

Martin Aircraft Company Limited
Annual Report
For the year ended 31 March 2014

Martin Aircraft Company Limited
Directory
31 March 2014

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Chairman's Report

The year 2013/14 marked a significant change in the Company with the appointment of Peter Coker as CEO in April 2013. Peter's background in the RAF (Air Commodore) and in Lockheed Martin brings a new depth of experience and professionalism to Martin Aircraft Company.

Under Peter's leadership, the development of the Jetpack into a commercial product made significant progress as outlined in the CEO's report. Progress has been dependent on funding and we have continued to be successful in attracting private investors.

At the start of the year we completed the capital raising round at \$2.40 per share, and then commenced a new round at \$3 per share. We did have one 3 month period during the year where a slowdown to match available resources was undertaken but our processes allowed this to be managed and the financial tightening of the belt was short lived. The Company incurred a loss of \$2.96 million for the year ended 31 March 2014. This year has involved a significant investment in research, product and market development and expenditure associated with retaining and establishing a new team that can deliver a commercial product to the market. At balance date the Company had net assets of \$1.24 million and cash on hand of \$1.18 million.

In January 2014 we engaged Axstra Capital out of Australia to assist us in targeting investors from Australia. This measured approach actually showed that Martin Aircraft Company and the Jetpack was less well known to individuals other than aircraft enthusiasts than originally perceived. The excitement of the Jetpack attracted a lot of interest during investor presentations and a number of new shareholders were enrolled at \$3 per share. Over \$1.1M has been raised since February at \$3.0 per share in this Australian focused capital raising.

We estimate now that the Company needs just over \$20 million to complete the commercialisation of the Jetpack, including establishing initial manufacture. Ideally this will come from an Initial Public Offer (IPO) in the near future. Advisers have been appointed since balance date with a view to listing the Company on the ASX provided market conditions are right. The Company is continuing to raise money at \$3/share in a pre-IPO round in preparation for this potential listing and is also very interested in securing a cornerstone investor for an IPO.

The Board composition was unchanged during the year. On 1 April 2014 we were very fortunate to have Jon Mayson join the board as Chairman. Jon was CEO of Port of Tauranga and has since then had a distinguished governance career including being Chairman of NZ Trade & Enterprise, Scales Corporation and Fronde Systems. Jon takes us forward to a new level of professionalism and is a credible Chairman for a listing of the Company.

Jenny Morel CNZM

Chairman for the year ending March 2014

CEO's Report

2013 was a consolidating year for Martin Aircraft Company. With my arrival as CEO in April 2013 the focus of the Company changed from being entirely focused on Research & Development to that of a Company in transition to commercialisation. As such the challenges changed and while an underlying technical environment drove the financial spend the thinking became much more around that of the future and, in particular, establishing a firm path to becoming listing or investor ready. Therefore a refresh of the core team was undertaken with a focus upon present and future capability requirements. A new Director of Engineering and Programme Manager were both appointed late in 2013 and the design and engineering team replaced in early 2014 by individuals with specific skill sets in the areas needed for the path to commercialisation.

As we have moved to make our Company structure cleaner we have addressed two particular areas that have been outstanding. Sino-NZ was a Joint Venture with No27 Ventures from China. Late in 2013 No27 indicated that they would not be funding the Joint Venture and that termination of the JV was being put in place. In hindsight No27 may not have been the best partner for us in China and we are now actively engaging with a number of Companies in China to help support what will be a very lucrative market. This is particularly true with the change to the general aviation rules in China which will benefit the Jetpack in the future.

Our discussions with Emirates Advanced Research and Technology Holdings (EARTH) were terminated in September last year following a number of discussions. The plan was for a collaborative development agreement for the unmanned version of the Jetpack. There were some challenges around intellectual property which extended the timing to closure and made the deal unworkable.

From a technical perspective the first part of the 2013 financial year concentrated on overcoming the sustainability challenges of Prototype 12.1 (P12.1) and establishing key milestones for this coming year and the future. The start of the year consisted of over 43 test flights in an unmanned configuration with payloads up to 105 Kg. This proved both the concept was robust and gave continuing confidence that the aircraft was meeting performance expectations for the point in the flight trials programme. This was then followed by a series of manned test flights. However, the reliability of the engine was not robust enough to allow continuous manned flying. The unreliability in the engine was being created by secondary vibration. A focused plan was put in place to address this shortfall. The first step was to successfully find ways of managing secondary vibration in the two stroke MkI engine to allow us to continue flight testing uninterrupted. During the early part of this year, after emerging from our reduction in effort due to finances, we identified a temporary fix and recommenced unmanned test flying at a greater rate than previously. In parallel, the Company commissioned the design and build of the V4 two stroke MkII engine using consultants from the USA with an aim to overcome the inherent vibration design of a two stroke engine. This is presently on the engine test running facility. Once the testing is complete we will look to modify this design to reduce the weight of the engine and deliver a pre-production standard power plant. Subject to funding we aim to have a pre-production engine available by the end of the year. P12.1 has been decommissioned and P12.2 and P12.3 are in build. This is giving the new team the core skills required as we move to pre-production and production. Our next build to start later in the year will be the five pre-production aircraft.

Work has commenced on the design and delivery of the low opening ballistic parachute which aims to have the first iteration available for integration by the end of 2014. The technology is not new but the application use of the technology will potentially provide us with a very reliable ballistic parachute initially down to a maximum of 15 meters. This will be acceptable for the first target customers. We also have a plan to continue that development down to an even lower opening height in time for the personal Jetpacks in 2015/16.

