MARTIN
JETPACK

MARTIN AIRCRAFT COMPANY LIMITED

ANNUAL REPORT

2016

EXPERIENCE THE FUTURE

MARTIN
JETPACK

MASTERFUL TECHNOLOGY

ENGINEERING, DESIGN AND CRAFTSMANSHIP THAT HONOURS THE TRADITIONS OF THE MARTIN JETPACK WHILE CONTINUING TO PUSH BOUNDARIES IN AERONAUTICAL INNOVATION

DIRECTORS' REPORT

DIRECTORS' REPORT

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

Director movement during the financial year was as follows:

- Dr Luan Lin joined the Board with effect 14 August 2015
- Dennis Chapman joined the Board with effect 2 November 2015
- John Diddams resigned from the Board with effect from 3 March 2016
- Jenny Morel resigned from the Board with effect from 4 March 2016

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 New Zealand as a 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.

Subsequent to 30 June 2016 the Board's financial management and governance have been strengthened with the appointment of Hamish Bell as a Director of the Company with effect from 16 August 2016. Also, Peter Coker, Dennis Chapman and Dr Zhang YangYang have resigned from the Board with effect from 16 August 2016. Accordingly, the Board will reduce in size from seven Directors to five Directors comprising Jon Mayson (Chair), Steve Bayliss, Hamish Bell, Dr Liu Ruopeng and Dr Luan Lin.

The Board has undertaken an in-depth review of the Company's progress to determine how best to secure the path towards commercialisation of the Jetpack and manage its cost base. This review has involved consultation with KuangChi Science Limited (KCS) as our cornerstone shareholder.

KCS has investments across a broad array of technology companies and there are significant opportunities to share services and create synergies across their investment portfolio. This will have the effect of reducing cost in a number of areas including marketing and investor relations. The direct sales channel, contractual relationship with customers and delivery of services will continue to be with and be directly managed by the Company. This new group established with KCS is called the Global Community of Innovation (GCI).

As a consequence of the Martin Aircraft Company business review the following occurred on 16 August 2016, which is part of a restating of the Company's cost base and focus moving forwards:

- Peter Coker has resigned from his position as CEO and Managing Director of the Company in order to join KCS as their Vice President Global Community of Innovation.
- James West, CFO, has been appointed as CEO of Martin Aircraft.
- The Board has reduced from seven to five Directors.

The full review of the cost structure of the Company includes leveraging KCS and the GCI to offset costs through shared services and synergies. Each of these services will be covered by an appropriate Service Level Agreement. Additionally, the internal Company structure has been reviewed and non-core roles have been restructured to ensure the cost structure of the business is reduced and there is a renewed and simplified focus on the delivery of the Series 1 aircraft.

Finance

The Directors' report that the Group's operating loss after tax for the full year ended 30 June 2016 was NZ$14.0 million. The Group's net result was a profit of NZ$7.6 million after taking into account favorable non-cash derivative movements. Refer to page 8, Restatement of 30 June 2015 Financial Statements for further information.

KCS subscribed for the Convertible Note on 29 February 2016 providing the Company with net proceeds of NZ$23.7 million.

Included in the operating loss of NZ$14.0 million is NZ$2.6 million impairment of intangibles. The development expenditure had been capitalised as an intangible asset but has subsequently been impaired and expensed. This is because the required accounting tests to capitalise the development cost have not been met as these items have been superseded by new technology and will not be carried forward from the P12 prototype to the future series of aircraft to be sold to customers.

At balance date, the Company had net assets of NZ$35.3 million and cash and bank deposits of NZ$29.6 million. The reason for the restated 30 June 2015 financial statements 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 NZ$25.8 million.

The financial statements have been prepared using the going concern assumption. The considered view of the Directors - after making enquiries – is that we can reasonably expect that the Company will have access to adequate resources to continue operations for a 12-month period from the date of signing of these accounts. For this reason, the Directors consider the adoption of the going concern assumption in preparing the financial statements for the year ended 30 June 2016 to be appropriate.

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

Key considerations are set out below:

- A review of the operating cash flow forecasts prepared by management covering the 12-month period from August 2016, including a review of key assumptions made in preparing those forecasts (including our ability to continue to reduce our cost base via restructuring and through continued KCS GCI support).
- Continued strong support from our majority shareholder, KuangChi Science Limited, as evidenced by the provision of a Letter of Financial Support committing to provide adequate funds to the Company to enable us to complete the development and commercialisation of the Jetpack in the 12 months from the date of signing of the financial statements for the year ended 30 June 2016, providing there remains appropriate commercial rationale for the funding to be provided.
- Confidence in our ability to complete the Series 1 aircraft enabling capability demonstrations to be undertaken, which will underpin our ability to secure R&D funding and raise further share capital if required.

It must be noted, however, that the Company remains in the start-up phase of its operations, is pre revenue, and does not yet have a certifiable commercial product. As such the Directors must note that material uncertainty does exist and has been disclosed in this report, and that the going concern assumption is dependent on producing a Series 1 aircraft that can be used for capability demonstration, undertaking cost reduction initiatives, securing R&D funding and potentially raising sufficient cash through the issuance of further share capital. These dependencies create a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

KCS has provided a Letter of Financial Support to the Company for 12 months from the date of signature of these financial statements that provides a commitment to providing adequate funds to the Company to enable it to complete development and commercialisation of the Jetpack in 12 months from the date the financial statements for the year ended 30 June 2016.

All amounts noted in the financial statements are in New Zealand dollars (unless stated otherwise).

