Simmons
CORPORATE FINANCE

Windflow Technology Limited

Independent Adviser's Report

In Respect of the Increase in Control of Voting Rights Held by David Iles

November 2013

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

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1. Introduction

1.1 Background

Windflow Technology Limited (**Windflow Technology** or the **Company**) was incorporated on 13 October 2000 as Windflow Engineering Limited. It changed its name to Windflow Technology Limited on 24 November 2000.

The Company designs, manufactures, assembles, commissions and services wind turbines. Its assembly factory is located at Riccarton, Christchurch.

The first prototype *Windflow 500* wind turbine was installed in 2003. The *Windflow 500* is a 2 bladed wind turbine rated at 500 kW. The turbine incorporates technology making it particularly well suited for high wind and gusty sites. It is designed to minimise transmitted fatigue loads, enabling a relatively small and lightweight wind turbine to provide durable service.

5 *Windflow 500* turbines have been in commercial operation since 2006 at the Te Rere Hau wind farm, near Palmerston North. During 2009, the number of turbines in commercial operation at Te Rere Hau grew from 5 to 65. There are now 97 turbines at Te Rere Hau.

The *Windflow 500* has been a technical success and the Company has established platforms for joint marketing and development with General Dynamics SATCOM Technologies, Inc. (**GD SATCOM**) and for its UK market activities.

The Company listed its shares on the alternative market (**NZAX**) operated by NZX Limited (**NZX**) in December 2003. Its market capitalisation was $4.1 million as at 19 November 2013 and its audited total equity was $0.8 million as at 30 June 2013.

1.2 David Iles

David Iles is the largest shareholder in Windflow Technology. He currently holds 3,222,901 ordinary shares in the Company (15.65%) and 6,522,683 redeemable convertible preference shares (**RCPS**) (72.28%).

Mr Iles has held ordinary shares in the Company since June 2006. His most recent acquisition of ordinary shares was on 6 December 2012 by way of a placement of 875,000 new ordinary shares to him by the Company at an issue price of $0.40 per share.

Mr Iles acquired his 6,522,683 RCPS in March 2013 when the Company undertook a pro rata renounceable rights issue to eligible shareholders to subscribe for one new RCPS for every 2 existing ordinary shares held by them at $0.50 per RCPS (the **March 2013 Rights Issue**). Mr Iles took up his entitlements and the Company subsequently made a placement of 4,000,000 RCPS to him.

Mr Iles has also provided a loan facility of up to £3.38 million (approximately $6.53 million at the current exchange rate) to the Company (the **Iles Loan Facility**) to finance 3 wind turbine projects on the Orkney Islands in the UK.

1.3 March 2013 Rights Issue

The March 2013 Rights Issue (including a placement of 4,000,000 RCPS to Mr Iles) resulted in the issue of 9,024,345 RCPS, raising $4.5 million of capital.

The RCPS have the following rights:

- an entitlement to a 10.0% per annum dividend, paid quarterly
- in the event of liquidation of the Company, payment of the issue price and any outstanding dividend ranks behind secured and unsecured creditors and before the rights of ordinary shareholders
- the RCPS do not carry votes other than in respect of resolutions which directly or adversely varies the rights of the RCPS
- the Company has the right to redeem the RCPS for cash at any time between 18 months and 5 years of their allotment
- the Company and the shareholder each have the right at any time prior to 5 years of the RCPS's allotment to convert the RCPS into ordinary shares:
  - the holder conversion rate is one for one
  - the Company conversion rate is 2 ordinary shares for one RCPS
- any RCPS not redeemed or converted within 5 years of their allotment shall be redeemed by the Company at that date for their issue price of $0.50.

1.4 December 2013 Rights Issue and Shortfall Placement

The Company plans to undertake a pro rata renounceable rights issue to eligible shareholders to subscribe for one new RCPS for every 3 existing ordinary shares held by them at $0.50 per RCPS (the **December 2013 Rights Issue**).

The December 2013 Rights Issue will be an issue of up to a maximum of 6,865,755 RCPS (subject to rounding), raising up to $3,432,877 (subject to rounding).

The new RCPS will be issued on the same terms and have the same rights as the existing RCPS, other than:

- dividends are not payable in the first year
- the Company has the right to redeem the RCPS for cash at any time between 30 months and 5 years of their allotment (as opposed to 18 months and 5 years for the existing RCPS)
- if the Company elects to convert the new RCPS into ordinary shares prior to 5 years of their allotment, the conversion rate will be 3 ordinary shares for one new RCPS (as opposed to 2 ordinary shares for one existing RCPS).

The Company has entered into a Shortfall Placement Agreement dated 6 November 2013 with Mr Iles, under which Mr Iles has agreed to purchase any shortfall of RCPS not subscribed for under the December 2013 Rights Issue up to a maximum value of $2.5 million (5,000,000 RCPS) (the **Shortfall Placement Agreement**). The $2.5 million commitment includes whatever rights Mr Iles takes up in relation to his own entitlements under the December 2013 Rights Issue. The Shortfall Placement Agreement is subject to a number of conditions, including shareholder approval.