In parallel an incremental upgrade to the flight control system has been initiated to create a robust and programmable flight control system that will be both configurable and expandable in the future. However, this is not a quick

programme and the Company will be introducing the upgrades incrementally with the first drop of upgrades available towards the end of the year to be included in the pre-production models.

We are also developing a commercial simulator not only to serve the needs of training Jetpack operators but also to address individual interest in the corporate hospitality and entertainment business. This development work requires a further 4 to 5 months but is subject to successful funding of the programme before being able to be progressed.

Following a complete bottom up design review our focus on testing has moved to a systems approach which will see a considered and measured development and trials programme.

At the same time we have been assessing the first target market under the capability of the First Responder Jetpack. We have had continued interest from around the world. A number of militaries and government agencies have been engaged in discussions. Such discussions have been limited due to the lack of marketing resources but we are now in the process of increasing our sales and marketing team to allow the Company to close the potential sales pipeline. Our potential initial order pipeline is already in excess of \$40M which without a full marketing approach so far indicates an exciting initial revenue stream.

The Company's strategy is clear. Our overriding objective remains to bring the Martin Jetpack to commercialisation and to create value for shareholders. Directors continue to see achieving public manned flight as a key milestone towards commercialization. This milestone is expected to be achieved in the latter part of 2014 which will then allow a springboard to a major capital raising event.

This year the Company has made significant progress in developing the Martin Jetpack. With the new team we have created the innovation and provided the platform to deliver a commercial product to the market.

Peter Coker OBE

CEO

Directors' Report and Statutory Information

The Directors have pleasure in presenting their annual report and financial statements for the year ended 31 March 2014.

Principal activities

The principal activity of Martin Aircraft Company Limited is the research and development of the Martin Jetpack. The Company has also focussed on activities to allow the commercialisation of the Jetpack to commence.

Result and distribution

The Directors report that the group's loss after tax for the year under review was (\$2,956,467). No dividends or bonus issues were declared during the year.

State of company's affairs

As at balance date the Company had net assets of \$1,237,169.

Total Assets	1,694,765
Total Liabilities	<u>457,596</u>
Net Assets	<u>\$1,237,169</u>

Issue of additional share capital

During the year, the Company issued 1,144,152 of shares at an average price of \$2.41 per share.

Going Concern

The directors have continued to adopt the going concern assumption in the preparation of the financial statements. This is based on an expectation that further equity investment will be received by the Company within 12 months of the date of signing these accounts to ensure that when combined with existing cash resources the Company will be able to meet its obligations as they fall due. The Company's research, development and commercial programs will be escalated or deferred to ensure that the Company continues to work within its existing cash resources.

Directors

There were no changes in Directors during the year. Jon Mayson joined the Board as Chairman with effect from 1 April 2014.

Remuneration of Directors

The aggregate directors' fees per annum approved by shareholders are \$200,000.

The actual directors fees invoiced during the year under review were \$115,000 in aggregate as recorded in Note 21 to the Financial Statements.

All other transactions with directors and directors' interests are recorded in Note 21 to the Financial Statements.

Donations

The Company did not make any donations during the period.

Use of Company Information

During the year the board received no notices from the directors of the Company requesting to use Company information received in their capacity as directors which would not otherwise have been made available to them. D Hunter, a Martin Aircraft director was given Board approval in December 2012 to examine the potential establishment of Jetpack

Experience in Australia. There are some differences in understanding between the Company and Mr Hunter in relation to the degree of involvement anticipated and these are being investigated. At this stage it is not anticipated there will be any financial liability on the Company for this work.

Directors' and Employees' Indemnity and Insurance

Liability insurance was affected for directors of the Company.

Accounting Policies

Where there have been changes in accounting policies during the year these have been brought about by changes in the nature of the business or updates to NZ IFRS.

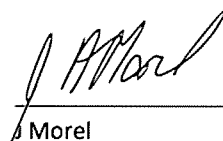
Auditor Remuneration

Refer to note 6 of the financial statements for auditor remuneration.

For and on behalf of the Directors



R Lauder
Director



J Morel
Director

Date: 13 August 2014

Date: 13 August 2014



Independent Auditors' Report

to the shareholders of Martin Aircraft Company Limited

Report on the Financial Statements

We have audited the financial statements of Martin Aircraft Company Limited on pages 10 to 35, which comprise the statement of financial position as at 31 March 2014, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditors we have no relationship with, or interests in, Martin Aircraft Company Limited



Independent Auditors' Report

Martin Aircraft Company Limited

Opinion

In our opinion, the financial statements on pages 10 to 35

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company as at 31 March 2014, and its financial performance and cash flows for the year then ended.

