

Martin Aircraft Company Limited

Consolidated Financial Statements
for the year ended 30 June 2017



**MARTIN
JETPACK**



A company registered in
New Zealand with company
number 901393
(ARBN 601 582 638)

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Directors' Report

The principal activity of Martin Aircraft Company Limited (the Company or Martin Aircraft) is the development and commercialisation of the Martin Jetpack.

The Company has invested in the period to complete the design and build of the Series 1 aircraft to aviation standards and test and demonstrate the aircraft.

Executive Summary

Following the operational restructure in August 2016 the focus of the Company was narrowed to assembly, testing and delivery of the Series 1 aircraft. This testing has shown excellent airworthiness characteristics of the aircraft and is a step change improvement from the earlier prototypes.

However, the test programme has also demonstrated the following:

- The current engine is sufficient for test and capability demonstration purposes. However, reliability is not sufficient for sales to first responders or specialist customers where a reduced airworthiness requirement may be acceptable.
- There is commercial interest in the aircraft but the potential customer base is seeking a certified aircraft with an alternative proven engine.
- Learning from the test programme has provided significant opportunities for further design refinement and improvement.

Whilst there remains tangible interest in the technology to transition the product to sales, it is important the Company continues repeatable Series 1 manned capability demonstrations while designing a new Series 2 commercially viable certifiable aircraft incorporating a commercially viable engine. It is estimated that this could take up to a further three years to complete and would require additional capital of approximately US \$50m.

As at the beginning of September 2017 the Company had sufficient cash resources to enable trading until the end of October 2017. Based on our current forecasts, the Company is likely to require additional capital of approximately NZD\$10 million to enable the Company to continue trading beyond October and to continue product development and commercialisation.

Accordingly, and to enable this, the Company has sourced this capital by way of a HK \$57.28 million (c.NZD\$10m) loan funding facility from KuangChi Science Limited (KCS). (Refer to Note 2(a) (i) of the Financial Statement for further information).

In the interim a Series 2 commercial pathway will be confirmed including a capital raising plan to enable funding of the project.

Current Technical Position of the Jetpack

Manned Flight and Demonstration - Series 1 Airworthiness

After achieving successful free flight of the unmanned test vehicle in June the Company progressed into free flight test envelope expansion and completing the build of the first manned aircraft in July.

The New Zealand Civil Aviation Authority (CAA) granted the Company a conditional Certificate of Airworthiness to allow the Series 1 aircraft to fly manned within its test programme and perform capability demonstrations.

Manned flight and capability demonstrations commenced in August. During testing the Jetpack has shown excellent airworthiness characteristics and has been a step change improvement from the earlier Prototype 12 Jetpack. This is a significant milestone in physically proving the flight capability and performance of the aircraft.

Frequent manned testing has yielded significant quantities of data with respect to ducted fan flight characteristics and performance. This is identifying and enabling ongoing refinement and performance improvement.

It is anticipated the flight envelope and CAA conditions will be progressively expanded in the future based on results from aircraft testing and validation of aircraft performance.

Finance

The Directors report that the Group's net loss after tax for the full year ended 30 June 2017 was NZ \$24.4 million after taking into account a NZ \$17.6 million impairment of intangible assets.

With respect to the carrying value of intangible assets, the Directors believe there is value inherent in the intangible assets. However, the value of intangible assets was determined with reference to future cash flows, which are based on subjective and highly sensitive assumptions, so the Directors have decided to take a prudent view and will fully impair the NZ \$17.6 million value of the intangible assets to nil at balance date. (Refer to Note 2(a)(ii) of the Financial Statements for further information).

At balance date and after impairment the Company had net assets of NZ \$10.8 million, with the majority of this value comprising cash and bank deposits of NZ \$9.8 million.

Going Concern

The view of the Directors – after noting the considerations and risks listed below, and after making due enquiries – is that they can reasonably expect that the Company will have access to adequate resources to continue operations for the 12-month period from the date of signing these accounts. For these reasons, the Directors consider the adoption of the going concern assumption in preparing the financial statements for the year ended 30 June 2017 to be appropriate.

The financial statements have therefore been prepared using the going concern assumption. The Directors have reached this conclusion having regard to circumstances – including those noted below – that are considered likely to affect the Company and Group during the period of at least one year from the signing of these accounts, and to circumstances that they can reasonably foresee will occur after that date, which could affect the validity of the going concern assumption.

Key considerations are set out below:

- A review of the Company's Operational Budget Plan and operating cash flow forecasts as prepared by management covering the 12-month period from September 2017, including a review of key assumptions made in preparing those forecasts,

including but not limited to

- o completion of Series 1 repeatable capability demonstrations in New Zealand, China and other offshore locations as required
- o confirmation of a base design for the Series 2 commercial aircraft incorporating a commercially viable turbine engine
- o the ability in conjunction with KuangChi Science Limited (KCS) to undertake successful capital raising programme on or before September 2018
- The requirement for an additional NZ \$10m in funding to underpin execution of that plan, which has been secured by way of a binding funding commitment from KCS in the form of a HK\$57.28m (approximately NZ\$10m) loan facility that can be drawn down quarterly over the next 12 months to provide adequate funds to the Company to enable continued development and commercialisation of jetpacks. In addition, further consideration of
 - o that loan being in the best interests of the Company - absent which the Company might be required to cease trading prior to the end of the year given no alternative sources of capital currently exist;
 - o the conditions of that loan, which require the Company's Board to approve each quarter an updated Operational Plan and the belief that such approvals will be received, and;
 - o the requirement for repayment of that loan after 12 months (or later by arrangement between the parties), which will require the Company to undertake a capital raising with the support of KCS, or in the event that is unsuccessful, to renegotiate financing with KCS.
- Consideration of the overall context within which the Company is operating, including the risks inherent in developing a highly complex and new aircraft, and elements of the operational plan, which are continuously reviewed and subject to changes.

Material Uncertainty

Although the additional funding from KCS provides sufficient funding to see the Company through the next 12 months in line with continuing to meet key milestones and development of the Jetpack, additional funding will be required to repay the loan and to continue the certification pathway beyond this point.

These conditions, along with other matters set forth above, indicate that a material uncertainty exists that may cast doubt on the Company and Group's ability to continue as a going concern, and therefore may not be able to realise

its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts for classifications of liabilities that might be necessary should the Group not continue as a going concern.

It must be noted that the Company has proved the ducted fan flight characteristics and performance with its Series 1 aircraft. The Series 1 aircraft will be utilised for further test and capability demonstrations including potential revenue generation in China for paid flight demonstrations. However, it is also recognised that significant aircraft redesign including a commercially viable alternate engine will be required prior to achieving meaningful sales. As such the Company is still a pre-revenue start-up and does not yet have a certified commercial product. As such the Directors must note that material uncertainty does exist and has been disclosed in this report.

Series 2 Aircraft and Alternate Engine Options

As previously communicated testing has now confirmed limited performance with respect to the current rotary engine. Key issues encountered are limited 30-hour life and 10-hour time between overhaul, and as a consequence significant operating costs. Engine performance could be improved with significant further investment - however it is not considered to be economically or operationally viable when compared to alternative turbine engines with a 1,000 to 1,500-hour time between overhaul.

Following extensive discussions with potential customers, feedback has been that for commercial operation, a turbine engine is the preferred option to power the aircraft. The Company is currently working through several alternative engine options. Final base line design for a commercial

Series 2 aircraft with an alternative engine is currently under review with a pathway expected to be confirmed in October 2017.

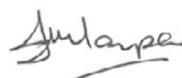
It is estimated that a further three years and approximately US \$50m will be required to produce a commercially viable certified Series 2 aircraft incorporating a certified engine. The Company does not believe that meaningful sales can be achieved until the aircraft is certified.

Looking Forward

Looking forward the Company's near-term objectives are

- continued flight test and envelope expansion of the Series 1 aircraft
- improvement programme to Series 1 aircraft to enable operational readiness to support China Show Demonstration concept and offshore capability demonstrations
 - Minimal investment in Rotron RT1200 engine to enable performance and reliability improvements
- complete alternate engine feasibility integration assessment and build a Series 2 commercial demonstration aircraft to prove Series 2 commercial concept
- in conjunction with KCS confirm Series 2 aircraft strategic pathway and undertake a wider capital raising programme

On behalf of the Board I would like to thank KCS for its ongoing contribution to the Company and other shareholders for their ongoing support.



Jon Mayson
Chairman
29 September 2017



Board of Directors



JON MAYSON
CHAIRMAN OF THE BOARD

Jon was appointed as Chairman of the Company on 1 April 2014.

Jon is the former Chief Executive of the Port of Tauranga Limited (appointed in 1997) and was concurrently Chief Executive of Northport Limited from its establishment in 2001 until 2004.

Since leaving Port of Tauranga Limited, Jon has continued his career as a professional company director, having held directorships on various private and public boards since 2000. Jon is a former Chair of New Zealand Trade and Enterprise.

Jon is currently Chairman of Ziwipeak Limited. He is also a Director of Ports of Auckland and Chiefs Rugby LP.

Jon was made a Companion of the New Zealand Order of Merit for services to the shipping industry and export sector in 2006



DR LIU RUOPENG
DIRECTOR

Dr. Liu Ruopeng, is currently the Chairman and Executive Director of KuangChi Science Limited and also the Chairman of the nomination committee of the Company. Dr. Liu joined the Group in August 2014. Dr. Liu has been the president of Kuang-Chi Institute of Advanced Technology, a private not-for-profit research organisation, which focuses on science research, since 2010. Dr. Liu has been the Director of the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology since 2012, and Vice Chairman of the National Technical Committee of Standardization for Electromagnetic Metamaterial Technology and Products since 2013.

Dr. Liu is Executive Vice Chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese, deputy to the Guangdong Provincial People's Congress, deputy to the Shenzhen Municipal People's Congress, Vice Chairman of Shenzhen Federation of Industry and Commerce, a commissioner for recommending young talents to Shenzhen, a member of the Standing Committee of Shenzhen Youth Federation, and a member of the Shenzhen-Hong Kong Youth Consulting Committee for Authority.

Dr. Liu obtained a collective award of "Guangdong Youth May 4th Medal" in 2011. Dr. Liu was awarded "China Youth May 4th Medal", the top honour for young Chinese people, in 2014. Dr. Liu obtained a master's degree and a doctorate degree from Duke University, the United States in 2009 and a bachelor's degree from Zhejiang University, China in 2006.

Dr. Liu has extensive experience in research and development of advanced technologies and business networks in relation to metamaterial, near space and other innovative technology industries. Dr. Liu has made outstanding contributions to business management, the system innovation of new-type research institutions and the construction of the Global Community of Innovation.



STEVE BAYLISS
DIRECTOR

Steve is Group General Manager Marketing for Foodstuffs New Zealand. Foodstuffs is New Zealand's largest grocery group.

Previously Steve was General Manager Marketing for Air New Zealand. During his six year tenure, the airline went from the aftermath of a near bankruptcy to the Best Airline in the World - as judged by Air Transport World.

Air New Zealand also became the most awarded marketing group in New Zealand. Steve previously held senior positions with international brewer Lion Nathan and with Coca Cola.



DR LUAN LIN
DIRECTOR

Dr Luan Lin is currently the Co-Chief Executive Officer and Chief Technology Officer and Executive Director of KuangChi Science Limited. Dr Luan joined the Group in August 2014. Dr Luan has been the Vice President of the Kuang-Chi Institute of Advanced Technology since 2010. Dr Luan was awarded the "Guangdong Youth May 4th Medal" collectively in 2011.