Series 1 Aircraft Update

The Company's existing principal focus is on completing the Series 1 Martin Jetpack assembly by the end of 2016, thereby allowing flight testing of the Series 1 aircraft to occur in early 2017. Potential customers have indicated that repeated demonstrations of the Jetpack will provide the confidence necessary to lead

to those customers placing orders. Other customers have indicated a desire to obtain early production aircraft to conduct their own trials. At an appropriate time during the flight testing of the Series 1 aircraft, potential customers will be provided with capability demonstrations.

Following ongoing engineering validation of the aircraft design, certain adjustments have had to be made to some of the original proposed technical specifications, predominately as a result of the Series 1 aircraft not complying with the expected target weight. As a result, the Series 1 aircraft is expected to have the following characteristics and performance targets:

General Characteristics

- Type – Experimental Airworthiness Certificate
- Optionally Piloted - single pilot or payload
- Aircraft Empty Weight – approximately 230kg
- Payload Including Fuel – 100kg
- Engine – Rotron Rotary 200hp, 30-hour time between overhaul
- Fuel Capacity – 40 litres
- Excludes on board starting function

Estimated Performance Targets

- Range – 15-20km
- Endurance (flight time) – 28 minutes
- Airspeed - 40km/h
- Altitude – 100kg total payload, 2,500 ft-AMSL (above mean sea level)

It should be noted that these new performance targets are engineering derived estimates and will be confirmed following the build of the Prototype 14 (P14), which is the test vehicle for the Series 1 aircraft, and subsequent live testing. This testing will start on the completion of the P14 build, which subject to supply chain delivery of parts, is expected to be in September 2016. Much of the data obtained through testing of the P14 will be directly transferable to the Series 1 aircraft.

A dedicated weight saving team has been established and in conjunction with verification from flight testing will drive design modifications to support weight reduction and performance improvements, both as upgrade packages to Series 1 and in future generations of aircraft. It is expected that other technical specifications will improve with each future series of aircraft.

Despite these technical adjustments, the Company continues to hold the view that the aircraft's capabilities remain world leading. Early Series 1 aircraft will be used as a marketing tool to demonstrate capability to potential customers to generate market interest. These capability demonstrations will be undertaken either directly by Martin Aircraft or through third parties in 2017. Based on prior customer feedback the Company remains optimistic that these capability demonstrations will lead to first sales and revenue generation.

Subject to generating the expected sales order book from Series 1 capability demonstrations and securing further funding, the Series 2 aircraft is currently planned to be designed and available for testing in late 2017.

Organisation

The Company had a workforce of 52 at 31 December 2015, which increased to a workforce of over 100 at the balance date. The primary hirings have been within the design engineering team including the substantiation and testing team who are responsible for the engineering design testing. Flight Operations and In Service Support personnel have been recruited in order to support a planned increase in flying. The Production team was also expanded to support a planned increase in delivery. In addition, further recruitments occurred in Marketing and Investor Relations. A minimal Head Office continues to support the technical, flight operations, production and marketing teams.

Following a Board review of the organisation and with a revision of expected production, a restructure of non-core positions has occurred. This will reduce costs and align the company structure with delivery of the Series 1 aircraft.

Technical Achievements

The Series 1 aircraft represents a step change in design for the Martin Jetpack. In addition to several new systems such as the engine and flight control system, the Series 1 aircraft brings an increased level of design rigour and, as a result, a greater level of reliability and occupant safety over its predecessor, the P12 aircraft.

1) Flight Control System (FCS)

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 (UTV) has been built specifically to test and tune the new flight control software.

Good overall progress has been made on the tuning of the aircraft handling, with gains providing a level of confidence for integration into the Series 1 aircraft.

The ballistic parachute system has completed the development phase and will be integrated with the experimental aircraft. An automated system is being examined with the use of a potential interim solution to allow earlier increased testing of the flight envelope.

2) Weight

A project team has been established to drive change to the aircraft's target weight. Currently the total aircraft weight including payload is 357kg with a target of 320kg. Whilst the weight reduction plan is achievable, the main challenge remains timing. Changes are scheduled to be implemented for the Series 1 build, which may require some level of trade off against the delivery schedule or potentially the retrofit of some new lightweight components. This is currently being managed by ongoing feedback from suppliers and constant assessment. The primary areas of focus are highlighted below:

a. Aircraft structure (carbon components and metallic fittings) is a key area of focus for weight saving, primarily landing gear, pilot module and the ducts
   i) significant savings available but very challenging in the timeframe. Close embedded management of design activities to compress schedules is underway
b. Engine
   i) looking at light-weight materials for the exhaust and air box (titanium instead of steel)
c. Drivetrain
   i) analysis completed that indicates increased thrust potential from modifying the fan speed which in turn impacts the drivetrain. This has lengthy lead-time challenges
   ii) package of work underway to lighten the drivetrain and streamline the manufacture to support Series 1

As a direct result of the schedule compression needed to implement weight savings whilst still enabling the four Series 1 aircraft to be built in the latter part of this year, the aircraft will be assembled concurrently. Any identified issues requiring rework will be addressed across all Jetpacks in build.

3) Structure and Integration

Good overall progress has been made with the release of the P14 drawings and the first airframe delivered. Final configuration drawings for the Series 1 aircraft are still in progress but this is not critical path. The key risk remains the delivery schedule for composite components, which has come under further pressure as a result of changes in the design to reduce weight.

4) Rotron - Engine

Time between overhaul remains the main challenge with the primary reason for the low figure being insufficient testing time to substantiate reliability. Endurance testing of the Rotron RT1200 has commenced and the target is to achieve a 30 hour time between overhaul (TBO) engine by year end. Plans have been implemented to achieve a 75-hour+ TBO engine in early 2017.

