MARTIN AIRCRAFT COMPANY LIMITED

# ASX ANNOUNCEMENT


**INDUSTRY**: Aviation

**MARTIN AIRCRAFT COMPANY LIMITED**

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

39 Ballarat Way, Wigram
Christchurch 8042
New Zealand
Ph: +64 (0)3 377 8584
www.martinjetpack.com

**COMPANY CONTACT**
James West
CEO & CFO

**ASX Code: MJP**



**Further information**
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## Appendix 4D and Interim Financial Report 31 December 2017

28 February 2018

In accordance with Listing Rule 4.2A, please find attached the Half-Year Appendix 4D and Interim Financial Report for the half-year ended 31 December 2017.

It is recommended that these half-year reports be read in conjunction with the Annual Report for the year ending 30 June 2017 and any public announcements made by the company during the half year.

Yours sincerely

J W West

**James West**
**Chief Executive Officer**

# ASX Appendix 4D
# Half – Year Report 31 December 2017

| | |
|---|---|
| **Name of entity** | Martin Aircraft Company Limited |
| **ARBN** | 601 582 638 |
| **Reporting Period** | Half - year ended 31 December 2017 |
| **Previous Corresponding Reporting Period** | Half - year ended 31 December 2016 |

***IMPORTANT NOTE***

On 19 September 2017 the Company entered a HK $57.28 million (approximately NZ $10 million) 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 (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. The loan interest payable is incorporated in the Consolidated Statement of Comprehensive Income. During the period one draw down of HK $14.32 million occurred.

| | 6 months to 31 December 2017 Unaudited NZ$ | Movement Amount NZ$ | Movement % | Up/Down |
|---|---|---|---|---|
| **Revenue** | 3,820 | (3,582) | (50.21%) | Down |
| **Operating loss** | (5,897,832) | (862,618) | 17.13% | Up |
| **Profit/(loss) before income tax** | (5,496,505) | (2,862,232) | 108.65% | Up |
| **Net Profit/(loss) after income tax** | (5,496,505) | (2,862,232) | 108.65% | Up |

The increase in the Loss before/after income tax from 31 December 2016 to 31 December 2017 relates to the classification of research and development costs which, in compliance with NZ IAS 38 requirements, have been expensed in the period of 1 July 2017 to 31 December 2017 as opposed to the classification of capitalised development assets in the previous period.

Commentary for the results of the half year ended 31 December 2017 is contained in the attached Interim Financial Statements.

## Dividends

nil

**Net tangible assets**

Net tangible asset backing per ordinary share $0.014 (six months to 31 December 2016: ($0.04)).

**Details of associate and joint venture entities**

Nil

**Details of entities over which control has been gained or lost during the period**
No entities were acquired during the period. No entities were disposed of due to loss of control during the period.

**Emphasis of Matter**

PWC have included the following Emphasis of Matter statement in their Review Report.

"Without modifying our opinion, we draw attention to Note 2 (i) in the condensed consolidated interim financial statements which notes that the Group does not yet have a certifiable commercial product. The condensed consolidated interim financial statements have been prepared on a going concern basis which is dependent on the Group continuing to obtain funding from the loan facility with KuangChi Science Limited in quarterly instalments until September 2018, undertaking a successful capital raising program by September 2018 to enable the loan facility to be repaid on the due date and enable future funding, or in the event that a capital raise is unsuccessful, to renegotiate financing with KuangChi Science Limited and completing the Series 1 aircraft capability demonstrations to enable successful commercialisation in China. These conditions, along with other matters as set forth in Note 2 (i), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern."

Refer, Note 2(i) Going Concern of the attached Interim Financial Report for further information.

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**Note:**
The information provided in this Appendix 4D is based on Martin Aircraft Limited Interim Financial Report for the financial half year ended 31 December 2017.

Martin Aircraft Limited Interim Financial Report for the financial half year ended 31 December 2017 has been subject to review. A copy of the Independent Review Report is included in the Interim Financial Report.