Dr Luan obtained a doctorate degree from Duke University, United States, in 2010 and a master's degree from Peking University, China, in 2004. Dr Luan has extensive experience in research and development of advanced technologies and business networks in relation to metamaterial, near space and other innovative technology industries. Dr Luan has extensive experience in business management and team management.



HAMISH BELL
DIRECTOR

Hamish is a Chartered Member of the Institute of Directors and has a wealth of experience in both the private and listed company space across New Zealand and Asia.

A former PwC Partner, he has held senior positions in banking, private equity and investor relations and brings to the Company significant expertise in finance, equity investment and investor relations, as well as a strong understanding of international markets.

He currently serves as an Independent Director or Chair of a number of large businesses across New Zealand.





Independent Auditor's Report To the Shareholders of Martin Aircraft Company Limited

Opinion

We have audited the consolidated financial statements of Martin Aircraft Company Limited (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 12 to 42, present fairly, in all material respects, the financial position of the Group as at 30 June 2017 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRSs') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the review procedures undertaken for Callaghan grant funding, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Material uncertainty related to going concern

We draw attention to Note 2 (a) (i) and (ii) in the consolidated financial statements which notes that the Group does not yet have a certifiable product. The consolidated financial statements have been prepared on a going concern basis which is dependent on the Group obtaining funding from the loan facility with KuangChi Sciences Limited in quarterly installments over the next 12 months, completing the Series 1 aircraft capability demonstrations, confirmation of a base design for the Series 2 commercial aircraft and a successful capital raising program before September 2018. These conditions, along with other matters as set forth in Note 2 (a) (i),

indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be \$330,000.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter and results
<p>Development Costs</p> <p>As discussed in note 2, testing of the Series 1 aircraft during the year identified that the current rotary engine is not expected to be viable for development into a commercial product. The Group is currently reconsidering the design for a commercial Series 2 aircraft with an alternative engine design and expects that this will require significant additional funding and further time before a product is able to be commercialised.</p> <p>Given these events:</p> <ul style="list-style-type: none"> the Group ceased capitalising development costs from April 2017 as the criteria to capitalise development costs for the Series 2 aircraft are not met as set out in Note, the Group has determined that its previous development assets are impaired, with an impairment expense of \$17.6 million being recognised in the current year, as set out in note 2(a)(ii) and note 12, and the Group reassessed its ability to continue as a going concern as set out in note 2(a) and discussed above in the Material uncertainty related to going concern section. <p>These matters involve significant judgement, particularly when determining the recoverable amount of the Group's assets. As discussed in note 2(a)(ii), the key assumptions involve the expected timing and extent of expected cash flows and the discount rate applied. As a result, we consider this to be a key audit matter.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> Understanding the results of the Series 1 aircraft testing through discussion with management, engineers and reading the reporting to the Board; Assessing whether development costs met the criteria for capitalisation during the period and challenging the Group's assessment of the timing of when the criteria ceased to be met with specific reference to the technical feasibility of development plans, the future economic benefits expected to be generated and availability of resources to commercialise the aircraft. For costs that were capitalised, a sample were agreed to supporting documentation; Evaluating and challenging the assumptions applied in the Group's impairment assessment. This involved: <ul style="list-style-type: none"> Assessing the timing and value of cash flows, and current progress in respect of meeting product development milestones; Utilising our internal specialists to assess the methodology used and challenge the reasonableness of the discount rate applied; Considering the sensitivity of the recoverable amount to changes in assumptions. Assessing the disclosures contained within the financial statements to determine if they appropriately reflect the underlying forecasts and key assumptions made by the Group.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report and ASX 4E documents that accompany the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Restriction on use

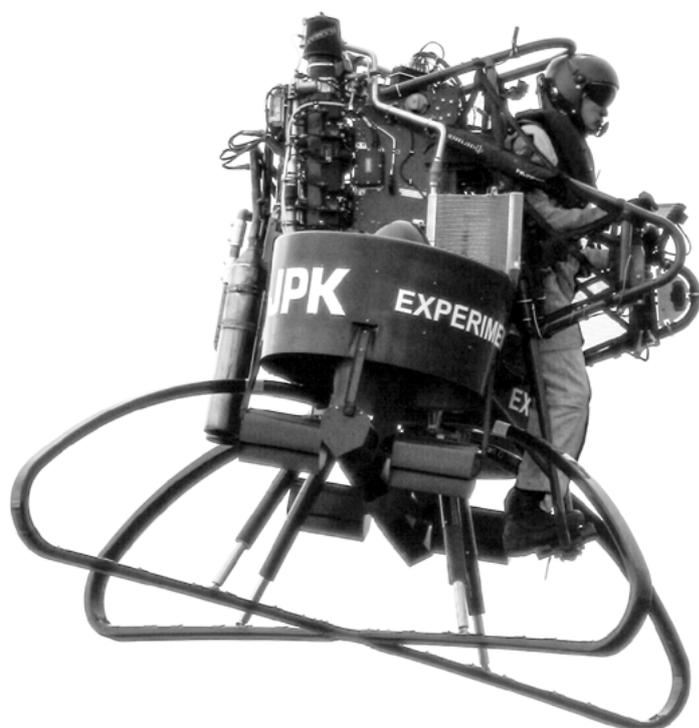
This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept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

The logo for Deloitte Limited, featuring the company name in a stylized, cursive script font.

Michael Hoshek, Partner
for Deloitte Limited
Christchurch, New Zealand
20 September 2017

JUNE 2017

Consolidated Financial Statements



Martin Aircraft Company Limited

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	Notes	30 June 2017	30 June 2016
		\$	\$
Revenue		13,432	49,351
Less: Cost of Sales		-	-
Gross profit		13,432	49,351
Expenses			
Research and development expense	12	(2,194,000)	(1,785,527)
Impairment of intangibles	2a	(17,632,337)	(2,597,979)
Impairment of fixed assets	2a	(221,536)	-
Other expenses	4	(9,034,177)	(9,603,432)
Total expenses		(29,082,050)	(13,986,938)
Operating loss		(29,068,618)	(13,937,587)
Net finance income	6	368,690	633,762
Share of losses from investment accounted for using the equity method		-	(49,253)
Fair value gain/(loss) on derivative liabilities	13	4,294,658	21,258,159
Profit/(loss) before income tax		(24,405,270)	7,905,081
Income tax expense	7	-	-
Profit/(loss) after income tax		(24,405,270)	7,905,081
Other comprehensive income, net of income tax			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		(146,826)	(327,459)
Total comprehensive profit/(loss) for the year		(24,552,096)	7,577,622
Profit/(loss) for the year attributed to:			
Owners of the Company		(24,385,793)	7,925,122
Non-controlling interests		(19,477)	(20,041)
		(24,405,270)	7,905,081
Total comprehensive profit/(loss) for the year attributed to:			
to:			
Owners of the Company		(24,532,619)	7,597,663
Non-controlling interests		(19,477)	(20,041)
		(24,552,096)	7,577,622
Earnings per share			
Basic	19	(\$0.06)	\$0.03
Diluted	19	(\$0.06)	\$0.03

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

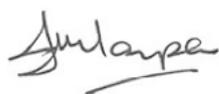
Martin Aircraft Company Limited

Consolidated Statement of Financial Position

As at 30 June 2017

		30 June 2017	30 June 2016
		\$	\$
	Notes		
ASSETS			
Current assets			
Cash and cash equivalents	8	9,758,898	12,608,236
Bank deposits	8	-	17,022,468
Receivables	9	619,670	1,188,485
Inventory	10	629,104	430,978
Total current assets		11,007,672	31,250,167
Non current assets			
Property, plant and equipment	11	2,169,411	1,828,657
Intangible assets	12	260,468	9,748,245
Total non current assets		2,429,879	11,576,902
Total assets		13,437,551	42,827,069
LIABILITIES			
Current liabilities			
Trade and other payables	14	2,401,631	3,009,687
Fair value of derivative liabilities	13	256,415	4,551,073
Total current liabilities		2,658,046	7,560,760
Total liabilities		2,658,046	7,560,760
Net assets		10,779,505	35,266,309
EQUITY			
Share capital	16	138,619,345	138,619,345
Retained earnings		(128,025,699)	(103,843,340)
Share option reserve	18	456,000	594,142
Foreign currency translation reserve		(474,285)	(327,459)
Non-controlling interests		204,144	223,621
Total equity		10,779,505	35,266,309

Signed on behalf of the Board



Jon Mayson - Chairman
20 September 2017



Hamish Bell - Director
20 September 2017

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Martin Aircraft Company Limited

Statement of Changes in Equity

For the year ended 30 June 2017

	Attributed to owners of the Company						Total Equity
	Share capital	Retained earnings	Share options reserve	Foreign currency translation reserve	Non-controlling interest		
Balance as at 1 July 2015	\$ 39,109,154	\$ (111,768,462)	\$ 426,718	\$ -	\$ -	\$ -	\$ (72,232,590)
Profit after income tax for the year	-	7,925,122	-	-	(20,041)	7,905,081	
Other comprehensive loss for the year	-	-	-	(327,459)	-	(327,459)	
Total comprehensive loss for the year	-	7,925,122	-	(327,459)	(20,041)	7,577,622	
Issue of share capital	24,783,333	-	-	-	-	-	24,783,333
Fair value transfer from exercise of convertible bond for ordinary shares	17,244,002	-	-	-	-	-	17,244,002
Ordinary shares issued in exchange for interest in KuangChi Martin Jetpack Limited	2,192,945	-	-	-	-	-	2,192,945
Fair value transfer from exercise of joint venture option for ordinary shares	54,988,277	-	-	-	-	-	54,988,277
Issue of share capital from exercise of share options	220,001	-	-	-	-	-	220,001
Increase in capital under share option schemes	77,955	-	(77,955)	-	-	-	-
Share option expense	-	-	245,379	-	-	-	245,379
Cost of capital raising	3,678	-	-	-	-	-	3,678
Additional non-controlling interest arising on the acquisition of KuangChi Martin Jetpack Limited	-	-	-	-	243,662	-	243,662
Balance as at 30 June 2016	138,619,345	(103,843,340)	594,142	(327,459)	223,621	35,266,309	
Balance as at 1 July 2016	138,619,345	(103,843,340)	594,142	(327,459)	223,621	35,266,309	
Loss after income tax for the period	-	(24,385,793)	-	-	(19,477)	(24,405,270)	
Other comprehensive loss for the year	-	-	-	(146,826)	-	(146,826)	
Total comprehensive loss for year to 30 June 2017	-	(24,385,793)	-	(146,826)	(19,477)	(24,552,096)	
Share option expense	-	-	65,292	-	-	-	65,292
Lapsed share options	-	203,434	(203,434)	-	-	-	-
Balance as at 30 June 2017	138,619,345	(128,025,699)	456,000	(474,285)	204,144	10,779,505	

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Martin Aircraft Company Limited

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

		30 June 2017	30 June 2016
		\$	\$
	Notes		
Cash flows from operating activities			
Receipts from customers		4,500	49,351
Interest received		569,494	588,514
Other income		13,050	-
Tax received/(paid)		(77,572)	(43,424)
Payments to suppliers and employees		(10,931,243)	(10,265,644)
Net cash outflow from operating activities	17	(10,421,771)	(9,671,203)
Cash flows from investing activities			
Cash recognised on acquisition		-	4,823,377
Purchase of property, plant and equipment		(1,231,169)	(1,495,839)
Purchase of intangibles		(9,348,604)	(8,821,085)
Purchase of equity investments		-	(2,390,306)
Sale of Jetpacks and Simulator		1,285,000	-
Transfer (to)/from bank deposits		17,022,468	(5,022,468)
Net cash inflow from investing activities		7,727,695	(12,906,321)
Cash flows from financing activities			
Issue of ordinary shares		-	23,929,406
Net cash inflow from financing activities		-	23,929,406
Net increase/decrease in cash and cash equivalents		(2,694,076)	1,351,882
Cash and cash equivalents, beginning of period		12,608,236	11,571,319
Foreign exchange loss on cash		(155,262)	(314,965)
Cash and cash equivalents, end of period	8	9,758,898	12,608,236

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.