Emphasis of Matter – Fundamental Uncertainty in relation to Going Concern

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the ability of the Company to continue in operational existence is dependent upon its ability to raise additional funding. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2014

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit 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 an auditors' 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 and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
13 August 2014

Christchurch

Martin Aircraft Company Limited
Statement of Comprehensive Income
For the year ended 31 March 2014

	Notes	2014 \$	2013 \$
Revenue	4	-	5,206
Less: Cost of Sales		(2,561)	(18,593)
Gross profit		(2,561)	(13,387)
Other income	4	422	2,467
Expenses			
Research and development expense		(1,001,764)	(842,339)
Other expenses	5	(1,975,793)	(920,632)
Operating loss		(2,979,696)	(1,773,891)
Net finance income/(expense)	7	23,229	9,331
Loss before income tax		(2,956,467)	(1,764,560)
Income tax expense	8	-	-
Loss after income tax attributable to shareholders		(2,956,467)	(1,764,560)
Other comprehensive income		-	-
Total comprehensive loss attributable to shareholders		(2,956,467)	(1,764,560)
Earnings per share			
Basic		(\$0.20)	(\$0.13)
Diluted		(\$0.20)	(\$0.13)

Martin Aircraft Company Limited
Statement of Financial Position
As at 31 March 2014

	Notes	2014 \$	2013 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	1,182,823	900,834
Receivables	10	68,044	55,602
Inventories	11	-	2,561
Total current assets		1,250,867	958,997
Non current assets			
Property, plant and equipment	12	80,176	45,123
Intangible assets	13	363,722	469,489
Total non current assets		443,898	514,612
Total assets		1,694,765	1,473,609
LIABILITIES			
Current liabilities			
Trade and other payables	14	457,596	222,054
Total current liabilities		457,596	222,054
Total liabilities		457,596	222,054
Net assets		1,237,169	1,251,555
EQUITY			
Share capital	16	17,474,088	14,515,526
Share option reserve	18	289,602	740,007
Retained earnings		(16,526,521)	(14,003,978)
Total equity		1,237,169	1,251,555

The above 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 31 March 2014

	Notes	Share capital \$	Retained earnings \$	Share options reserve \$	Total Equity \$
Balance as at 1 April 2012		11,379,335	(12,275,910)	582,895	(313,680)
Total comprehensive loss		-	(1,764,560)	-	(1,764,560)
Issue of share capital	16	3,084,307	-	-	3,084,307
Increase in capital under share option schemes	16, 18	51,884	-	(51,884)	-
Share option expense	16, 18	-	-	141,613	141,613
Warrant option expense	16, 18	-	-	103,875	103,875
Lapsed share options	16, 18	-	36,492	(36,492)	-
Balance as at 31 March 2013		14,515,526	(14,003,978)	740,007	1,251,555
Total comprehensive loss		-	(2,956,467)	-	(2,956,467)
Issue of share capital	16	2,253,608	-	-	2,253,608
Issue of share capital from exercise of share options	16, 18	408,872	-	-	408,872
Issue of share capital from exercise of warrants	16, 18	100,000	-	-	100,000
Increase in capital under share option schemes	16, 18	144,144	-	(144,144)	-
Increase in capital under warrant option	16, 18	51,938	-	(51,938)	-
Share option expense	16, 18	-	-	179,601	179,601
Lapsed share options	16, 18	-	433,924	(433,924)	-
Balance as at 31 March 2014		17,474,088	(16,526,521)	289,602	1,237,169

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

Martin Aircraft Company Limited
Statement of Cash Flows
For the year ended 31 March 2014

	Notes	2014 \$	2013 \$
Cash flows from operating activities			
Receipts from customers		-	7,673
Interest received		22,520	24,646
Other income		422	6,800
Tax received/(paid)		698	(1,004)
Payments to suppliers and employees		(2,272,843)	(1,510,390)
Net cash outflow from operating activities	17	(2,249,203)	(1,472,275)
Cash flows from investing activities			
Purchase of fixed assets		(61,512)	(14,648)
Purchase of intangibles		(42,926)	(62,953)
Net cash outflow from investing activities		(104,438)	(77,601)
Cash flows from financing activities			
Loans		-	100,000
Issue of ordinary shares		2,635,630	2,428,438
Loan repayment		-	(200,678)
Net cash inflow from financing activities		2,635,630	2,327,760
Net increase in cash and cash equivalents		281,989	777,884
Foreign exchange gain on cash		-	-
Cash and cash equivalents, beginning of year		900,834	122,950
Cash and cash equivalents, end of year	9	1,182,823	900,834

The above Statement of Cash Flows 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 c/- PS Alexander & Associates Ltd, First Floor, Unit 1, Amuri Park, 25 Churchill Street, Christchurch.

These financial statements have been approved for issue by the Board of Directors on 13 August 2014.

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. 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.

Going Concern

The directors have continued to adopt the going concern assumption in the preparation of the financial statements. This is based on an expectation that further equity investment will be received by the Company within 12 months of the date of signing these accounts. If this investment were not received this would cast significant doubt over the Company's ability to continue as a going concern which would mean it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial statements. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

(a) Basis of preparation

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

Entities reporting

The financial statements are for Martin Aircraft Company Limited as a separate legal entity.

The Company is designated as a profit-oriented entity for financial reporting purposes.

Statutory base

Martin Aircraft Company Limited is a Company registered under the Companies Act 1993. Martin Aircraft Company Limited holds interests in the following entities:

Martin Jetpack USA Inc – 100% owned by Martin Aircraft Company Limited

Sino New Zealand Special Aircraft Manufacture Company – 49% owned by Martin Aircraft Company Limited

Consolidated financial statements have not been prepared on the basis that no transactions have ever occurred within these entities. The consolidated financial statements would be the same as the Company financial statements presented. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2(t).

(b) 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 and presentation currency.

