

Martin Aircraft Company Limited
Annual Report
For the three months ended 30 June 2014

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Company Report

In preparation for an IPO on the ASX in Australia the Company is realigning its balance date from 31 March to 30 June to match the normal reporting cycle of Australian listed companies. Accordingly these financial statements comprise a three month period from 31 March 2014 to 30 June 2014.

In January 2014 the Company engaged Axstra Capital out of Australia to manage the pre-IPO capital raising. The pre IPO capital raising target was \$5.0m. The pre IPO was oversubscribed by \$0.4m with a total of \$5.4m being invested from a mix of sophisticated and high net worth individuals. The majority of the investors are from Australia with a significant contribution from other regions. The pre-IPO funds raised will be used to continue the commercialization program for the Jetpack as well as to pay for IPO costs. This result gives the Company a strong indication of the positive investor interest for the Martin Jetpack and enables the Company to move forward with confidence to an IPO and listing of the company on ASX. As part of the preparation for the ASX listing, shareholders approved a 10 for 1 share split on 18 July 2014 to allow for smaller more marketable parcels of shares to be traded to retail investors.

To assist with the IPO, law firms Norton Rose Fulbright in Australia, Bell Gully in New Zealand and accountants PwC have been engaged to advise Martin Aircraft as the company looks to raise further funds through an IPO to commercialise and manufacture the Jetpack to meet with anticipated global demand. Accordingly, the Company sought and gained approval at the 30 September 2014 AGM to issue up to 60,000,000 shares at a minimum of AUD \$0.40 and then to list on the ASX. Subsequently, on advice from the Due Diligence Committee and Company Advisors the IPO offer was set at 50 million shares at AU \$0.50 and NZ \$0.55 to raise AU \$25.0m and NZ \$27.0m respectively.

The Company incurred a loss of \$951,485 for the three months to 30 June 2014 (full year \$2.96 million). This period has seen ongoing investment in research, product and market development to deliver a commercial product to the market and includes initial costs to prepare for an ASX listing. At balance date the Company had net assets of \$710,201 and cash on hand of \$701,618. Cash since balance date has increased significantly as a result of the pre-IPO capital raising of \$5.4m noted above.

On 1 April 2014 Jon Mayson joined the board as Chairman. Subsequent to balance date on 22 July 2014 John Diddams was appointed a Director and is managing the due diligence and IPO process for the Company. John has been appointed Chairman of the Due Diligence Committee and Chairman of the Audit and Risk Committee. On 22 July 2014 Dennis Chapman resigned from the Board, on 14 August 2014 David Hunter resigned from the Board and on 8 October 2014 Richard Lauder resigned from the Board. The Board thanks these directors for their contribution to the Company.

The CEO, Peter Coker, was appointed as Managing Director on 17 October 2014.

From a business perspective the team has continued to grow with the appointment of a full time CFO, James West, along with a Technical Information Officer and a Production Manager. The Company now has a strong senior management team which has enabled good progress to be made in the business despite the CEO having to spend a lot of time in the preparation for IPO.

Jon Mayson CNZM
Chairman

Peter Coker OBE
CEO

Directors' Report and Statutory Information

The Directors have pleasure in presenting their annual report and financial statements for the three months ended 30 June 2014.

Principal activities

The principal activity of Martin Aircraft Company Limited is the research and development of the Martin Jetpack. The Company has begun sales and marketing activities and an exploration of production to allow the commercialisation of the Jetpack to commence.

Result and distribution

The Directors report that the group's loss after tax for the three months to 30 June 2014 was (\$922,484). No dividends or bonus issues were declared during the period.

State of company's affairs

As at balance date the Company had net assets of \$710,201.

| | |
|-------------------|-------------------------|
| Total Assets | 1,202,720 |
| Total Liabilities | <u>492,519</u> |
| Net Assets | <u><u>\$710,201</u></u> |

Issue of additional share capital

During the three months to 30 June 2014, the Company issued 125,925 of shares at an average price of \$3.00 per share (Note that there has been a 10:1 share split post balance date).