PK EXPERIMENTAL

EXPERIMENTAL



Notes to Consolidated Financial Statements

1 Reporting entity

Martin Aircraft Company Limited (the Company) has developed an aviation prototype that is now being developed further as commercial products. The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 39 Ballarat Way, Wigram, Christchurch.

The consolidated financial statements presented are for Martin Aircraft Company Limited and its subsidiaries (together referred to as the Group). Details of its subsidiaries and their principal activities are detailed in Note 21. These consolidated financial statements have been approved for issue by the Board of Directors on 20 September 2017.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and the Companies Act 1993. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), as appropriate for profit-oriented entities.

Martin Aircraft Company Limited is listed on the Australian Securities Exchange (ASX). The Company is registered under the laws of New Zealand, company number 901393.

The financial statements are presented in New Zealand dollars.

(i) Going concern

During the year the focus of the Company was narrowed to assembly, testing and delivery of the Series 1 aircraft. This testing has shown airworthiness characteristics of the aircraft and is an improvement from the earlier prototypes. However, the test programme also demonstrated the current engine is not commercially viable for sales to first responders or specialist customers (Note 12).

Whilst there remains tangible interest in the technology, to transition the product to sales it is important the Company continues repeatable Series 1 manned capability demonstrations while designing a new commercially viable certifiable aircraft incorporating a commercially viable engine. It is estimated that a further three years and

approximately US \$50m will be required to complete the project.

This has led to uncertainty for funding of the commercial pathway given the Group's current cash position and the expected costs to complete the commercial pathway.

The view of the Directors – after noting the considerations and risks listed below and after making due enquiries – is that we can reasonably expect that the Company will have access to adequate resources to continue operations for 12-month period from the date of signing these accounts. For these reasons, the Directors consider the adoption of the going concern assumption in preparing the financial statements for the year ended 30 June 2017 to be appropriate.

The financial statements have therefore been prepared using the going concern assumption.

We have reached this conclusion having regard to circumstances – including those noted below – that we consider likely to affect the Group during the period of at least one year from the signing of these accounts, and to circumstances that we can reasonably foresee will occur after that date, which could affect the validity of the going concern assumption.

Key considerations are set out below:

- A review of the Company's Operational Budget Plan and operating cash flow forecasts as prepared by management covering the 12-month period from September 2017, including a review of key assumptions made in preparing those forecasts, including but not limited to
 - completion of Series 1 repeatable capability demonstrations in New Zealand, China and other offshore locations as required
 - confirmation of a base design for the Series 2 commercial aircraft incorporating a commercially viable turbine engine
 - our ability in conjunction with KuangChi Science Limited (KCS) to undertake successful capital raising programme on or before September 2018
- The requirement for an additional NZ \$10m in funding to underpin execution of that plan, which has been secured by way of a binding funding commitment from KCS in the form of a HK \$57.28m (approximately NZ \$10m) loan facility that can be drawn down quarterly over the next 12 months to provide adequate funds to the company to enable continued development and commercialisation of jetpacks. In addition, further consideration of

- o that loan being in the best interests of the company - absent which the company might be required to cease trading prior to the end of the year given no alternative sources of capital currently exist;
- o the conditions of that loan, which require the Company's Board to approve each quarter an updated Operational Plan and the belief that such approvals will be received; and
- o the requirement for repayment of that loan after 12 months (or later by arrangement between the parties), which will require the company to undertake a capital raising with the support of KCS, or in the event that is unsuccessful to renegotiate financing with KCS.
- Consideration of the overall context within which the company is operating, including the risks inherent in developing a highly complex and new aircraft, and elements of the operational plan, which are continuously reviewed and subject to changes.
- Given the nature of the Jetpack being developed, and the sector in which the Company operates, there is no established or open market for Jetpack technology and assets. In the absence of sales orders and confirmation of the viability of the Series 2 commercial product, significant judgement is therefore required in determining inputs to the Discounted Cashflow Flow (DCF) valuation methodology.
- Accordingly, the DCF is based on a number of forward looking assumptions based on judgement and the DCF is very sensitive to small changes in the assumptions used, as noted further below.

The recoverable amount of the DCF model was determined to be within the range of \$0-\$30 million based on the following assumptions:

- Sales volumes are based on a forecast time period of 10 years plus a terminal value calculation. Terminal growth is estimated to be in the range of 3-5%.
- The discount rate used in calculating the recoverable amount was in the range of 24.5%-27.5%.

Sensitivity of the DCF

To demonstrate the sensitivity of the model, a 1% increase in the discount rate used has a \$10m impact on the DCF result. The DCF model is negative after 10 years, with the value being derived from the terminal years. As such, there are a range of possible outcomes that could be supported by the DCF.

Given the sensitivity of the assumptions used in the DCF model, it is the Directors' view that fully impairing the development asset and associated patents is the most appropriate position to take.

The company has written off the flight test equipment (\$221k) that will no longer be utilized going forward.

(iii) Research and development expenses

Based on evidence from the test programme and discussions with its engine manufacturer and customers, the Company determined that the accounting requirements to continue to recognize the development asset expenditure as an intangible asset were not met from the end of March 2017, in particular the requirements under NZ IAS 38 to be able to demonstrate it is technically feasible to complete the product, that the product will be able to generate future economic benefits, and that the Company has the adequate technical, financial and other resources to complete the development of the product. Accordingly, from 1 April 2017 these expenses have been treated as Research and Development expense in the Consolidated Statement of Comprehensive Income.

Although the additional approximately NZ \$10m of funding from KCS provides sufficient funding to see the Company through the next 12 months in line with continuing to meet key milestones and development of the Jetpack, additional funding is required to repay the loan and to continue the certification pathway. These conditions, along with other matters set forth above, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern, and therefore it may not be able to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classifications of liabilities that might be necessary should the Group not continue as a going concern.

(ii) Impairment of intangible assets and property, plant and equipment

In addition to the matters considered above, the Company has considered the Carrying Value of the Company's assets. Whilst the Directors believe there is a value inherent within the intangible assets, they believe impairment does exist and accordingly, have used their judgement to fully impair the development asset and patents associated with the development asset at balance date. An impairment charge of \$17.6m has been recognized in the Statement of Comprehensive Income.

In reaching this conclusion, the Directors have used Discounted Cash Flow ("DCF") valuation methodology to determine the recoverable amount.

In undertaking the DCF modelling, the following factors have been considered:

(iv) Intangible assets

In early 2017, the Group sold three Jetpacks at \$1.2m to Shenzhen KuangChi Dream Technology Company Limited (a KCS subsidiary) with a loss on asset disposal of \$193,040. The cash received from the sale of the capitalised development asset is included in the investing activities. This was not recognised as an inventory sale due to the Company still being in the development phase.

Included in the impaired development asset cost capitalised during the year is \$3,167,756 of salary costs (2016: \$2,528,141).

As a result of the assessment outlined above, the Directors have derecognised and impaired \$17.6 million of development assets (\$17.0m) and intellectual property (\$0.6m) at 30 June 2017 (2016: \$2.6 million) Note 2(a)(i).

(v) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below. The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2(b).

(b) Critical accounting estimates and assumptions

In the application of NZ IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and the associated assumptions are based on historical experience and various other factors that are believed reasonable under the circumstances, the results of which form the basis of making the judgements about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision, and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty and key judgements

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Key sources of estimation uncertainty and key judgements include

- impairment of the intangible asset relating to previously capitalised development asset (Note 2(a)(ii));
- capitalisation criteria for recognition of a development asset (Note 2(a)(iii));
- the application of the going concern assumption (Note 2(a)(i)); and
- fair value of derivative investments (Note 13).

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

Control is achieved when the Company

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(d) Investments in associates and joint ventures

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The financial statements include the Company's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The financial statements are presented in New Zealand dollars, which is the Company's functional currency.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into New Zealand dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into New Zealand dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

(f) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, excluding Goods and Services Tax, and is presented net of rebates and discounts. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities.

Revenue is recognised as follows:

(i) Sales of goods

Sales of goods are recognised when the entity has delivered a product to the customer. The recorded revenue is the gross amount of sale, net of rebates and discounts, including any costs charged to the customer. Such costs are included in cost of goods sold.

(ii) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(g) Income tax

The tax expense for the period comprises current and

deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset or liability is realised or settled.

An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(h) Goods and services tax (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(j) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher

of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(m) Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

(n) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at the initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in cash and cash equivalents and receivables in the balance sheet.

Loans and receivables are carried at amortised cost, except that accrued interest is presented separately in receivables. Realised and unrealised gains and losses arising from changes in the fair value of the assets are included in the statement of comprehensive income in the period in which they arise.

(o) Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation of property, plant and equipment is calculated using diminishing value so as to expense the cost of the assets over their useful lives. The rates are as follows:

Motor vehicles	10% - 30%
Plant, property and equipment	10% - 67%
Buildings	6% - 13.5%

Capital work in progress is not depreciated until commissioned.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

(p) Intangible assets

(i) Research and development

Research expenditure is recognised as an expense as incurred. Development costs that are directly attributable

to the design and testing of an identifiable product are recognised as intangible assets if they meet the recognition criteria. For labour costs, we capitalise engineering salaries directly attributable to the development asset.

The recognition criteria for capitalising development costs are set on the commercial viability and success of the product being developed. Otherwise, the costs of development activities are expensed as incurred.

Development costs recognised as assets are amortised over their estimated useful lives.

(ii) Intellectual property

Expenditure incurred on patents, trademarks or licenses are capitalised from the date of application. They have a definite useful life and are carried at cost less accumulated amortisation. They are amortised only after the patent has been issued, using the straight-line method over the period of expected benefit but not exceeding 20 years.

(iii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 - 5 years). Costs associated with maintaining computer software programs are recognised as an expense when incurred.

(iv) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(q) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Compound financial instruments

Compound financial instruments comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition except on conversion or expiry.

(s) Financial liabilities

Financial liabilities are classified as either financial liabilities derivatives 'at FVTPL' or 'other financial liabilities'.

(i) Derivative financial instruments

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(ii) Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(iii) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(t) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(u) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for employee entitlements is carried at the present value of the estimated future cash flows.

Equity settled share based compensation

The Company operates an equity settled, share based incentive plan, under which the Company issues share options to employees, directors and key partners as consideration as an incentive to remain with the Company. The fair value of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The fair value is measured at grant date and spread over the vesting period.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest. Revisions to original estimates, if any, are recognised in the profit or loss, with a corresponding adjustment to equity.

The fair value of the options granted is measured using the Black-Scholes valuation model, taking into account the terms and conditions upon which the options are granted. When options are exercised, the Company issues new shares and the amount in the share options reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital.

(v) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(w) Segment reporting

An operating segment is a component of an entity that engages in business activities which earns revenue and incurs expenses and for which the chief operating decision maker (CODM) review the operating results on a regular basis and makes decisions on resource allocation. The Company has determined its CODM to be the Company's Board of Directors on the basis that it is this group that determines the allocation of resources to segments and assesses their performance.

The reportable operating segments of the Company have been determined based on the components of the Company that the CODM monitors in making decisions about operating matters. Such components have been identified on the basis of internal reports that the CODM reviews regularly in order to allocate resources and to assess the performance of the component.

