



## ASX ANNOUNCEMENT

**INDUSTRY:** Aviation

**MARTIN AIRCRAFT  
COMPANY LIMITED**

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

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Christchurch 8042  
New Zealand  
Ph: +64 3 377 8584  
[www.martinjetpack.com](http://www.martinjetpack.com)

**COMPANY CONTACT**

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CEO & Managing Director  
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**ASX Code: MJP**

**BOARD OF DIRECTORS**

**Jon Mayson**  
Non-Executive Chairman

**Peter Coker**  
CEO & Managing Director

**Jenny Morel**  
Non-Executive Director

**John Diddams**  
Non-Executive Director

**Steve Bayliss**  
Non-Executive Director

**Dr Liu Ruopeng**  
Non-Executive Director

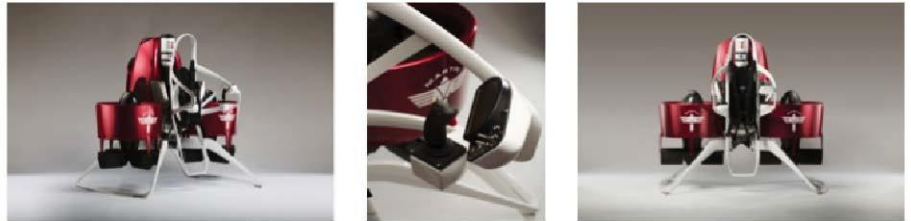
**Dr Zhang YangYang**  
Non-Executive Director

**Dr Luan Lin**  
Non-Executive Director

**Dennis Chapman**  
Non-Executive Director

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**Appendix 4D and Interim Financial Report 31 December  
2015**

29 February 2016

In accordance with Listing Rule 4.2A, please find attached the Half-Year Appendix 4D and Interim Financial Report for the half-year ended 31 December 2015.

It is recommended that these half-year reports be read in conjunction with the Annual Report for the year ending 30 June 2015 and any public announcements made by the company during the half year.

Yours sincerely

**James West**  
Company Secretary and Chief Financial Officer



**ASX Appendix 4D**  
**Half – Year Report 31 December 2015**

<b>Name of entity</b>	Martin Aircraft Company Limited
<b>ARBN</b>	601 582 638
<b>Reporting Period</b>	Half - year ended 31 December 2015
<b>Previous Corresponding Reporting Period</b>	Half - year ended 31 December 2014

**IMPORTANT NOTE** – In relation to derivative transactions arising from the Investment Agreement with KuangChi Science Limited, the 30 June 2015 Financial Statements have been restated and the same accounting treatment has been adopted at 31 December 2015. Please refer to the attached Interim Financial Report for more information.

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	<b>6 months to 31 December 2015 Unaudited NZ\$</b>	<b>6 months to 31 December 2014 Unaudited NZ\$</b>	<b>Amount Change NZ\$</b>
<b>Revenue</b>	7,758	48,388	(40,630)
<b>Operating Loss</b>	(4,621,296)	(3,032,732)	(1,588,564)
<b>Profit/(loss) before income tax</b>	4,924,537	(3,010,319)	7,934,856
<b>Net Profit/(loss) after income tax</b>	<u>4,924,537</u>	<u>(3,010,319)</u>	<u>7,934,856</u>

Commentary for the results of the half year ended 31 December 2015 is contained in the attached Interim Financial Statements.

**Dividends**

nil

**Net tangible assets**

Net tangible asset backing per ordinary share (\$0.31) (six months to 31 December 2014: \$0.01). The unfavourable movement in NTA for the period is attributable to the derivative liabilities accounted for. It is expected that the majority of the derivative liabilities will reverse in the period to 30 June 2016.



## MARTIN AIRCRAFT COMPANY LIMITED

### Preliminary Report for the Half-Year Ended 31 December 2015

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#### Details of associate and joint venture entities

In accordance with the terms of the Investment Agreement with KuangChi Science Limited (KCS) and as previously disclosed to shareholders, on 22 July 2015 the Company and KCS established a Joint Venture Company in Hong Kong called KuangChi Martin Jetpack Limited (KMJ) of which 49% of the issued share capital was held by Martin Aircraft Company Limited and 51% held by KCS. The Joint Venture was capitalised by each party subscribing A\$2.0 million -refer to Note 9 and 16 of the attached Interim Financial Statements for more information.

KMJ shares of losses in the period NZ \$120,810 (31 December 2014 – nil).

#### Details of entities over which control has been gained or lost during the period

No entities were acquired during the period. No entities were disposed of due to loss of control during the period.

Note - the Company gained control of KuangChi Science Limited post 31 December 2015.

#### Note:

The information provided in this Appendix 4D is based on Martin Aircraft Limited Interim Financial Report for the financial half year ended 31 December 2015.

Martin Aircraft Limited Interim Financial Report for the financial half year ended 31 December 2015 has been subject to review. A copy of the Independent Review Report is included in the Interim Financial Report.

END

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#### ABOUT THE MARTIN AIRCRAFT COMPANY LIMITED

Martin Aircraft Company Limited (Martin Aircraft) is currently developing the Martin Jetpack, the world's first practical Jetpack, with potential search and rescue, military, recreational and commercial applications, both manned and unmanned. The Martin Jetpack was initially conceived and developed by Glenn Martin in Dunedin in 1981. This led to the founding of Martin Aircraft Company in 1998 and the development of a Jetpack which, based on current testing, is expected to have over 30 minutes flight capability at a speed of up to 74 km/h and an altitude up to 1,000 m (3000ft).

The Martin Jetpack is a disruptive technology, much like the helicopter was when first developed, with significant capabilities and is able to be flown either by a pilot or via remote control. The jetpack can take off and land vertically (VTOL) and because of its small dimensions, it can operate in confined spaces (such as close to or in between buildings), near trees or in confined areas that other VTOL aircraft such as helicopters cannot access.

More detailed information about Martin Aircraft and the Martin Jetpack is available at [www.martinjetpack.com](http://www.martinjetpack.com)



# MARTIN AIRCRAFT COMPANY LIMITED

## Interim Financial Statements

For the half year ended 31 December 2015



[www.martinjetpack.co.nz](http://www.martinjetpack.co.nz)

A company registered in New Zealand  
with company number 901393  
(ARBN 601582638)



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# Company Report

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

Director movement was as follows:

- Dr Luan Lin joined the Board with effect 14 August 2015
- Dennis Chapman joined the Board with effect 2 November 2015

The Annual General Meeting took place on 29 October 2015. Jon Mayson, Steve Bayliss, Dr Liu Ruopeng, Dr Zhang YangYang and Dr Luan Lin were all reappointed to the Board. Deloitte was appointed as auditor. A resolution to amend the constitution to simplify the number of Directors without reference to place of residence was not passed. On 2 November 2015 Dennis Chapman, a New Zealand resident, was appointed to the Board to meet the constitutional requirements.

## FINANCE

The Directors report that the Group's operating loss after tax for the half year ended 31 December 2015 was NZ\$4.6 million. The Group's net result was a profit of NZ\$4.9 million after taking into account favourable non-cash derivative movements.

In addition to NZ\$4.6 million expenditure incurred in developing and commercialising the Jetpack, a further NZ\$4.3 million development expenditure has been capitalised as an intangible asset in the period to reflect that the Jetpack is in the development phase.

At balance date, the Company had negative net assets of NZ\$67 million and cash and bank deposits of NZ\$12.5 million. The reason for the negative net asset position or negative total equity is explained in the Restatement of Financial Statements section below. Without these non-cash derivative transactions, the net assets and total equity would have been positive \$21.7 million.

All amounts noted in the Financial Statements are in New Zealand dollars (unless stated otherwise).

## RESTATEMENT OF FINANCIAL STATEMENTS RESULTING IN NEGATIVE EQUITY POSITION

The decision was made to change auditors to align and facilitate the audit process with the KuangChi Science (KCS) group of companies to avoid having to dedicate more resources to the audit process and to avoid incurring unnecessary costs. Consequently, at the AGM, shareholders voted to appoint Deloitte NZ as auditor.