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

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 \$250,000.

The actual directors fees invoiced during the three months under review were \$40,750 in aggregate as recorded in Note 19 to the Financial Statements.

All other transactions with directors and directors' interests are recorded in Note 19 to the Financial Statements.

Donations

The Company did not make any donations during the period.

Use of Company Information

During the three months to 30 June 2014 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.

Directors' and Employees' Indemnity and Insurance

Liability insurance was effected for directors of the Company.

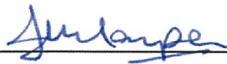
Accounting Policies

Where there have been no changes in accounting policies during the period.

Auditor Remuneration

Refer to note 5 of the financial statements for auditor remuneration.

For and on behalf of the Directors



J Mayson
Director



J Diddams
Director

Date: 23 October 2014

Date: 23 October 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 ("the Company") on pages 8 to 29, which comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Company.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards 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). 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.

Our firm carries out other services for the Company in the areas of Investigating Accountant and Tax services in relation to the proposed Initial Public Offer. These services have not impaired our independence as auditors of the Company.



Independent Auditors' Report

Martin Aircraft Company Limited

Opinion

In our opinion, the financial statements on pages 8 to 29 present fairly, in all material respects, the financial position of the Company as at 30 June 2014, and its financial performance and cash flows for the period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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 'Priscilla Cooper'.

Chartered Accountants
23 October 2014

Christchurch

Martin Aircraft Company Limited
Statement of Comprehensive Income
For the three months to 30 June 2014

| | Notes | 3 months to 30 June 2014 \$ | 12 months to 31 March 2014 \$ |
|--|-------|-----------------------------------|-------------------------------------|
| Revenue | | - | - |
| Less: Cost of Sales | | - | (2,561) |
| Gross profit | | - | (2,561) |
| Other income | | - | 422 |
| Expenses | | | |
| Research and development expense | | (295,946) | (1,001,764) |
| Other expenses | 4 | (633,217) | (1,975,793) |
| Operating loss | | (929,163) | (2,979,696) |
| Net finance income/(expense) | 6 | 6,679 | 23,229 |
| Loss before income tax | | (922,484) | (2,956,467) |
| Income tax expense | 7 | - | - |
| Loss after income tax attributable to shareholders | | (922,484) | (2,956,467) |
| Other comprehensive income | | - | - |
| Total comprehensive loss attributable to shareholders | | (922,484) | (2,956,467) |
| Earnings per share | | | |
| Basic | 17 | (\$0.06) | (\$0.20) |
| Diluted | 17 | (\$0.06) | (\$0.20) |

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

Martin Aircraft Company Limited
Statement of Financial Position
As at 30 June 2014

| | Notes | 30 June 2014 \$ | 31 March 2014 \$ |
|----------------------------------|-------|-----------------------|------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 701,618 | 1,182,823 |
| Receivables | 9 | 57,500 | 68,044 |
| Total current assets | | 759,118 | 1,250,867 |
| Non current assets | | | |
| Property, plant and equipment | 10 | 80,516 | 80,176 |
| Intangible assets | 11 | 363,086 | 363,722 |
| Total non current assets | | 443,602 | 443,898 |
| Total assets | | 1,202,720 | 1,694,765 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 12 | 492,519 | 457,596 |
| Total current liabilities | | 492,519 | 457,596 |
| Total liabilities | | 492,519 | 457,596 |
| Net assets | | 710,201 | 1,237,169 |
| EQUITY | | | |
| Share capital | 14 | 17,851,839 | 17,474,088 |
| Share option reserve | 16 | 307,367 | 289,602 |
| Retained earnings | | (17,449,005) | (16,526,521) |
| Total equity | | 710,201 | 1,237,169 |