(x) Standards, interpretations and amendments to published standards

There are no new accounting standards or amendments to existing standards that have been adopted by the Group for the period ended 30 June 2017.

The following accounting standards and amendments to existing standards may impact the Group but are not yet effective and have not been early adopted by the Group:

NZ IFRS 9 - Financial instruments (effective for annual periods beginning on or after 1 January 2018)

NZ IFRS 9, 'Financial instruments', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. The Group will apply this standard from 1 July 2018. The Group is yet to assess NZ IFRS 9's full impact.

NZ IFRS 15 - Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)

NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction contracts and is applicable to all entities with revenue. It sets out a 5-step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the

entity expects to be entitled in exchange for those goods or services. The Group has yet to assess NZ IFRS 15's full impact. The Group will apply this standard from 1 July 2018.

NZ IFRS 16 - Leases (effective for annual periods beginning on or after 1 January 2019)

NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard eliminates the classification of leases as either operating leases or finance leases. Instead, there is a single lessee model which requires a lessee to recognise on the statement of financial position assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. The Group has yet to assess NZ IFRS 16's full impact. The Group will apply this standard from 1 July 2019.

Amendments to NZ IAS 7 – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017)

These amendments have been issued as part of a project to improve presentation and disclosure requirements. These amendments require disclosure that allows users of the financial statements to evaluate changes in liabilities, which arises from financing activities. This includes both changes arising from cash flows and non-cash changes. The Group will apply this standard from 1 July 2017.

3 Segment reporting

The Group has one operating segment, being development and commercialisation of Jetpack products in New Zealand. The financial statements reflect the activities of this operating segment. The activities in the Hong Kong subsidiary are not significant.

4 Expenses

Material other expenses from the Statement of Comprehensive Income comprise

	Notes	30 June 2017 \$	30 June 2016 \$
Audit fees		74,000	72,123
Directors fees	21	230,485	291,062
Listing fees		105,764	133,874
Employee expense		3,775,235	3,580,900
Legal fees		44,470	167,801
Consultants		959,872	1,175,171
Marketing expenses		300,079	683,972
Freight and courier		45,560	160,501
Travel		355,016	649,586
Operating lease expense		482,730	445,970
Depreciation	11	551,721	365,489
Loss on disposal of fixed assets	11	27,069	2,646
Loss on disposal of intangibles	12	193,040	-
Amortisation of intangibles	12	270,810	291,439
Share option expense	18	65,292	245,379
Write-down of inventory		4,095	-
Other Costs		1,548,939	1,337,519
Total other expenses		9,034,177	9,603,432

5 Remuneration of auditors

During the reporting periods, the following fees were paid or payable for services provided by the auditor of the Group:

	30 June 2017 \$	30 June 2016 \$
Audit of financial statements		
Audit and review of financial statements - PwC	-	18,123
Audit and review of financial statements - Deloitte	74,000	54,000
	<u>74,000</u>	<u>72,123</u>
Other services		
Performed by PwC		
Services in relation to Initial public offering and raising of additional capital	-	9,650
Performed by Deloitte		
Callaghan Funding Audit Confirmation	5,634	2,695
	<u>5,634</u>	<u>12,345</u>
Total fees paid to auditors	<u>79,634</u>	<u>84,468</u>

Accumulated tax losses have not been recognised in the balance sheet as it is not expected that the requisite shareholder continuity for carry forward of tax losses will be maintained (Note 15).

6 Net finance income

	30 June 2017	30 June 2016
	\$	\$
Interest income	404,185	591,266
Foreign exchange gain	1,146	42,811
Total finance income	405,331	634,077
Interest expense	(95)	(315)
Foreign exchange loss	(36,546)	-
Total finance costs	(36,641)	(315)
Total net finance income	368,690	633,762

7 Income Taxation

	30 June 2017	30 June 2016
	\$	\$
(i) Current taxation		
Income tax (payable)/refundable	167,026	137,465
(ii) Reconciliation of effective tax rate		
Profit/(loss) before income tax	(24,405,270)	7,905,081
Prima facie taxation @ 28% (2016: 28%)	(6,833,476)	2,213,423
Less taxation effect of		
Permanent differences	3,966,719	(5,049,054)
Temporary differences	571,676	80,938
	(2,295,081)	(2,754,693)
Deferred tax asset not recognised	2,295,081	2,754,693
Tax Expense	-	-
Represented by		
Current tax	-	-
Deferred tax	-	-
Income tax expense	-	-
Accumulated tax losses		
Balance at beginning of period	12,386,229	2,548,039
Adjustment Continuity Breach	-	-
Tax loss for period	8,196,724	9,838,190
Balance at end of period	20,582,952	12,386,229
(iii) Imputation credits	-	-
Balance at end of year	167,026	137,465

8 Cash and bank deposits

	30 June 2017	30 June 2016
	\$	\$
Cash at bank	1,449,644	1,046,251
Deposits at call and short term deposits	8,309,254	11,561,985
Total cash and cash equivalents	9,758,898	12,608,236
Bank Deposits	-	17,022,468
Total cash at bank	9,758,898	29,630,704

Bank deposits are deposits held at the bank with a maturity between three and six months.

9 Receivables

	30 June 2017	30 June 2016
	\$	\$
Other receivables	119,222	659,172
Prepayments	195,186	-
Tax receivable	167,026	137,465
Accrued interest income	12,860	169,234
GST	125,376	222,614
Total receivables	619,670	1,188,485

10 Inventories

	June 30 2017	June 30 2016
	\$	\$
Inventory at cost	629,104	430,978
Total inventory	629,104	430,978

11 Property, plant and equipment

	Note	Land and Buildings	Motor Vehicles	Property, Plant and Equipment	Total
		\$	\$	\$	\$
Cost at 1 July 2015		-	57,436	953,307	1,010,743
Additions		336,745	113,488	951,848	1,402,081
Disposals		-	-	(7,620)	(7,620)
Cost at 30 June 2016		336,745	170,924	1,897,535	2,405,204
Additions		122,883	11,397	572,619	706,899
Disposals		-	-	(133,606)	(133,606)
Transfer from development assets	12	-	-	519,885	519,885
Cost at 30 June 2017		459,628	182,321	2,856,433	3,498,382
Accumulated depreciation at 1 July 2015		-	11,628	205,780	217,408
Depreciation		10,759	29,626	325,104	365,489
Disposals		-	-	(6,350)	(6,350)
Accumulated depreciation at 30 June 2016		10,759	41,254	524,534	576,547
Depreciation		33,369	27,606	490,746	551,721
Disposals		-	-	(20,833)	(20,833)
Impairment		-	-	221,536	221,536
Accumulated depreciation at 30 June 2017		44,128	68,860	1,215,983	1,328,971
Net book value 30 June 2016		325,986	129,670	1,373,001	1,828,657
Net book value 30 June 2017		415,500	113,461	1,640,450	2,169,411

Cash received from the sale of a long-term asset is included in the investing activities. In early 2017, the Group sold a simulator at \$85,000 with a loss on asset disposal of \$27,069 after the accumulated depreciation of \$20,754.

During the period \$0.5m of assets were transferred from the development asset to property, plant and equipment and relate to components that will form part of an internally used prototype.

12 Intangible assets

	Note	Software	Development Asset	Patents	Total
		\$	\$	\$	\$
Cost at 1 July 2015		388,149	2,864,676	524,850	3,777,675
Additions		494,884	8,408,414	125,527	9,028,825
Cost at 30 June 2016		883,033	11,273,090	650,377	12,806,500
Additions		26,593	10,251,356	50,346	10,328,295
Disposals		-	(1,393,040)	-	(1,393,040)
Transfer to property, plant and equipment	11	-	(519,885)	-	(519,885)
Cost at 30 June 2017		909,626	19,611,521	700,723	21,221,870
Accumulated amortisation at 1 July 2015		140,461	-	28,376	168,837
Amortisation		266,337	-	25,102	291,439
Impairment		-	2,597,979	-	2,597,979
Accumulated amortisation at 30 June 2016		406,798	2,597,979	53,478	3,058,255
Amortisation		242,360	-	28,450	270,810
Impairment		-	17,013,542	618,795	17,632,337
Accumulated amortisation and impairment at 30 June 2017		649,158	19,611,521	700,723	20,961,402
Net book value 30 June 2016		476,235	8,675,111	596,899	9,748,245
Net book value 30 June 2017		260,468	-	-	260,468

In early 2017 the Group sold three Jetpacks at \$1.2m to Shenzhen KuangChi Dream Technology Company Limited (a KCS subsidiary) with a loss on asset disposal of \$193,040. The cash received from the sale of the capitalised development asset is included in the investing activities. This was not recognised as an inventory sale due to the Company still being in the development phase.

Included in impaired development asset cost capitalised during the year is \$3,167,756 of salary costs (2016: \$2,528,141).

As mentioned in Note 2(a)(iv), based on evidence from the test programme and discussions with its engine manufacturer and customers, the Company determined that the accounting requirements to continue to recognise the development asset expenditure as an intangible asset were not met from the end of March 2017, in particular the requirements under NZ IAS 38 to be able to demonstrate it is technically feasible to complete the product, that the product will be able to generate future economic benefits, and that the Company has the adequate technical, financial and other resources to complete the development of the product. Accordingly, from 1 April 2017 these expenses have been treated as Research and Development expense in the Consolidated Statement of Comprehensive Income.

Further, as mentioned in Note 2(a)(ii) as part of the annual impairment assessment undertaken by the Directors, the Directors have impaired \$17.6 million of development and patents associated with the development asset at 30 June 2017 (2016: \$2.6 million).

13 Derivative financial liabilities

	June 30 2017	June 30 2016
	\$	\$
Derivative liability - Joint Venture Company Option	256,415	4,551,073
Total derivatives	256,415	4,551,073

Derivative liabilities are measured at fair value at the end of each reporting period. The fair value of the derivative financial instruments at 30 June 2017 was valued by the Company using the Black Scholes option valuation method. At 30 June 2016, the financial instruments was valued by Grant Sherman Appraisal Limited.

The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and significant inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those defined from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs from the asset or liability that are not based on observable market data (unobservable inputs).

The Joint Venture Company Option derivative financial liabilities is a Level 3 financial instrument.

	30 June 2017	30 June 2016
Financial instrument - Fair value at	\$	\$
Joint Venture Company Option	256,415	4,551,073
	256,415	4,551,073

Financial instrument	Valuation techniques and key inputs used in determining fair value	Significant unobservable inputs	
		30 June 2017	30 June 2016
Share Swap Option	An option pricing model is adopted and the key inputs are swap assets price, correlation co-efficient and the volatilities of the swap assets in which the perpetual growth rate and discount rate are key inputs for the swap assets price	Volatility: 37.94% Discount rate: 22.5% Value of underlying JV assets	Volatility: 53.86% Discount rate: 22.5% Value of underlying JV assets

For all the financial liabilities above, slight increases (decreases) in volatility and movement in the listed share price would result in significant increases (decreases) in the fair value of the derivatives liabilities.

The value of the Hong Kong JV asset has only been recognised to the extent it is supported by net assets of the joint venture company – being the carrying value of the net assets of the entity.

The table below shows a reconciliation of fair value movements in Level 3 financial instruments.

	30 June 2017	30 June 2016
	\$	\$
Opening fair value	4,551,073	98,041,511
Fair value (gain)/loss through profit or loss	(4,294,658)	(21,258,159)
Fair value transferred to share capital on the exercise of the share swap option	-	(54,988,277)
Fair value transferred to share capital on the conversion of convertible note	-	(17,244,002)
Closing fair value	<u>256,415</u>	<u>4,551,073</u>

This profit or fair value gain arises primarily due to the Company share price changing from A\$0.51 at 30 June 2016 to A\$0.05 at 30 June 2017.