Proceeds from the December 2013 Rights Issue will be applied towards funding the Company's short to medium term cash flow requirements, in particular in the UK market and the opportunities flowing from Windflow Technology's licensing relationship with GD SATCOM.

1.5 Special Meeting of Shareholders

The Company's shareholders other than Mr Iles (the **Non-associated Shareholders**) will vote on an ordinary resolution in respect of Mr Iles increasing his level of control over the voting rights in the Company as a result of the conversion of some or all of the RCPS he holds arising from the March 2013 Rights Issue, the December 2013 Rights Issue and the Shortfall Placement (the **Iles RCPS Conversion**) at the Company's special meeting of shareholders on 4 December 2013 (resolution 2).

Mr Iles and his associates are not permitted to vote on the resolution.

The Company's shareholders will also vote on resolutions in respect of:

- the Company entering into the Shortfall Placement Agreement (resolution 1)
- the Company entering into 4 new turbines (resolution 3)
- the Company increasing the Iles Loan Facility to £7.38 million (resolutions 4a and 4b).

1.6 Mr Iles' Potential Shareholding Levels

If the Iles RCPS Conversion does not occur (ie Mr Iles' RCPS are not converted into ordinary shares), then his control over the voting rights in the Company will remain at the current level of 15.65% (assuming that Mr Iles does not acquire or dispose of any ordinary shares and there is no change to the number of ordinary shares on issue).

The number of ordinary shares that Mr Iles will hold if the Iles RCPS Conversion occurs will depend upon:

- the number of RCPS subscribed for by Mr Iles under the Shortfall Placement, which will be driven by the level of shortfall in acceptances by the Non-associated Shareholders of their entitlements under the December 2013 Rights Issue and
- the number of RCPS held by Mr Iles that are converted into ordinary shares by either Mr Iles or the Company.

Following the Iles RCPS Conversion, the level of voting rights controlled by Mr Iles will also be dependent upon the number of RCPS held by the Non-associated Shareholders that are converted into ordinary shares by either the Non-associated Shareholders or the Company.

These various factors mean that there are a wide range of possible outcomes as to the level of voting rights that Mr Iles will control following the Iles RCPS Conversion. Depending on the assumptions regarding the take-up of entitlements under the December 2013 Rights Issue and the conversion of the RCPS, Mr Iles will control between 29.65% and 58.29% of the voting rights in the Company following the Iles RCPS Conversion.

Maximum Shareholding Level

The effect of passing the resolution in respect of the Iles RCPS Conversion is that Mr Iles will be permitted to increase his shareholding of ordinary shares in the Company up to a maximum of 31,268,267 ordinary shares through the allotment of a maximum of 28,045,366 ordinary shares under the Iles RCPS Conversion.

Maximum Number of Ordinary Shares That May Be Held by Mr Iles

	RCPS	Ordinary Shares
Ordinary shares currently held		3,222,901
Existing RCPS	6,522,683	13,045,366[1]
New RCPS from December 2013 Rights Issue and Shortfall Placement	5,000,000[2]	15,000,000[3]
Total RCPS prior to the Iles RCPS Conversion	11,522,683	
Maximum ordinary shares held following the Iles RCPS Conversion		31,268,267

1 Assumes the existing RCPS are converted by the Company on a 2:1 basis
2 Assumes the maximum number of RCPS are issued under the Shortfall Placement
3 Assumes the new RCPS are converted by the Company on a 3:1 basis

The theoretical maximum level of voting rights that Mr Iles can hold under the Iles RCPS Conversion is 58.29%. This assumes:

- the Non-associated Shareholders do not subscribe for any RCPS under the December 2013 Rights Issue
- Mr Iles subscribes for 5,000,000 RCPS under the Shortfall Placement
- the Company then converts all RCPS into ordinary shares:
  - the 11,522,683 RCPS held by Mr Iles convert into 28,045,366 ordinary shares
  - the 2,501,662 RCPS held by the Non-associated Shareholders (arising from the March 2013 Rights Issue) convert into 5,003,324 ordinary shares.

There will be 53,645,954 ordinary shares on issue in total.

We consider it highly improbable that Mr Iles will hold 58.29% of the ordinary shares after the Iles RCPS Conversion as this assumes that no Non-associated Shareholder will subscribe for their entitlements under the December 2013 Rights Issue.

Minimum Shareholding Level

At the other end of the spectrum, if all of the Non-associated Shareholders subscribe for their full entitlements under the December 2013 Rights Issue and subsequently all of the RCPS are converted into ordinary shares by the shareholders (on a one for one basis), then there will be 36,487,364 ordinary shares on issue. Mr Iles will hold 10,819,884 ordinary shares, representing 29.65% of the voting rights in the Company.

Again we consider this scenario to be highly improbable as it assumes that every shareholder will subscribe for their full entitlements under the December 2013 Rights Issue and every shareholder will elect to convert their RCPS. Just under 50% of the March 2013 Rights Issue entitlements were taken up, so it is unlikely that 100% of the December 2013 Rights Issue entitlements will be taken up. Furthermore, given the Company's current share price of $0.20, it is improbable that all shareholders would elect to convert their $0.50 RCPS into ordinary shares on a one for one basis in the near future.