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 three months ended 30 June 2014

| | Notes | Share capital \$ | Retained earnings \$ | Share options reserve \$ | Total Equity \$ |
|---|--------|---------------------|----------------------------|--------------------------------|--------------------|
| Balance as at 1 April 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 | 14 | 2,253,608 | - | - | 2,253,608 |
| Issue of share capital from exercise of share options | 14, 16 | 408,872 | - | - | 408,872 |
| Issue of share capital from exercise of warrants | 14, 16 | 100,000 | - | - | 100,000 |
| Increase in capital under share option schemes | 14, 16 | 144,144 | - | (144,144) | - |
| Increase in capital under warrant option | 14, 16 | 51,938 | - | (51,938) | - |
| Share option expense | 14, 16 | - | - | 179,601 | 179,601 |
| Lapsed share options | 14, 16 | - | 433,924 | (433,924) | - |
| Balance as at 31 March 2014 | | 17,474,088 | (16,526,521) | 289,602 | 1,237,169 |
| Total comprehensive loss | | - | (922,484) | - | (922,484) |
| Issue of share capital | 14 | 377,751 | - | - | 377,751 |
| Share option expense | 14, 16 | - | - | 17,765 | 17,765 |
| Balance as at 30 June 2014 | | 17,851,839 | (17,449,005) | 307,367 | 710,201 |

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 three months ended 30 June 2014

| | Notes | 3 months to 30 June 2014 \$ | 12 months to 31 March 2014 \$ |
|---|-------|-----------------------------------|-------------------------------------|
| Cash flows from operating activities | | | |
| Interest received | | 6,680 | 22,520 |
| Other income | | - | 422 |
| Tax received/(paid) | | (2,123) | 698 |
| Payments to suppliers and employees | | (851,641) | (2,272,843) |
| Net cash outflow from operating activities | 15 | (847,084) | (2,249,203) |
| Cash flows from investing activities | | | |
| Purchase of fixed assets | | (20,645) | (61,512) |
| Purchase of intangibles | | (11,827) | (42,926) |
| Net cash outflow from investing activities | | (32,472) | (104,438) |
| Cash flows from financing activities | | | |
| Issue of ordinary shares | | 398,351 | 2,635,630 |
| Net cash inflow from financing activities | | 398,351 | 2,635,630 |
| Net increase in cash and cash equivalents | | (481,205) | 281,989 |
| Cash and cash equivalents, beginning of year | | 1,182,823 | 900,834 |
| Cash and cash equivalents, end of year | 8 | 701,618 | 1,182,823 |

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 39 Ballarat Way, Wigram, Christchurch.

These financial statements have been approved for issue by the Board of Directors on 23 October 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.

Comparatives

In preparation for an IPO on the ASX in Australia the Company is realigning its balance date from 31 March to 30 June to match the normal reporting cycle of Australian listed companies. Due to the change in balance date the comparative figures are not directly comparable.

(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 2013 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).

2 Summary of significant accounting policies (continued)

(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

2 Summary of significant accounting policies (continued)

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.

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 is as follows:

| | |
|-----------------------|-----------|
| - Plant and equipment | 10% - 60% |
|-----------------------|-----------|

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 30 June 2014 (31 March 2014: 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.

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

2 Summary of significant accounting policies (continued)

(s) Subsidiaries and joint arrangements

The Company holds interests in two entities which are and have been dormant from their inception (refer note 19). As there are no transactions or balances 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 2(m) and 11) and the expensing of research and development expenses (refer to accounting policy 2(m)) and the valuation of share options (refer note 16).

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

There are no new accounting standards or amendments to existing standards that have been adopted by the Company for the period ended 30 June 2014:

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 2018)

