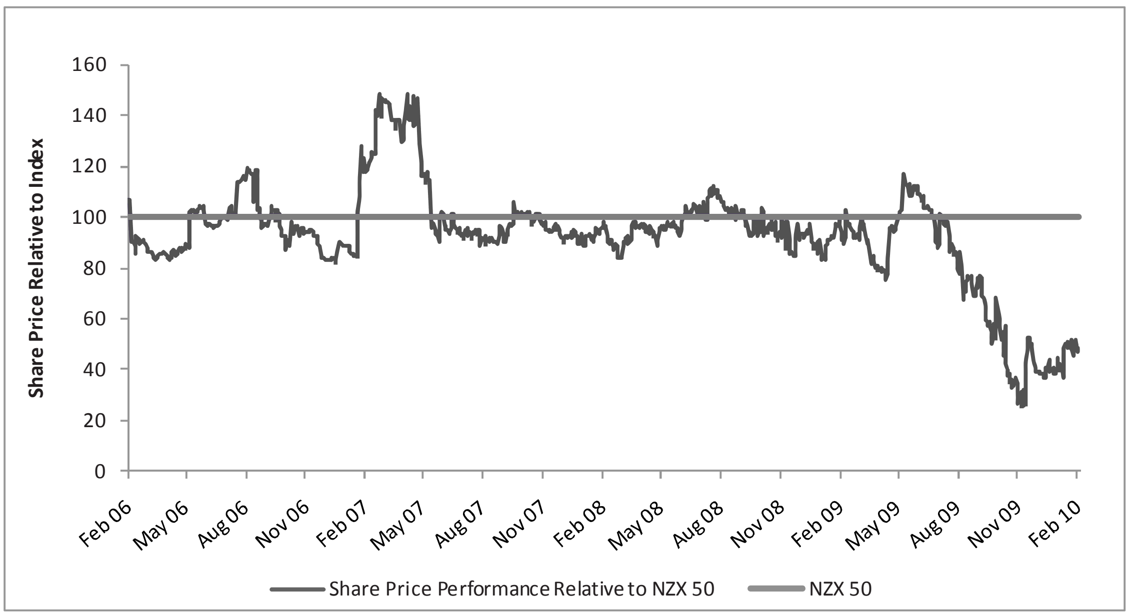
The performance of NWF's shares since listing is shown in Figure 2 and the performance relative to the NZSX Total Index is shown in Figure 3. NWF's VWAP for the three months to 25 February 2010 was $0.40, and for the last 20 trading days was $0.44.

Figure 2: NWF Share Price Performance



Source: CapitalIQ

Figure 3: NWF Share Performance Relative to NZSX Index



Source: CapitalIQ

3.6 CURRENT PROSPECTS AND KEY BUSINESS RISKS

We believe that NWF can be characterised as a maturing development operation. Over the last four years the Company has developed a significant proportion of the Te Rere Hau windfarm, which is now projected to be completed during the first quarter of 2011 after the installation of the final 32 Stage 4 turbines. The windfarm has been generating and selling power since 2007, with production levels rising over the last three years as further turbines have been installed.

Despite these achievements, NWF has yet to complete the windfarm and demonstrate that it can generate the level of profitability contemplated in the original business plan and the prospectuses which accompanied the 2005 and 2007 capital raisings. While total generation from the turbines already installed is broadly in line with the levels projected for these stages, it is critical that the Stage 4 turbines are installed on the extension area and that the generation from this part of the farm is in line with the energy yields forecasted by an independent consultant in early 2009.

At this stage of the Company's development, we believe that the key business risks are as follows:

- **Consent Risk:** An appeal has been lodged with the Environment Court following the granting of the consent to place up to 56 turbines on the extension area of the windfarm. The Directors of NWF believe that the appellant's concerns can be addressed and management has commenced discussions with the aim to have the appeal withdrawn. If the appeal is not withdrawn and proceeds through the Environment Court process, the planned capital raising will most likely be disrupted, with an uncertain outcome for the Company and shareholders.

- **Development Risks:** The Te Rere Hau windfarm requires significant further development before it is completed. Approximately one third of the total turbines are yet to be installed and accordingly NWF remains exposed to the development and construction risks associated with execution of these installations. The turbine supplier is reliant on NWF, as its only customer, to make due payment as the turbines are manufactured and installed. If Windflow were to fail before all the turbines have been supplied and installed, it would likely be difficult and costly to complete the windfarm.

- **Turbine and Technology Risks:** The Windflow turbines installed on the Te Rere Hau windfarm are the first of their kind to be installed and put into production, and therefore have not established an extended period of proven performance. The first five turbines were installed in Stage 1 of the windfarm and were commissioned in 2006. Subsequent stages have been installed and commissioned in 2007, 2008, and 2009. Several issues have been identified with the turbines to date. While these issues have been addressed by Windflow under warranty, some re-design and retrofitting of replacement parts have been required. The operational life of each turbine is 20 years and while regular maintenance is required, any further unexpected performance issues may result in periods when turbines are not generating electricity, leading to lower than forecast revenues. NWF will also rely on Windflow satisfactorily performing during the five year warranty and service period for each turbine.