END

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## ABOUT THE MARTIN AIRCRAFT COMPANY LIMITED

The Martin Aircraft Company has evolved to become the world leader in jetpack development and commercialisation. Initially conceived to be the ultimate in personal transportation, the Martin Jetpack's potential for alternative applications soon became clear and led the company to refocus its vision to include being part of the global crusade to save and improve lives.

The Martin Jetpack has the pedigree of design ingenuity and innovation for which New Zealand is renowned. Designed with the goal to be the world's safest light aircraft, its potential applications span first response, search and rescue, military operations and commercial operations. It has the capability to be used in both a manned and unmanned capacity, which makes it the world's smallest and most practical Optionally Piloted Hovering Air Vehicle (OPHAV).

More detailed information about Martin Aircraft and the Martin Jetpack is available at www.martinjetpack.com

# Martin Aircraft Company Limited

## Condensed Consolidated Interim Financial Statements

## For the half year ended 31 December 2017

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

# Directors' Report

The Company has continued to focus on testing, flight envelope expansion, enhancement and delivery of the Series 1 aircraft.

To date the business has five aircraft available, three in China for capability demonstrations and two in New Zealand for continuation of the test programme, to enable continuing expansion of the existing flight envelope and developing greater knowledge around ducted fan flight characteristics. The test programme continues to demonstrate the aircraft as having excellent airworthiness characteristics signifying a step change improvement in both flight performance and aircraft reliability from the earlier prototypes.

The Company reported at the Annual General Meeting in October 2017 that whilst the current engine has proved sufficient for test and capability demonstration purposes, without further investment the reliability is not adequate for sales to initial customers such as first responders or specialist operators where a reduced airworthiness requirement may be acceptable. Customer feedback has shown there continues to be commercial interest in the aircraft; however, potential western-based customers are seeking a certified aircraft with an alternative proven engine. Subsequent to the AGM, the KuangChi Science (KCS) Technical team comprising KCS aviation and engine experts completed a technical review of the technology. As a result of this review KCS believes the uncertified Series 1 aircraft with RT1200 engine improvements is sufficiently advanced to demonstrate and commercialise in China.

The Board determined that the immediate priority is to focus on improving the performance of the Series 1 aircraft, particularly with respect to improvement of the RT1200 engine, thereby enabling repeatable demonstrations in China to enable potential near-term revenue generation, commercialisation and capital raising in China. The capital raising will enable loan repayment to KCS and continued commercialisation of the aircraft. Consequently, the decision to transition to a certifiable Series 2 aircraft with an alternate engine option remains deferred.

With this in mind the Company, KCS and Rotron Power Limited, our engine supplier, have outlined an engine development programme targeting both performance and reliability improvements of the RT1200 engine. This programme is expected to commence first quarter 2018 once contractual agreements have been put in place. This should see the Company take delivery of the first new engines approximately 12 months after the date of the contract commencing, thereby enabling commercialisation of the Series 1 enhanced aircraft in China to enable near-term revenue generation.

As part of the China-focused commercial plan, in January 2018 the business successfully deployed a team with two Series 1 Jetpacks to Shanghai to complete a test demonstration flight. This deployment in advance of further displays planned for later in the year confirmed the Company's and aircraft's readiness to support demonstrations in relation to potential investor capital raising or repeatable customer displays in China.

Finance

The Directors report that the Group's operating loss for the six months to 31 December 2017 was NZ $5.45 million. Research and development expenses have been treated as research and development expense in the Consolidated Statement of Comprehensive Income in the period as opposed to being capitalised as a development asset, refer to Note 2 (ii) for further information.

On 19 September 2017 the Company entered a HK$57.28 million (approximately NZ$10 million) loan facility that can be drawn down quarterly over the following 12 months to provide adequate funds to the Company to enable continued development and commercialisation of the Jetpack. The loan is repayable in 12 months from the date of the agreement (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. In the period, one loan draw down of HK $14.32 million has been received.

As part of Interim Financial Statement approvals KCS has provided a Letter of Financial Support whereby KCS accepts responsibility for providing sufficient financial assistance to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future. This undertaking is provided for a minimum period of 12 months from the date of signing the Financial Statements for the period ended 31 December 2017.