5) Production

The production team took over responsibility for the build of prototype aircrafts early in 2016 with the assembly of the P12.4 aircraft. This enabled training to take place and will lower risks associated with the assembly process when full production commences.

The build of P14.1 commenced on 15 August 2016 and is expected to be completed by the end of September 2016. Currently the main challenge/risk for manufacturing is on time delivery from the supply chain. This is both as a result of the weight reduction challenges and the fact that suppliers are manufacturing parts for the first time.

General Business

- The business has introduced a company-wide Safety Management System that not only supports the aviation activities but also meets the reporting requirements under the new Health & Safety Act and supports the new NZCAA Rule Part 100 (Safety Management) introduced in December 2015.
- The Company has implemented a high-quality aircraft maintenance and production control software system, pivotal in the safe production, operation and through-life support of an aviation system.
- To ensure the auditability of engineering drawings, software has been rolled out to support collaborative working and a recognised document storage system.
- The bulk of work has also been completed to support application for CAA Part 145 (Maintenance) and CAA Part 148 (Manufacturing) certifications. The schedule is for the documentation to be submitted to the CAA by the end of September. Part 146 (Design) certification has been postponed until early 2017 to mitigate the schedule challenges faced in delivering the Series 1 aircraft by the end of this year. Certification by the CAA as a Manufacturing and Maintenance organisation will represent a major milestone on the path to the Company becoming an internationally credible aviation business, giving potential customers increased confidence in our product.

Commercialisation

A number of commercial opportunities continue to be pursued with a view to generating future sales, including exploring potential distributorships particularly in the First Responder market.

We have attended air shows in Czech Republic, Germany, two shows in Dubai, India, Monaco and the United States with both our P12 static aircraft and the simulator. 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 subsidiary, 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.

Following significant interest at the shows and a number of letters of intent and memorandums of understanding being executed with potential customers, the Company continues to work towards securing distributorships and firm sales orders, although none have been secured yet. Accordingly, the short term sales focus has been narrowed to focus on working with a small number of beachhead customers, initially comprising Avwatch in the US and through KuangChi Science in China, to demonstrate the Series 1 capability. It is planned that this will enable the market to be proven, generate sales orders and secure further research and development and investment funding.

Subject to funding, it is likely that once the Series 2 aircraft is ready for market use the cost of each aircraft will be higher than originally anticipated. However, it is expected that this cost will reduce over time as production is scaled up and efficiencies delivered. The final cost of the product will be able to be determined only once final development of Series 1 is complete.

Certification Update

As previously disclosed, under the NZCAA Martin Aircraft has transitioned to experimental airworthiness for the current P12 series of aircraft.

Certification of the Series 1 and future aircraft going forward will now consist of two stages:

- Experimental – only flown by Martin Aircraft or suitably qualified pilots (beachhead customers)
- Restricted type certification – to allow us to extend to specific capabilities and markets

This approach is targeted to achieve certification in the minimum amount of time while leaving open the potential to expand Jetpack capabilities within the restricted category as required or once capability is added.

We believe the microlight and experimental certifications would have had a very limited customer base and have led to an extremely restricted use of the aircraft. The certification pathway, its timeline and cost is a fundamental aspect of Martin Aircraft's future direction as it will enable access to global markets. Currently the business is working closely with the NZCAA to finalise and agree a certification plan.

Martin Aircraft and the NZCAA have engaged the FAA in the United States regarding the possibility of establishing a joint path for certification in New Zealand and bilaterally with the FAA. Subject to agreement of the certification basis, this will reduce the time spent achieving certification in the United States. A further benefit to this approach is the additional credibility that FAA certification would give the Martin Jetpack since the FAA is globally recognised as a leading aircraft certification agency.

Following the meeting with the FAA the business has been working with the NZCAA to start to clarify the requirements for certification using Rule Part 27 (Light Rotorcraft) as the certification basis. This consists of reviewing all rule parts and agreeing individually the requirements for the Jetpack line by line. This can be one of four possible paths:

1) the Jetpack design will meet the requirements of the rule
2) the rule doesn't apply to the Jetpack design
3) we propose an alternative rule part that is an equivalent or appropriate standard
4) we propose our own method of providing an equivalent level of safety

Each rule must be agreed with the NZCAA to ensure future Jetpack design can be aligned with these requirements and meets with the CAA's expectations.

The total cost of the certification process is not known but based on the Company's estimates it is likely that the Company will need to raise further finance to complete the certification process. The Company is determining the best approach to obtain the necessary certification in a timely and cost effective manner. The Board will update shareholders with respect to the certification process at the appropriate time.

KuangChi Science Limited – Investment Agreement Update

Convertible Note Funding

In addition to KuangChi Science (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 Note 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).

On 29 February 2016 KCS subscribed for the Convertible Note providing the Company with net proceeds of NZ$23.7 million. In accordance with 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 Note was immediately converted by KCS and the Company issued 57,550,000 fully paid ordinary shares to KCS and 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. Refer to note 24 for further detailed information.

Hong Kong Joint Venture

Under the terms of the Investment Agreement, KCS had 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 proposed and the Company 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 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. Effective 10 April 2015 the Chinese Government issued a revision to the Catalogue of Industries for Guiding Foreign Investment (revision 2015). This revision now requires a Chinese mainland company to be the majority holder of an aviation company. Accordingly, HKCo ownership of any enterprise established in China cannot exceed 49%. 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 issued 80,325,000 fully paid ordinary shares to KCS and 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.