It is a requirement of the Financial Reporting Act and the undertakings provided by the Company to the ASX that the Company must comply with NZ GAAP. Determining what is NZ GAAP in respect of the transactions arising from the Investment Agreement with KCS is complex and requires significant judgment. Deloitte has reviewed the KCS Investment Agreement and has taken a different view from our previous auditor, PwC, on the accounting treatment of the Investment Agreement with KCS under which KCS agreed to subscribe to an A\$23 million convertible note

and the Company gave KCS an option to return its shares in the Hong Kong Martin Aircraft - KCS Joint Venture to the Company in return for Company shares.

Deloitte is of the view that because these transactions give rise to derivative financial instruments, NZ GAAP accounting standards require that these transactions be "marked to market" and fair valued such that they are treated for accounting purposes as derivatives. The result is the Company having to record a loss and an offsetting liability in its financial reports arising from an increase in the Company share price. Hypothetically, if the Company share price had fallen below the list price, the Company would be booking a theoretical profit and offsetting asset.

This change results in the recording of large accounting losses and liabilities in the accounts of the Company. The losses and liabilities do not impact on the Company, its solvency or its actual cash position - they are valuation changes only based on a combination of observable and unobservable valuation inputs but required to comply with NZ GAAP accounting standards.

The cumulative impact of the new accounting treatment at 31 December 2015 is as follows:

- Fair value loss of derivative liabilities in the Statement of Comprehensive Income \$79.8 million
- Fair value of derivative liabilities in the Statement of Financial Position \$88.7 million
- Share capital in the Statement of Financial Position reduces by \$8.9 million to \$39.3 million
- Total equity moves from \$21.7 million to negative \$67.0 million

On final exercise of the convertible note and Joint Venture share swap, the entries will recycle back through the Balance Sheet and the Company ends up with a net Balance Sheet position as if the entries had not occurred. The only material difference on completion is that share capital will increase to approximately \$128 million although only approximately \$64 million will be backed by cash raised and retained earnings losses increase to approximately \$107 million although only \$27 million relates to operating losses.

These are accounting entries; they have no cash impact and no liability settled is in cash.

The Directors believe these entries and the presentation of the accounts in this manner do not represent the substance of the financial performance or position of the Company. However, to meet their legal obligations under NZ GAAP, the 30 June 2015 Financial Statements have been restated and the same accounting treatment has been adopted at 31 December 2015.

Deloitte advised that in the absence of the restatements being made they would need to consider qualifying the accounts in relation to NZ GAAP.

It should be noted that as set out in the Subsequent Event Note 18 the convertible bond has been subscribed for and cash received of NZ\$23.7 million on 29 February 2016. Further, the majority of the Joint Venture swap shares have been exercised in the period to 30 June 2016. As a result, the majority of the accounting entries as a result of compliance with NZ GAAP taken up at 31 December 2015 will be reversed in the period to 30 June 2016 and the Company's total equity will return to positive.

Following the subscription of the convertible bond by KCS and JV share swap in accordance with the Investment Agreement, as previously approved by the Company's shareholders, KCS will hold a 52% shareholding in the Company signaling their ongoing commitment and support for the Company and commercialisation of the Jetpack.

## ORGANISATION

The Company had a workforce of 52 at 31 December 2015, which has now increased to 58 at the time of this report. The primary hirings have been within the design engineering team including the substantiation and testing team who are responsible for the engineering design testing. In addition, Flight Operations has recruited staff in order to support the increased flying effort. A minimal Head Office continues to support the technical, flight operations, production and marketing teams.

## TECHNICAL ACHIEVEMENTS

Technical achievements during the period:

- The ballistic parachute system has completed the development phase and will be integrated with the experimental aircraft commencing the first half of 2016. An automated system is being examined with the use of a potential interim solution to allow earlier increased testing of the flight envelope.
- The Mk1x engine, although still with challenges, has been stabilised to allow increased flight testing to take place. The engine will only be used in the P12 family and initially on the unmanned test vehicle created for testing of the new flight control system. A new engine from a design company in the United Kingdom has been built and has commenced ground testing. We also have two further concept designs that are going through review to decide whether either are taken forward to the next iteration of design.
- The new flight control system continues to be developed using an off-the-shelf system as its baseline. A full ground station reflecting the whole aircraft system has been created and the flight control system has been successfully tested under real time conditions. An unmanned test vehicle has been built specifically to test the new flight control software.
- The production team has taken responsibility for the build of prototype aircrafts that will de-risk the assembly process when full production commences.
- The structure and redesign of the next Jetpack model is almost complete with the preliminary design review now complete.
- We have introduced a company-wide Safety Management System that not only supports the aviation activities but also meets reporting requirements under the new Health & Safety

Act. In addition, we have introduced an Aircraft Maintenance and Production control software system and a recognised document storage system primarily to ensure the auditability of engineering drawings.

## MARKETING

The small marketing team supported by some members of the flight operations team has been focused on educating our First Responder first customer market. We have attended shows in Czech Republic, Germany and Dubai with both our P12 static aircraft and the simulator. We have drawn considerable attention from each of these shows. In addition, we completed a manned flight work up in New Zealand followed by a public manned flight in Shenzhen, China. The latter, sponsored by KuangChi Science and led by our Joint Venture, KuangChi Martin Jetpack, was attended by 2,400 official guests. The venue was over a waterpark where many of the general public were also able to view the flight.

We have engaged a number of well-respected consultants who are assisting us in general marketing in the Middle East and USA and with Fire Services globally.

## ROAD TO COMMERCIALISATION

As we continue to progress towards commercialisation we have actively engaged with the New Zealand Civil Aviation Authority (NZCAA). These discussions have required us to move away from registering ourselves as a microlight aircraft for our first customers as this would have meant we would have had a very limited customer base and extremely restricted use of the aircraft. Working with the NZCAA, who are already leading the coordination with other global regulatory authorities, we are on a path to establish a certified aircraft under a "Jetpack" category. This unique category will enable us to really utilise the capabilities of the aircraft with our First Responder and commercial customers in both the manned and unmanned capacity. Our approach on this category journey is to move from experimental to restricted to a full certification. Each one of these phases can be utilised by different customer sets that are being targeted by the marketing team as we grow the Company. Our Memorandum of Understandings to date are very much aligned with this approach.

While technical risks still remain, as with any new aviation product our knowledge of those risks is now very mature and mitigation strategies are in place. The Company remains agile to meet any challenges that occur on the road to commercialisation.

## SIGNIFICANT AGREEMENTS SIGNED

Since the start of the financial year and following on from the agreements signed last year a number of significant additional agreements have been signed:

- Agreements with 3 separate Chinese companies for 100 Jetpacks, 20 simulators, supply and training under the China "Iron Man" model. These agreements are subject to negotiated terms and conditions with potential signed sales contracts being completed by 30 June 2016.
- An agreement with Dubai Civil Defence for an initial tranche of up to 20 Jetpacks and 2 simulators with delivery commencing with two experimental aircraft.

Further discussions with a number of other potential customers are ongoing. It should be noted as stated in our shareholder announcement in January that our potential customers do have

specific budget cycles - often one to three years - and we are working to ensure our message about the capability of the aircraft is being recognised by those responsible to ensure potential budget allocation is considered for the future.

## NEXT STEPS

The rest of this financial year we will be concentrating on meeting our technical milestones and delivering our next experimental aircrafts, which will be named P13 (unmanned test vehicle) and P14. All our P12 family of aircraft and the new P14 will be classed as experimental aircraft by the New Zealand Civil Aviation Authority. Closing contracts will be another area of focus for the commercial and marketing team. We will continue to market our capability to First Responder potential customers at the same time as educating the broader commercial and private market of our capability. The HK JV will continue to market the capabilities of the Jetpack in China and drive to contract the various "Iron Man Clubs" announced last year.