At 31 December 2017, the Company had net assets of NZ $5.41 million and cash and bank deposits of NZ $6.20 million.

Going Concern

The Financial Statements have been prepared using the going concern assumption. The considered view of the Directors – after making due enquiries – is that we can reasonably expect that the Company will have access to adequate resources to continue operations for a 12-month period from the date of signing these financial statements. In making the decision to adopt the going concern assumption the Directors note the continued strong support from our majority shareholder, KCS, as evidenced by

- HK $57.28 million (approximately NZ $10 million) loan facility that can be drawn down quarterly until September 2018 to provide adequate funds to the Company to enable continued development and commercialisation of Jetpacks.
- Provision of a Letter of Financial Support whereby KCS accepts responsibility for proving sufficient financial assistance to the Company for a minimum period of 12 months from the date of signing the Financial Statements for the period ended 31 December 2017.

It must be noted, however, that while the Company has the Series 1 aircraft that is used for capability demonstrations and testing to expand the flight envelope, the Company remains in the start-up phase, is pre-revenue and does not have a certifiable commercial product. As such, the Directors note that material uncertainty does exist and that the going concern assumption is dependent on

- receiving ongoing financial support from our majority shareholder KCS through further loan draw downs and the Letter of Financial Support
- undertaking a successful capital raising with KCS support before September 2018 to enable future funding and the KCS loan repayment and/or negotiating an extension and increase to the current loan facility with KCS
- successful flight demonstrations in China
- completion of the enhanced Series 1 aircraft to enable successful commercialisation in China

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 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 recoverability and classification of recorded asset amounts or the amounts for classification of liabilities that might be necessary should the Group not continue as a going concern refer to Note 2(i).

Following the Company's majority shareholder, KCS's, change of auditor to PWC the company has also appointed PWC as its auditor. Aligning with PWC as the auditor of the wider KCS group of companies consolidates the audit work through one provider and enables efficiency and cost savings.

Governance

After consideration as to the future demands of the Company Mr Jon Mayson and Mr Steve Bayliss resigned as Directors in the reporting period. Dr Lin Luan was appointed Chairperson. The Company then commenced a search for additional Directors with aviation and capital raising experience to take the business forward. On 26 January 2018 Mr Bell resigned as a Director for personal reasons and the Board appointed Mr Ran Elias as an Independent, Non-Executive Director and Mr Robert (Guailin) Luo as a Non-Independent, Non-Executive Director. On 12 February 2018 Mr Vincent Leung was appointed as an Independent, Non-Executive Director. The Martin Aircraft Board now comprises three Non- Independent Directors and two Independent Directors. The Board thanks Mr Mayson, Mr Bayliss and Mr Bell for their contributions to the Company and welcomes Mr Elias, Mr Luo and Mr Leung to the Company.

ASX Listing

The Board has undertaken a review of the Company's current listing and the trading of its shares on the Australian Securities Exchange (ASX). The Board has issued to ASX a formal request to be removed from the official list of ASX, subject to the receipt of shareholder approval. This follows receipt by the Company of in-principle approval from ASX that it will approve the Company's de-listing subject to the satisfaction of standard conditions, including shareholder approval being obtained. Subject to the satisfaction of the conditions, the Company intends to cease the listing of the Company's shares on the ASX at a date to be agreed with ASX and thereafter allow shareholders to trade their shares on New Zealand's Unlisted share trading platform. A Notice of Shareholders Meeting and explanatory information will be circulated to shareholders for their consideration shortly.

Looking Forward

The Company's near-term objectives remain

- the continued flight test and envelope expansion of the Series 1 aircraft
- implementing an ongoing design improvement programme for the enhanced Series 1 aircraft to support operational readiness in China
- to commence the engine development programme and investment in Rotron RT1200 engine to enable performance and reliability improvements in support of the China commercial programme
- the establishment and capitalisation of a China Entity to commercialise the technology in China
- in conjunction with KCS and China flight demonstrations to undertake a wider capital raising programme to enable loan repayment and commercialisation of the aircraft in China.