2 Summary of significant accounting policies (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(c) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts. Revenue is recognised as follows:

(i) Sales of goods

Sales of goods are recognised when the entity has delivered a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale, including any fees payable for the transaction. Such fees 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 on a time - proportion basis using the effective interest method. When a receivable is impaired, the Company 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.

(iv) Grants

Grants received are recognised in the statement of comprehensive income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

(d) 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.

2 Summary of significant accounting policies (continued)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments of operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(e) 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.

(f) 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.

(g) 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).

(h) 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.

(i) 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 Company 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.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost is determined on a first in, first out basis and in the case of manufactured goods, includes direct materials, labour and production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2 Summary of significant accounting policies (continued)

(k) Financial assets

The Company 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.

(i) Loans and receivables

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 Company 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 using the effective interest method. 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.

(l) 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. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 Company 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:

- Plant and equipment	10% - 60%
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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 statement of comprehensive income.

(m) Intangible assets

(i) Research and development

Research expenditure is recognised as an expense as incurred. Development costs are recognised as assets if they meet the recognition criteria. 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. There are no capitalised development costs as at 31 March 2014 (2013: Nil).

(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.

2 Summary of significant accounting policies (continued)

(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 programme are recognised as an expense when incurred.

(n) 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 Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) 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 re-measured subsequent to initial recognition except on conversion or expiry.

(p) Share capital

Ordinary and preference 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.

(q) 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.

(i) 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 statement of comprehensive income, with a corresponding adjustment to equity.

2 Summary of significant accounting policies (continued)

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.

(r) 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

(s) Subsidiaries and joint arrangements

The Company holds interests in two entities which are and have been dormant from their inception (refer note 22). As there are no transactions within these entities they have not been consolidated.

(t) 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 entity.

(u) Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. Critical accounting policies and estimates in the period include capitalisation of the costs relating to patents (refer note 13) and the expensing of research and development expenses (refer to accounting policy m.) and the valuation of share options (refer note 18).

At balance date the Company has no other significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

(v) Standards, interpretations and amendments to published standards

The following new accounting standards and amendments to existing standards have been adopted by the Company in the year ended 31 March 2014:

NZ IAS 1, (amendment), requires profit or loss and other comprehensive income (OCI) to be presented either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the previous requirements. However the format of the OCI section is required to be changed to separately group items that might be recycled from items that will not be recycled to profit or loss. The changes have not affected the measurement of net profit or earnings per share; however they have changed the way items of OCI are presented.

XRB A1, 'Accounting Standards Framework (For-profit Entities Update)' establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Company is a Tier 1 reporting entity. There is no impact on the current or prior year financial statements.

NZ IFRS 10, 'Consolidated Financial Statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The application of this standard has had no material impact on the Company.

2 Summary of significant accounting policies (continued)

NZ IFRS 12, 'Disclosure of Interests in Other Entities', is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The application of this standard by the Company has had no material impact on the Company.

NZ IFRS 13, 'Fair Value Measurement', defines fair value, sets out a single NZ IFRS framework for measuring fair value and requires disclosures about fair value measurements. NZ IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of NZ IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The application of this standard has had no material impact on the Company.

Revised NZ IAS 27, 'Separate Financial Statements', is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. The application of this standard by the Company has had no material impact on the Company.

The following accounting standards and amendments to existing standards are not yet effective and have not been early adopted by the Company:

NZ IFRS 9 - Financial instruments (effective for annual periods beginning on or after 1 January 2017)

NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 was issued in November 2009, November 2010 and December 2013. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments and hedge accounting. 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. The Company is yet to assess NZ IFRS 9's full impact. The Company will also consider the impact of the remaining phases of NZ IFRS 9 when completed by the External Reporting Board.

IFRS 9 – Financial instruments was issued by the International Accounting Standards Board as a complete version of the standard. This adds to the requirements of NZ IFRS9 by bringing in the use of the expected credit losses model when calculating the impairment of financial assets. The standard is effective for reporting periods on or after 1 January 2018. The full impact is yet to be assessed.

NZ IFRS 15 - Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2017)

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 Company has yet to assess NZ IFRS 15's full impact. The Company will apply this standard from 1 April 2017.

3 Segment reporting

The Company has one operating segment, being research and development, and one geographical location, being Christchurch, New Zealand. The financial statements reflect the activities of this operating segment.

4 Revenue and other income

	2014 \$	2013 \$
Demonstrations	-	4,014
Sale of images	-	1,192
Total revenue	-	5,206
Administration fee on refundable deposits	-	1,740
Google Adwords	422	727
Total Other Income	422	2,467
Total Income	422	7,673

5 Other expenses

	Notes	2014 \$	2013 \$
Audit fees	6	13,720	17,605
Directors fees	21	115,000	95,000
Employee expense		638,775	90,275
Legal fees		48,637	19,271
Consultants		155,035	249,997
Operating lease expense		66,137	58,000
Depreciation	12	26,674	11,154
Amortisation of intangibles	13	18,643	7,892
Impairment of intangibles	13	137,128	-
Share option expense	18	179,601	141,613
Warrant option expense	18	-	103,875
Other Costs		576,443	125,950
Total other expenses		1,975,793	920,632

6 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company:

	2014 \$	2013 \$
PricewaterhouseCoopers		
Audit	13,720	17,605
Other services	-	-

7 Net finance income/(expense)

	2014	2013
	\$	\$
Interest income	22,520	24,646
Foreign exchange gain	709	-
Total finance income	23,229	24,646
Interest expense	-	(15,315)
Total finance costs	-	(15,315)
Total net finance income/(expense)	23,229	9,331