14 Trade and other payables

	30 June 2017	30 June 2016
	\$	\$
Trade payables	1,075,820	1,048,877
Payables due to related parties (Note 21)	7,958	33,336
Accrued expenses	1,013,027	1,619,218
Employee entitlements	304,826	308,256
Total trade and other payables	<u>2,401,631</u>	<u>3,009,687</u>

15 Deferred tax assets and liabilities

Accumulated tax losses have not been recognised as a deferred tax asset as it is not expected that the requisite shareholder continuity for carry forward of tax losses will be maintained and lack of probability the group will generate future taxable income for the losses to be utilised. Total tax losses as at 30 June 2017 amounted to \$20,582,952 (2016: \$12,386,299). Tax losses have been carried forward subject to meeting 49% shareholder continuity.

Research and development costs have been carried forward for tax purposes amounting to \$10,101,453 (2016: \$7,985,376).

16 Share Capital

	Note	June 30 2017	June 30 2016
Ordinary Shares			
Value \$			
Opening share capital		138,619,345	39,109,154
Shares issued:			
Issue of share capital from exercise of share options		-	220,001
Increase in capital under share option schemes		-	77,955
Fair value transfer from exercise of convertible bond for ordinary shares	13	-	17,244,002
Ordinary shares issued from exercise of convertible bond		-	24,783,333
Fair value transfer from exercise of joint venture option for ordinary shares	13	-	54,988,277
Ordinary shares issued in exchange for interest in KuangChi Martin Jetpack Limited		-	2,192,945
Cost of capital raising		-	3,678
Closing share capital		\$138,619,345	\$138,619,345
Number:			
Opening number of shares on issue		396,864,506	245,294,108
Shares issued:			
Ordinary shares issued from exercise of share options		-	916,670
Ordinary shares issued from exercise of convertible bond	13	-	61,208,728
Ordinary shares issued in exchange for interest in KuangChi Martin Jetpack Limited	13	-	89,445,000
Total number of shares on issue		396,864,506	396,864,506
Total Share Capital			
Value		\$138,619,345	\$138,619,345
Number		396,864,506	396,864,506

The increase in capital under the share option scheme and warrant option represent the value determined under the Black Scholes valuation method where options have been exercised during the prior year.

Ordinary shares

On 24 February 2015, the Company listed on the Australian Securities Exchange (ASX) under the ticker Symbol ASX: MJP.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share. Ordinary shares do not have a par value.

Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern so that the Company can achieve its objectives of developing commercial Jetpack products. Capital consists of share capital, other reserves and retained earnings. The Company is not subject to externally imposed capital requirements; however, under the IPO Investment Agreement with KuangChi Science Limited (KCS), amongst other things KCS approval is required to issue new equity securities.

Also, on listing on 24 February 2015, 3,980,489 shares were placed in ASX compulsory escrow for 12 months, 46,691,060 shares were held in voluntary escrow until December 2015, and 67,389,024 shares were placed in ASX compulsory escrow for 24 months. In February 2017, the remaining 67,389,024 shares were released from escrow. At balance date, there are no shares held in ASX escrow.

Share buy-back

There is no current on-market share buy-back.

17 Reconciliation of reported profit/(loss) after taxation with cash flows from operating activities

	30 June 2017	30 June 2016
	\$	\$
Profit/(loss) after income tax	(24,405,270)	7,905,081
Non cash items		
Depreciation	551,721	365,489
Amortisation of intangibles	270,810	291,439
Loss on disposal of fixed assets	27,069	2,646
Loss on disposal of intangible assets	193,040	-
Share option expense	65,292	245,379
Foreign exchange gain on monetary assets	2,557	(76,449)
Share of losses from investment accounted for using the equity method	-	49,253
Impairment of intangibles	17,632,337	2,597,979
Impairment of fixed assets	221,536	-
Fair value gain on derivative liabilities	(4,294,658)	(21,258,159)
Other	-	(42,344)
Changes in:		
Increase/(decrease) in trade and other payables	(608,056)	1,322,670
Decrease/(increase) in trade and other receivables	568,816	(529,275)
Decrease/(increase) in inventory	(198,126)	(430,978)
Less items classified as investing and financing activities	(448,839)	(113,934)
Net cash flow from operating activities	(10,421,771)	(9,671,203)

18 Company share options

Share Options

In 2008 the Board approved a Company Option Scheme to issue options to selected staff, key partners and Directors. The term in which options may be exercised and ultimately lapse if not exercised varies from case to case depending on the terms of issue for each separate option. Each option entitles the holder to one ordinary share in the capital of the Company. The exercise price is determined by the Board as the fair value of the Company's share price at the time of issue of the options. The term of the options is up to five years. Payment must be made in full for all options exercised on the dates they are exercised.

There are no specific vesting conditions. Vesting period is normally over three years.

At 30 June 2017 there are 3,150,000 options remaining to be exercised under this scheme (30 June 2016: 3,150,000).

In September 2014, the Board approved a new Company Option Scheme to issue options to selected executives and Directors. The term in which options may be exercised and ultimately lapse if not exercised are outlined in the Share Option Scheme Rules. Each option entitles the holder to one ordinary share in the capital of the Company. The exercise price is determined by the Board as the fair value of the Company's share price at the time of issue of the options. The term of the options is five years. Payment must be made in full for all options exercised on the dates they are exercised.

There are no specific vesting conditions. If employment or directorship ceases the options automatically terminate unless the Board approves otherwise.

During the period to 30 June 2017 there were no options issued or cancelled, however 2,320,000 options lapsed.

At 30 June 2017, there are 2,320,000 options remaining to be exercised under this scheme (June 2016: 4,640,000).

Share options outstanding at the end of the reporting periods have the following expiry dates, exercise dates and exercise prices:

Expiry Month	Exercise Month	Exercise Price	June 2017 No. of shares	June 2016 No. of shares
Jul 2017	Jul 2015	\$0.24	150,000	150,000
Apr 2018	Apr 2014	\$0.24	1,000,000	1,000,000
Apr 2018	Apr 2015	\$0.24	1,000,000	1,000,000
Apr 2018	Apr 2016	\$0.24	1,000,000	1,000,000
Sept 2019	Sept 2014	\$0.43	239,998	1,013,332
Sept 2019	Sept 2015	\$0.43	506,666	1,280,000
Sept 2019	Sept 2016	\$0.43	506,668	1,280,000
Sept 2019	Sept 2017	\$0.43	266,667	266,667
May 2020	May 2016	\$0.43	266,667	266,667
May 2020	May 2017	\$0.43	266,667	266,667
May 2020	May 2018	\$0.43	266,667	266,667
			5,470,000	7,790,000

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	As at 30 June 2017		As at 30 June 2016	
	Weighted average exercise price \$ per share	Options	Weighted average exercise price \$ per share	Options
Balance at beginning of period	\$ 0.35	7,790,000	\$ 0.34	8,706,670
Exercised	\$ n/a	-	\$ 0.24	(916,670)
Lapsed	\$ 0.43	(2,320,000)	\$ n/a	-
Balance at end of period	\$ 0.33	(5,470,000)	\$ 0.35	7,790,000

There are 4,936,666 options exercisable at 30 June 2017 (June 2016: 5,709,999).

19 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in the form of share options.

	30 June 2017	30 June 2016
	\$	\$
Profit/(loss) after income tax attributable to shareholders	(24,385,793)	7,925,122
Ordinary Number of Shares	396,864,506	396,864,506
Weighted average number of shares on issue	396,864,506	296,141,846
Basic earnings/(loss) per share	(0.06)	(0.03)
Diluted earnings/(loss) per share	(0.06)	(0.03)

20 Financial Instruments

Credit risk

Financial instruments that potentially subject the Group to credit risk principally consists of bank balances; the maximum potential exposure to credit risk is \$9,758,898 (30 June 2016: \$29,630,704). The Group monitors the credit quality of its major financial institutions that are counterparties to its financial statements and does not anticipate non-performance by the counterparties. All New Zealand financial institutions have a credit rating of AA- and a Hong Kong financial institution has a Moody's Investor Services rating of A3/Stable.

The Group has not provided any guarantees or collateral and has no securities registered against it.

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

Concentrations of credit risk

The Group does not have any significant concentrations of credit risk apart from its deposits with large and reputable banks.

Liquidity risk

Management and the Board monitors monthly cash forecasts of the Group's liquidity reserve on the basis of expected cashflow. Trade and other payables are the maximum potential credit exposure.

Foreign exchange risk

The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities, and foreign denominated derivative financial liabilities. Balance sheet foreign exchange risk arises from assets and liabilities held by the Group in foreign currencies.

The Group holds cash of NZ\$4,298,594 in HKD at 30 June 2017. If the HKD were to move by 10% the effect would be an increase/decrease of NZ\$429,859 to other comprehensive income.

The Group has a derivative financial liability of NZ\$256,415 that is denominated in AUD. If the derivative were to change in value by 10% the effect would be an increase/decrease of NZ\$25,642 to the profit or loss for the period.

Cash flow and fair value interest rate risk

During the initial phases of its business the Group is likely to have significant interest bearing deposits through which it will be exposed to interest rate risk in the normal course of business.

The Group's interest rate risk will arise through its exposure to funds on deposit. In future periods it is probable that interest rate risk will also arise through borrowings as the Group gears its operations. Any such borrowings raised at variable rates expose the Group to cash flow interest rate risk.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise. The current impact of interest rate fluctuations are deemed immaterial.

Fair values

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

Financial instruments by category and level of fair value hierarchy

The Group's financial instruments consist of cash and cash equivalents, bank deposits and other receivables, which are all categorised as 'loans and receivables'. Trade payables and accrued expenses are classified as liabilities at amortised cost. The fair value of these instruments is considered approximately equal to their carrying amount. The Group has no 'financial assets or liabilities at fair value through the profit and loss', with the exception of the financial liabilities disclosed in Note 13.

21 Related party transactions

Key management and Director compensation

Key management and Director compensation are set out below. The key management personnel include the Chief Executive Officer and those employees who report directly to the CEO.

	30 June 2017	30 June 2016
	\$	\$
Salaries and other short term benefits paid	1,363,177	1,513,919
Directors' fees paid	263,821	291,062
Share based payments	42,311	245,379
	1,669,309	2,050,360

On 14 September 2015 KuangChi Science Limited offered and the Board accepted that KCS Directors comprising Dr Liu Ruopeng, Dr Zhang YangYang and Dr Luan Lin would not receive Director's fees effective from their respective appointment dates. No Director's fees have been paid to KCS Directors in the period.

Also on 14 September 2015 and with effect from 1 September 2015 the Board approved an increase in Director's fees within the \$400,000 maximum aggregate level approved by shareholders as follows:

- Chairman \$80,000pa
- Individual Directors \$50,000pa
- Chair of Remuneration Committee \$20,000pa
- Chair of Audit and Risk Committee \$20,000pa
- Committee members \$10,000pa

Joint Venture Company

Under the terms of the Investment Agreement, the Company and KCS agreed to establish a company, to be incorporated in Hong Kong, of which 49% of the issued share capital would be held by the Company and 51% held by KCS (HKCo).

The HKCo joint venture was established on 22 July 2015 and is called KuangChi Martin Jetpack Limited.

Under the terms of the Investment Agreement, KCS had the option of selling its 51% interest in the established HKCo to the Company at any time following the occurrence of an accelerating event (being where the VWAP of the Company's shares was above \$1.20 for any period of 30 days after listing on ASX) up to the maturity date of the Investment Agreement, being 22 August 2017 (Maturity Date). The accelerating event was satisfied on 8 April 2015.