## Events Subsequent to Balance Date

### KuangChi Science Limited - Investment Agreement Requirements

#### Convertible Bond Funding

In addition to KCS making an A\$21 million cornerstone investment in the Company's IPO, under the terms of the Investment Agreement entered into with KCS at the time of the IPO, the Company agreed a further funding arrangement with KCS in the form of a convertible bond in the amount of A\$23.02 million (less the A\$1 million loan provided by KCS to the Company at the time of the IPO).

Following discussions between KCS and the Company it was agreed that the Company could issue the convertible bond in NZ dollars. KCS has now subscribed for the convertible bond providing the Company with net proceeds of NZ\$23.7 million, which will be used by the Company to continue the commercialisation of the Jetpack. On the provision of the subscription proceeds KCS has also provided the Company with notice that, in accordance with the terms of the Investment Agreement, it wishes to immediately convert the convertible bond into fully paid ordinary shares in the Company. Accordingly, under the terms of the Investment Agreement, the shareholder approvals obtained at the Special Meeting of the Company held on 12 February 2015 and the ASX waiver obtained at the time of the Company's IPO, the Company has issued 57,550,000 fully paid ordinary shares to KCS. In addition, in accordance with the terms of the Investment Agreement, the shareholder approvals obtained at the Special Meeting of the Company held on 12 February 2015 and ASX Listing Rule 7.1, in conjunction with the conversion of the convertible bond, the Company has issued a further 3,658,728 fully paid ordinary shares to KCS to reflect the dilutionary impact of share issues and the exercise of options since the execution of the Investment Agreement.

## HONG KONG JOINT VENTURE

Under the terms of the Investment Agreement, KCS has the option to sell its 51% interest in the established Hong Kong Joint Venture company (HKCo) to the Company at any time following the occurrence of an accelerating event as defined in the Investment Agreement, up to the maturity date of the Investment Agreement, being 22 August 2017 (Maturity Date). As previously disclosed the accelerating event was satisfied on 8 April 2015.

Following discussions between KCS and the Company, KCS has proposed and the Company has agreed to exercise its option to sell 90% of its interest in HKCo to the Company at this time. The remaining 10% interest will be sold to the Company on or prior to the Maturity Date. As a result of the sale of 90% of KCS interest, the Company then owns a 95% interest in HKCo. As previously noted, the Company's intentions regarding HKCo is to use this vehicle to establish an enterprise in China to undertake research and development and sales and distribution activities for the Jetpack in China and Hong Kong. It is anticipated that the China enterprise will leverage KCS experience and position in China and Hong Kong regarding commercialising disruptive technology.

In consideration for the transfer of the KCS 90% interest in HKCo, in accordance with the terms of the Investment Agreement, the shareholder approvals obtained at the Special Meeting of the Company held on 12 February 2015 and the ASX waiver obtained at the time of the Company's IPO, the Company has issued 80,325,000 fully paid ordinary shares to KCS. In addition, in accordance with the terms of the Investment Agreement, the shareholder approvals obtained at the special meeting of the Company held on 12 February 2015 and ASX Listing Rule 7.1, in conjunction with the sale of the HKCo interest, the Company has issued a further 9,120,000 fully paid ordinary shares to reflect the dilutionary impact of share issues and the exercise of options since the execution of the Investment Agreement up to the Maturity Date. KCS will then own 52% of the Company.

On the sale of its remaining 10% interest in HKCo, KCS will be issued the remaining 8,925,000 shares due to it in accordance with the terms of the Investment Agreement, the shareholder approvals obtained at the Special Meeting of the Company held on 12 February 2015 and the ASX waiver obtained at the time of the Company's IPO. However, at the time of completion of the transfer, the Company will not issue any shares to KCS that may result in KCS breaching the existing Company shareholder approval under the New Zealand Takeovers Code that allows KCS to hold up to a maximum of 52.17% of the Company's issued share capital, being the maximum threshold previously disclosed to shareholders.

## VOTING POWER OF KUANGCHI SCIENCE LIMITED

As a result of the current transactions, KCS will increase its holding in the Company to 52.0%. As noted above, on completion of the final issue of shares under the HKCo transaction, it is expected that KCS will hold a maximum of 52.17% of the Company's issued share capital, in accordance with the previous disclosures to shareholders and in accordance with existing shareholder approval for the purposes of the New Zealand Takeovers Code.

In summary, at the time of approving these financial statements, the convertible bond funding has been received, the Company has \$33.4 million cash and KCS ownership has increased to 52%.

This is a clear indication of the commitment of our major shareholder. It allows management to continue to focus on the delivery of the commercial Jetpack.

Jon Mayson CNZM  
Chairman

Peter Coker OBE  
Managing Director



## Independant Review Report to the Shareholders of Martin Aircraft Company Limited

We have reviewed the condensed interim financial statements of Martin Aircraft Company Limited which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information on pages 07 to 26.

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

### BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors are responsible for the preparation and fair presentation of the condensed interim financial statements, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed interim financial statements that are free from material misstatement, whether due to fraud or error.

### OUR RESPONSIBILITIES

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

A review of the condensed interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Our firm carried out other assignments for Martin Aircraft Company Limited in the area of research advisory services. These services have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, Martin Aircraft Company Limited.

### EMPHASIS OF MATTER - RESTATEMENT

Without qualifying our opinion, we draw attention to Note 2 and 16 in the condensed interim financial statements which details that the Directors have, subsequent to signing the financial statements for the year ended 30 June 2015, become aware that the Company's forward contract to issue Convertible Notes had been incorrectly classified as an equity instrument and the Company's Share Swap Option had been incorrectly assessed to have a nil value in the prior period.

The Directors have restated the 30 June 2015 comparatives in these condensed interim financial statements to reflect the fair value of the Share Swap Option and to reflect that, due to certain features of the Convertible Notes it has been determined they should be classified as debt instruments and, therefore, the fair value of the liability recognised in the Statement of Financial Position.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements of Martin Aircraft Company Limited do not present fairly, in all material respects, the financial position of the Martin Aircraft Company Limited as at 31 December 2015 and its financial performance and cash flows for the period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.



29 February 2016  
Chartered Accountants  
CHRISTCHURCH, NEW ZEALAND

*This review report relates to the unaudited condensed interim financial statements of Martin Aircraft Company Limited for the 6 months ended 31 December 2015 included on Martin Aircraft Company Limited's website. Martin Aircraft Company Limited's Board of Directors is responsible for the maintenance and integrity of Martin Aircraft Company Limited's website. We have not been engaged to report on the integrity of Martin Aircraft Company Limited's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the unaudited condensed interim financial statements and related review report dated 29 February 2016 to confirm the information included in the unaudited condensed interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

**Statement of  
Comprehensive Income  
For the half year ended  
31 December 2015**

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

	Notes	6 Months to 31 December 2015 Unaudited (\$)	6 Months to 31 December 2014 Unaudited (\$)	12 Months to 30 June 2015 *Restated (\$)	12 Months to 30 June 2015 *Original (\$)
Revenue		7,758	48,388	51,144	51,144
<b>Expenses</b>					
Research and development expense		(13,551)	(1,251,787)	(1,872,783)	(1,872,783)
Other expenses	4	(4,615,503)	(1,829,333)	(4,024,159)	(4,024,159)
Total expenses		(4,629,054)	(3,081,120)	(5,896,942)	(5,896,942)
<b>Operating loss</b>		<b>(4,621,296)</b>	<b>(3,032,732)</b>	<b>(5,845,798)</b>	<b>(5,845,798)</b>
Net finance income/(expense)	5	363,332	22,413	648,283	648,285
Share of losses from investment accounted for using the equity method	9	(120,810)	-	-	-
Fair value gain/(loss) on derivative liabilities	10	9,303,311	-	(89,148,563)	-
<b>Profit/(loss) before income tax</b>		<b>4,924,537</b>	<b>(3,010,319)</b>	<b>(94,346,078)</b>	<b>(5,197,513)</b>
Income tax expense		-	-	-	-
<b>Profit/(loss) after income tax attributable to shareholders</b>		<b>4,924,537</b>	<b>(3,010,319)</b>	<b>(94,346,078)</b>	<b>(5,197,513)</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive profit/(loss) attributable to shareholders</b>		<b>4,924,537</b>	<b>(3,010,319)</b>	<b>(94,346,078)</b>	<b>(5,197,513)</b>
<b>Earnings per share</b>					
Basic	15	\$0.02	(\$0.02)	(\$0.44)	(\$0.02)
Diluted	15	\$0.02	(\$0.02)	(\$0.44)	(\$0.02)