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

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 Other expenses

| | Notes | 3 months to 30 June 2014 \$ | 12 months to 31 March 2014 \$ |
|----------------------------------|-------|-----------------------------------|-------------------------------------|
| Audit fees | 5 | 15,322 | 13,720 |
| Directors fees | 19 | 33,750 | 115,000 |
| Employee expense | | 289,051 | 638,775 |
| Legal fees | | 74,656 | 48,637 |
| Consultants | | 44,452 | 155,035 |
| Operating lease expense | | 21,615 | 66,137 |
| Depreciation | 10 | 11,393 | 26,674 |
| Loss on disposal of fixed assets | 10 | 9,610 | - |
| Amortisation of intangibles | 11 | 5,387 | 18,643 |
| Impairment of intangibles | 11 | - | 137,128 |
| Share option expense | 16 | 17,765 | 179,601 |
| Other Costs | | 110,216 | 576,443 |
| Total other expenses | | 633,217 | 1,975,793 |

5 Remuneration of auditors

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

| | 3 months to 30 June 2014 \$ | 12 months to 31 March 2014 \$ |
|-------------------------------|-----------------------------------|-------------------------------------|
| PricewaterhouseCoopers | | |
| Audit | 15,322 | 13,720 |
| Other services | - | - |

6 Net finance income/(expense)

| | 3 months to 30 June 2014 \$ | 12 months to 31 March 2014 \$ |
|---|-----------------------------------|-------------------------------------|
| Interest income | 6,680 | 22,520 |
| Foreign exchange gain | - | 709 |
| Total finance income | 6,680 | 23,229 |
| Interest expense | (1) | - |
| Total finance costs | (1) | - |
| Total net finance income/(expense) | 6,679 | 23,229 |

7 Income taxation

| | 3 months to 30 June 2014 | 12 months to 31 March 2014 |
|--|-----------------------------|-------------------------------|
| | \$ | \$ |
| (i) Current taxation | | |
| Income tax refundable | 9,229 | 7,106 |
| (ii) Reconciliation of effective tax rate | | |
| Loss before income tax | (922,484) | (2,956,467) |
| Prima facie taxation @ 28% (31 March 2014: 28%) | (258,296) | (827,811) |
| Less taxation effect of: | | |
| Permanent differences | 20,303 | 117,203 |
| Temporary differences | 82,865 | 288,026 |
| | <u>(155,128)</u> | <u>(422,582)</u> |
| Deferred tax asset not recognised | 155,128 | 422,582 |
| Tax Expense | <u>-</u> | <u>-</u> |
| Represented by: | | |
| Current tax | - | - |
| Deferred tax | - | - |
| Income tax expense | <u>-</u> | <u>-</u> |
| Accumulated tax losses | | |
| Balance at beginning of period | 4,478,783 | 2,969,562 |
| Prior year adjustment | (237,395) | - |
| Tax loss for period | 554,025 | 1,509,221 |
| Balance at end of period | <u>4,795,413</u> | <u>4,478,783</u> |

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.

| | 30 June 2014 | 31 March 2014 |
|---------------------------------|-----------------|------------------|
| | \$ | \$ |
| (iii) Imputation credits | | |
| Balance at beginning of year | 7,106 | 7,804 |
| Movements | | |
| Tax payments net of refunds | 2,123 | (698) |
| Balance at end of year | <u>9,229</u> | <u>7,106</u> |

8 Cash and cash equivalents

| | 30 June 2014 \$ | 31 March 2014 \$ |
|---------------------------|-----------------------|------------------------|
| Cash at bank | 701,618 | 1,182,823 |
| Total cash at bank | 701,618 | 1,182,823 |

9 Receivables

| | 30 June 2014 \$ | 31 March 2014 \$ |
|--------------------------|-----------------------|------------------------|
| Other receivables | 9,229 | 27,706 |
| GST | 48,271 | 40,338 |
| Total receivables | 57,500 | 68,044 |

10 Property, plant and equipment

| | Property, Plant and Equipment \$ |
|--|--|
| Cost at 1 April 2013 | 153,903 |
| Additions | 61,727 |
| Cost at 31 March 2014 | 215,630 |
| Additions | 21,343 |
| Disposals | (13,292) |
| Cost at 30 June 2014 | 223,681 |
| Accumulated depreciation at 1 April 2013 | 108,780 |
| Depreciation | 26,674 |
| Accumulated depreciation at 31 March 2014 | 135,454 |
| Depreciation | 11,393 |
| Disposals | (3,682) |
| Accumulated depreciation at 30 June 2014 | 143,165 |
| Net book value 31 March 2014 | 80,176 |
| Net book value 30 June 2014 | 80,516 |

Disposals of fixed assets for the three months ended 30 June 2014 relates to leasehold improvements, due to a change in the company's premises.