Following discussions between KCS and the Company, KCS decided to exercise its option to sell 90% of its interest in HKCo to the Company on 29 February 2016. KCS have not exercised their right to complete the remaining 10% share swap prior to the

Maturity Date. Accordingly, the Company owns a 95% interest in HKCo and KCS 5%.

It is anticipated that HKCo will establish an enterprise in China that is intended to undertake research and development and sales and distribution activities on behalf of the Company in China and Hong Kong. Effective 10 April 2015 the Chinese Government issued a revision to the Catalogue of Industries for Guiding Foreign Investment (revision 2015). This revision now requires a Chinese mainland company to be the majority holder of an aviation company. Accordingly, HKCo ownership of any enterprise established in China cannot exceed 49%.

Related party loan

On 19 September 2017 the Company entered into a HK\$57.28m (approximately NZ\$10m) loan facility that can be drawn down quarterly over the next 12 months to provide adequate funds to the Company to enable continued development and commercialisation of Jetpacks. The loan is repayable in 12 months from the date of the agreement with interest being payable at the 12-month HIBOR rate + a margin of 3%.

Voting Power of KuangChi Science Limited

KCS holding in the Company is 52.0%.

US Company

Martin Jetpack, USA Inc was incorporated in 2008 under US corporate law. This company has not traded.

22 Commitments and contingencies

The following details commitments associated with the Company.

(a) Capital commitments

There were no capital commitments at balance date (30 June 2016: Nil).

(b) Lease commitments: Company as lessee

The Company leases a premises at 39 Ballarat Way, Wigram, Christchurch for an initial period to 15 September 2019, with a further right of renewal to 14 September 2022. The operating lease held over this property gives the Company the right to renew the lease subject to a redetermination of the lease rental by the lessor. The lease expenditure charged to the Statement of Comprehensive Income during the year is disclosed in Note 4.

With effect from 11 May 2015 the Company has entered a sub-lease of office premises at 120 Wigram Road for an initial term of 2 years, and a renewal of 12 months, with a further right of renewals to 3 April 2020.

The Company under a Deed of Lease Assignment has entered a lease of land occupied by the hanger until 31 May 2033.

The future aggregate minimum lease payments under the non-cancellable operating leases are as follows:

	30 June 2017	30 June 2016
	\$	\$
No later than 1 year	371,236	351,183
Later than 1 year and no later than 5 years	378,129	624,724
Later than 5 years	162,659	143,000
Total	912,023	1,118,907

(c) Contingent liabilities

The Directors are unaware of the existence of any claim or other contingencies that would have a material impact on the Company (30 June 2016: Nil).

23 Subsequent events

On 31 August 2017, the Company sold its hanger at the Christchurch International Airport for \$400,000 and consolidated the Flight Operations team back to its main facility at Ballarat Way in Wigram. On completion of the sale a \$237,159 contingent liability relating to land lease obligation was extinguished.

On 20 July 2017, the Company entered into a loan agreement with its 95% owned subsidiary KuangChi Martin Jetpack to loan HK\$12.0m (NZ\$2.05m) to the Company to ensure that the parent Company had sufficient cash resources to trade until the end of October 2017.

On 19 September 2017 the Company entered a HK\$57.28m loan facility with KCS, refer Note 21. As outlined in Note 21, KCS has elected not to exercise their option on the HKCo joint venture option.



EXPERIMENTAL

EXPERIMENTAL

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Corporate Governance

AND STATUTORY INFORMATION



Corporate Governance Statement

Introduction

The Martin Aircraft Company Limited (Company) Board recognises the importance of high standards of corporate governance and its connection to maximising performance, generating appropriate levels of shareholder value and financial return, and sustaining growth and success within the business.

The Directors of the Company are committed to fulfilling this role in accordance with best practice while observing applicable laws, the ASX Listing Rules, the Company's Constitution, and the Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" (3rd Edition) (ASX Recommendations).

This statement describes the Company's commitment to good corporate governance and addresses the Company's compliance with, and promotion of, the eight central principles of the ASX Recommendations.

Principle 1

Lay Solid Foundations for Management and Oversight

A listed entity should establish and disclose the respective roles and responsibilities of its Board and management and how their performance is monitored and evaluated.

The Board

The Board is the overall body responsible for decision making within the Company. The Board Charter describes the Board's role and responsibilities and regulates internal Board procedures. A copy of the Board Charter is available on the Company's web site at <http://www.martinjetpack.com/investors/governance-policies-and-practices>.

The Board directs and supervises the management of the business of the Company, including

- a. the composition of the Board itself, including the appointment and retirement of Directors
- b. appointment (and removal if necessary) of the Chief Executive Officer/Managing Director and ratifying the appointment or removal of the Chief Financial Officer, Company Secretary and senior executives (being those persons who report directly to the Chief Executive Officer/Managing Director)
- c. appointment of the Chairperson of the Board and of the Company Secretary
- d. determining the conditions of service of the Chief Executive Officer/Managing Director and senior management and the performance monitoring procedures to apply to them
- e. in consultation with management, determining the Company's business strategy and key performance targets and then monitoring management's implementation of such strategy and achievement of such targets
- f. monitoring the Company's compliance with applicable laws, this Charter and generally accepted standards of corporate conduct and governance prevailing from time to time
- g. reviewing and overseeing the operation and integrity of the Company's accounting and corporate reporting systems and systems of risk management and internal compliance and control, codes of ethics and conduct
- h. adopting the annual budget and monitoring the financial performance of the Company
- i. overseeing the Company's process for making timely and balanced disclosure of all material information concerning the Company that a reasonable person would expect to have a material effect on the prices or value of the Company's securities
- j. overseeing the Board committees and the effectiveness of the Company's corporate governance practices
- k. ensuring there is timely and effective reporting to shareholders
- l. monitoring industry developments relevant to the Company's business
- m. ensuring that the Company has in place an appropriate risk management framework and setting the risk appetite within which the Board expects management to operate
- n. approving and reviewing annually delegations of authority.

In carrying out its duties, the Board will meet formally at least six times a year, with additional meetings held as required to address specific issues. Selected Directors also participate in meetings of the Audit and Risk Committee and the Remuneration and Nomination Committee, which assists the Board in examining particular areas or issues.

Diversity and Inclusiveness

The Company recognises that the sustained success of its business is reinforced by the capability and performance of its employees and its relationships with key partners, customers, suppliers and the communities in which the Company operates.

The Company believes that diversity and inclusivity in the workforce is a strategic asset to the Company. A balance of gender, age and background will enhance business performance and create opportunities to access the best people for our business.

Although the Company has yet to adopt a formal policy concerning diversity, the Board is committed to the establishment and maintenance of appropriate ethical standards in its recruitment practices and is committed to recruiting individuals with the appropriate skills and qualifications required for the role.

As and when the Company grows its workforce at the appropriate time the Board intends to implement a formal diversity policy in accordance with the ASX Recommendations and will at that point implement measurable objectives for achieving gender diversity.

Delegation

To promote efficiency, the Board may delegate management of the Company's resources to the executive team under the leadership of the Chief Executive Officer in order to deliver strategic direction and achieve the goals set by the Board. Any powers not specifically reserved for the Board have been delegated to the executive team.

Role of the Company Secretary

The Company Secretary is appointed by the Board and is accountable directly to the Board, through the Chairperson, on all matters to do with the proper functioning of the Board. The Company Secretary facilitates the Company's corporate governance processes and holds the primary responsibility for ensuring that Board processes and procedures run efficiently and effectively.

Ben Taylor is the Company Secretary. Details of Ben Taylor and his experience can be found on the Company's web site at www.martinjetpack.com/investors/corporate-governance.html under the Management & Key Personnel tab.

Performance Management

The Remuneration and Nomination Committee has determined that a formal evaluation process for the Board and its committees and the individual Directors will occur annually. The Chairman conducts annual performance reviews with individual Directors and such a performance review has been conducted for the reporting period ending 30 June 2017.

The Remuneration and Nomination Committee periodically evaluates the performance of the Company's senior executives. The process for this evaluation is set out in the Remuneration and Nomination Committee Charter, which is available on the Company's web site at www.martinjetpack.com/investors/governance-policies-and-practices

For the reporting period ended 30 June 2017, a performance evaluation of executives has been undertaken. The Board annually approves the Business Plan, which includes key performance indicators and objectives for executives against which the executives are measured during the next financial reporting period in accordance with the Company's performance management system.

Principle 2

Structure of the Board to Add Value

A listed entity should have a Board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

Composition of the Board

At the date of this Annual Report the Board comprised the following five Directors:

Name	Position	Date appointed to Board
Jon Mayson	Chairperson and Independent, Non-executive Director	1 April 2014
Steve Bayliss	Independent, Non-executive Director	28 November 2012
Hamish Bell	Independent, Non-executive Director	16 August 2016
Dr Luan Lin	Non-executive Director	21 August 2016
Dr Liu Ruopeng	Non-executive Director	24 February 2015

The Board currently consists of a majority of independent Directors in accordance with the ASX Recommendation.

Selection and Role of the Chairperson

The Chairperson of the Board is elected from the full Board and must be an Independent Director. The Board supports the separation of the role of Chairperson and Chief Executive Officer. The Chairperson's role, amongst other things, is to lead the Board, facilitate the effective contribution of all Directors, and promote relations between both Directors and between the Board and senior management.

Jon Mayson has held the role of Chairperson throughout the financial year and at the date of this Annual Report is considered by the Board to be independent.

Board Committees

The Board has established two committees to perform certain functions of the Board and to provide the Board with recommendations and advice: the Audit and Risk Committee and the Remuneration and Nomination Committee. The Charters of each committee are available on the Company's web site at www.martinjetpack.com/investors/governance-policies-and-practices

At the date of this Annual Report, the membership of each committee is

- Audit and Risk Committee – Hamish Bell (Chair), Jon Mayson and Dr Luan Lin. For more details on the Audit and Risk Committee see "Principle 4" below.
- Remuneration and Nomination Committee – Steve Bayliss (Chair), Jon Mayson and Dr Liu Ruopeng.

Remuneration and Nomination Committee

In accordance with the ASX Recommendations a majority of the members of the Remuneration and Nomination Committee are Independent Directors.

The Remuneration and Nomination Committee met formally two times in the year ended 30 June 2017. The individual attendance of the members at those meetings is as follows:

		Number of Meetings eligible to attend	Number of meetings attended
Steve Bayliss	Chairman	2	2
Dr Liu Ruopeng	Member	2	1
Jon Mayson	Member	2	2

Composition and Membership of the Board of Directors

The Board has adopted a policy of ensuring that it is composed of Directors who have an appropriate mix of skills to provide the necessary depth of knowledge and experience to meet the Board's responsibilities and objectives. The Company has written agreements with each Director (and senior executive) setting out the terms of their appointment.

The procedure for the selection and appointment of new Directors and re-election of incumbent Directors, and the Board's policy for the nomination and appointment of Directors, is available on the Company's web site in the Remuneration and Nomination Committee Charter at www.martinjetpack.com/investors/governance-policies-and-practices.html.

When assisting the Board in reviewing potential candidates for Board appointment and assessing retiring Directors standing for re-election, the Remuneration and Nomination Committee considers a number of factors, including

- skills, experience, expertise and personal qualities and attributes that will best complement the skill set and characteristics of existing Directors and enhance Board effectiveness
- the diversity of Board composition
- the capability of the candidate to devote the necessary time and commitment to the role
- potential conflicts of interest and independence

Notwithstanding the above, but subject to the Company's constitution and the ASX Listing Rules, under the terms of the Investment Agreement KuangChi Science Limited has a right to appoint up to three Directors.