# *Independent review report*

To the Shareholders of Martin Aircraft Company Limited

## *Report on the condensed consolidated interim financial statements*

We have reviewed the accompanying condensed consolidated interim financial statements of Martin Aircraft Company Limited (the Company) and its controlled entities ("the Group") on pages 8 to 19, which comprise the condensed consolidated statement of financial position as at 31 December 2017, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the period ended on that date and selected explanatory notes.

## *Directors' responsibility for the interim financial statements*

The Directors are responsible on behalf of the Company for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

## *Our responsibility*

Our responsibility is to express a conclusion on the accompanying condensed consolidated interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these condensed consolidated interim financial statements.

We are independent of the Group. Other than in our capacity as auditors we have no relationship with, or interests in, the Group.

## *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated interim financial statements of the Group are not prepared, in all material respects, in accordance with IAS 34 and NZ IAS 34.

*PricewaterhouseCoopers*
*PwC Centre, Level 4, 60 Cashel Street, Christchurch Central, PO Box 13244, Christchurch 8141, New Zealand*
*T: +64 3 374 3000, F: +64 3 374 3001, pwc.co.nz*

*Material uncertainty related to Going Concern*

Without modifying our opinion, we draw attention to Note 2 (i) in the condensed consolidated interim financial statements which notes that the Group does not yet have a certifiable commercial product. The condensed consolidated interim financial statements have been prepared on a going concern basis which is dependent on the Group continuing to obtain funding from the loan facility with KuangChi Science Limited in quarterly instalments until September 2018, undertaking a successful capital raising program by September 2018 to enable the loan facility to be repaid on the due date and enable future funding, or in the event that a capital raise is unsuccessful, to renegotiate financing with KuangChi Science Limited and completing the Series 1 aircraft capability demonstrations to enable successful commercialisation in China. These conditions, along with other matters as set forth in Note 2 (i), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

*Who we report to*

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review 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 shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 February 2018

Christchurch

**Martin Aircraft Company Limited**
**Condensed Consolidated Statement of Comprehensive Income**
**For the half year ended 31 December 2017**

| | Notes | 6 months to 31 December 2017 Unaudited $ | 6 months to 31 December 2016 Unaudited $ |
|---|---|---|---|
| Revenue | | 3,820 | 7,672 |
| **Expenses** | | | |
| Research and development expense | 2(ii) | (2,722,795) | (40,428) |
| Impairment of intangibles | 7 | - | (153,351) |
| Other expenses | 4 | (3,178,857) | (4,849,107) |
| Total expenses | | (5,901,652) | (5,042,886) |
| **Operating loss** | | **(5,897,832)** | **(5,035,214)** |
| Net finance income | | 144,912 | 270,612 |
| Fair value gain/(loss) on derivative liabilities | 9 | 256,415 | 2,130,329 |
| **Loss before income tax** | | (5,496,505) | (2,634,273) |
| Income tax expense | | - | - |
| **Loss after income tax** | | (5,496,505) | (2,634,273) |
| **Other comprehensive income, net of income tax** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translating foreign operations | | 110,466 | 85,552 |
| **Total comprehensive losses for the year** | | **(5,386,039)** | **(2,548,721)** |
| **Loss for the year attributed to:** | | | |
| Owners of the Company | | (5,489,508) | (2,629,450) |
| Non-controlling interests | | (6,997) | (4,823) |
| | | **(5,496,505)** | **(2,634,273)** |
| **Total comprehensive loss for the year attributed to:** | | | |
| Owners of the Company | | (5,379,042) | (2,543,898) |
| Non-controlling interests | | (6,997) | (4,823) |
| | | **(5,386,039)** | **(2,548,721)** |
| **Losses per share** | | | |
| Basic | 12 | ($0.01) | ($0.01) |
| Diluted | 12 | ($0.01) | ($0.01) |