Possible Shareholding Level

In our view, a more likely scenario for the purposes of this analysis is based on the following assumptions:

- the Non-associated Shareholders subscribe for 50% of their entitlements under the December 2013 Rights Issue
- the Company subsequently converts all of the RCPS.

This would result in:

- the Non-associated Shareholders subscribing for 2,895,727 RCPS under the December 2013 Rights Issue
- Mr Iles subscribing for 3,970,028 RCPS under the Shortfall Placement
- the Company then converting all RCPS into ordinary shares:
  - the 10,492,711 RCPS held by Mr Iles convert into 24,955,449 ordinary shares
  - the 5,397,389 RCPS held by the Non-associated Shareholders convert into 13,690,505 ordinary shares.

Under this scenario, there will be a total of 59,243,218 ordinary shares on issue. Mr Iles will hold 28,178,350 ordinary shares, representing 47.56% of the voting rights in the Company.

1.7 Regulatory Requirements

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing their holding or control of voting rights (together with its associates) beyond 20%
- a person holding or controlling 20% or more of the voting rights in a code company from increasing their holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and their associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

Accordingly, the Non-associated Shareholders will vote at the Company's special meeting on an ordinary resolution in respect of Mr Iles increasing his holding or control of voting rights in the Company arising from the Iles RCPS Conversion in accordance with the Code.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in the notice of meeting pursuant to Rule 16(h).

1.8 Purpose of the Report

The Company's board of directors (the **Board**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the allotment of shares to Mr Iles under the Iles RCPS Conversion in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 8 November 2013 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Board for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on voting on the resolution in respect of the Iles RCPS Conversion.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of Mr Iles increasing his control of voting rights as a result of the allotment of shares under the Iles RCPS Conversion in relation to each shareholder. Our advice and opinions are necessarily general in nature.

This Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

Any references to $ are references to New Zealand dollars. References to foreign currencies are appropriately denoted.

2. Evaluation of the Merits of the Allotment of Shares to Mr Iles under the Iles RCPS Conversion

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares to Mr Iles under the Iles RCPS Conversion.

There is no legal definition of the term *merits* in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated August 2013
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transactions
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the allotment of shares to Mr Iles under the Iles RCPS Conversion should focus on:

- the requirement for the December 2013 Rights Issue
- the alternatives to the December 2013 Rights Issue
- the prospects for Windflow Technology without the December 2013 Rights Issue
- the terms and conditions of the December 2013 Rights Issue and the Shortfall Placement
- the impact of the December 2013 Rights Issue on the Company's financial position
- the impact of the Iles RCPS Conversion on the control of the Company
- the impact of the Iles RCPS Conversion on Windflow Technology's share price
- other benefits and disadvantages to Mr Iles of the Iles RCPS Conversion
- the benefits and disadvantages for the Non-associated Shareholders of the Iles RCPS Conversion
- the implications if the resolution in respect of the Iles RCPS Conversion is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Summary of the Evaluation of the Merits of the Allotment of Shares to Mr Iles under the Iles RCPS Conversion

In our opinion, after having regard to all relevant factors, the positive aspects of the allotment of shares to Mr Iles under the Iles RCPS Conversion outweigh the negative aspects from the perspective of the Non-associated Shareholders.

Our evaluation of the merits of the allotment of shares to Mr Iles under the Iles RCPS Conversion is set out in detail in sections 2.3 to 2.16. In summary, the key factors leading to our opinion are:

- the rationale for the December 2013 Rights Issue is sound. The Company requires an injection of capital to fund its short to medium term cash flow needs
- alternative capital raising options to the December 2013 Rights Issue are not likely to be as equitable to the Non-associated Shareholders
- the structure of the December 2013 Rights Issue is reasonable. Non-associated Shareholders are able to fully participate in the capital raising as the December 2013 Rights Issue is a pro rata offer to all shareholders and shareholders have the opportunity to sell their rights entitlements
- the terms of the Shortfall Placement Agreement are reasonable. In the event that the December 2013 Rights Issue is not fully subscribed for, the Shortfall Placement ensures that the Company will raise a minimum of $2.5 million. Mr Iles is not being paid a fee for the Shortfall Placement. The Shortfall Placement is conditional upon the resolution in respect of the Iles RCPS Conversion being approved
- the December 2013 Rights Issue will have a positive impact on the Company's financial position, increasing equity by between $2.5 million and $3.4 million
- the Iles RCPS Conversion could significantly increase Mr Iles' ability to influence the outcome of shareholding voting as it would result in Mr Iles controlling between 29.65% and 58.29% of the voting rights in the Company. This is the main negative aspect of the Iles RCPS Conversion
- the Iles RCPS Conversion is not expected to increase Mr Iles' influence over the Board or the Company's operations
- Non-associated Shareholders not taking up their entitlements under the December 2013 Rights Issue may see their shareholding interests diluted by up to 51% under the Iles RCPS Conversion, depending on the extent to which entitlements are taken up under the December 2013 Rights Issue and whether Mr Iles or the Company elects to convert the RCPS
- trading in the Company's shares is very thin. The December 2013 Rights Issue and the Iles RCPS Conversion are unlikely to have any material impact on the Company's share price or the liquidity of its shares
- the Iles RCPS Conversion may reduce the attraction of Windflow Technology as a takeover target to Mr Iles