8 Income taxation

	2014	2013
	\$	\$
(i) Current taxation		
Income tax refundable	7,106	7,804
(ii) Reconciliation of effective tax rate		
Loss before income tax	(2,956,467)	(1,764,560)
Prima facie taxation @ 28% (2013: 28%)	(827,811)	(494,077)
Less taxation effect of:		
Permanent differences	117,203	69,614
Temporary differences	288,026	242,070
	(422,582)	(182,393)
Deferred tax asset not recognised	422,582	182,393
Tax Expense	-	-
Represented by:		
Current tax	-	-
Deferred tax	-	-
Income tax expense	-	-
Accumulated tax losses		
Balance at beginning of period	2,969,562	2,318,157
Prior year adjustment	-	-
Tax loss for period	1,509,221	651,405
Balance at end of period	4,478,783	2,969,562

The tax losses are not shown in the balance sheet as it is not probable that Martin Aircraft Company Limited will earn sufficient future profits while still meeting the continuity of shareholding requirement for use of the tax losses.

8 Income taxation (continued)

	2014 \$	2013 \$
(iii) Imputation credits		
Balance at beginning of year	7,804	6,800
Movements		
Tax payments net of refunds	(698)	1,004
Balance at end of year	7,106	7,804

9 Cash and cash equivalents

	2014 \$	2013 \$
Cash at bank	1,182,823	900,834
Total cash at bank	1,182,823	900,834

10 Receivables

	2014 \$	2013 \$
Other receivables	27,706	7,804
GST	40,338	47,798
Total receivables	68,044	55,602

11 Inventories

	2014 \$	2013 \$
Inventory at cost	-	2,561
Total inventory	-	2,561

12 Property, plant and equipment

	Plant and Equipment \$
Cost at 1 April 2012	139,254
Additions	14,649
Cost at 31 March 2013	153,903
Additions	61,727
Cost at 31 March 2014	215,630
Accumulated depreciation at 1 April 2012	97,626
Depreciation	11,154
Accumulated depreciation at 31 March 2013	108,780
Depreciation	26,674
Accumulated depreciation at 31 March 2014	135,454
Net book value 31 March 2013	45,123
Net book value 31 March 2014	80,176

13 Intangible assets

	Software \$	Patents \$	Total \$
Cost at 1 April 2012	81,077	407,867	488,944
Additions	13,066	49,887	62,953
Cost at 31 March 2013	94,143	457,754	551,897
Additions	17,144	32,860	50,004
Impairment	-	(137,528)	(137,528)
Cost at 31 March 2014	111,287	353,086	464,373
Accumulated amortisation at 1 April 2012	74,515	-	74,515
Amortisation	7,893	-	7,893
Accumulated amortisation at 31 March 2013	82,408	-	82,408
Amortisation	8,273	10,370	18,643
Amortisation write back on Impaired Intangibles	-	(400)	(400)
Accumulated amortisation at 31 March 2014	90,681	9,970	100,651
Net book value at 31 March 2013	11,735	457,754	469,489
Net book value at 31 March 2014	20,606	343,116	363,722

Impairment of patents for the year ended 31 March 2014 relates to the abandonment of patents assessed as no longer required by Directors.

14 Trade and other payables

	2014 \$	2013 \$
Trade payables	176,343	197,941
Accrued expenses	210,171	22,195
Employee entitlements	69,164	-
Income in advance	1,918	1,918
Total trade and other payables	457,596	222,054

15 Deferred tax assets and liabilities

Accumulated tax losses have not been recognised as a deferred tax asset as it is not yet probable that future taxable profit will be available against which the losses can be utilised. Total tax losses as at 31 March 2014 amounted to \$4,478,783 (2013 \$2,969,562). Research and development costs have been carried forward for tax purposes amounting to \$5,788,147 (2013: \$4,786,383).

16 Share capital

	2014 \$	2013 \$
Ordinary Shares		
Value:		
Opening share capital	9,915,526	6,779,335
<i>Shares issued:</i>		
Issue of share capital	2,253,608	3,084,307
Issue of share capital from exercise of share options	408,872	-
Issue of share capital from exercise of warrants	100,000	-
Increase in capital under share option schemes	144,144	51,884
Increase in capital under warrant option	51,938	-
Closing share capital	\$ 12,874,088	\$ 9,915,526
Number:		
Opening number of shares on issue	9,411,134	8,054,297
<i>Shares issued:</i>		
Ordinary shares issued	753,402	1,201,837
Exercise of share options	340,750	155,000
Exercise of warrant option	50,000	-
Total number of shares on issue	10,555,286	9,411,134
Convertible Preference Shares		
Value:		
Opening Convertible Preference shares	4,600,000	4,600,000
Closing Convertible Preference shares	\$ 4,600,000	\$ 4,600,000
Number:		
Opening Convertible Preference shares	5,517,237	5,517,237
Closing Convertible Preference shares	5,517,237	5,517,237
Total Share Capital		
Value	\$17,474,088	\$14,515,526
Number	16,072,523	14,928,371

Ordinary Shares

There were 1,144,152 ordinary shares issued during the year ended 31 March 2014 (2013: 1,356,837) comprising:

- Share Options converted to ordinary shares	340,750	@ \$1.20*
- Warrant Options converted to ordinary shares	50,000	@ \$2.00
- Ordinary shares issued	753,402	@ \$3.00

In prior years a number of shares were issued at \$2.40 with a provision that if the Company lists on a stock exchange with an Initial Public Offer (IPO) price below \$3, these shareholders will be issued more shares so that the price paid for them per share is reduced to 20% below the IPO price.