11 Intangible assets

| | Software \$ | Patents \$ | Total \$ |
|--|----------------|----------------|----------------|
| Cost at 1 April 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 |
| Additions | 234 | 4,517 | 4,751 |
| Cost at 30 June 2014 | 111,521 | 357,603 | 469,124 |
| Accumulated amortisation at 1 April 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 |
| Amortisation | 2,836 | 2,551 | 5,387 |
| Accumulated amortisation at 30 June 2014 | 93,517 | 12,521 | 106,038 |
| Net book value at 31 March 2014 | 20,606 | 343,116 | 363,722 |
| Net book value at 30 June 2014 | 18,004 | 345,082 | 363,086 |

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

12 Trade and other payables

| | 30 June 2014 \$ | 31 March 2014 \$ |
|---------------------------------------|-----------------------|------------------------|
| Trade payables | 196,717 | 176,343 |
| Accrued expenses | 255,464 | 210,171 |
| Employee entitlements | 38,420 | 69,164 |
| Income in advance | 1,918 | 1,918 |
| Total trade and other payables | 492,519 | 457,596 |

13 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 30 June 2014 amounted to \$4,795,413 (31 March 2014 \$4,478,783). Research and development costs have been carried forward for tax purposes amounting to \$6,084,093 (31 March 2014: \$5,788,147).

14 Share capital

| | 30 June 2014 \$ | 31 March 2014 \$ |
|---|-----------------------|------------------------|
| Ordinary Shares | | |
| Value: | | |
| Opening share capital | 12,874,088 | 9,915,526 |
| <i>Shares issued:</i> | | |
| Issue of share capital | 377,751 | 2,253,608 |
| 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 |
| Increase in capital under warrant option | - | 51,938 |
| Closing share capital | \$ 13,251,839 | \$ 12,874,088 |
| Number: | | |
| Opening number of shares on issue | 10,555,286 | 9,411,134 |
| <i>Shares issued:</i> | | |
| Ordinary shares issued | 125,925 | 753,402 |
| Exercise of share options | - | 340,750 |
| Exercise of warrant option | - | 50,000 |
| Total number of shares on issue | 10,681,211 | 10,555,286 |
| 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 | \$17,851,839 | \$17,474,088 |
| Number | 16,198,448 | 16,072,523 |

Ordinary Shares

There were 125,925 ordinary shares issued during the 3 months to 30 June 2014 at \$3.00 per share (12 months to March 2014: 1,144,152 shares). Note that after the 10:1 share split the price per share equates to \$0.30.

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.

14 Share capital (continued)

Convertible Preference Shares

There were no new convertible preference shares issued during the 3 months to 30 June March 2014 (12 months to March 2014: 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.

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

| | 3 months to 30 June 2014 \$ | 12 months to 31 March 2014 \$ |
|--|-----------------------------------|-------------------------------------|
| Loss after income tax | (922,484) | (2,956,467) |
| Non cash items | | |
| Director fees paid by shares | - | 106,250 |
| Depreciation | 11,393 | 26,674 |
| Loss on disposal of fixed assets | 9,610 | - |
| Amortisation of intangibles | 5,387 | 18,643 |
| Impairment of intangibles | - | 137,128 |
| Share option expense | 17,765 | 179,601 |
| Changes in working capital | | |
| Increase/(decrease) in Trade and other payables | 41,300 | 228,249 |
| Decrease/(increase) in inventory and other receivables | (10,056) | 10,718 |
| Net cash flow from operating activities | (847,084) | (2,249,203) |

16 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. The term of the options is up to 5 years. Payment must be made in full for all options exercised on the dates they are exercised.