- the implications of the resolution not being approved are that:
  - Mr Iles would not be obliged to undertake the Shortfall Placement and therefore there would be significant risk that the $2.5 million minimum subscription amount will not be met and hence the December 2013 Rights Issue will not proceed
  - any future conversion of the RCPS that increases Mr Iles' control of voting rights in the Company beyond 20% will potentially result in a breach of the Code, thereby requiring remedial steps to be undertaken.

2.3 The Requirement for the December 2013 Rights Issue

The December 2013 Rights Issue will raise a maximum of $3.4 million of equity for Windflow Technology. In addition, the Iles Loan Facility will increase by £4.0 million to £7.38 million, subject to shareholder approval.

The gross proceeds from the December 2013 Rights Issue will be used to fund the short to medium term operating, financing and investing cash flows of Windflow Technology, including:

- approximately $0.1 million for the costs of the capital raising
- $0.5 million to order spares and tooling to support the UK planned installations
- $2.83 million will be applied (together with funds from the Iles Loan Facility) to develop further *Windflow 500* turbines that will be made in New Zealand and installed in the UK, owned by the Company.

The additional Iles Loan Facility will be used to fund up to 4 further turbine projects in the UK.

The December 2013 Rights Issue short-form prospectus and investment statement sets out more details on the utilisation of the funds.

2.4 Alternatives to the December 2013 Rights Issue

We are advised that the Board considered a pro rata rights issue to be the fairest capital raising option as all shareholders are offered the opportunity to participate in the capital raising on an equal basis.

Windflow Technology could pursue alternative forms of raising capital including:

- seeking alternate debt funding
- seeking another strategic investor
- making a series of share placements
- asset sales.

We consider that these alternative capital raising options are not as attractive as the December 2013 Rights Issue:

- the Company is raising debt in the form of an additional £4.0 million of Iles Loan Facility, subject to shareholder approval, in conjunction with the December 2013 Rights Issue. Given the Company's financial performance, it is unlikely that it could raise debt from trading banks at this point in time
- making placements to a new investor or to a select few existing shareholders would result in dilution to other shareholders
- asset sales would reduce the Company's size.

2.5 The Prospects for the Company Without the December 2013 Rights Issue

The prospects for Windflow Technology continuing as a going concern without the additional capital from the December 2013 Rights Issue are limited. The Company incurred a loss of $4.2 million in the 2013 financial year and used $6.0 million of cash in its operating activities. It needs the capital from the December 2013 Rights Issue to fund its short to medium term operations. In the absence of this capital, the Company would most likely need to cease operating.

2.6 Structure of the December 2013 Rights Issue

The key terms of the December 2013 Rights Issue are:

- the Company's ordinary shareholders will be offered up to 6,865,755 new RCPS (subject to rounding) on the basis of one new RCPS for every 3 ordinary shares held on 3 December 2013
- an issue price of $0.50 per new RCPS
- the rights issue is renounceable
- new RCPS will rank equally in all respects with the existing RCPS, other than in respect of dividends in the first year, the period over when the RCPS can be redeemed and the conversion factor if the Company elects to convert the new RCPS
- the minimum level of subscriptions required for the offer to proceed is $2.5 million
- the rights issue is not underwritten but the Company has entered into the Shortfall Placement Agreement.

Size of the December 2013 Rights Issue

We are advised by the Board that the $2.5 million to $3.4 million of equity to be raised under the December 2013 Rights Issue was based on their estimates of the amount of capital required to meet the Company's short to medium term cash flow needs.

Pricing

In theory, the pricing of a rights issue should have negligible value transfer implications as all shareholders participate in the rights issue on identical terms. This is especially the case where the rights are renounceable and those shareholders not wishing to take up their entitlements may sell their rights and thereby maintain the value of their overall investment in the company.

We are advised by the Board that it set the price of $0.50 per new RCPS to ensure consistency with the price set for the March 2013 Rights Issue.

Renounceable

The rights are renounceable, meaning that they can be transferred or sold. Windflow Technology has applied to NZX for permission to quote the rights entitlements on the NZAX.

December 2013 Rights Issue is not Underwritten

Given that the Company has entered into the Shortfall Placement Agreement, the Board has decided not to seek to have the December 2013 Rights Issue underwritten.

We consider this approach to be reasonable:

- the Company is guaranteed to raise at least $2.5 million through the Shortfall Placement, thus meeting the minimum subscription level
- underwriting fees in New Zealand tend to be in the range of 1.5% to 6.0% and as such would represent a significant cost to the Company.

Overseas Shareholders

The December 2013 Rights Issue offer is open to shareholders with a registered address in New Zealand or Australia, as well as those shareholders outside of New Zealand and Australia who have satisfied themselves as to the full observance of the laws of the relevant jurisdiction.