Subject to Takeovers Code and approval thresholds on the sale of its remaining 10% interest in HKCo, KCS will be issued the remaining 8,925,000 fully paid ordinary shares due to it. Refer to note 24 for further information.

Voting Power of KuangChi Science Limited

As a result of the above transactions, KCS has increased its holding in the Company to 52.0%. 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 the existing shareholder approval for the purposes of the New Zealand Takeovers Code.

Restatement of 30 June 2015 Financial Statements

The decision was made to change auditors to align and facilitate the audit process with the KuangChi Science group of companies to avoid having to dedicate more resources to the audit process and avoid incurring unnecessary costs. Consequently, at the 2015 AGM shareholders voted to appoint Deloitte NZ as auditors.

It is a requirement of the Companies 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 auditors, PwC, on the accounting treatment of the Investment Agreement with KCS under which KCS agreed to subscribe to a 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 30 June 2016 is the following:

- Fair Value loss of Derivative Liabilities in the Statement of Comprehensive Income $67.9 million (current year impact is $21.3 million gain) in Retained Earnings
- Share Capital in the Statement of Financial Position increasing by $63.3 million to recognise the Fair Value impact of the transactions
- Derivative Fair Value of Derivative Liabilities in the Statement of Financial Position $4.6 million represent the remaining 10% of the Joint Venture share swap
- Net Assets moved from negative $67.0 million at 31 December 2015 to positive Net Assets of $35.2 million at 30 June 2016

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

On the exercise of the 10% balance of the Hong Kong joint venture share swap option, the balance of the Fair Value gain or loss recognised will be transferred against share capital. At 30 June 2016 the amount to be transferred on exercising would have been $4.6 million.

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 Related Party Transaction note 24 the Convertible Note has been subscribed for and cash received of NZ$23.7 million on 29 February 2016. Further, the majority of the Hong Kong 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 have been accounted for in share capital in the period to 30 June 2016 and the Company's total equity has returned to positive.

The Directors believe that 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 in the 31 December 2015 and 30 June 2016 Financial Statements.

Looking forward

Looking forward the Company's immediate objectives are

- narrow focus to delivery of Series 1 aircraft
- reduce cost base
- demonstrate capability as commercially viable product and prove the market
- secure orders, R&D and further investment
- agree certification plan, costs and timeline to meet customer requirements
- ensure sustainability

On behalf of the Board I would like to thank all shareholders for their ongoing support of the Company and in particular KCS for its ongoing contribution to the Company. This is a clear indication of the commitment of our major shareholder.

Jon Mayson CNZM
Chairman
27 September 2016

THE MARTIN JETPACK GIVES YOU FREEDOM TO EXPLORE AND VENTURE TO PLACES THAT OTHERS CAN ONLY IMAGINE

EXPERIENCE THE FUTURE

BOARD OF DIRECTORS

JON MAYSON
CHAIRMAN OF THE BOARD

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

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

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

Jon is currently Chairman of Scales Corporation Limited, C3 Limited and Ziwipeak Limited. He is also a Director of Ports of Auckland, Te Arawa Group Holdings Ltd and Chiefs Rugby LP.

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

DR LIU RUOPENG
DIRECTOR

Dr Liu Ruopeng is the Chairman and executive Director of KuangChi Science Limited and also the Chairman of the Remuneration Committee of the company. Dr Liu joined the Group in August 2014. Dr Liu has been the president of the Kuang-Chi Institute of Advanced Technology, a private not-for-profit research organisation that focuses on science research, since 2010. He has been the director of the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology since 2012 and Vice Chairman of the National Technical Committee of Standardization for Electromagnetic Metamaterial Technology and Products since 2013. Dr Liu is also executive Vice Chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese, deputy to the Guangdong Provincial People's Congress, deputy to the Shenzhen Municipal People's Congress, Vice Chairman of the Shenzhen Federation of Industry and Commerce, a commissioner for recommending young talents to Shenzhen, a member of the Standing Committee of Shenzhen Youth Federation and a member of the Shenzhen-Hong Kong Youth Consulting Committee for Authority.

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

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

STEVE BAYLISS
DIRECTOR

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

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

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

DR LUAN LIN
DIRECTOR

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

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

HAMISH BELL
DIRECTOR

Hamish is a Chartered Member of the Institute of Directors and has a wealth of experience in both the private and listed company space in New Zealand and across Asia. A former PwC Partner and senior banker with the ANZ, he currently serves as an Independent Director or Chair of a number of large businesses across New Zealand and brings to the Company significant expertise in finance, equity investment and investor relations, as well as a strong understanding of international markets gained through his decade of experience in Asia.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MARTIN AIRCRAFT COMPANY LIMITED

Deloitte.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Martin Aircraft Company Limited and its subsidiaries ('the Group') on pages 16 to 56, which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 207B of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors are responsible on behalf of the company for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the consolidated 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 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 and Group. The firm has no other relationship with, or interest in, Martin Aircraft Company Limited or any of its subsidiaries.

Emphasis of Matter - Restatement

Without qualifying our opinion, we draw attention to Note 2 and 24 in the consolidated financial statements which detail 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 consolidated 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.