\* refer to Note 2 for details of the restatement

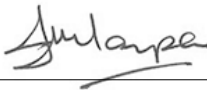
**Statement of  
Financial Position  
For the half year ended  
31 December 2015**

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

	Notes	31 December 2015 Unaudited (\$)	30 June 2015 *Restated (\$)	30 June 2015 *Original (\$)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	2,476,892	11,571,319	11,571,319
Bank deposits	6	10,040,322	12,000,000	12,000,000
Receivables		699,335	659,210	659,210
<b>Total current assets</b>		<b>13,216,549</b>	<b>24,230,529</b>	<b>24,230,529</b>
<b>Non current assets</b>				
Property, plant and equipment	7	1,795,511	793,335	793,335
Intangible assets	8	8,258,098	3,608,838	3,608,838
Investment accounted for using the equity method	9	2,269,495	-	-
<b>Total non current assets</b>		<b>12,323,104</b>	<b>4,402,173</b>	<b>4,402,173</b>
<b>Total assets</b>		<b>25,539,653</b>	<b>28,632,702</b>	<b>28,632,702</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		2,776,219	1,687,016	1,687,016
Fair value of derivative liabilities	10	88,738,200	98,041,511	-
Current borrowings	11	1,063,909	-	-
<b>Total current liabilities</b>		<b>92,578,328</b>	<b>99,728,527</b>	<b>1,687,016</b>
<b>Non-current liabilities</b>				
Non-current borrowings	11	-	1,136,765	1,136,765
<b>Total non-current liabilities</b>		<b>-</b>	<b>1,136,765</b>	<b>1,136,765</b>
<b>Total liabilities</b>		<b>92,578,328</b>	<b>100,865,292</b>	<b>2,823,781</b>
<b>Net assets</b>		<b>(67,038,675)</b>	<b>(72,232,590)</b>	<b>25,808,921</b>
<b>EQUITY</b>				
Share capital	13	39,304,595	39,109,154	48,002,102
Share option reserve		500,655	426,718	426,718
Retained earnings		(106,843,925)	(111,768,462)	<b>(22,619,899)</b>
<b>Total equity</b>		<b>(67,038,675)</b>	<b>(72,232,590)</b>	<b>25,808,921</b>

\* refer to Note 2 for details of the restatement

Signed on behalf of the Board

  
J Mayson CNZM Date: 29 February 2016

  
P Coker OBE Date: 29 February 2016

**Statement of  
Changes in Equity  
For the half year ended  
31 December 2015**

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

	Notes	Share Capital (\$)	Retained Earnings (\$)	Share Options Reserve (\$)	Total Equity (\$)
<b>Balance as at 1 July 2014</b>		<b>17,851,839</b>	<b>(17,449,005)</b>	<b>307,367</b>	<b>710,201</b>
Total comprehensive loss for six months to 31 December 2014		-	(3,010,319)	-	(3,010,319)
Issue of share capital	13	3,993,342	-	-	3,993,342
Share option expense		-	-	84,142	84,142
Lapsed share options		-	26,621	(26,621)	-
<b>Balance as at 31 December 2014 - Unaudited</b>		<b>21,845,181</b>	<b>(20,432,703)</b>	<b>364,888</b>	<b>1,777,366</b>
Total comprehensive loss		-	(2,187,196)	-	(2,187,196)
Issue of share capital	13	629,836	-	-	629,836
Issue of share capital at initial public offering (IPO)	13	28,004,511	-	-	28,004,511
Issue of share capital from exercise of share options	13	120,000	-	-	120,000
Issue of share capital from exercise of warrants	13	100,000	-	-	100,000
Increase in capital under share option schemes	13	33,241	-	(33,241)	-
Increase in capital under warrant option	13	51,938	-	(51,938)	-
Share option expense		-	-	147,009	147,009
Lapsed share options		-	-	-	-
Cost of capital raising	13	(2,782,605)	-	-	(2,782,605)
<b>Balance as at 30 June 2015</b>		<b>48,002,102</b>	<b>(22,619,899)</b>	<b>426,718</b>	<b>25,808,921</b>
Prior period restatement*	2	(8,892,948)	(89,148,563)		(98,041,511)
<b>Restated balance as at 30 June 2015</b>		<b>39,109,154</b>	<b>(111,768,462)</b>	<b>426,718</b>	<b>(72,232,590)</b>
Total comprehensive profit for six months to 31 December 2015		-	4,924,537	-	4,924,537
Issue of share capital from exercise of share options	13	147,679	-	-	147,679
Increase in capital under share option schemes	13	47,762	-	(47,762)	-
Share option expense		-	-	121,699	121,699
<b>Balance as at 31 December 2015 - Unaudited</b>		<b>39,304,595</b>	<b>(106,843,925)</b>	<b>500,655</b>	<b>(67,038,675)</b>

\* refer to Note 2 for details of the restatement

**Statement of  
Cash Flows  
For the half year ended  
31 December 2015**

*The below Statement of Cash Flows should be read in conjunction with the accompanying notes.*

	Notes	6 months to 31 December 2015 Unaudited (\$)	6 months to 31 December 2014 Unaudited (\$)
<b>Cash flows from operating activities</b>			
Receipts from customers		-	48,388
Interest received		378,112	22,413
Other income		7,758	-
Tax received/(paid)		(105,973)	(111)
Payments to suppliers and employees		(4,154,941)	(2,562,646)
<b>Net cash outflow from operating activities</b>	12	<b>(3,875,044)</b>	<b>(2,491,956)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1,034,066)	(120,653)
Purchase of intangibles		(3,921,654)	(19,412)
Purchase of equity investments		(2,390,305)	-
Transfer (to)/from bank deposits		1,959,678	-
<b>Net cash outflow from investing activities</b>		<b>(5,386,347)</b>	<b>(140,065)</b>
<b>Cash flows from financing activities</b>			
Loans		-	1,039,160
Issue of ordinary shares		147,678	2,405,274
<b>Net cash inflow from financing activities</b>		<b>147,678</b>	<b>3,444,434</b>
<b>Net increase in cash and cash equivalents</b>		<b>(9,113,713)</b>	<b>812,413</b>
Cash and cash equivalents, beginning of period		11,571,319	701,618
Foreign exchange gain on cash		19,286	-
<b>Cash and cash equivalents, end of period</b>	6	<b>2,476,892</b>	<b>1,514,031</b>

# Notes to the Financial Statements

For the half year ended 31 December 2015

## 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 Interim Financial Statements have been approved for issue by the Board of Directors on 29 February 2016.

## 2 BASIS OF PREPARATION

These general purpose financial statements for the six months ended 31 December 2015 have been prepared in accordance with NZ GAAP. They comply with NZ IAS 34 Interim Financial Reporting.

These Interim Financial Statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of Martin Aircraft Company Limited for the year ended 30 June 2015, which have been prepared in accordance with the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The Company is designated as a profit-oriented entity.

All significant accounting policies have been applied on a basis consistent with those used in the audited Financial Statements of Martin Aircraft Company Limited for the year ended 30 June 2015.

The Company adopted the following accounting policy during the interim period with the establishment of an investment accounted for using the equity method.

### ***Investments in associates and joint ventures***

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

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

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

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

The Financial Statements are presented in New Zealand dollars.