2.7 Terms of the Shortfall Placement

The key terms of the Shortfall Placement are:

- if the aggregate amount of valid applications received by the Company is less than the intended gross proceeds of $3,432,877, the Company may request that Mr Iles subscribe for such number of RCPS as is required to reach the intended gross proceeds of $3,432,877 (up to a limit of $2.5 million) and the Company may issue such number of RCPS to Mr Iles. The $2.5 million commitment includes whatever rights Mr Iles takes up in relation to his own entitlements under the December 2013 Rights Issue.
- any RCPS subscribed for by Mr Iles under the Shortfall Placement Agreement will be subscribed for at $0.50 per RCPS
- the RCPS shall be issued on the same terms as those RCPS issued under the December 2013 Rights Issue
- Mr Iles will not be paid a fee for entering into the Shortfall Placement Agreement
- the Shortfall Placement is conditional on the resolution in respect of the Iles RCPS Conversion being approved.

We are of the view that the terms of the Shortfall Placement are reasonable. The Shortfall Placement is in effect an underwrite of the December 2013 Rights Issue up to $2.5 million, with Mr Iles not being paid any underwriting fees.

The Shortfall Placement Agreement is subject to shareholder approval as required by NZAX Listing Rules 7.5 and 9.2.1. Resolution 1 seeks this shareholder approval.

2.8 Impact on Financial Position

Windflow Technology's audited total equity as at 30 June 2013 was approximately $0.8 million, equating to $0.02 per share. The Company's net tangible assets (**NTA**) at that date were approximately negative $1.1 million, equating to negative $0.03 per share.

The December 2013 Rights Issue will potentially raise $3.4 million (net of costs). For illustrative purposes, if the full net proceeds were to have been received on 30 June 2013, Windflow Technology's equity would increase by 419% to approximately $4.2 million, equity per share would increase by 238% to $0.07 and NTA per share would increase to $0.04.

Illustrative Effect of the December 2013 Rights Issue

	Equity ($000)	No. of Shares (000)	Equity / Share ($)	NTA / Share ($)
30 June 2013	796	38,646[2]	$0.02	($0.03)
December 2013 Rights Issue net proceeds	3,353[1]	20,597[3]	$0.16	$0.16
Post the December 2013 Rights Issue	4,129	59,243	$0.07	$0.04

1 Assumes the December 2013 Rights Issue is fully subscribed and costs approximately $0.1 million
2 Based on the current 9,024,345 RCPS converting to ordinary shares on a 2:1 basis
3 Based on the new 6,865,755 RCPS converting to ordinary shares on a 3:1 basis

2.9 Impact on Control

Capital Structure and Shareholders

Ordinary Shares

Windflow Technology currently has 20,597,264 ordinary fully paid shares on issue held by 900 shareholders.

The names, number of ordinary shares and percentage holding of the 10 largest shareholders as at 11 November 2013 are set out below.

Windflow Technology's 10 Largest Ordinary Shareholders

Shareholder	No. of Shares Held	%
David Iles	3,222,901	15.65%
Mighty River Power Limited	2,382,496	11.57%
Delane Wycoff	1,100,000	5.34%
New Zealand Central Securities Depository Limited (**NZCSD**)	902,895	4.38%
Geoff Henderson	702,564	3.41%
Jennifer Henderson	550,000	2.67%
Reda Holdings Limited	241,000	1.17%
FNZ Custodians Limited	213,953	1.04%
Jeanette Fitzsimons	211,513	1.03%
Sheila Kolstad	165,000	0.80%
Subtotal	9,692,322	47.06%
Others (890 shareholders)	10,904,942	52.94%
Total	20,597,264	100.00%

Source: NZX Data

Redeemable Convertible Preference Shares

Windflow Technology currently has 9,024,345 RCPS on issue held by 174 shareholders.

The names, number of RCPS and percentage holding of the 10 largest shareholders as at 19 November 2013 are set out below.

Windflow Technology's 10 Largest RCPS Shareholders

Shareholder	No. of Shares Held	%
David Iles	6,522,683	72.28%
NZCSD	419,272	4.65%
Health Consultants Limited	140,000	1.55%
Michael Chick	100,000	1.11%
Geoff Henderson	100,000	1.11%
Jennifer Henderson	100,000	1.11%
Sheila Kolstad	82,500	0.91%
Ian Shearer & Mary Newman	63,454	0.70%
Brett Whiston	57,845	0.64%
Angus Napier & Emma Napier	51,000	0.57%
Subtotal	7,636,754	84.62%
Others (164 shareholders)	1,3987,591	15.38%
Total	9,024,345	100.00%

Source: Windflow Technology

Shareholder Voting

The Iles RCPS Conversion would enable Mr Iles to increase his control of voting rights in Windflow Technology without having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code. This is the principal reason why the Non-associated Shareholders have the opportunity to vote for or against the resolution in respect of the Iles RCPS Conversion.

As set out in section 1.6, there are a wide range of possible outcomes with respect to Mr Iles' eventual shareholding following the Iles RCPS Conversion. Mr Iles' shareholding level will be between 29.65% and 58.29%, with a shareholding level of just under 50% a likely outcome.