Emphasis of Matter - Going Concern

Also without qualifying our opinion, we draw attention to Note 2 (a) (i) in the consolidated financial statements which notes that the Group is still in the start-up phase of its operations so does not yet have a certifiable commercial product. The consolidated financial statements have been prepared on a going concern basis which is dependent on the Group producing the Series 1 aircraft that can be used for capability demonstration, undertaking cost reduction initiatives, securing research and development funding, raising sufficient cash through the issuance of further share capital (if required), and the ongoing financial support of the majority shareholder. These conditions, along with other matters as set forth in Note 2 (a) (i), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Opinion

In our opinion, the consolidated financial statements on pages 16 to 56 present fairly, in all material respects, the financial position of Martin Aircraft Company Limited and its subsidiaries as at 30 June 2016, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Deloitte

Chartered Accountants
CHRISTCHURCH, New Zealand
26 AUGUST 2016

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		FOR THE YEAR ENDED 30 JUNE 2016		
	Notes	30 June 2016 NZ$	30 June 2015 *Restated NZ$	30 June 2015 *Original NZ$
Revenue		49,351	51,144	51,144
Expenses				
Research and development expense	4	(1,785,527)	(1,872,783)	(1,872,783)
Impairment of intangibles	12	(2,597,979)	-	-
Other expenses	4	(9,603,432)	(4,024,159)	(4,024,159)
Total expenses		(13,986,938)	(5,896,942)	(5,896,942)
Operating loss		**(13,937,587)**	**(5,845,798)**	**(5,845,798)**
Net finance income	6	633,762	648,283	648,283
Share of losses from investment accounted for using the equity method	13	(49,253)	-	-
Fair value gain/(loss) on derivative liabilities	15	21,258,159	(89,148,563)	-
Profit/(loss) before income tax		**7,905,081**	**(94,346,078)**	**(5,197,515)**
Income tax expense	7	-	-	-
Profit/(loss) after income tax		**7,905,081**	**(94,346,078)**	**(5,197,515)**
Other comprehensive income, net of income tax		-	-	-
Items that may be reclassified subsequently to profit or loss		-	-	-
Exchange differences on translating foreign operations		(327,459)	-	-
Total comprehensive Profit/(loss) for the year		**7,577,622**	**(94,346,078)**	**(5,197,515)**
Profit/(loss) for the year attributed to		-	-	-
Owners of the Company		7,925,122	(94,346,078)	(5,197,515)
Non-controlling interests		(20,041)	-	-
		7,905,081	**(94,346,078)**	**(5,197,515)**

	FOR THE YEAR ENDED 30 JUNE 2016 (continued)			
	Notes	30 June 2016 NZ$	30 June 2015 *Restated NZ$	30 June 2015 *Original NZ$
Total comprehensive profit/(loss) for the year attributed to				
Owners of the Company		7,597,663	(94,346,078)	(5,197,515)
Non-controlling interests		(20,041)	-	-
		7,577,622	**(94,346,078)**	**(5,197,515)**
Earnings per share				
Basic	22	$0.03	($0.44)	($0.02)
Diluted	22	$0.03	($0.44)	($0.02)

* refer to note 2 for details of the restatement

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		AS AT 30 JUNE 2016		
	Notes	30 June 2016 NZ$	30 June 2015 *Restated NZ$	30 June 2015 *Original NZ$
ASSETS				
Current assets				
Cash and cash equivalents	8	12,608,236	11,571,319	11,571,319
Bank Deposits	8	17,022,468	12,000,000	12,000,000
Receivables	9	1,188,485	659,210	659,210
Inventory	10	430,978	-	-
Total current assets		**31,250,167**	**24,230,529**	**24,230,529**
Non-current assets				
Property, plant and equipment	11	1,828,657	793,335	793,335
Intangible assets	12	9,748,245	3,608,838	3,608,838
Total non-current assets		**11,576,902**	**4,402,173**	**4,402,173**
Total assets		**42,827,069**	**28,632,702**	**28,632,702**
LIABILITIES				
Current liabilities				
Trade and other payables	16	3,009,687	1,687,016	1,687,016
Fair value of derivative liabilities	15	4,551,073	98,041,511	-
Total current liabilities		**7,560,760**	**99,728,527**	**1,687,016**
Non-current liabilities				
Non-current borrowings	17	-	1,136,765	1,136,765
Total non-current liabilities		**-**	**1,136,765**	**1,136,765**
Total liabilities		**7,560,760**	**100,865,292**	**2,823,781**
Net assets		**35,266,309**	**(72,232,590)**	**25,808,921**
EQUITY				
Share capital	19	138,619,345	39,109,154	48,002,102
Retained earnings		(103,843,340)	(111,768,462)	(22,619,899)
Share option reserve	21	594,142	426,718	426,718

	AS AT 30 JUNE 2016 (continued)			
	Notes	30 June 2016 NZ$	30 June 2015 *Restated NZ$	30 June 2015 *Original NZ$
Foreign currency translation reserve		(327,459)	-	-
Non-controlling interests		223,621	-	-
Total equity		**35,266,309**	**(72,232,590)**	**25,808,921**