Skills, Experience and Attributes

The Board recognises that having a diverse range of skills, backgrounds and experience represented amongst its Directors is important to ensure effective decision-making and the effective governance of the Company. The range of skills, backgrounds and experience currently represented on the Board includes experience in senior roles research & development, technology commercialisation, aviation, shipping, trade, air, finance, marketing, retail and research industries, as well as qualifications across a range of fields including finance, business management, accounting and humanities.

The Remuneration and Nomination Committee is responsible for making recommendations to the Board on the most appropriate Board size and composition. This includes making recommendations on the desirable competencies, experience and attributes of Board members.

Close attention is paid in setting criteria for new appointees to ensure that the Board has the appropriate mix of expertise and experience. New appointments to the Board to fill casual vacancies must stand for election at the next general meeting of shareholders. Existing Directors, with the exception of the Chief Executive Officer, are required to seek re-election at least once every three years on a rotating basis.

The Company undertakes appropriate checks before appointing a person or putting forward to security holders a candidate for election as a Director. The Company also provides security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.

Given the Company's position in its evolution, the Company has not yet introduced a specific program for inducting new Directors. However, the Chairman and Company Secretary do spend time with any new Director advising them of Board procedures and of the Company's corporate governance policies and procedures. As the Company grows it will consider providing Directors with appropriate professional development opportunities to allow Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

Board Meetings

The Board met formally six times during the financial year ended 30 June 2017. In addition, there were separate meetings of the Board committees. At each meeting, the Board considers key financial and operational information as well as matters of strategic importance.

		Number of Meetings eligible to attend	Number of meetings attended
Jon Mayson	Chairman	6	6
Peter Coker	Chief Executive Officer and Managing Director	1	1
Steve Bayliss	Non-executive Director	6	6
Dr Liu Ruopeng	Non-executive Director	6	3
Dr Zhang Yang-Yang	Non-executive Director	1	1
Dr Luan Lin	Non-executive Director	6	3
Hamish Bell	Non-executive Director	5	5
Dennis Chapman	Non-executive Director	1	1

Note:

Dennis Chapman joined the Board as a Non-executive Director with effect 2 November 2015 and resigned as a Non-executive Director of the Company on 16 August 2016. Mr Chapman attended one out of one board meetings prior to his resignation.

Peter Coker resigned as the Managing Director of the Company on 16 August 2016. Mr Coker attended one out of one Board meeting prior to his resignation.

Dr Zhang YangYang resigned as a Non-executive Director of the Company on 16 August 2016. Dr Zhang attended one out of one Board meeting prior to his resignation.

Hamish Bell joined the board as a non-executive Director with effect 10th August 2016.

Executives may be invited to attend Board meetings and are also available to be contacted by Directors between meetings to enhance the working relationship between the Board and management.

Principle 3

Act Ethically and Responsibly

A listed entity should act ethically and responsibly.

The Company is committed to complying with its legal obligations and acting ethically and responsibly. The Company expects that all Directors, senior managers and employees will act in the best interests of the Company and will act honestly and fairly, acting only in ways that reflect well on the Company in strict compliance with all laws and regulations.

The Board has adopted a Code of Conduct (Code) that applies to Directors, senior managers and employees, which sets out standards and the Company's expectations required of them in performing their duties.

The Board has adopted a Securities Trading Policy that covers dealings in shares that are prohibited under the Australian Corporations Act 2001 and establishes procedures for Company personnel intending to deal in the Company's shares. Subject to certain exceptions, including severe financial hardship, the Securities Trading Policy defines certain "closed periods" during which trading in shares by the Company's personnel is prohibited. In all instances, buying or selling Company shares is not permitted at any time by any person who possesses information that may have a material effect on the price or value of the Company's securities in a manner contrary to the Australian Corporations Act 2001. The Policy has been communicated internally to ensure that it is strictly adhered to by the Board and the Company's employees. A copy of the Code of Conduct and the Securities Trading Policy is available on the Company's web site at www.martinjetpack.com/investors/governance-policies-and-practices

Principle 4

Safeguard Integrity of Corporate Reporting

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

Financial Reports

As a New Zealand company, section 295A of the Australian Corporations Act is not applicable to the Company. However, prior to the approval by the Board of the Company's financial statements for a financial period, the Chief Executive Officer and Chief Financial Officer provide a written opinion to the Board that, in their opinion, the Company's financial reports comply with the appropriate accounting standards and give a true and fair view of the Company's financial position and performance and that the opinion has been formed on the basis of a sound system of risk management and internal control, which is operating effectively.

Audit and Risk Committee

The Audit and Risk Committee oversees the integrity of the financial reporting process and oversees risk management within the business. The Audit and Risk Committee comprises a majority of Independent Directors in accordance with the ASX Recommendations. The Audit and Risk Committee met formally two times in the year ended 30 June 2017. The individual attendances of the members at those meetings are as follows:

		Number of meetings eligible to attend	Number of meetings attended
Hamish Bell	Chairman	2	2
Jon Mayson	Member	2	2
Dr Luan Lin	Member	1	0

The role of the Audit and Risk Committee is to assist the Board to meet its oversight responsibilities in relation to the Company's financial reporting systems, the systems of internal control and risk management, and internal and external audit functions. In fulfilling these roles, the Audit and Risk Committee is responsible for maintaining free and open communication between the Board, itself, management and auditors.

A copy of the Audit and Risk Committee Charter is available on the Company's web site at www.martinjetpack.com/investors/governance-policies-and-practices

Principle 5

Make a Timely and Balanced Disclosure

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

The Company has an obligation under the ASX Listing Rules to maintain an informed market with respect to its securities. As part of the Company's continuous disclosure obligations, the Company must immediately disclose to the market any information of which the Company becomes aware concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities, unless the information falls within an exception available under the ASX Listing Rules.

The Board has adopted a Continuous Disclosure Policy that is available on the Company's web site at www.martinjetpack.com/investors/governance-policies-and-practices. The Policy has been communicated internally to ensure that it is strictly adhered to by the Board and the Company's employees.

Principle 6

Respect the Rights of Security Holders

A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

The Company has a formal Shareholder Communications Policy to ensure that shareholders are provided with sufficient information to assess the performance of the Company and that they are informed of all major developments affecting the state of affairs of the Company relevant to shareholders in accordance with all applicable laws. A copy of the Shareholder Communications Policy is available on the Company's web site at www.martinjetpack.com/investors/governance-policies-and-practices

The Company keeps shareholders informed through

- disclosure to the ASX
- the annual meeting of shareholders
- the Annual Report
- the half-yearly report
- periodic investor updates
- the "Investors" section on the Company's web site available at www.martinjetpack.com/investors

The Company requests that its external auditor attends the Annual General Meeting to be available to answer any shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Shareholders are able to elect to receive communications from, and have the option of sending communications to, the Company and its security registry by electronic means.

Principle 7

Recognise and Manage Risk

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

The Board has an Audit and Risk Committee that reports to the Board – see "Principle 4" above for further details in relation to the Audit and Risk Committee.

The Company is committed to the establishment and maintenance of a sound system of risk oversight, management and internal control. Throughout the year, the Directors regularly review and discuss the major risks affecting the business and develop strategies to mitigate these risks.

The Audit and Risk Committee reviews the Company's risk management framework at least annually to satisfy it that the framework continues to be suitable. For the reporting period ended 30 June 2017, the Audit and Risk Committee has conducted a review and concluded that the Company's risk management framework is appropriate.

The Board considers the recommendations of the external auditors and other external advisers and where it considers it necessary, appropriate action is taken to ensure that an environment is in place that will see that key risks, as identified, are managed.

The Company does not have an internal audit function, but through the audit and risk management steps in place the Board ensures the Company is reviewing, evaluating and continually improving the effectiveness of its risk management and internal control processes.

It is the Board's view that the Company at this time does not have any material exposure to economic, environmental and social sustainability risks.

Principle 8

Remunerate Fairly and Responsibly

A listed entity should pay Director remuneration sufficient to attract and retain high quality Directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders

One of the principal functions of the Remuneration and Nomination Committee is to oversee the remuneration strategies and policies of the Company. The Committee's Charter sets out the Board's policies and practices regarding the remuneration of non-executive Directors, Executive Directors, and other senior executives. The Remuneration and Nomination Committee Charter is available on the Company's web site at www.martinjetpack.com/investors/governance-policies-and-practices.

The Board reviews the overall remuneration structure and policies and accepts recommendations from the Remuneration and Nomination Committee. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Board may seek the advice of external advisers in connection with the structure of remuneration packages.

The Directors, other than an Executive Director, will be paid by way of fees for services up to the maximum aggregate sum per annum as may be approved from time to time by the Company in general meeting. The current maximum aggregate sum per annum is NZ\$400,000. Any change to that maximum aggregate sum needs to be approved by shareholders. Under the Constitution, Non-executive Directors may also be paid all travel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of the Directors or general meetings of the Company or otherwise in connection with the Company's business.

In September 2014 the Board approved a new Company Option Scheme to issue options to selected executives and Directors. Directors in office at the time of the IPO received 360,000 options each in accordance with this scheme. Any future options or incentives offered to Directors will be subject to Board and/or shareholder approval as required.

Statutory Information

Principal Activities

The principal activity of Martin Aircraft Company Limited is the development and commercialisation of Martin Jetpack products.

ASX Listing

The Company is listed on the Australian Securities Exchange (ASX) under the ticker symbol ASX:MJP

Australian Corporations Act

The Company is incorporated in New Zealand and as such is not a disclosing entity for the purposes of chapter 2M (Financial Reports and Audit) of the Australian Corporations Act 2001 (Cth) (section 285(2)). The Company complies with its New Zealand legal obligations in preparing its annual financial statements.

Entities Recorded in the Interests Register

The Company maintains an Interest Register in accordance with the New Zealand Companies Act 1993 and the New Zealand Securities Market Act 1988. The following are particulars of entries made in the Interests Register for the period 1 July 2016 to 30 June 2017 that are relevant to Martin Aircraft Company Limited.

Steve Bayliss

- Branded Culture Limited
- Shareholder in Martin Aircraft Company Limited

Dennis Chapman (Resigned 16th August 2016)

- DAC No.8 Limited (which holds shares in Martin Aircraft Company Limited.)

Dr Luan Lin

- KuangChi Science Limited (which holds shares in Martin Aircraft Company Limited)

Dr Ruopeng Liu

- KuangChi Science Limited (which holds shares in Martin Aircraft Company Limited)

Dr Zhang YangYang (Resigned 16th August 2016)

- KuangChi Science Limited (which holds shares in Martin Aircraft Company Limited)

Directors' Shareholdings

The shareholdings of the Directors as at 29 September 2017 are as follows:

	Beneficial	Non beneficial	Share Options
Steve Bayliss	500,000		360,000
Dr Ruopeng Liu		206,417,364	
Jon Mayson			360,000
Dr Lin Luan		206,417,364	

Share Dealings

Directors are required to disclose pursuant to section 148 of the New Zealand Companies Act 1993, acquisitions and disposals of relevant interests in the Company during the year ended 30 June 2017. There were no acquisitions and disposals of relevant interests by Directors in the period.

Remuneration of Directors

Transactions with Directors

The current maximum aggregate Directors' fees per annum approved by shareholders is \$400,000.