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

**Martin Aircraft Company Limited**
**Condensed Consolidated Statement of Financial Position**
**As at 31 December 2017**

| | Notes | 31 December 2017 Unaudited $ | 30 June 2017 Audited $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 6,201,692 | 9,758,898 |
| Other Receivables | | 631,686 | 619,670 |
| Inventory | 5 | 297,266 | 629,104 |
| **Total current assets** | | **7,130,644** | **11,007,672** |
| **Non current assets** | | | |
| Property, plant and equipment | 6 | 1,984,734 | 2,169,411 |
| Intangible assets | 7 | 192,780 | 260,468 |
| **Total non current assets** | | **2,177,514** | **2,429,879** |
| **Total assets** | | **9,308,158** | **13,437,551** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 1,316,336 | 2,401,631 |
| Fair value of derivative liabilities | 9 | - | 256,415 |
| Current borrowings | 8 | 2,580,599 | - |
| **Total current liabilities** | | **3,896,935** | **2,658,046** |
| **Total liabilities** | | **3,896,935** | **2,658,046** |
| **Net assets** | | **5,411,223** | **10,779,505** |
| **EQUITY** | | | |
| Share capital | 10 | 138,619,345 | 138,619,345 |
| Retained earnings | | (133,339,412) | (128,025,699) |
| Share option reserve | 11 | 297,962 | 456,000 |
| Foreign currency translation reserve | | (363,819) | (474,285) |
| Non-controlling interests | | 197,147 | 204,144 |
| **Total equity** | | **5,411,223** | **10,779,505** |

**Signed on behalf of the Board**

Dr. LIN LUAN

Lin Luan - Chairperson

Date: 28 February 2018

Vincent Leung - Director

Date: 28 February 2018

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

## Martin Aircraft Company Limited
## Condensed Consolidated Statement of Changes in Equity
## For the half year ended 31 December 2017

| | Notes | Attributed to owners of the Company | | | | Non-controlling interest | Total Equity |
|---|---|---|---|---|---|---|---|
| | | Share capital | Retained earnings | Share options reserve | Foreign currency translation reserve | | |
| | | $ | $ | $ | $ | $ | $ |
| **Balance as at 1 July 2016 - Audited** | | 138,619,345 | (103,843,340) | 594,142 | (327,459) | 223,621 | 35,266,309 |
| Loss after income tax for the period | | - | (2,629,450) | - | - | (4,823) | (2,634,273) |
| Other comprehensive profit for the year | | - | - | - | 85,552 | - | 85,552 |
| **Total comprehensive profit for six months to 31 December 2016** | | - | (2,629,450) | - | 85,552 | (4,823) | (2,548,721) |
| Share option expense | 11 | - | - | 40,509 | - | - | 40,509 |
| Lapsed share options | 11 | - | 134,257 | (134,257) | - | - | - |
| **Balance as at 31 December 2016 - Unaudited** | | 138,619,345 | (106,338,533) | 500,394 | (241,907) | 218,798 | 32,758,097 |
| **Balance as at 1 July 2017 - Audited** | | 138,619,345 | (128,025,699) | 456,000 | (474,285) | 204,144 | 10,779,505 |
| Loss after income tax for the period | | - | (5,489,508) | - | - | (6,997) | (5,496,505) |
| Other comprehensive profit for the year | | - | - | - | 110,466 | - | 110,466 |
| **Total comprehensive loss for six months to 31 December 2017** | | - | (5,489,508) | - | 110,466 | (6,997) | (5,386,039) |
| Share option expense | 11 | - | | 17,757 | - | - | 17,757 |
| Lapsed share options | 11 | - | 175,795 | (175,795) | - | - | - |
| **Balance as at 31 December 2017 - Unaudited** | | 138,619,345 | (133,339,412) | 297,962 | (363,819) | 197,147 | 5,411,223 |