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

16 Share capital (continued)

Convertible Preference Shares

There were no new convertible preference shares issued during the year ended 31 March 2014 (2013: Nil). Convertible preference shares convert to ordinary shares;

- at the option of the holder on the basis of one convertible preference share equals one ordinary share; or
- convert automatically prior to the closing of a qualifying IPO; or
- on the passing of a resolution by the holders of at least 75% of the convertible preference shares.

They rank ahead of ordinary shares on liquidation of the Company, are non-redeemable and qualify for dividend income consistent with ordinary shares. Each convertible preference share entitles the holder to one vote. They do not have a par value.

Each convertible share entitles the holder the right to cast one vote on a Special Resolution, and cast the number of votes per convertible preference shares on an ordinary resolution as may be cast for each ordinary share into which the convertible preference share is convertible. Accordingly, a special resolution requires 75% approval of ordinary shareholders and convertible preference shareholders.

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 an aviation prototype. In order to maintain or adjust the capital structure the Company has issued new shares. Capital consists of share capital, other reserves and retained earnings. The Company is not subject to externally imposed capital requirements.

17 Reconciliation of reported loss after taxation with cash flows from operating activities

	2014 \$	2013 \$
Loss after income tax	(2,956,467)	(1,764,560)
Non cash items		
Director fees paid by shares	106,250	55,868
Depreciation	26,674	11,154
Amortisation of intangibles	18,643	7,893
Impairment of intangibles	137,128	-
Share option expense	179,601	141,613
Warrant option expense	-	103,875
Foreign exchange gain	-	-
Changes in working capital		
Increase/(decrease) in Trade and other payables	228,249	(63,092)
Decrease/(increase) in inventory and other receivables	10,718	34,974
Net cash flow from operating activities	(2,249,203)	(1,472,275)

18 Company share options and warrants

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. 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 the 2013 Annual General Meeting shareholders approved that the total number of options available for issue by the Company in accordance with the terms of the Company's Employee Option Scheme be increased from 1,500,000 to a pool of 1,600,000 options with such options to be available for reissue by the Company should they lapse for any reason.

During the 2014 financial year the Company issued 300,000 additional options (2013: 285,000) to Directors, key partners or staff. The fair value of these options was estimated as \$212,000 (2013: \$201,400) under the Black Scholes valuation model using the following assumptions:

Weighted average share price	\$2.41
Weighted average exercise price	\$2.40
Risk free interest rate	3.49%
Expected dividend yield	0%
Expected life (years)	1-3 years (depending on exercise date)
2014 expected share volatility	50%
Prior year expected share volatility	50%

Expected volatility of 50% is estimated by considering historic average share price volatility and internal valuation volatility.

The estimated fair value for each tranche of options issued is charged to profit/(loss) over the vesting. The Company has recognised a compensatory expense in the statement of comprehensive income \$179,601 (2013: \$141,613) which represents this share based payment expense.

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

	2014		2013	
	Weighted average exercise price \$ per share	Options	Weighted average exercise price \$ per share	Options
Balance at beginning of year	\$ 1.71	1,246,370	\$ 1.37	1,206,370
Issued	\$ 2.40	300,000	\$ 2.40	285,000
Exercised	\$ 1.25	(340,750)	\$ 1.06	(155,000)
Lapsed	\$ 1.68	(716,870)	\$ 1.08	(90,000)
Balance at end of year	\$ 2.40	488,750	\$ 1.71	1,246,370

There are 158,750 options exercisable at balance date (2013: 877,481).

18 Company share options and warrants (continued)

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

Expiry Month	Exercise Month	Exercise Price	2014 No of shares	2013 No of shares
May 2013	May 2008	\$1.00	-	147,000
May 2013	May 2009	\$1.00	-	67,000
May 2013	May 2010	\$1.00	-	27,000
Jul 2013	Jul 2009	\$1.00	-	81,790
Jul 2013	Jul 2009	\$1.00	-	81,790
Jul 2013	Jul 2011	\$1.00	-	81,790
Dec 2013	Dec 2009	\$1.08	-	35,000
Dec 2013	Dec 2010	\$1.08	-	20,000
Dec 2013	Dec 2011	\$1.08	-	20,000
Jul 2013	Jan 2012	\$1.08	-	100,000
Dec 2015	Dec 2011	\$2.40	40,000	90,000
Dec 2015	Dec 2012	\$2.40	57,083	90,000
Jan 2016	Jan 2012	\$2.40	11,667	20,000
Jan 2016	Jan 2013	\$2.40	20,000	20,000
Nov 2016	Nov 2012	\$2.40	-	40,000
Nov 2016	Nov 2013	\$2.40	15,000	40,000
Jul 2017	Jul 2013	\$2.40	15,000	94,999
Jul 2017	Jul 2014	\$2.40	15,000	95,000
Jul 2017	Jul 2015	\$2.40	15,000	95,001
Apr 2018	Apr 2014	\$2.40	100,000	-
Apr 2018	Apr 2015	\$2.40	100,000	-
Apr 2018	Apr 2016	\$2.40	100,000	-
			488,750	1,246,370

18 Company share options and warrants (continued)

Warrants

The Company had a short term loan with related parties that was fully drawn and repaid during the 2013 calendar year. The holders of the loan facility included No 8 Ventures Management Limited of which JA Morel is a director, D Chapman who is a director and A Lark (Director of No 8 Ventures Management Limited). A condition of the short term funding was the issue of 100,000 warrants exercisable within 36 months at the price of \$2 per ordinary share.