- **Electricity Price Risk:** NWF's revenue is dependent on both the generation output of the turbines on the Te Rere Hau windfarm and the prevailing price of electricity at the time the output is sold. The downside risk to NWF exists under a scenario where prices are below those projected in the forecasts of the Company's revenues. Electricity prices do show short-term variations that reflect supply and demand on the spot market at any point in time. While these variations do have a bearing on revenues, it is the longer-term trend in prices which will be more important to the performance of the Company over time. Electricity prices may come under pressure if alternative and cheaper sources of generation supply the market. Future electricity prices may also be sensitive to potential changes to the regulatory environment for the industry.

- **Transmission and Operational Risk:** There are a number of operational risks which could result in lower revenues for the Te Rere Hau windfarm. The ability to export power from the windfarm to the national electricity grid is one of the most significant of these risks. A failure in the Powerco line upon which the Te Rere Hau windfarm relies to get its power to the grid would result in lower revenues. Two transmission lines, each of 30MW capacity, have been commissioned and provide some ability for NWF to continue to export at least a portion of its output in the event that one transmission line fails for any reason. There are a number of systems and procedures involved in the operating of the windfarm which carry the risk of possible failure.

- **Funding Risk:** The completion of the Te Rere Hau windfarm is dependent on the Company successfully raising sufficient new capital to fund the remaining scheduled development. If the Company is unable to secure this funding, the windfarm will remain incomplete and, as such, only marginally viable. There are 65 turbines installed and commissioned on the windfarm to date, with only the remaining 32 stage 4 turbines yet to be installed. However, in terms of the projected output of the completed farm, the Stage 4 turbines are expected to contribute 38% of the windfarm's output and it is therefore critical to the commercial success of the windfarm that Stage 4 be completed as planned.

- **Wind and Production Risk:** Revenue for NWF is driven by the generation output of the windfarm and the price at which the electricity is sold. If the long-term modelling assumptions for the wind resource and power generation are lower than that forecast, revenue will also be lower than that which has been forecast.

3.7 USE OF NEW EQUITY AND CASHFLOW FORECASTS

The proceeds from the proposed Rights Issue will be used primarily to fund the completion of the Te Rere Hau windfarm. Table 16 shows the breakdown of the forecast use of equity from the capital raising for the period between April 2010 and December 2011.

Table 16: Uses of New Equity in Period April 2010 to December 2011

Use of Equity (April 2010 to December 2011)	Amount
New Equity	$31,400,000
Capex	$21,231,000
Repay Vector Bridging Loan	$5,250,000
Working Capital	$4,919,000

Source: NWF

4.0 QUALIFICATIONS, DECLARATIONS AND CONSENTS

4.1 DECLARATIONS

This report is dated 8 March 2010 and has been prepared by Northington Partners at the request of the Independent Directors of NWF to fulfil the reporting requirements of the Code and NZSX Listing Rules. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

A prior draft of this report was provided to NWF for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the shareholders of NWF that are eligible to vote on the ordinary resolution in relation to the Potential Vector Allotment, and Northington Partners consents to the distribution of this report to those people.

The engagement terms did not contain any term which materially restricted the scope of the work.

4.2 QUALIFICATIONS

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand and the Asia-Pacific region. The company specialises in mergers and acquisitions, capital raising support, investment appraisals, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and State Owned Enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D, Steven Grant B.Com, LLB (Hons), and Mark Cahill B.Sc, M.Com. Each individual has a wealth of experience in providing independent advice to clients in relation to the relative values and appropriate financial structures for a wide range of acquisitions, mergers, and other commercial arrangements.

4.3 INDEPENDENCE

None of the Directors or employees of Northington Partners have a relationship with or a shareholding in any of the parties to the proposed transaction, including NWF or Vector, which could reasonably be regarded as capable of affecting Northington Partners' ability to provide an unbiased opinion in relation to the proposed Rights Issue.

Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any other conflict of interest that could affect its ability to provide an unbiased report.

4.4 DISCLAIMER AND RESTRICTIONS ON THE SCOPE OF OUR WORK

In preparing this report, Northington Partners has relied on information provided by NWF and a range of other parties. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

The statements and opinions expressed in this report are based on information available as at the date of the report. In forming our opinion, we have relied on forecasts, projections and assumptions prepared by NWF about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts and projections upon which we have relied. These variations may be material. Northington Partners has reviewed all of the information used in the preparation of this report and believes that it is reasonable.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

4.5 INDEMNITY

NWF has agreed to indemnify Northington Partners (to the maximum extent permitted by law and subject to certain exceptions) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report; except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

NWF has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

Northington Partners Limited

G Anderson

Greg Anderson
Director

www.northington.co.nz

APPENDIX I – SOURCES OF INFORMATION USED IN THIS REPORT

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

1. Draft Prospectus and Notice of Meeting as at 8 March 2010 for a 8-for-3 Renounceable Rights Issue of up to 209,491,192 ordinary shares;

2. The shareholder register of NWF as at 23 February 2010;

3. A range of Company announcements up to and including February 2010 provided to the NZSX in relation to Company capital raisings, financial results, and other significant information;

4. A range of NWF annual reports and financial statements, including the half year results to 31 December 2009;

5. Financial accounts, budget projections, revised forecasts, and various other workbooks prepared by the management of NWF;

6. A range of other confidential reports and analyses prepared for the Board of NWF;

7. Information supplied by GSJBW;

8. Documentation for the Loan Facility Agreement entered into between NWF and Vector in December 2009; and

9. Discussions with management of NWF.