Currently, Mr Iles does not hold any significant ability to influence the outcome of shareholder voting. He cannot singlehandedly pass or block special resolutions (which require the approval of 75% of the votes cast by shareholders) or pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

Following the Iles RCPS Conversion, Mr Iles' ability to influence the outcome of shareholder voting would change significantly.

The theoretical minimum shareholding level of 29.65% (which we consider to be improbable) would enable Mr Iles to singlehandedly block special resolutions but not to singlehandedly block or pass ordinary resolutions or pass special resolutions.

The theoretical maximum shareholding level of 58.29% (which we also consider to be improbable) would enable Mr Iles to singlehandedly pass or block ordinary resolutions and block special resolutions.

The likely shareholding level of just under 50% would enable Mr Iles to singlehandedly block special resolutions. While it would technically not be sufficient to singlehandedly block or pass ordinary resolutions, in reality it most likely would be because if some shareholders did not vote on a resolution, then the relative weight of Mr Iles' shareholding would increase.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the NZAX Listing Rules, the Company's constitution and the Companies Act 1993.

Given the above, we are of the view that the allotment of shares to Mr Iles under the Iles RCPS Conversion would potentially significantly increase Mr Iles' ability to exert shareholder voting control over Windflow Technology.

Board Control

The Board consists of:

- Michael Chick, independent director, chair
- Geoff Henderson, executive director and chief executive officer
- Heugh Kelly, independent director
- Angus Napier, independent director.

None of the directors are deemed to be associated with Mr Iles.

Mr Iles does not currently have any Board representation. We are advised by the Board that there have been no discussions with Mr Iles regarding any Board representation by Mr Iles as a result of the Shortfall Placement or the Iles RCPS Conversion.

Operations

We are advised by the Board that it does not envisage that Mr Iles' ability to exert control over the Company's operations would change as a result of the Iles RCPS Conversion.

2.10 Dilutionary Impact

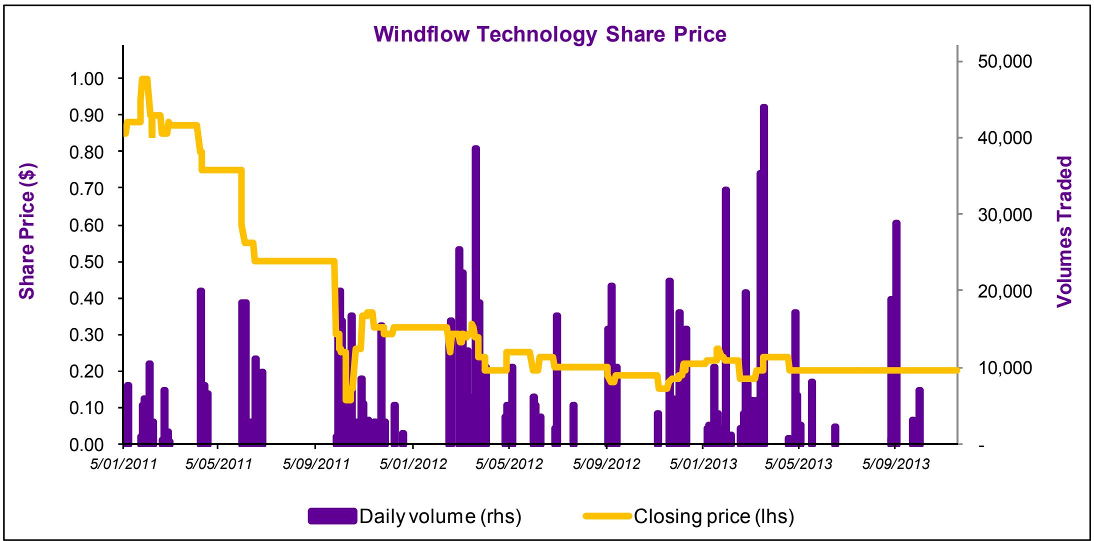
The Iles RCPS Conversion would result in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted, depending on the extent to which they take up their entitlements under the December 2013 Rights Issue and whether Mr Iles or the Company elects to convert the RCPS.

Non-associated Shareholders who do not take up their entitlements under the December 2013 Rights Issue may see their shareholding interests in the Company diluted by up to 51%.

While the potential level of dilution is significant, the actual level of dilution is, to some degree, in the hands of the Non-associated Shareholders as it is partly a function of whether they take up their entitlements under the December 2013 Rights Issue.

2.11 Impact on Ordinary Share Price and Liquidity

Set out below is a summary of Windflow Technology's daily closing ordinary share price and daily volumes of ordinary shares traded from 5 January 2011 to 19 November 2013.



Source: NZX Data

During the period, Windflow Technology's ordinary shares have traded between $0.12 and $1.00 at a volume weighted average share price (**VWAP**) of $0.31.

Trading in the Company's ordinary shares is extremely thin. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) is set out below.