Details of the total remuneration of, and the value of other benefits received by, each Director of the Company during the financial year ended 30 June 2017 are as follows:

Director Fees	Board Fees	Committee Fees	Total Fees
Steve Bayliss (Branded Culture Limited)	50,000	20,000	70,000
Hamish Bell (from 16 August 2016)	45,833	18,333	64,166
Dennis Chapman (resigned 16 August 2016)	4,167	2,152	6,319
Jon Mayson (Chairman)	80,000	10,000	90,000
Dr Lin Luan	-	-	-
Dr Ruopeng Liu	-	-	-
Dr Zhang YangYang (resigned 16 August 2016)	-	-	-
Total	180,000	50,485	230,485

On 14 September 2015 KuangChi Science Limited offered and the Board accepted that KCS Directors comprising Dr Liu Ruopeng, Dr Zhang YangYang and Dr Luan Lin would not receive Director's fees effective from their respective appointment dates. No Director's fees have been paid to KCS Directors in the period.

There were no fees due to Directors that remain unpaid as at 30 June 2017.

No other remuneration for services provided to the Company for the 12 months ended 30 June 2017 has been paid to Directors in addition to Directors' Fees.

Employee Remuneration

The total number of employees of the Company receiving remuneration and benefits above \$100,000 in the year ended 30 June 2017 are set out in the table below:

Employee Remuneration NZ\$	Number of Employees
\$100,000-\$110,000	8
\$110,001-\$120,000	7
\$120,001-\$130,000	4
\$140,000-\$150,000	1
\$150,000-\$160,000	2
\$190,000-\$200,000	1
\$200,000-\$210,000	1
\$220,000-\$230,000	1
\$320,000-\$330,000	1*

*The following is a summary of the material terms of CEO/CFO James West's employment arrangements with the Company.

Position: Contracted as Chief Executive Officer and Chief Financial Officer.

Remuneration: NZ\$150 per hour (plus GST) for a maximum of 45 hours per week. Any hours beyond 45 hours per week can

only be charged with the written agreement of the Company. Remuneration is subject to an annual review.

Incentives: Bonus or incentive is at Board discretion. There is no bonus or incentive to be paid in the reporting period.

Restraint: 6 months within Australasia

Term: Until terminated by either party.

Termination: By either party on three months' notice or immediately for negligence or serious or persistent breach of the contract. If Dr Liu does not retain the chairmanship of KCS or if Dr Liu or the founding shareholders of KCS no longer retain control of KCS via a 50%+ shareholding, or KCS is no longer a 50%+ shareholder in the Company, or from the date, the New Zealand Independent Directors no longer have majority control of the Board. Mr. West may terminate the contract by giving one month's written notice of termination within 2 months of the occurrence of the relevant event. In such circumstances, provided Mr West works during the notice period, the Company will pay the employee NZ \$200,000 plus GST on completion of the notice period.

Range	Securities	%	No. of holders	%
100,001 and Over	374,274,057	94.31	120	4.99
10,001 to 100,000	15,858,492	4.00	491	20.40
5,001 to 10,000	3,400,165	0.86	482	20.02
1,001 to 5,000	3,110,035	0.78	967	40.17
1 to 1,000	221,757	0.06	347	14.42
Total	396,864,506	100.00	2,407	100.00

There are 1,663 (2016, 422) shareholders holding less than a marketable parcel of the Company's shares (currently A\$500).

As disclosed in note 18 of the Financial Statements, there were 5,470,000 options on issue to Directors and employees as at 30 June 2017. The Company only has one class of shares on issue, ordinary shares, and these are listed on the ASX.

There are no other classes of equity security currently on issue. The Company's ordinary shares carry a right to vote on any resolution at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person or by proxy, representative or attorney. Voting may be conducted by voice, by show of hands, or by poll. There are no voting rights attaching to options.

The total number of shares on issue at 30 June 2017 was 396,864,506 and 29 September 2017 was 396,864,506.

Twenty Largest Shareholders at 31 August 2017

The names and holdings of the 20 largest registered shareholders in the Company as at 31 August 2017 were:

MARTIN AIRCRAFT COMPANY LIMITED

Top holders

Rank	Name	31 Aug 2017	%IC	
1	KUANGCHI SCIENCE LIMITED	206,417,364	52.01	
2	GLENN NEIL MARTIN	32,246,020	8.13	
3	NZVIF INVESTMENTS LIMITED	18,420,333	4.64	
4	MR STEPHEN PAUL JOHN MATTHEWS	12,934,522	3.26	
5	BELL POTTER NOMINEES LTD	11,686,364	2.94	
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	11,674,056	2.94	
7	TUGETO PTY LTD	11,250,129	2.83	
8	BNP PARIBAS NOMINEES PTY LTD	9,844,995	2.48	
9	CITICORP NOMINEES PTY LIMITED	6,925,114	1.74	
10	HAIYIN EQUITY INVESTMENT FUND LP	2,875,000	0.72	
11	ZDENEK 1	2,683,340	0.68	
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,514,747	0.63	
13	MR STEPHEN PAUL JOHN MATTHEWS	2,406,020	0.61	
14	MR RICHARD JOHN LAUDER	1,911,240	0.48	
15	PERSHING AUSTRALIA NOMINEES PTY LTD	1,807,061	0.46	
16	MR JOHN MCCONNELL	1,594,527	0.40	
17	MAGPIE INVESTMENTS LIMITED	1,203,010	0.30	
17	VENTURE FUND INVESTMENT LIMITED	1,203,010	0.30	
17	FRANKLIN P JONHSON JR & CATHERINE H JONHSON	1,203,010	0.30	
17	AURIGA HOLDINGS LIMITED	1,203,010	0.30	
18	ARROW WRIGHTS LIMITED	1,103,010	0.28	
19	MCCONNELL SUPERANNUATION PTY LTD	1,031,403	0.26	
20	MR RALF THOMAS RODL	1,000,000	0.25	
		Total	345,137,285	86.97
		Balance of register	51,727,221	13.03
		Grand total	396,864,506	100.00

Substantial Shareholders as at 31 August 2017

Since the Company is not listed on the New Zealand Securities Exchange (NZX) there is no requirement under New Zealand law for substantial shareholders in the Company (being those shareholders holding voting interests in the Company of more than 5%) to disclose the details of those holdings to the Company. In turn, the Company is only required to disclose to the ASX any substantial shareholding notice that it receives under New Zealand law.

Notwithstanding the legal position, the Company notes that KuangChi Science Limited voluntarily provided a form of substantial shareholding notice to the ASX on 25 February 2015 disclosing that KuangChi Science Limited and its associates (based on the definition in section 12(2)(a) of the Australian Corporations Act 2001 (Cth) had voting power in the Company of 22.83% (based on its registered holding of 55,763,636 ordinary shares in the capital of the Company). On 1 March 2016 KuangChi Science provided a form of notice of change to substantial holding as a result of the Company issuing 61,208,728 ordinary shares on conversion of the Convertible Note and issuing 89,445,000 ordinary shares on transfer of 90% of KuangChi Science Limited's 51% interest in KuangChi Martin Jetpack Limited. This increased KuangChi Science Limited's shareholding to 206,417,364 ordinary shares.

As at the date of this Annual Report no other substantial shareholding notices are current or have been given to the Company.

Limitations on the Acquisition of Shares

The Company is not subject to the provisions of chapters 6, 6A, 6B, and 6C of the Australian Corporations Act 2001 (Cth) dealing with the acquisitions of its shares (including provisions relating to substantial holdings in the Company and takeover offers for the Company). However, the New Zealand position under the Takeovers Code is broadly comparable to the Australian position in relation to the regulation of substantial shareholdings and takeovers.

Limitations on the acquisition of the securities imposed by the jurisdiction in which the Company is incorporated (New Zealand) are as follows:

- a. In general, securities in the Company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.
- b. The New Zealand Takeovers Code creates a general rule under which the acquisition of 20% or more of the voting rights in the Company, or the increase of an existing holding of 20% or more of the voting rights of the Company, can only occur in certain permitted ways. These include a full takeover in accordance with the Takeovers Code, a partial takeover in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the shares in the Company.
- c. The New Zealand Overseas Investment Act 2005 and Overseas Investment Regulations 2005 regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Office is likely to be required where an overseas person already holds 25% or more shares and the acquisition increases that holding.
- d. The New Zealand Commerce Act 1996 is likely to prevent a person from acquiring shares in the company if the acquisition would have, or would likely have, the effect of substantially lessening competition in the market.

Restricted Securities

In accordance with ASX requirements the Company provides notice that the last remaining tranche of 67,389,024 shares and 316,670 were released from ASX compulsory escrow in February 2017. Accordingly, at the balance date, there are no longer any shares or options held in ASX compulsory escrow or in voluntary escrow.

Subsidiary Company Directors

Jon Mayson is the sole Director of Martin Jetpack USA, Inc a non-trading Delaware Corporation in the United States. Dr Luan Lin is a Director of KuangChi Martin Jetpack Limited, a company incorporated in Hong Kong.

Directors and Officers Insurance and Indemnity

The Company has arranged as provided under the Company's Constitution, Directors and officers liability insurance which, with a Deed of Indemnity entered into with all Directors and the Company Secretary, ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example the incurring of penalties and fines that may be imposed in respect of breaches of law.

Disciplinary Action Taken by the ASX

The ASX has not taken any disciplinary action against the Company during the financial year ended 30 June 2017.

Use of Company Information

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors that would not otherwise have been available to them.

Notwithstanding the above, and noting that two Directors are representatives of KCS in connection with its ongoing financial support of the Company, KCS undertook an initial technical review of the operational and commercial feasibility of the Jetpack with focus on the engine and aircraft design. To facilitate the review, the Company sought and obtained a comprehensive Confidentiality Agreement from KCS. In addition, the Independent Directors have established and documented a formal Information Sharing Protocol to ensure that no core IP or price sensitive data is shared with KCS while allowing the disclosure of information necessary for KCS to complete its technical review.

Donations

The Company made no donations in the year ended 30 June 2017.

Credit Rating

The Company has no credit rating.

Annual General Meeting of Shareholders

The Annual General Meeting of shareholders will be held at Martin Aircraft Company's premises at 39 Ballarat Way, Wigram, Christchurch on Tuesday 31 October 2017 at 4.00 pm.

Directory

Company Name

Martin Aircraft Company Limited

New Zealand Company Number 901393

Australian Registered Body Number (ARBN) 601 582 638

Board of Directors

Jon Mayson

Chairman, Non-Executive Director, Independent

Steve Bayliss

Non-Executive Director, Independent

Hamish Bell

Non-Executive Director, Independent

Dr Liu Ruopeng

Non-Executive Director, Non-Independent

Dr Luan Lin

Non-Executive Director, Non-Independent

Chief Executive Officer and Chief Financial Officer

James West

Company Secretary

Ben Taylor

New Zealand Incorporation

The Company is registered under the laws of New Zealand, company number 901393.

Registered Office

39 Ballarat Way, Wigram Christchurch 8042

New Zealand

Ph: +64 3 377 8584

Website: www.martinjetpack.com

The Company's registered office address in Australia

Norton Rose Fulbright

Australia

Level 16 Grosvenor Place

225 George Street Sydney

NSW 2000 +61 2 9330 8000

Share Register

Link Market Services Limited

Locked Bag A14

Sydney South NSW 1235 Australia

Ph: +61 2 8289 7100

ASX

The Company's ordinary shares are listed on the ASX under ASX code - MJP

Auditor

Deloitte

Level 4, 151 Cambridge Terrace

PO Box 248, Christchurch 8013, New Zealand

Legal Advisers

Bell Gully, New Zealand

Norton Rose Fulbright, Australia

Bankers

ASB ANZ

Martin Aircraft Company Limited

Consolidated Financial Statements for the year ended 30 June 2017

Martin Aircraft Company Limited
39 Ballarat Way, Wigram, Christchurch,
New Zealand 8042

PHONE: +64 3 377 8584

FAX: +64 3 9824614



**MARTIN
JETPACK**

A company registered in
New Zealand with company
number 901393
(ARBN 601 582 638)