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

| | Notes | 6 months to 31 December 2017 Unaudited $ | 6 months to 31 December 2016 Unaudited $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | - | - |
| Interest received | | 42,851 | 443,602 |
| Other income | | 3,770 | 7,540 |
| Tax received/(paid) | | 153,282 | (35,350) |
| Payments to suppliers and employees | | (6,379,188) | (6,929,707) |
| **Net cash outflow from operating activities** | | **(6,179,285)** | **(6,513,915)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (186,844) | (1,083,357) |
| Purchase of intangibles | | - | (5,122,775) |
| Transfer (to)/from bank deposits | | - | 17,022,468 |
| **Net cash outflow from investing activities** | | **(186,844)** | **10,816,336** |
| Loan from KCS | 8 | 2,580,599 | - |
| **Net cash inflow from financing activities** | | **2,580,599** | - |
| **Net (decrease)/ increase in cash and cash equivalents** | | **(3,785,530)** | **4,302,421** |
| Cash and cash equivalents, beginning of period | | 9,758,898 | 12,608,236 |
| Foreign exchange gain on cash | | 228,324 | 94,414 |
| **Cash and cash equivalents, end of period** | | **6,201,692** | **17,005,071** |

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

## 1 General information

Martin Aircraft Company Limited (the Company) has developed an aviation prototype that is now being developed further as a commercial product. 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).

These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 28 February 2018.

## 2 Basis of preparation

These general purpose condensed consolidated financial statements for the six months ended 31 December 2017 have been prepared in accordance with NZ GAAP. They comply with NZ IAS 34 Interim Financial Reporting.

These condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited consolidated financial statements of Martin Aircraft Company Limited for the year ended 30 June 2017 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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 Company is designated as a profit-oriented entity.

All significant accounting policies and methods of computation have been applied on a basis consistent with those used in the audited consolidated financial statements of Martin Aircraft Company Limited for the year ended 30 June 2017.

The condensed consolidated financial statements are presented in New Zealand dollars.

### *(i) Going Concern*

The Company has continued to focus on testing, flight envelope expansion, enhancement and delivery of the Series 1 aircraft.

The Financial Statements have been prepared using the going concern assumption. The considered view of the Directors – after making due enquiries – is that we can reasonably expect that the Company will have access to adequate resources to continue operations for a 12-month period from the date of signing these financial statements. In making the decision to adopt the going concern assumption the Directors note the continued strong support from our majority shareholder, KCS, as evidenced by

- HK $57.28 million (approximately NZ $10 million) loan facility that can be drawn down quarterly until September 2018 to provide adequate funds to the Company to enable continued development and commercialisation of Jetpacks.
- Provision of a Letter of Financial Support whereby KCS accepts responsibility for proving sufficient financial assistance to the Company for a minimum period of 12 months from the date of signing the Financial Statements for the period ended 31 December 2017.

It must be noted, however, that while the Company has the Series 1 aircraft that is used for capability demonstrations and testing to expand the flight envelope, the Company remains in the start-up phase, is pre-revenue and does not have a certifiable commercial product. As such, the Directors note that material uncertainty does exist and that the going concern assumption is dependent on

- receiving ongoing financial support from our majority shareholder KCS through further loan draw downs and the Letter of Financial Support

- undertaking a successful capital raising with KCS support before September 2018 to enable future funding and the KCS loan repayment and/or negotiating an extension to the current loan facility with KCS
- successful flight demonstrations in China
- completion of the enhanced Series 1 aircraft to enable successful commercialisation in China

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 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 recoverability and classification of recorded asset amounts or the amounts for classification of liabilities that might be necessary should the Group not continue as a going concern.

***(ii) Research and development expenses***

Based on evidence from the test programme and discussions with its engine manufacturer and customers, and assessment of the China commercial plan the Company determined that the accounting requirements to continue to recognize the development asset expenditure as an intangible asset are not met, 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, these expenses have been treated as Research and Development expense in the Consolidated Statement of Comprehensive Income.