* refer to note 2 for details of the restatement

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		ATTRIBUTED TO OWNERS OF THE COMPANY					
	Notes	Share capital NZ$	Retained earnings NZ$	Share options reserve NZ$	Foreign currency translation reserve NZ$	Non-controlling Interest NZ$	Total equity NZ$
Balance as at 1 July 2014		**17,851,839**	**(17,449,005)**	**307,367**	**-**	**-**	**710,201**
Loss after income tax for the year		-	(5,197,515)	-	-	-	(5,197,515)
Total comprehensive loss for the year		**-**	**(5,197,515)**	**-**	**-**	**-**	**(5,197,515)**
Issue of share capital	19	4,623,178	-	-	-	-	4,623,178
Issue of share capital at initial public offering (IPO)	19	28,004,511	-	-	-	-	28,004,511
Issue of share capital from exercise of share options	19, 21	120,000	-	-	-	-	120,000
Issue of share capital from exercise of warrants	19	100,000	-	-	-	-	100,000
Increase in capital under share option schemes	19, 21	33,241	-	(33,241)	-	-	-
Increase in capital under warrant option	19	51,938	-	(51,938)	-	-	-
Share option expense	21	-	-	231,151	-	-	231,151
Lapsed share options	21	-	26,621	(26,621)	-	-	-
Cost of capital raising	19	(2,782,605)	-	-	-	-	(2,782,605)
Balance as at 30 June 2015		**48,002,102**	**(22,619,899)**	**426,718**	**-**	**-**	**25,808,921**
Prior period restatement*	2	(8,892,948)	(89,148,563)	-	-	-	(98,041,511)
Restated balance as at 30 June 2015		**39,109,154**	**(111,768,462)**	**426,718**	**-**	**-**	**(72,232,590)**
Balance as at 1 July 2015		**39,109,154**	**(111,768,462)**	**426,718**	**-**	**-**	**(72,232,590)**

		ATTRIBUTED TO OWNERS OF THE COMPANY (continued)					
		Share capital NZ$	Retained earnings NZ$	Share options reserve NZ$	Foreign currency translation reserve NZ$	Non-controlling Interest NZ$	Total equity NZ$
Profit after income tax for the year		-	7,925,122	-	-	(20,041)	7,905,081
Other comprehensive loss for the year		-	-		(327,459)	-	(327,459)
Total comprehensive profit for the year		**-**	**7,925,122**		**(327,459)**	**(20,041)**	**7,577,622**
Ordinary shares issued from exercise of convertible bond	19	24,783,333	-	-	-	-	24,783,333
Fair value transfer from exercise of convertible bond for ordinary shares	19	17,244,002	-	-	-	-	17,244,002
Ordinay shares issued in exchange for interest in KuangChi Martin Jetpack Limited	19	2,192,945	-	-	-	-	2,192,945
Fair value transfer from exercise of joint venture option for ordinary shares	19	54,988,277	-	-	-	-	54,988,277
Issue of share capital from exercise of share options	19, 21	220,001	-	-	-	-	220,001
Increase in capital under share option schemes	19, 21	77,955	-	(77,955)	-	-	-
Share option expense	21	-	-	245,379	-	-	245,379
Cost of capital raising	19	3,678	-	-	-	-	3,678
Additional non-controlling interest arising on the acquisition of KuangChi Martin Jetpack Limited		-	-	-	-	243,662	243,662
Balance as at 30 June 2016		**138,619,345**	**(103,843,340)**	**594,142**	**(327,459)**	**223,621**	**35,266,309**

* refer to note 2 for details of the restatement

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		FOR THE YEAR ENDED 30 JUNE 2016	
	Notes	30 June 2016 NZ$	30 June 2015 NZ$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		49,351	51,144
Interest received		588,514	152,676
Tax received/(paid)		(43,424)	(37,611)
Payments to suppliers and employees		(10,265,644)	(5,555,251)
Net cash outflow from operating activities	20	**(9,671,203)**	**(5,389,042)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash recognised on acquisition	14	4,823,377	-
Purchase of property, plant and equipment		(1,495,839)	(660,472)
Purchase of intangibles		(8,821,085)	(2,615,784)
Purchase of equity investments	13	(2,390,306)	-
Transfer (to)/from bank deposits		(5,022,468)	(12,000,000)
Net cash outflow from investing activities		**(12,906,321)**	**(15,276,256)**
CASH FLOW FROM FINANCING ACTIVITIES			
Loans	17	-	1,136,765
Issue of ordinary shares		23,929,406	30,065,083
Net cash inflow from financing activities		**23,929,406**	**31,201,848**
Net increase in cash and cash equivalents		**1,351,882**	**10,536,550**
Cash and cash equivalents, beginning of period		11,571,319	701,618
Foreign exchange gain on cash		(314,965)	333,151
Cash and cash equivalents, end of period	8	**12,608,236**	**11,571,319**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

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

The consolidated financial statements presented are for Martin Aircraft Company Limited and its subsidiaries (together referred to as the Group). Details of its subsidiaries and their principal activities are detailed in note 14.

These consolidated financial statements have been approved for issue by the Board of Directors on 31 August 2016.

2. Summary of significant accounting policies

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

(a) Basis of preparation

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

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

The consolidated financial statements have been prepared on the basis of historical cost and on a going concern basis. Cost is based on the fair values of the consideration given in exchange for assets. As noted in 2(b) the application of the going concern assumption is a key judgement.

The financial statements are presented in New Zealand dollars.

i. Going concern

The financial statements have been prepared using the going concern assumption. The considered view of the Directors - after making enquiries – is that we can reasonably expect that the Company will have access to adequate resources to continue operations for a 12-month period from the date of signing of these accounts. For this reason, the Directors consider the adoption of the going concern assumption in preparing the financial statements for the year ended 30 June 2016 to be appropriate.

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

Key considerations are set out below:

- A review of the operating cash flow forecasts prepared by management covering the 12-month period from August 2016, including a review of key assumptions made in preparing those forecasts (including our ability to continue to reduce our cost base via restructuring and through continued KCS GCI support).