### ***Going concern***

The Condensed Financial Statements have been prepared on the basis that the Company will be able to continue as a going concern. Subsequent to the interim reporting date, KuangChi Science Limited(KCS) has subscribed for NZ\$23.7million in cash via subscription to the Convertible Notes as per the Investment Agreement as detailed in Notes 16 and 18 to the Condensed Financial Statements. The Directors have assessed that this funding is sufficient to ensure that the Company can continue to operate for a period of 12 months from the date of signing these Condensed Financial Statements.

These Condensed Financial Statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classifications of liabilities that may be necessary should the Company be unable to continue as a going concern.

## 2 BASIS OF PREPARATION (CONTINUED)

The Company has negative equity of \$67 million as at 31 December 2015. The negative equity is due to a change in accounting treatment for instruments issued to KCS under the Investment Agreement outlined further below. The restatement includes recognition of derivative liabilities of \$88.7 million at 31 December 2015. The Directors have assessed that this does not cast doubt on the ability of the Company to continue to operate as a going concern as

- the negative equity position will be unwound in the next period when the Convertible Note and Joint Venture Company Option (as detailed in Note 16) are exercised. As at the date when these two items are transacted, the financial derivative liabilities will be extinguished and share capital will increase by the number of shares issued at the NZD equivalent of the Company's share price on the transaction date.
- the Company has sufficient cash, with KuangChi Science Limited subscribing to the Convertible Notes post year end (refer to Notes 16 and 18), to enable the Company to be able to continue in operational existence and pay its debts as and when they become due and payable 12 months from the date of signing these Condensed Financial Statements.

### **Restatement**

A restatement has been made to the reported 30 June 2015 financial information, amending the reported values of derivative financial liabilities, share capital, retained earnings and fair value loss of derivative liabilities. This has been as a result of the following amendments affecting the Company:

- 1) At 30 June 2015 the Convertible Notes (as detailed in Note 16) were considered to represent a forward contract to issue a minimum of 57.5 million shares at an issue price of A\$0.40 (i.e. the issue of a fixed number of shares is exchanged for a fixed amount of cash) meeting the definition of an equity instrument under NZ IAS 32 Financial Instruments: Presentation. Therefore as at 30 June 2015 there were no accounting entries posted in respect of the Convertible Notes as no cash had been received or shares issued for this component.

It has subsequently been determined by Deloitte that in their opinion the convertible bonds do not meet the definition of equity under NZ IAS 32 because

- KCS is entitled to payment in cash of the face value of the bond in priority to other shareholders if there is an insolvency event
- the conversion rate for the conversion to shares is set in Australian dollars and not the functional currency of the company (NZD) so it does not meet the criteria for equity that the conversion to shares is fixed in functional currency terms

As the future issue of convertible bonds does not meet the criteria to be classified as equity, a derivative liability is required to be recognised at fair value with changes in fair value through profit and loss.

- 2) At 30 June 2015 the Swap Share Option (as detailed in Note 16) was considered to be a derivative. However, as the Hong Kong JV had not been established and did not legally exist, no fair value was ascribed to it at 30 June 2015. The consideration of the nature of this contract has remained unchanged. However, as the establishment of the Hong Kong JV was agreed in the Investment Agreement, an arrangement existed to issue the Share Swap Option so the option did have a value.
- 3) As both the Convertible Notes and Joint Venture Company Option were set in the overall Investment Agreement between the Company and KuangChi Science Limited dated 19 December 2014, Deloitte has recommended that the initial fair value of these derivative liabilities at the date of the ASX listing should have been offset against the initial equity amounts that were recorded by the Company for the KCS transactions.

The fair value assumptions at initial recognition and 30 June 2015 have been determined in accordance with the assumptions detailed in Note 10.

## 2 BASIS OF PREPARATION (CONTINUED)

### *Impact on Statement of Financial Position - 30 June 2015*

	Original Balance (\$)	Restatement Amount (\$)	Restated Balance (\$)
<b>Current liabilities</b>			
Derivative liability - Joint Venture Company Option	-	73,386,510	73,386,510
Derivative liability - Convertible Notes	-	24,655,001	24,655,001
	-	98,041,511	98,041,511
<b>Equity</b>			
Share capital	48,002,102	(8,892,948)	39,109,154
Retained earnings	(22,619,899)	(89,148,563)	(111,768,462)
	25,382,203	(98,041,511)	(72,659,308)
<b>Impact on Restated Statement of Comprehensive Income - 30 June 2015</b>			
Fair value loss on derivative liabilities	-	(89,148,563)	(89,148,563)
<b>Impact on earnings per share</b>			
Basic	(\$0.02)	(\$0.42)	(\$0.44)
Diluted	(\$0.02)	(\$0.42)	(\$0.44)

## 3 SEGMENT REPORTING

The Company has one operating segment, being development and commercialisation of Jetpack products, based on one geographical location, being New Zealand. The Financial Statements reflect the activities of this operating segment.



**4 OTHER EXPENSES**

*Included in other expenses are other fees paid to the auditor in relation to research advisory services for \$2,500*

	Notes	6 months to 31 December 2015 Unaudited (\$)	6 months to 31 December 2014 Unaudited (\$)
Audit fees		15,380	38,834
Directors fees	16	153,652	75,046
Listing fees		89,078	-
Employee expense		2,010,016	827,735
Legal fees		83,630	57,311
Consultants		421,014	206,424
Marketing expenses		369,272	159,988
Freight and courier		121,455	-
Travel		279,576	-
Operating lease expense		209,879	124,446
Depreciation	7	147,716	28,048
Amortisation of intangibles	8	107,967	12,444
Share option expense		121,699	84,142
Other costs		485,169	214,915
<b>Total other expenses</b>		<b>4,615,503</b>	<b>1,829,333</b>

**5 NET FINANCE INCOME/(EXPENSE)**

	6 months to 31 December 2015 Unaudited (\$)	6 months to 31 December 2014 Unaudited (\$)
Interest income	287,534	22,414
Foreign exchange gain	75,999	-
<b>Total finance income</b>	<b>363,533</b>	<b>22,414</b>
Interest expense	(201)	(1)
<b>Total finance costs</b>	<b>(201)</b>	<b>(1)</b>
<b>Total net finance income/(expense)</b>	<b>363,332</b>	<b>22,413</b>

## 6 CASH AT BANK

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

	31 December 2015 Unaudited (\$)	30 June 2015 Audited (\$)
Cash at bank	454,374	297,537
Deposits at call	2,022,518	11,273,782
<b>Total cash and cash equivalents</b>	<b>2,476,892</b>	<b>11,571,319</b>
Bank deposits	10,040,322	12,000,000
<b>Total cash at bank</b>	<b>12,517,214</b>	<b>23,571,319</b>

## 7 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings (\$)	Motor Vehicles (\$)	Property, Plant and Equipment (\$)	Total (\$)
<b>Cost at 1 July 2014</b>	-	14,358	209,323	223,681
Additions	-	43,078	748,308	791,386
Disposals	-	-	(4,324)	(4,324)
<b>Cost at 30 June 2015</b>	-	57,436	953,307	1,010,743
Additions	332,444	105,228	712,220	1,149,892
Disposals	-	-	-	-
<b>Cost at 31 December 2015</b>	<b>332,444</b>	<b>162,664</b>	<b>1,665,527</b>	<b>2,160,635</b>
<b>Accumulated depreciation at 1 July 2014</b>	-	9,868	133,297	143,165
Depreciation	-	1,760	76,807	78,567
Disposals	-	-	(4,324)	(4,324)
<b>Accumulated depreciation at 30 June 2015</b>	-	11,628	205,780	217,408
Depreciation	2,677	14,690	130,349	147,716
Disposals	-	-	-	-
<b>Accumulated depreciation at 31 December 2015</b>	<b>2,677</b>	<b>26,318</b>	<b>336,129</b>	<b>365,124</b>
<b>Net book value 30 June 2015</b>	-	45,808	747,527	793,335
<b>Net book value 31 December 2015</b>	<b>329,767</b>	<b>136,346</b>	<b>1,329,398</b>	<b>1,795,511</b>

## 8 INTANGIBLE ASSETS

Included in development asset cost capitalised during the period is \$917,051 of salary costs (30 June 2015: \$788,048).