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

At 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 three months to 30 June 2014 the Company did not issue any additional options (12 months to 31 March 2014: 300,000) to Directors, key partners or staff. The fair value of the options issued during the 12 months ended 31 March was estimated as \$212,000 under the Black Scholes valuation model.

The estimated fair value for each tranche of options issued is charged to profit/(loss) over the vesting period. The Company has recognised a compensatory expense in the statement of comprehensive income \$17,765 (12 months to March 2014: \$179,301) 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:

| | June 2014 | | March 2014 | |
|-------------------------------|---|----------------|---|----------------|
| | Weighted average exercise price \$ per share | Options | Weighted average exercise price \$ per share | Options |
| Balance at beginning of year | \$ 2.40 | 488,750 | \$ 1.71 | 1,246,370 |
| Issued | n/a | - | \$ 2.40 | 300,000 |
| Exercised | n/a | - | \$ 1.25 | (340,750) |
| Lapsed | n/a | - | \$ 1.68 | (716,870) |
| Balance at end of year | \$ 2.40 | 488,750 | \$ 2.40 | 488,750 |

There are 158,750 options exercisable at 30 June 2014 (March 2014: 158,750).

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

| Expiry Month | Exercise Month | Exercise Price | June 2014 No of shares | March 2014 No of shares |
|--------------|----------------|----------------|---------------------------|----------------------------|
| Dec 2015 | Dec 2011 | \$2.40 | 40,000 | 40,000 |
| Dec 2015 | Dec 2012 | \$2.40 | 57,083 | 57,083 |
| Jan 2016 | Jan 2012 | \$2.40 | 11,667 | 11,667 |
| Jan 2016 | Jan 2013 | \$2.40 | 20,000 | 20,000 |
| Nov 2016 | Nov 2013 | \$2.40 | 15,000 | 15,000 |
| Jul 2017 | Jul 2013 | \$2.40 | 15,000 | 15,000 |
| Jul 2017 | Jul 2014 | \$2.40 | 15,000 | 15,000 |
| Jul 2017 | Jul 2015 | \$2.40 | 15,000 | 15,000 |
| Apr 2018 | Apr 2014 | \$2.40 | 100,000 | 100,000 |
| Apr 2018 | Apr 2015 | \$2.40 | 100,000 | 100,000 |
| Apr 2018 | Apr 2016 | \$2.40 | 100,000 | 100,000 |
| | | | 488,750 | 488,750 |

16 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 3 months to 30 June no additional shares in the Company were issued with the exercise of warrants. At balance date 50,000 warrants are outstanding.

17 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, warrants and convertible preference shares.

| | June 2014 \$ | March 2014 \$ |
|---|--------------------|---------------------|
| Loss after income tax attributable to shareholders | (922,484) | (2,956,467) |
| Ordinary number of shares | 16,198,448 | 16,072,523 |
| Weighted Average number of shares on issue | 16,156,678 | 14,458,344 |
| Basic earnings/(loss) per share | (0.06) | (0.20) |
| Diluted earnings/(loss) per share | (0.06) | (0.20) |

18 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 \$701,618 (31 March 2014: \$1,182,823). 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.

18 Financial Instruments (continued)

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.

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 payables and accrued expenses are classified as liabilities at amortised cost. The fair value of these instruments is considered approximately equal to their carrying amount. The 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.

19 Related party transactions

Key management transactions

During the reported periods the only staff member that received remuneration greater than \$100,000 was the Company's CEO, P Coker. Key management and director compensation are set out below:

| | 3 months to 30 June 2014 | 12 months to 31 March 2014 |
|----------------------------------|-------------------------------------|---------------------------------------|
| Salary paid | 62,500 | 238,782 |
| Directors' fees paid | 40,750 | 115,000 |
| Share based payments | - | 212,000 |
| Consulting fees paid to G Martin | 30,000 | 151,840 |
| Total | 133,250 | 717,622 |