- Continued strong support from our majority shareholder, KuangChi Science Limited, as evidenced by the provision of a Letter of Financial Support committing to provide adequate funds to the Company to enable us to complete the development and commercialisation of the Jetpack in the 12 months from the date of signing of the financial statements for the year ended 30 June 2016, providing there remains appropriate commercial rationale for the funding to be provided.
- Confidence in our ability to complete the Series 1 aircraft enabling capability demonstrations to be undertaken, which will underpin our ability to secure R&D funding and raise further share capital if required.

The Group still remains in the start-up phase of its operations, is pre revenue, does not have a certifiable commercial product and is investing to complete the Series 1 aircraft to enable capability demonstration in early 2017. The Group has recorded a net profit before tax of $7.9m for the year ended 30 June 2016. The Group invested $10.2m on the development of a production asset and in R&D and flight testing and data analysis (Flight Operations), a 117% increase over the same period last year to enable further development of the aircraft.

As at 30 June 2016 the Group has cash and cash equivalents of $12.6m (2015: $11.6m) and bank deposits of $17.0m (2015: 12.0m). Net cash outflow from operating activities for the year ended 30 June 2016 was $9.67m (2015: $5.39m) and the net cash outflow from investing activities was $12.9m (2015: $15.3m). The Group raised $23.9m of capital during the year via conversion of a Convertible Note $23.7m and exercise of options $0.2m.

The Group has prepared financial forecasts that indicate that cash on hand at year-end, combined with costs savings from KCS GCI undertaking some MJP functions, cost reduction from restructuring, securing R&D funding and the potential issuance of new share capital subsequent to year-end, will enable the Group to continue operating and satisfy its going concern requirements.

As noted above, the going concern assumption is dependent on producing the Series 1 aircraft that can be used for capability demonstration, undertaking cost reduction initiatives, securing R&D funding and potentially raising sufficient cash through the issuance of further share capital. These dependencies create a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding these dependencies the Directors are confident that the Group remains a going concern and are confident of being able to

- reduce the cost base via restructuring and KCS GCI support
- complete the Series 1 aircraft to enable capability demonstrations to be undertaken
- secure R&D funding
- raise further share capital if required

Accordingly, the Directors believe the going concern assumption is valid and have reached this conclusion having regard to the circumstances, which they consider likely to affect the Group during the period of one year from the date these financials are approved, and to circumstances that they believe will occur after that date, which could affect the validity of the going concern assumption.

If the Group were unable to continue in operational existence, and pay debts as and when they become due and payable, adjustments would have to be made to reflect the situation that assets may need to be realised and liabilities extinguished, other than in the normal course of business and at amounts that could differ significantly from the amounts at which they are currently recorded in the balance sheet.

ii. Historical cost convention

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

(b) Critical accounting estimates and assumptions

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

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

Key Sources of Estimation Uncertainty and Key Judgements include the following:
- the Group assesses whether there are indications of impairment for finite life intangibles comprising patents and trademarks
  - As at 30 June 2016 the Group has determined that there is impairment of capitalised development costs of $2.6m (note 12).
  - As at 30 June 2016 the Group has determined that there are no indications of impairment for finite life intangible assets (trademarks) and other items of plant, property and equipment.
- determining the fair value of share based payments made during the period required management to exercise their judgement as to the fair value of the shares issued in return for employment services received by the company (note 21)
- the application of the going concern assumption (note 2(a)(i))
- fair value of derivative investments (note 15)

(c) Basis of consolidation

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

Control is achieved when the Company
- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee
- has the ability to use its power to affect its returns

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including
- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders
- potential voting rights held by the Company, other vote holders or other parties
- rights arising from other contractual arrangements
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings

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

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

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

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

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

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

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

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

(d) Investments in associates and joint ventures

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

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

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

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

(e) Foreign currency translation

i. Functional and presentation currency

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

ii. Foreign currency transactions

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

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

iii. Foreign operations

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

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

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

(f) Revenue recognition

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

Revenue is recognised as follows:

i. Sales of goods

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

ii. Sales of services

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

iii. Interest income

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

(g) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

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

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

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

(h) Goods and services tax (GST)

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

(i) Leases

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

(j) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

(k) Cash and cash equivalents

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

(l) Inventories

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

(m) Other receivables

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

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

(n) Financial assets

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

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

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

(o) Property, plant and equipment

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

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

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

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

Capital work in progress is not depreciated until commissioned.

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

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

(p) Intangible assets

i. Research and development

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

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

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

ii. Intellectual Property

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

iii. Computer Software

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

(q) Trade and other payables

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

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

(r) Compound financial instruments

Compound financial instruments comprise Convertible Notes that can be converted to share capital at the option of the holder and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option.

The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

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

(s) Financial liabilities

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

i. Derivative financial instruments

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

ii. Other financial liabilities

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

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

iii. Derecognition of financial liabilities

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

(t) Share capital

Ordinary 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.

(u) Employee benefits

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

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

Equity settled share based compensation

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

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

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

The fair value of the options granted is measured using the Black-Scholes valuation model, taking into account the terms and conditions upon which the options are granted. When options are exercised,

the Company issues new shares and the amount in the share options reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital.

(v) Dividends

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

(w) Segment reporting

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

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

(x) Standards, interpretations and amendments to published standards

There are no new accounting standards or amendments to existing standards that have been adopted by the Group for the period ended 30 June 2016.

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

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

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

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

NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction contracts and is applicable

to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group has yet to assess NZ IFRS 15's full impact. The Group will apply this standard from 1 July 2018.

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

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

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

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

(y) 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 Note (as detailed in note 24) was 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 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 Note 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 Note did not meet the definition of equity under NZ IAS 32 because

- KCS is entitled to payment in cash of the face value of the Note 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 do 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 Hong Kong Joint Venture Swap Share Option (as detailed in note 24) 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 (KCS) 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 15.