## 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 Other expenses

Material other expenses from the condensed consolidated statement of comprehensive income comprise:

| | Notes | 6 months to 31 December 2017 Unaudited $ | 6 months to 31 December 2016 Unaudited $ |
|---|---|---|---|
| Audit fees | | 56,247 | 25,000 |
| Directors fees | 13 | 87,082 | 108,401 |
| Listing fees | | 27,962 | 65,186 |
| Employee expense | | 1,071,342 | 2,262,875 |
| Legal fees | | 55,443 | 20,392 |
| Consultants | | 319,347 | 522,502 |
| Marketing expenses | | 173,001 | 178,930 |
| Freight and courier | | 1,432 | 42,521 |
| Travel | | 151,463 | 249,432 |
| Operating lease expense | | 224,544 | 234,000 |
| Depreciation | 6 | 350,487 | 221,698 |
| Loss on disposal of fixed assets | | 36,047 | - |
| Amortisation of intangibles | 7 | 67,688 | 155,898 |
| Share option expense | 11 | 17,757 | 40,509 |
| Other Costs | | 539,015 | 721,763 |
| **Total other expenses** | | **3,178,857** | **4,849,107** |

## 5 Inventories

| | 31 December 2017 Unaudited $ | 30 June 2017 Audited $ |
|---|---|---|
| Inventory at cost | 297,266 | 629,104 |
| **Total inventory** | **297,266** | **629,104** |

## 6 Property, plant and equipment

| | Note | Land and Buildings | Motor Vehicles | Property, Plant and Equipment | Total |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Cost at 1 July 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 | | - | | 519,885 | 519,885 |
| **Cost at 30 June 2017** | | **459,628** | **182,321** | **2,856,433** | **3,498,382** |
| Additions | | - | - | 586,781 | 586,781 |
| Disposals | | (459,628) | (11,398) | - | (471,026) |
| **Cost at 31 December 2017** | | **-** | **170,923** | **3,443,214** | **3,614,137** |
| **Accumulated depreciation at 1 July 2016** | | **10,759** | **41,254** | **524,534** | **576,547** |
| Depreciation | | 33,369 | 27,606 | 490,746 | 551,721 |
| Disposals | | - | - | 200,703 | 200,703 |
| **Accumulated depreciation at 30 June 2017** | | **44,128** | **68,860** | **1,215,983** | **1,328,971** |
| Depreciation | | 2,251 | 10,636 | 337,600 | 350,487 |
| Disposals | | (46,379) | (3,676) | - | (50,055) |
| **Accumulated depreciation at 31 December 2017** | | **-** | **75,820** | **1,553,583** | **1,629,403** |
| **Net book value 30 June 2017 - Audited** | | **415,500** | **113,461** | **1,640,450** | **2,169,411** |
| **Net book value 31 December 2017 - Unaudited** | | **-** | **95,103** | **1,889,631** | **1,984,734** |

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.

## 7 Intangible assets

| | Note | Software | Development Asset | Patents | Total |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Cost at 1 July 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 | | - | (519,885) | - | (519,885) |
| **Cost at 30 June 2017** | | **909,626** | **19,611,521** | **700,723** | **21,221,870** |
| Additions | | - | - | - | - |
| **Cost at 31 December 2017** | | **909,626** | **19,611,521** | **700,723** | **21,221,870** |
| **Accumulated amortisation at 1 July 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 at 30 June 2017** | | **649,158** | **19,611,521** | **700,723** | **20,961,402** |
| Amortisation | | 67,688 | - | - | 67,688 |
| **Accumulated amortisation and impairment at 31 December 2017** | | **716,846** | **19,611,521** | **700,723** | **21,029,090** |
| **Net book value 30 June 2017 - Audited** | | **260,468** | **-** | **-** | **260,468** |
| **Net book value 31 December 2017 - Unaudited** | | **192,780** | **-** | **-** | **192,780** |

## 8 Borrowings

| | 31 December 2017 Unaudited $ | 30 June 2017 Audited $ |
|---|---|---|
| Current borrowings | 2,580,599 | - |
| Non-Current borrowings | - | - |
| **Total borrowings** | 2,580,599 | - |

On 19 September 2017 the Company entered a HK $57.28 million (approximately NZ $10 million) 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 (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. The loan interest payable is incorporated in the Consolidated Statement of Comprehensive Income. During the period, one drawndown of HK $14.32 million occurred.