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 for the three months were \$40,750 as follows:

| Director | Directors' Fees |
|--|------------------------|
| S Bayliss (Branded Culture Limited) | 5,000 |
| D Chapman (DCH Holdings Limited) | 5,000 |
| D Hunter (Labaton Pty Limited) | 5,000 |
| R Lauder (Corporate Fitness Limited) | 5,000 |
| G Martin (refer Consultancy Fees below) | - |
| J Morel (No 8 Ventures Management Limited) | 5,000 |
| J Mayson | 8,750 |
| Total | \$33,750 |

The following directors' fees were unpaid to directors as at 30 June 2014:

| | |
|--|---------|
| S Bayliss ((Branded Culture Limited) | \$5,000 |
| J Morel (No 8 Ventures Management Limited) | \$5,000 |
| D Chapman (DCH Holdings Limited) | \$5,000 |
| J Mayson | \$8,750 |
| D Hunter (Labaton Pty Limited) | \$5,000 |
| R Lauder (Corporate Fitness Limited) | \$5,000 |

In addition the following directors received remuneration for services provided to the Company for the three months ended 30 June 2014:

| Director | Other remuneration |
|-----------------------------------|--------------------|
| G Martin (Glenn N Martin Limited) | \$30,000 |

Shares Held And Share Dealings By Directors (Quantity)

| | Beneficial | Associated person | Share options and warrants |
|--|------------------|-------------------|----------------------------|
| S BAYLISS | | | |
| Balance as at 1 April 2014 | 18,333 | - | 31,667 |
| Balance as at 30 June 2014 | <u>18,333</u> | <u>-</u> | <u>31,667</u> |
| D CHAPMAN | | | |
| Balance as at 1 April 2014 | 22,917 | - | 42,083 |
| Balance as at 30 June 2014 | <u>22,917</u> | <u>-</u> | <u>42,083*</u> |
| * Of these options 17,083 lapsed after balance date. | | | |
| D HUNTER | | | |
| Balance as at 1 April 2014 | - | 1,212,945 | 15,000 |
| Balance as at 30 June 2014 | <u>-</u> | <u>1,212,945</u> | <u>15,000</u> |
| * Of these options 15,000 lapsed after balance date. | | | |
| R J LAUDER | | | |
| Balance as at 1 April 2014 | 538,876* | 150,000 | - |
| Balance as at 30 June 2014 | <u>538,876*</u> | <u>150,000</u> | <u>-</u> |
| * Of these shares 165,566 are Convertible Preference Shares. | | | |
| G N MARTIN | | | |
| Balance as at 1 April 2014 | 4,520,600 | - | - |
| Balance as at 30 June 2014 | <u>4,520,600</u> | <u>-</u> | <u>-</u> |
| J A MOREL | | | |
| Balance as at 1 April 2014 | 50,000 | 5,144,106* | 40,000 |
| Balance as at 30 June 2014 | <u>50,000</u> | <u>5,144,106*</u> | <u>40,000</u> |

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

19 Related party transactions (continued)

Directors' Other Interests

As at 30 June 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

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.

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 20(c) for further information.

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

20 Commitments and contingencies

The following details commitments associated with the Company.

(a) Capital commitments

There were no capital commitments (31 March 2014: 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 at balance date (refer Note 21).

(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 (31 March 2014: Nil).

21 Events occurring after balance sheet date

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

On 15 September 2014 the Company entered into a lease for new premises at 39 Ballarat Way, Wigram, Christchurch. The annual lease cost is \$245,415 subject to review, the lease term is for a five year period with one, three year right of renewal.

At the AGM held 30 September 2014 Shareholder approval was received to issue up to 60 million fully paid ordinary shares, at a price not less than AUD \$0.40 per share in preparation for a proposed listing for the quotation and trading of ordinary shares on the ASX. The proposed listing is expected to be completed before the end of the year and in any event, no later than 31 March 2015. Also, as part of the preparation for the ASX listing, Shareholder approval was received to revoke the existing Constitution and adopt a new Constitution on listing.