These warrants are held by No 8 Ventures Management Limited on behalf of the parties to the short term loan which enable No 8 Ventures Limited, the holder, to purchase up to 100,000 shares in the Company at a price of \$2.00 per share.

During the year 50,000 of shares in the Company were issued with the exercise of warrants. A balance date 50,000 warrants are outstanding.

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 and warrants.

	2014 \$	2013 \$
Loss after income tax attributable to shareholders	(2,956,467)	(1,764,560)
Ordinary number of shares	16,072,523	14,928,371
Weighted Average number of shares on issue	14,458,344	13,967,569
Basic earnings/(loss) per share	(0.20)	(0.13)
Diluted earnings/(loss) per share	(0.20)	(0.13)

20 Financial Instruments

Credit Risk

Financial instruments which potentially subject the Company to credit risk, principally consists of bank balances, the maximum potential exposure to credit risk is \$1,182,823 (2013: \$900,834). The Company monitors the credit quality of its major financial institutions that are counter parties to its financial statements and does not anticipate non-performance by the counterparties.. All financial institutions have a credit rating of AA-.

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

Liquidity Risk

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

Sensitivity Analysis

The Company has limited exposure to foreign exchange fluctuations. If exchange rates were to alter by 1% upward or downward the effect would be immaterial to the financial statements.

Concentrations of Credit Risk

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

Currency Risk

The Company has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities. Such activities are not of a material nature.

20 Financial Instruments (continued)

Cash Flow and Fair Value Interest Rate Risk

During the initial phases of its business the Company 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 Company'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 Company gears its operations. Any such borrowings raised at variable rates expose the Company to cash flow interest rate risk.

The Company 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.

Credit Facilities

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

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 Company's financial instruments consist of cash and cash equivalents and other receivables which are all categorised as 'loans and receivables'. Trade and other payables are classified as liabilities at amortised cost. The fair value of these instruments is considered approximately equal to their carrying amount. The Company has no 'financial assets or liabilities at fair value through the profit and loss', no 'held to maturity investments' and no 'available for sale financial instruments'. Accordingly, information on the fair value hierarchy is not required.

21 Related party transactions

Key management transactions

During the year the only staff member that received remuneration greater than \$100,000 was the Company's CEO, P Coker. Key management and director compensation for the years ended 31 March 2014 and 2013 are set out below:

	2014	2013
Salary paid	238,782	153,439
Directors' fees paid	115,000	80,000
Share based payments	212,000	-
Consulting fees paid to G Martin	151,840	-
Total	717,622	233,439

Directors of Martin Aircraft Company Limited

The Company maintains an interest's register in which members of its Board record all parties and transactions in which they have, or may have a potential or actual self-interest.

Transactions with Directors

The aggregate directors' fees per annum approved by shareholders are \$200,000. The actual directors fees invoiced during the year under review were \$115,000 as follows:

Director	Directors' Fees
S Bayliss' (Branded Culture Limited)	20,000
D Chapman (DCH Holdings Limited)	20,000
D Hunter (Labaton Pty Limited)	20,000
R Lauder (Corporate Fitness Limited)	20,000
G Martin (refer Consultancy Fees below)	-
J Morel (No 8 Ventures Management Limited)	35,000
Total	\$115,000

The following directors' fees were unpaid to directors as at 31 March 2014: S Bayliss (Branded Culture Limited) \$5,000

21 Related party transactions (continued)

In addition the following directors received remuneration for services provided to the Company for the year ended 31 March 2014:

Director	Other remuneration
G Martin (Glenn N Martin Limited)	\$151,840

Shares Held And Share Dealings By Directors (Quantity)

	Beneficial	Associated person	Share options and warrants
S BAYLISS			
Balance as at 1 April 2013	10,000	-	40,000
Purchase of Shares (in lieu of directors fees)	8,333	-	(8,333)
Sale of Shares	-	-	-
Balance as at 31 March 2014	18,333	-	31,667
D CHAPMAN			
Balance as at 1 April 2013	-	-	65,000
Purchase of Shares	22,917	-	(22,917)
Sale of Shares	-	-	-
Balance as at 31 March 2014	22,917	-	42,083
After Balance Date 14,584 shares were acquired.			
D HUNTER			
Balance as at 1 April 2013	-	1,201,834	26,111
Purchase of Shares	-	11,111	(11,111)
Sale of Shares	-	-	-
Balance as at 31 March 2014	-	1,212,945	15,000
R J LAUDER			
Balance as at 1 April 2013	493,876*	150,000	145,000
Purchase of Shares	45,000	-	(45,000)
Lapsed options	-	-	(100,000)
Balance as at 31 March 2014	538,876*	150,000	-

* Of these shares 165,566 are Convertible Preference Shares.