	Software (\$)	Development Asset (\$)	Patents (\$)	Total (\$)
<b>Cost at 1 July 2014</b>	<b>111,521</b>	-	<b>357,603</b>	<b>469,124</b>
Additions	276,628	2,864,676	167,247	3,308,551
<b>Cost at 30 June 2015</b>	<b>388,149</b>	<b>2,864,676</b>	<b>524,850</b>	<b>3,777,675</b>
Additions	325,366	4,341,064	90,797	4,757,227
<b>Cost at 31 December 2015</b>	<b>713,515</b>	<b>7,205,740</b>	<b>615,647</b>	<b>8,534,902</b>
<b>Accumulated amortisation at 1 July 2014</b>	<b>93,517</b>	-	<b>12,521</b>	<b>106,038</b>
Amortisation	46,944	-	15,855	62,799
<b>Accumulated amortisation at 30 June 2015</b>	<b>140,461</b>	-	<b>28,376</b>	<b>168,837</b>
Amortisation	96,178	-	11,789	107,967
<b>Accumulated amortisation at 31 December 2015</b>	<b>236,639</b>	-	<b>40,165</b>	<b>276,804</b>
<b>Net book value 30 June 2015</b>	<b>247,688</b>	<b>2,864,676</b>	<b>496,474</b>	<b>3,608,838</b>
<b>Net book value 31 December 2015</b>	<b>476,876</b>	<b>7,205,740</b>	<b>575,482</b>	<b>8,258,098</b>

## 9 INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

On 22 July 2015 a joint venture company was established called KuangChi Martin Jetpack Limited (KMJ). Under the terms of the Investment Agreement (refer Note 16, Related Parties), the Company and KuangChi Science Limited (KCS) agreed to establish the company of which 49% of the issued share capital would be held by the Company and 51% held by KCS.

In consideration for the benefits to the Company of KMJ, the Company has granted KCS an option to sell to the Company at any time on or before 22 August 2017 KCS' 51% interest in KMJ.

Details of the Company's joint venture at the end of the reporting period is as follows:

Name of Joint Venture	Principal Activity	Place of Incorporation and Operation	Proportion of ownership interest and voting power held by Company	
			31 December 2015	30 June 2015
KuangChi Martin Jetpack Limited	Commercialising Jetpacks in China and Hong Kong	Hong Kong	49%	0%

## 9 INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Reconciliation of the Company's carrying amount of the interest in the joint venture recognised:

	31 December 2015 Unaudited (\$)	30 June 2015 Audited (\$)
Opening share of net assets at 1 July	-	-
Issue of shares in joint venture (cash paid)	2,390,305	-
Share of losses from investment accounted for using the equity method	(120,810)	-
<b>Closing share of net assets</b>	<b>2,269,495</b>	<b>-</b>

*The above joint venture is accounted for using the equity method. The only asset contained within the joint venture is AUD denominated cash with the NZD represented value of that balance reflected in the carrying value above.*

## 10 DERIVATIVE FINANCIAL LIABILITIES

	31 December 2015 Unaudited (\$)	30 June 2015 *Restated (\$)
<b>Derivative liabilities</b>		
Derivative liability - Joint Venture Company Option	66,787,200	73,386,510
Derivative liability - Convertible Notes	21,951,000	24,655,001
<b>Total derivatives</b>	<b>88,738,200</b>	<b>98,041,511</b>

\*refer to Note 2 for details of the restatement

Derivative liabilities are measured at fair value at the end of each reporting period. The fair value of the derivative financial instruments was valued by Grant Sherman Appraisal Limited for the 30 June 2015 and 31 December 2015 periods.

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

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

The Convertible Notes and Joint Venture Company Option derivative financial liabilities are both Level 3 financial instruments.

10 DERIVATIVE FINANCIAL LIABILITIES (CONTINUED)

	Initial Recognition (\$)	30 June 2015 *Restated (\$)	31 December 2015 Unaudited (\$)
<b>Financial instrument - Fair value at</b>			
Joint Venture Company Option	3,482,699	73,386,510	66,787,200
Convertible Notes	5,410,249	24,655,001	21,951,000
	8,892,948	98,041,511	88,738,200

Financial instrument	Valuation techniques and key inputs used in determining fair value	Significant unobservable inputs		
		Initial Recognition	30 June 2015 *Restated	31 December 2015 Unaudited
Joint Venture Company Option	An option pricing model is adopted and the key inputs are swap assets price, correlation coefficient and the volatilities of the swap assets in which the perpetual growth rate and discount rate are key inputs for the swap assets price	Volatility: 33.42% Discount rate: 17.7% Correlation coefficient: 0.9	Volatility: 33.27% Discount rate: 17.95% Value of underlying JV assets	Volatility: 44.63% Discount rate: 17.7% Value of underlying JV assets
Convertible Notes	Binomial option pricing model is adopted and the key inputs are asset price, volatility, risk free rate, exercise price and discount rate in which the perpetual growth rate and discount rate are key inputs for the asset price.	Volatility: 33.42% Risk free rate: 1.93% Discount rate: 17.7% Perpetual growth rate: 2% Exercise price: A\$0.4/share Market price: A\$0.4/share	Volatility: 33.27% Risk free rate: 2.18% Discount rate: 17.95% Perpetual growth rate: 2% Exercise price: A\$0.4/share Market price: A\$0.755/share	Volatility: 44.63% Risk free rate: 2.19% Discount rate: 17.70% Perpetual growth rate: 2% Exercise price: A\$0.4/share Market price: A\$0.725/share

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

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

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

	31 December 2015 Unaudited (\$)	30 June 2015 *Restated (\$)
Opening fair value	98,041,511	-
Initial fair value on transaction date	-	8,892,948
Fair value (gain)/loss through profit or loss	(9,303,311)	89,148,563
Closing fair value	88,738,200	98,041,511

*This profit or fair value gain arises primarily due to the Company share price changing from A\$0.755 at 30 June 2015 to A\$0.725 at 31 December 2015*

**11 BORROWINGS**

	31 December 2015 Unaudited (\$)	30 June 2015 Audited (\$)
Current borrowings	1,063,909	-
Non-current borrowings	-	1,136,765
<b>Total borrowings</b>	<b>1,063,909</b>	<b>1,136,765</b>

In accordance with the Investment Agreement dated 19 December 2014 an A\$1.0 million interest free loan was advanced to the Company by KuangChi Science Limited on 31 December 2014.

**12 RECONCILIATION OF REPORTED LOSS AFTER TAXATION WITH CASH FLOWS FROM OPERATING ACTIVITIES**

	6 months to 31 December 2015 Unaudited (\$)	6 months to 31 December 2014 Unaudited (\$)
<b>Profit/(loss) after income tax</b>	<b>4,924,537</b>	<b>(3,010,319)</b>
<b>Non cash items</b>		
Depreciation	147,716	28,048
Amortisation of intangibles	107,967	12,444
Share option expense	121,699	84,142
Foreign exchange gain on monetary assets	(92,141)	-
Share of losses from investment accounted for using the equity method	120,810	-
Fair value gain on derivative liabilities	(9,303,311)	-
<b>Changes in working capital</b>		
Increase/(decrease) in trade and other payables	137,804	555,020
Decrease/(increase) in trade and other receivables	(40,125)	(161,291)
<b>Net cash flow from operating activities</b>	<b>(3,875,044)</b>	<b>(2,491,956)</b>

**ORDINARY SHARES****Value (\$)**

Opening share capital	39,109,154	13,251,839
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**Shares issued**