Share Trading					
Period	**Low[1] ($)**	**High[1] ($)**	**VWAP[1] ($)**	**Volume[1] Traded (000)**	**Liquidity[1]**
1 month	n/a	n/a	n/a	n/a	n/a
3 months	0.20	0.20	0.20	61	0.3%
6 months	0.20	0.20	0.20	71	0.3%
12 months	0.15	0.26	0.20	384	1.9%

n/a: not applicable as the shares did not trade
1 Up to 19 November 2013

Source: NZX Data

The shares only traded on 38 days in the past year.

Both the existing RCPS and the new RCPS to be issued under the December 2013 Rights Issue are priced at $0.50 each. Their conversion terms differ if they are to be converted by the Company:

- the existing RCPS convert into 2 ordinary shares
- the new RCPS convert into 3 ordinary shares.

In theory, the conversion of (a maximum possible) 15,890,099 $0.50 RCPS to (a maximum possible) 38,645,954 ordinary shares could have an impact on the Company's share price. However, based on the current share price of $0.20, and taking into account the very thin trading in the Company's shares, we are of the view that the Iles RCPS Conversion would have little effect on the Company's share price. Given that number of shares held by the Non-associated Shareholder would not necessarily change under the Iles RCPS Conversion, we do not consider the liquidity of the Company's shares would be impacted to any great extent.

2.12 Benefits to Mr Iles

The Iles RCPS Conversion provides Mr Iles with the opportunity to convert his RCPS to ordinary shares and thereby (potentially) significantly increase his shareholding of ordinary shares and his level of shareholder voting control in Windflow Technology.

Mr Iles would hold between 29.65% and 58.29% of the Company's shares following the Iles RCPS Conversion. However, the actual shareholding level that Mr Iles would hold would depend upon:

- the extent to which the Non-associated Shareholders take up their entitlements under the December 2013 Rights Issue
- the extent to which Mr Iles' RCPS are converted into ordinary shares by either himself or the Company and
- the extent to which the Non-associated Shareholders' RCPS are converted into ordinary shares by either themselves or the Company.

Rule 7(e) of the Code enables persons that hold or control between 50% and 90% of the voting rights in a code company to increase their holding or control of voting rights by a further 5% per annum (the **Creep Provisions**).

If, following the Iles RCPS Conversion, Mr Iles holds 50% or more of the voting rights in the Company, he will be able to utilise the Creep Provisions to increase his shareholding level.

2.13 Disadvantages to Mr Iles

Increased Exposure to the Risks of Windflow Technology

The key issues and risks that are likely to impact upon the business operations of Windflow Technology are set out in section 10.6 of the December 2013 Rights Issue short-form prospectus and investment statement.

As Mr Iles' ownership in Windflow Technology increases, so does his exposure to these risks. The level of ownership for Mr Iles would be between 29.65% and 58.29% following the Iles RCPS Conversion. Mr Iles has little control over the uptake of the December 2013 Rights Issue by the Non-associated Shareholders or whether the Company will convert the RCPS and hence he has little control over the level of his ultimate shareholding in Windflow Technology.

Significant Financial Commitment

Mr Iles may need to invest up to $2.5 million for RCPS under the Shortfall Placement, depending upon the level of entitlements taken up by the Non-associated Shareholders in the December 2013 Rights Issue.

The investment of up to $2.5 million represents a significant financial commitment and is approximately three quarters of the capital sought under the capital raising.

The financial commitment in respect of the Shortfall Placement is in addition to Mr Iles' commitment to increase the Iles Loan Facility by £4.0 million to £7.38 million.

2.14 Benefits for the Non-associated Shareholders

All Shareholders Participate in the December 2013 Rights Issue

The December 2013 Rights Issue is pro rata. All Non-associated Shareholders have the opportunity to take up their entitlements to acquire ordinary shares. If all Non-associated Shareholders take up their entitlements, then the Iles RCPS Conversion will result in Mr Iles holding between 29.65% of the ordinary shares (if all the shareholders elect to convert all of their RCPS) and 32.90% of the ordinary shares (if the Company elects to convert all of the RCPS).

Benefits to Windflow Technology of Mr Iles as a Cornerstone Shareholder

Mr Iles is an important cornerstone investor in the Company. He is currently the largest shareholder in the Company, holding 15.65% of the ordinary shares and 72.28% of the RCPS. In addition, he has provided the £3.38 million Iles Loan Facility to finance 3 wind turbine projects in the UK.

Subject to shareholder approval, Mr Iles will provide further financial support to Windflow Technology through agreeing to purchase any shortfall under the December 2013 Rights Issue up to a maximum of $2.5 million and increase the Iles Loan Facility by £4.0 million to £7.38 million.

The provision of financial assistance will enhance Mr Iles' position as an important cornerstone investor in the Company.

Non-associated Shareholder Approval is Required

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the allotment of shares to Mr Iles under the Iles RCPS Conversion.

Neither Mr Iles nor the Company will be able to convert the RCPS held by Mr Iles to ordinary shares to increase Mr Iles' control of voting rights in the Company beyond 20.00% unless the Non-associated Shareholders approve the resolution.