## 9 Derivative financial liabilities

The table below shows a reconciliation of fair value movements of the Joint Venture Option, a level 3 financial instruments.

| | 31 December 2017 Unaudited $ | 30 June 2017 Audited $ |
|---|---|---|
| Opening fair value | 256,415 | 4,551,073 |
| Fair value (gain)/loss through profit or loss | (256,415) | (4,294,658) |
| Closing fair value | - | 256,415 |

During the period the Joint Venture Company Option expired on the maturity date 22 August 2017 without being exercised.

## 10 Share capital

| | Note | 31 December 2017 Unaudited | 30 June 2017 Audited |
|---|---|---|---|
| **Ordinary Shares** | | | |
| **Value $** | | | |
| Opening share capital | | 138,619,345 | 138,619,345 |
| **Closing share capital** | | **$138,619,345** | **$ 138,619,345** |
| **Number:** | | | |
| Opening number of shares on issue | | 396,864,506 | 396,864,506 |
| **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** |

**Ordinary Shares**

All ordinary shares rank equally with one vote attached to each fully paid ordinary share. Ordinary shares do not have a par value. During the period no options were exercised.

## 11 Company share options

In 2008 the Board approved a Company Option Scheme to issue options to selected staff, key partners and Directors. At 31 December 2017 there are 3,000,000 options remaining to be exercised under this scheme (30 June 2017: 3,150,000).

In September 2014 the Board approved a new Company Option Scheme to issue options to selected executives and Directors. At 31 December 2017 there are 800,000 options remaining to be exercised under this scheme (30 June 2017: 2,320,000).

During the period to December 2017 there were no options issued and 1,670,000 cancelled for no consideration.

At 31 December 2017 the Company has a total of 3,800,000 options remaining to be exercised at various exercise prices.

## 12 Losses 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.

| | 6 months to 31 December 2017 Unaudited $ | 6 months to 31 December 2016 Unaudited $ |
|---|---|---|
| **Loss after income tax attributable to shareholders** | (5,489,508) | (2,629,450) |
| Ordinary number of shares | 396,864,506 | 396,864,506 |
| Weighted Average number of shares on issue | 396,864,506 | 396,864,506 |
| **Basic losses per share** | (0.01) | (0.01) |
| **Diluted losses per share** | (0.01) | (0.01) |

## 13 Related party transactions

**Key management and director transactions**
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.

| | 6 months to 31 December 2017 Unaudited $ | 6 months to 31 December 2016 Unaudited $ |
|---|---|---|
| Salaries and other short term benefits paid | 657,522 | 824,645 |
| Directors' fees paid | 87,082 | 108,401 |
| Share based payments | 5,460 | 8,760 |
| | **750,064** | **941,806** |

**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%. The company accounts as a subsidiary and is consolidated.

It was 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. However, 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%. With respect to a Chinese mainland company. The Company and KCS continue to work on plans for the capitalisation of this entity and its business plan to enable commercialisation of the jetpack technology in China.

**Letter of Financial Support**
Refer to Note 2(i) for details of the Letter of Financial Support provided from KCS.

**Related Party Loan**
On 19 September 2017 the Company entered a HK $57.28 million (approximately NZ $10 million) loan facility with KCS, one loan draw down of HK $14.32 million has occurred in the period, refer Note 8.

**Voting Power of KuangChi Science Limited**
KCS holding in the Company is 52.0%.

## 14 Commitments and contingencies

The following details commitments associated with the Company.

### (a) Capital commitments
There were no capital commitments (30 June 2017: Nil).

### (b) 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 2017: Nil).

## 15 Subsequent Events

On 26 January 2018 the Company received the second loan draw down of HK $14.32 million from KCS. The total loan obligation to KCS is HK $28.64 million. It is planned that the third loan draw down will be requested in March 2018.

With respect to the agreement entered with Shenzhen KuangChi Dream Technology Company Limited, a subsidiary of KCS three Series 1 Jetpacks have been delivered to KCS in February 2018, refer Note 12, 30 June 2017 Annual Report for further information.