Issue of share capital	-	4,623,178
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Issue of share capital at initial public offering (IPO)	-	28,004,511
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Ordinary shares issued from convertible preference shares	-	4,600,000
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Issue of share capital from exercise of share options	147,679	120,000
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Issue of share capital from exercise of warrants	-	100,000
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Increase in capital under share option schemes	47,762	33,241
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Increase in capital under warrant option	-	51,938
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Cost of capital raising	-	(2,782,605)
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Decrease in capital under Convertible Note *	-	(5,410,249)
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Decrease in capital under Share Swap Option *	-	(3,482,699)
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<b>Closing share capital (\$)</b>	<b>39,304,595</b>	<b>39,109,154</b>
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**Number**

Opening number of shares on issue	245,294,108	10,681,211
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**Shares issued**

Ordinary shares issued	-	13,609,918
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Ordinary shares issued at initial public offering (IPO)	-	67,500,000
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Share split (10:1)	-	97,330,609
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Ordinary shares issued from convertible preference shares	-	55,172,370
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Ordinary shares issued from exercise of share options	600,000	500,000
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Ordinary shares issued under warrant option	-	500,000
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<b>Total number of shares on issue</b>	<b>245,894,108</b>	<b>245,294,108</b>
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**CONVERTIBLE PREFERENCE SHARES****Value (\$)**

Opening convertible preference shares	-	4,600,000
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Conversion of convertible preference shares to ordinary shares	-	(4,600,000)
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<b>Closing convertible preference shares (\$)</b>	<b>-</b>	<b>-</b>
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**Number**

Opening convertible preference shares	-	5,517,237
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Share split (10:1)	-	49,655,133
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Conversion of convertible preference shares to ordinary shares	-	(55,172,370)
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<b>Closing convertible preference shares</b>	<b>-</b>	<b>-</b>
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**TOTAL SHARE CAPITAL**

<b>Value (\$)</b>	<b>39,304,595</b>	<b>39,109,154</b>
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<b>Number</b>	<b>245,894,108</b>	<b>245,294,108</b>
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\* refer to Note 2 for details of the restatement

## 13 SHARE CAPITAL (CONTINUED)

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

### **Ordinary shares**

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

During the period 600,000 options were exercised.

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

### **Convertible preference shares**

There were no convertible preference shares issued during the period (12 months to 30 June 2015: Nil).

In accordance with the Constitution, the convertible preference shares automatically converted to fully paid ordinary shares with effect from the date of the offer close 13 February 2015.

## 14 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 five years. Payment must be made in full for all options exercised on the dates they are exercised.

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

At 31 December 2015 there are 3,466,670 options remaining to be exercised under this scheme (30 June 2015: 4,066,670).

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

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

During the period to December 2015 there were no options issued and 360,000 options cancelled.

At 31 December 2015 there are 4,640,000 options remaining to be exercised under this scheme (12 months to June 2015: 5,000,000).



## 14 COMPANY SHARE OPTIONS AND WARRANTS (CONTINUED)

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	December 2015 No. of shares	June 2015 No. of shares
Dec 2015	Dec 2011	\$0.24	-	200,000
Dec 2015	Dec 2012	\$0.24	-	400,000
Jan 2016	Jan 2012	\$0.24	116,670	116,670
Jan 2016	Jan 2013	\$0.24	200,000	200,000
Jul 2017	Jul 2015	\$0.24	150,000	150,000
Apr 2018	Apr 2014	\$0.24	1,000,000	1,000,000
Apr 2018	Apr 2015	\$0.24	1,000,000	1,000,000
Apr 2018	Apr 2016	\$0.24	1,000,000	1,000,000
Sept 2019	Sept 2014	\$0.43	1,013,332	1,013,332
Sept 2019	Sept 2015	\$0.43	1,280,000	1,280,000
Sept 2019	Sept 2016	\$0.43	1,280,000	1,280,000
Sept 2019	Sept 2017	\$0.43	266,667	266,667
May 2020	May 2016	\$0.43	266,667	266,667
May 2020	May 2017	\$0.43	266,667	266,667
May 2020	May 2018	\$0.43	266,667	266,667
			<b>8,106,670</b>	<b>8,706,670</b>

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

	As at 31 December 2015 Unaudited		As at 30 June 2015 Audited	
	Weighted Average Exercise Price \$ per share	Options	Weighted Average Exercise Price \$ per share	Options
Balance at beginning of year	\$ 0.34	8,706,670	\$ 0.24	488,750
Option 1 for 10 split	n/a	-	n/a	4,398,750
Issued	n/a	-	\$ 0.43	5,000,000
Exercised	\$ 0.24	(600,000)	\$ 0.24	(500,000)
Lapsed	n/a	-	\$ 0.34	(680,830)
<b>Balance at end of year</b>	<b>\$ 0.35</b>	<b>8,106,670</b>	<b>\$ 0.34</b>	<b>8,706,670</b>

There are 8,106,670 options exercisable at 31 December 2015 (June 2015: 8,706,670).

## 15 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.

	6 months to 31 December 2015 Unaudited (\$)	6 months to 31 December 2014 Unaudited (\$)	12 months to 30 June 2015 *Restated (\$)
<b>Profit/(loss) after income tax attributable to shareholders</b>	4,924,537	(3,010,319)	(94,346,078)
Ordinary number of shares	245,894,108	175,279,108	245,294,108
Weighted average number of shares on issue	245,861,499	155,986,054	214,455,637
<b>Basic earnings/(loss) per share</b>	0.02	(0.02)	(0.44)
<b>Diluted earnings/(loss) per share</b>	0.02	(0.02)	(0.44)

\* refer to Note 2 for details of the restatement

## 16 RELATED PARTY TRANSACTIONS

### Key management transactions

Key management and Director compensation are set out below:

	6 months to 31 December 2015 Unaudited (\$)	6 months to 31 December 2014 Unaudited (\$)
Salaries and other short term benefits paid	596,431	140,656
Directors' fees paid	153,652	75,046
Share based payments	-	53,661
Consulting fees to G Martin	-	60,000
Consulting fees to J Diddams	-	63,899
<b>Total</b>	<b>750,083</b>	<b>393,262</b>

On 14 September 2015 KuangChi Science Limited offered and the Board accepted that KCS Directors comprising Dr Liu Ruopeng, Dr Zhang YangYang and Dr Luan Lin would not receive Director's fees effective from their respective appointment dates.

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

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

The value of outstanding balances payable to key management and Directors at balance date total \$45,834 for Director fees payable to Steve Bayliss, Dennis Chapman and Jenny Morel.

***KuangChi Science Limited Investment***

On 19 December 2014 the Company and KuangChi Science Limited (KCS) entered into a conditional Investment Agreement for KCS to acquire existing ordinary shares in the Company and KCS along with its financial adviser REORIENT GROUP Limited.

The Investment Agreement consisted of a series of transactions whereby KCS

- provide an interest free unsecured loan of A\$1 million (Note 11)
- acquire up to 15,000,000 new fully paid ordinary shares in the Company from certain shareholders at a price of A\$0.40 per share
- subscribe for 52,500,000 new fully paid ordinary shares under the IPO at an issue price of A\$0.40 per share, representing an investment of A\$21 million (refer Note 13)
- subscribe for a zero coupon bond of A\$23.02 million that is convertible into 57,550,000 new fully paid ordinary shares in the Company
- establish a joint venture limited company in Hong Kong, owned 49% by the Company and 51% by KCS. KCS would have the right to sell its entire shareholding in the Hong Kong Joint Venture in exchange for up to 89,250,000 new fully paid ordinary shares in the Company

All Investment Agreement conditions have been fulfilled and KCS had

- provided an A\$1.0m interest free loan to the Company on 31 December 2014 (refer Note 11)
- acquired 14,950,000 new fully paid ordinary shares in the Company from certain shareholders at a price of A\$0.40 per share
- subscribed, paid and had allotted 52,500,000 (40.8 million to KCS and 11.7 million REORIENT) new fully paid ordinary shares under the IPO at an issue price of A\$0.40 per share, representing an investment of A\$21 million (refer Note 13)

On 24 February 2015 KCS directors Dr Liu Ruopeng and Dr Zhang YangYang were appointed Directors of the Company. Also, on 14 August 2015 KCS appointed Dr Luan Lin to the Board.