2.15 Disadvantages to the Non-associated Shareholders

Non-associated Shareholders not Taking up Their Entitlements will be Diluted

Non-associated Shareholders who choose not to take up their rights may ultimately be diluted by those shareholders, including Mr Iles, who subscribe for new RCPS. Following the Iles RCPS Conversion, their proportionate interests in the Company could reduce by up to 51%.

Likelihood of a Takeover Offer from Mr Iles may Reduce

In our view, an increase in Mr Iles' control of voting rights from 15.65% to between 29.65% and 58.29% may reduce the likelihood of a takeover offer for the Company from Mr Iles.

If, following the Iles RCPS Conversion, Mr Iles holds less than 50% of the voting rights, he will only be able to acquire more shares in the Company if:

- he makes a full or partial takeover offer or
- the acquisition is approved by way of an ordinary resolution of the Non-associated Shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Non-associated Shareholders.

Mr Iles could also increase his level of shareholding in the Company if Windflow Technology undertook a share buyback that was approved by the Company's shareholders and Mr Iles did not accept the offer of the buyback.

If, following the Iles RCPS Conversion, Mr Iles holds 50% or more of the voting rights, then he could increase his shareholding by up to 5% per annum utilising the Creep Provisions.

An increase in Mr Iles control of voting rights to between 29.65% to 58.29% could reduce the likelihood of a takeover offer for the Company from Mr Iles as he may consider that he has sufficient control over the Company.

It is possible that if Mr Iles did make a takeover offer for further shares in the Company, he may offer a control premium that is lower than would otherwise be expected as he may value his offer on the basis that he already has significant control of the Company and hence does not need to pay a control premium of any significance.

Likelihood of Other Takeover Offers does not Change Significantly

In our view, the increase in Mr Iles' shareholding from 15.65% to between 29.65% and 58.29% under the Iles RCPS Conversion would not have a material impact on the attraction of Windflow Technology as a takeover target to other parties.

Any bidder looking to fully take over the Company would need to ensure that Mr Iles would accept its offer. However, a bidder may be slightly less inclined to make a partial takeover offer for (say) 50.1% of the Company unless it was certain that Mr Iles would accept the offer.

2.16 Implications of the Resolution not being Approved

If the resolution in respect of the Iles RCPS Conversion is not passed, then the condition precedent in the Shortfall Placement Agreement will not be met and Mr Iles will not be bound to undertake the Shortfall Agreement. Mr Iles may or may not choose to exercise his own rights or take up any shortfall but he would be under no obligation to do so. Therefore there will be a significant risk that the $2.5 million minimum subscription level will not be met and hence the December 2013 Rights Issue will not proceed. As stated in section 2.5, the prospects of the Company continuing as a going concern without the proceeds from the December 2013 Rights Issue would be limited.

Any future conversion of the RCPS that increases Mr Iles' control of voting rights in the Company beyond 20% will potentially result in a breach of the Code, thereby requiring remedial steps to be undertaken.

If neither Mr Iles nor the Company convert some of the RCPS held by Mr Iles, then Windflow Technology will be obliged to redeem these RCPS on the fifth anniversary of their allotment. The redemption will require the Company to pay Mr Iles cash of $0.50 per RCPS. This may require a significant cash outlay on the Company's part. Windflow Technology would need to look to alternative capital raising options to raise sufficient capital to redeem Mr Iles' RCPS. There is no guarantee that the alternative capital raising options will deliver the level of capital sought or provide capital within the desired timeframes.

2.17 Voting For or Against the Resolution

Voting for or against the resolution in respect of the Iles RCPS Conversion is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Sources of Information, Reliance on Information, Disclaimer and Indemnity

3.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of special meeting
- the Shortfall Placement Agreement
- the draft December 2013 Rights Issue short-form prospectus and investment statement
- the March 2013 Rights Issue prospectus and investment statement dated 12 February 2013
- the Windflow Technology annual reports for the years ended 30 June 2011 to 2013
- data in respect of Windflow Technology from NZX Data and Capital IQ.

During the course of preparing this report, we have had discussions with and / or received information from the Board and Windflow Technology's legal advisers.

The Board has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the December 2013 Rights Issue and the Shortfall Placement that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by Windflow Technology to the Non-associated Shareholders is sufficient to enable the Board and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Iles RCPS Conversion.

3.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Windflow Technology and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Windflow Technology. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

3.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Windflow Technology will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Windflow Technology and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update our report.

We have had no involvement in the preparation of the notice of special meeting issued by Windflow Technology and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

3.4 Indemnity

Windflow Technology has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Windflow Technology has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

4. Qualifications and Expertise, Independence, Declarations and Consents

4.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), CFIP.

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

4.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Windflow Technology or Mr Iles or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Iles RCPS Conversion.

Simmons Corporate Finance has not had any part in the formulation of the December 2013 Rights Issue, the Shortfall Placement or the Iles RCPS Conversion or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Iles RCPS Conversion. We will receive no other benefit from the preparation of this report.

4.3 Declarations

An advance draft of this report was provided to the Board for its comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

4.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of special meeting to be sent to Windflow Technology's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

Peter Simmons
Director
Simmons Corporate Finance Limited
19 November 2013