21 Related party transactions (continued)

Shares Held And Share Dealings By Directors (Quantity)

	Beneficial	Associated person	Share options and warrants
G N MARTIN			
Balance as at 1 April 2013	4,448,600	-	245,370
Purchase of Shares	132,000	-	(132,000)
Sale of shares	(60,000)	-	-
Lapsed options			(113,370)
Balance as at 31 March 2014	<u>4,520,600</u>	<u>-</u>	<u>-</u>
J A MOREL			
Balance as at 1 April 2013	-	5,130,573*	97,500
Purchase of Shares	-	13,533	(7,500)
Conversion of convertible note	-	-	-
Sale of Shares	-	-	-
Warrants Exercised	50,000	-	(50,000)
Balance as at 31 March 2014	<u>50,000</u>	<u>5,144,106*</u>	<u>40,000</u>

* Of these shares 3,780,204 are Convertible Preference Shares.

Directors' Other Interests

As at 31 March 2014 the Directors of the Company held the following other Interests which are relevant to Martin Aircraft Company Limited:

J A Morel

- No 8 Ventures Management Ltd
- No 8 Ventures Nominees Limited (which holds shares in Martin Aircraft Company Ltd)

D Hunter

- Shareholder in Martin Aircraft Company Ltd
- Labaton Pty Ltd
- Jet Pack Experience Pty Ltd (Australia)
- Haiying Sino-New Zealand Special Aircraft Manufacture Company Limited

G N Martin

- Shareholder in Martin Aircraft Company Ltd
- Glenn N Martin Limited
- Haiying Sino-New Zealand Special Aircraft Manufacture Company Limited

R J Lauder

- Shareholder in Martin Aircraft Company Ltd
- Corporate Fitness NZ Ltd

Dennis Chapman

- DCH Holdings Ltd (which holds shares in Martin Aircraft Limited)

S Bayliss

- Branded Culture Limited
- Shareholder in Martin Aircraft Company Ltd

21 Related party transactions (continued)

US Company

Martin Jetpack, USA Inc was incorporated in 2008 under US corporate law. The shares of Martin Jetpack, USA Inc have not yet been allocated, but will ultimately be held for the benefit of the shareholders in Martin Aircraft Company Limited.

Consolidated financial statements have not been prepared on the basis that no transactions have ever occurred in this entity. The consolidated accounts would be the same as those presented.

Sino New Zealand Special Aircraft Manufacture Company (SINSAM)

In 2010 the Company entered into a Joint Venture Agreement with The 27th Research Institute of China Electronic Technology Corporation for the establishment of a Joint Venture Company to manufacture and sell jet packs in China, Hong Kong, and Macau. In January 2013 a business license was granted to the Company called Haiying Sino-New Zealand Special Aircraft Manufacture Company Limited whose shareholders are The 27th Research Institute of China Electronic Technology Corporation and Martin Aircraft Company Limited, refer Note 22(c) for further information.

22 Commitments and contingencies

The following details commitments associated with the Company.

(a) Capital commitments

There were no capital commitments (2013: Nil).

(b) Lease commitments: Company as lessee

The Company leases premises on a month to month basis. Operating leases held over properties give the Company the right to renew the lease subject to a redetermination of the lease rental by the lessor. There are no other leases held by the Company.

(c) Contingent liabilities

Sino New Zealand Special Aircraft Manufacture Company

In 2010 the Company entered into a Joint Venture Agreement with the 27th Research Institute of China Electronic Technology Corporation (No 27) for the establishment of a Joint Venture Company to manufacture and sell jet packs in China, Hong Kong, and Macau. In January 2012 a business license was granted to the Company called Haiying Sino-New Zealand Special Aircraft Manufacture Company Limited whose shareholders are The 27th Research Institute of China Electronic Technology Corporation and MACL.

The Company held its first board meeting in May 2012. Under the terms of the Joint Venture Agreement No 27 made a USD \$460,000 payment to MACL to enable MACL to set up the joint venture in return for an engine and relevant drawings. MACL has provided the engine and drawings in accordance with the Joint Venture Agreement. In October 2013 No 27 informed MACL that they would be terminating the Joint Venture and dissolving the Joint Venture Company. No 27 sought repayment of the USD 460,000 payment.

No27 are of the opinion that the Joint Venture was not set up and therefore the payment should be returned. Our legal opinion from Fangda Partners from the PRC through Chapman Tripp advised that the Joint Venture was formally set up and therefore no liability for the return of the money remains. Following the PRC legal opinion No27 are progressing the disestablishment of the Joint Venture while no longer referencing the return of the USD\$460,000. Based on legal advice MACL is of the opinion that there is no liability or obligation to repay the USD \$460,000. Accordingly, no provision for the repayment of these funds has been made in the financial statements.

The Board authorised D Hunter in December 2012 to investigate the potential establishment of the Jetpack Experience in Australia. There is a difference of opinion about the level of personal involvement expected. The agreement was that any costs incurred would be recovered through the contract with the proposed partner. However, it is not clear where the sunk costs by D Hunter if a Jetpack Experience was not set up successful would be recovered. No provision has been made in the accounts in respect of any potential liability at this time.

The Company has no other contingent liabilities at balance date (2013: Nil).

23 Events occurring after balance sheet date

Subsequent issue of shares:

Subsequent to balance date the Company issued 258,115 ordinary shares at NZD \$3.00.

In accordance with the Company's constitution shareholders approved a ten for one share split on 18 July 2014.