***Issue of Convertible Notes***

In accordance with the terms of the Investment Agreement between the Company and KCS dated 19 December 2014, the Company has agreed to issue KCS with Convertible Notes with a total face value of A\$23,020,000 convertible to ordinary shares. Subsequent to the interim reporting date and by mutual agreement it has been agreed to pay the face value of the Convertible Note after debt set off in NZ\$ equating to NZ\$23.7 million.

Subsequent to the interim reporting date but before approval of these financial statements KCS has subscribed for the Convertible Note providing the Company with net proceeds, after set off of the A\$1.0m loan, of NZ\$23.7 million. On the provision of the subscription proceeds KCS also provided the Company with notice that, in accordance with the terms of the Investment Agreement, it wished to immediately convert the convertible bond into fully paid ordinary shares in the Company. Accordingly, under the terms of the Investment Agreement, shareholder approvals obtained at the Special Meeting held on 12 February 2015 and the ASX waiver obtained at the time of the Company's IPO, the Company has issued 57,550,000 fully paid ordinary shares to KCS. In addition, in accordance with the terms of the Investment Agreement, shareholder approvals obtained at the Special Meeting held on 12 February 2015 and ASX Listing Rule 7.1, in conjunction with the conversion of the convertible bond, the Company has issued a further 3,658,728 fully paid ordinary shares to KCS to reflect the dilutionary impact of share issues and the exercise of options since the execution of the Investment Agreement.

Accordingly, the Convertible Note has been issued, subscribed for and converted into ordinary shares.

***Joint Venture Company***

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

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

It is intended that HKCo will establish an enterprise in China, which it is intended will undertake research and development and sales and distribution activities on behalf of the Company in China and Hong Kong.

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

Following discussions between KCS and the Company, KCS has decided to exercise its option to sell 90% of its interest in HKCo to the Company. The remaining 10% interest will be sold to the Company on or prior to the Maturity Date. As a result of the sale of 90% of its interest, the Company will now own a 95% interest in HKCo.

## 16 RELATED PARTY TRANSACTIONS (CONTINUED)

In consideration for the transfer of KCS 90% interest in HKCo, in accordance with the terms of the Investment Agreement, shareholder approvals obtained at the Special Meeting held on 12 February 2015 and the ASX waiver obtained at the time of the Company's IPO, the Company has issued 80,325,000 fully paid ordinary shares to KCS. In addition, in accordance with the terms of the Investment Agreement, shareholder approvals obtained at the Special Meeting held on 12 February 2015 and ASX Listing Rule 7.1, in conjunction with the sale of the HKCo interest, the Company has issued a further 9,120,000 fully paid ordinary shares to reflect the dilutionary impact of share issues and the exercise of options since the execution of the Investment Agreement up to the Maturity Date.

On the sale of its remaining 10% interest in the joint venture company KCS will be issued the remaining 8,925,000 shares due to it in accordance with the terms of the Investment Agreement and the ASX waiver obtained at the time of the Company's IPO. However, at the time of completion of the transfer the Company will not issue any shares to KCS that may result in KCS breaching the existing Company shareholder approval under the New Zealand Takeovers Code that allows KCS to hold up to a maximum of 52.17% of the Company's issued share capital, being the maximum threshold previously disclosed to shareholders.

### ***Voting Power of KuangChi Science Limited***

As a result of the current transactions, KCS will increase its holding in the Company to 52.0%. As noted above, on completion of the final issue of shares under the HKCo transaction, it is expected that KCS will hold a maximum of 52.17% of the Company's issued share capital in accordance with the previous disclosures to shareholders and in accordance with existing shareholder approval for the purposes of the New Zealand Takeovers Code.

### ***Shareholder Approvals – IPO and KCS Investment***

At the AGM held 12 February 2015 shareholder approval was received to issue up to 67.5 million fully paid ordinary shares at a price of A\$0.40 per share for the quotation and trading of ordinary shares on the ASX. Approval was also received that for all purposes including any requirements of Rule 7(d) of the Takeovers Code and listing rules 7.1, 10.1 and 10.11 of the listing rules of ASX Limited, the Company

- a) issue 40,813,636 ordinary shares of the Company to KCS at a price of A\$0.40 per share pursuant to the initial public offer
- b) issue 11,686,364 ordinary shares of the Company to REORIENT Group Limited at a price of A\$0.40 per share (paid by KCS) pursuant to the initial public offer
- c) issue a convertible bond to KCS in accordance with the terms of a convertible bond agreement to be entered into between KCS and the Company on the terms set out in Appendix 2 to the notice of Special Meeting dated 27 January 2015
- d) on conversion of the convertible bond referred to in (c) above, issue such number of ordinary shares of the Company to the holder of the convertible bond as may be required by the terms of the convertible bond agreement
- e) grant KCS an option to sell its entire shareholding in the Hong Kong joint venture (to be established by KCS and the Company) to the Company in accordance with the terms set out in Appendix 3 to the notice of Special Meeting dated 27 January 2015 and, on exercise of such option, issue such number of ordinary shares of the Company to the holder of the option as may be required by the terms of the option

### ***US Company***

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

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.

## 17 COMMITMENTS AND CONTINGENCIES

The following details commitments associated with the Company.

### ***Capital commitments***

There were no capital commitments (30 June 2015: Nil).

### ***Lease commitments: Company as lessee***

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

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

## 17 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Also, following acquisition of a hangar at 800 Aviation Drive, Harewood Aviation Park, Christchurch and with effect from 20 November 2015 the Company under a Deed of Lease Assignment has entered into a lease of land occupied by the hangar until 31 May 2033.

There are no other leases held by the Company at balance date.

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

	31 December 2015 Unaudited (\$)	30 June 2015 Audited (\$)
No later than 1 year	320,435	308,435
Later than 1 year and no later than 5 years	749,150	852,741
Later than 5 years	149,000	-
<b>Total</b>	<b>1,218,585</b>	<b>1,161,176</b>

### *Contingent liabilities*

The Directors are unaware of the existence of any claim or other contingencies that would have a material impact on the Company (30 June 2015: Nil).

## 18 SUBSEQUENT EVENTS

### *KuangChi Science Limited – Investment Agreement Requirements*

Subsequent to the interim reporting date KuangChi Science Limited has exercised its rights under the Investment Agreement. Refer to Note 16 for details of the transactions.

# Directory

Martin Aircraft Company Limited

## **Registered Office**

39 Ballarat Way, Wigram  
Christchurch 8042  
New Zealand  
Ph: +64 3 377 8584  
Web site: [www.martinjetpack.com](http://www.martinjetpack.com)

## **Board of Directors**

Jon Mayson - Chairman, Non-Executive Independent  
Steve Bayliss - Non-Executive Independent  
Peter Coker - Managing Director and Chief Executive Officer  
Dennis Chapman - Non-Executive Independent  
John Diddams - Non-Executive Independent  
Dr Luan Lin - Non-Executive Non-Independent  
Dr Liu Ruopeng - Non-Executive Non-Independent  
Jenny Morel - Non-Executive Independent  
Dr Zhang YangYang - Non-Executive Non-Independent

## **Company Secretary**

James West

## **New Zealand Incorporation**

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

## **Australian Registered Body Number (ARBN)**

601 582 638  
The Company's registered office address in Australia is  
Nortonrose Fulbright  
Level 16  
Grosvenor Place  
225 George Street, Sydney  
NSW 2000  
+61 2 9330 8000

## **Share Register**

Link Market Services Limited  
The Registrar  
Locked Bag A14  
Sydney South NSW 1235  
Australia

## **ASX**

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

## **Auditor**

Deloitte

## **Legal Advisers**

Bell Gully (New Zealand)  
Nortonrose Fulbright (Australia)

## **Bankers**

ASB  
ANZ