	FOR THE YEAR ENDED 30 JUNE 2016		
Impact on Statement of Financial Position - 30 June 2015	Original Balance NZ$	Restatement amount NZ$	Restated Balance NZ$
Current liabilities			
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
Equity			
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)
Impact on Restated Statement of Comprehensive Income - 30 June 2015			
Fair value loss on derivative liabilities	-	(89,148,563)	(89,148,563)
Impact on earnings per share			
Basic	($0.02)	($0.42)	($0.44)
Diluted	($0.02)	($0.42)	($0.44)

3. Segment reporting

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

4. Expenses

Material other expenses from the Statement of Comprehensive Income comprise the following:

	FOR THE YEAR ENDED 30 JUNE 2016		
	Notes	30 June 2016 NZ$	30 June 2015 NZ$
Audit fees	5	72,123	50,600
Directors fees	24	291,062	182,309
Listing fees		133,874	426,302
Employee expense		3,580,900	1,003,681
Legal fees		167,801	173,257
Consultants		1,175,171	434,728
Marketing expenses		683,972	499,323
Freight and courier		160,501	39,753
Travel		649,586	7,746
Operating lease expense		445,970	294,564
Depreciation	11	365,489	78,567
Loss on disposal of fixed assets	11	2,646	-
Amortisation of intangibles	12	291,439	62,799
Share option expense	21	245,379	231,151
Other costs		1,337,519	539,379
Total other expenses		**9,603,432**	**4,024,159**

Research and development expense for the year includes $1,740,122 (2015:483,115) relating to flight testing and data analysis (Flight Operations).

5. Remuneration of auditors

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

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 NZ$
Audit of Financial Statements		
Audit and review of financial statement -PwC	18,123	50,600
Audit and review of financial statements - Deloitte	54,000	-
	72,123	50,600
Other Services Performed by PwC		
Services in relation to initial public offering and raising of additional capital	-	150,250
Tax compliance services	9,650	24,000
Performed by Deloitte		
Research advisory services	2,695	-
	12,345	174,250
Total fees paid to auditors	**84,468**	**224,850**

6. Net finance income

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 NZ$
Interest income	591,266	319,004
Foreign exchange gain	42,811	329,280
Total finance income	**634,077**	**648,284**
Interest expense	(315)	(1)
Total finance costs	**(315)**	**(1)**
Total net finance income	**633,762**	**648,283**

7. Income taxation

	FOR THE YEAR ENDED 30 JUNE 2016		
	30 June 2016 NZ$	30 June 2015 *Restated NZ$	30 June 2015 *Original NZ$
(i) Current taxation			
Income tax (payable)/refundable	137,465	93,413	93,413
(ii) Reconciliation of effective tax rate			
Profit/(loss) before income tax	7,905,081	(94,346,078)	(5,197,515)
Prima facie taxation @ 28% (2015: 28%)	2,213,423	(26,416,902)	(1,455,304)
Less taxation effect of			
permanent differences	(5,049,054)	25,151,115	189,517
temporary differences	80,938	552,336	552,336
	(2,754,693)	(713,451)	(713,451)
Deferred tax asset not recognised	2,754,693	713,451	713,451
Tax expense	-	-	-
Represented by			
Current tax	-	-	-
Deferred tax	-	-	-
Income tax expense	**-**	**-**	**-**
Accumulated tax losses			
Balance at beginning of period	2,548,039	4,795,413	4,795,413
Adjustment continuity breach	-	(4,795,413)	(4,795,413)
Tax loss for period	9,838,190	2,548,039	2,548,039
Balance at end of period	**12,386,229**	**2,548,039**	**2,548,039**

* refer to note 2 for details of the restatement.

	FOR THE YEAR ENDED 30 JUNE 2016 (continued)	
	30 June 2016 NZ$	30 June 2015 NZ$
(iii) Imputation Credits		
Balance at end of year	**137,465**	**93,413**

8. Cash and Bank Deposits

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 NZ$
Cash at bank	1,046,251	297,537
Deposits at call and short-term deposits	11,561,985	11,273,782
Total cash and cash equivalents	**12,608,236**	**11,571,319**
Bank deposits	17,022,468	12,000,000
Total cash at bank	**29,630,704**	**23,571,319**

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

9. Receivables

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 NZ$
Other receivables	659,172	76,585
Tax receivable	137,465	93,412
Accrued interest income	169,234	166,328
GST	222,614	322,885
Total receivables	**1,188,485**	**659,210**

10. Inventories

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 NZ$
Inventory at cost	430,978	-
Total inventory	**430,978**	**-**

11. Property, plant and equipment

	FOR THE YEAR ENDED 30 JUNE 2016			
	Land and Buildings NZ$	Motor Vehicles NZ$	Property, Plant and Equipment NZ$	Total NZ$
Cost at 1 July 2014		**14,358**	**209,323**	**223,681**
Additions	-	43,078	748,308	791,386
Disposals	-	-	(4,324)	(4,324)
Cost at 30 June 2015	**-**	**57,436**	**953,307**	**1,010,743**
Additions	336,745	113,488	951,848	1,402,081
Disposals	-	-	(7,620)	(7,620)
Cost at 30 June 2016	**336,745**	**170,924**	**1,897,535**	**2,405,204**
Accumulated depreciation at 1 July 2o14	**-**	**9,868**	**133,297**	**143,165**
Depreciation	-	1,760	76,807	78,567
Disposals	-	-	(4,324)	(4,324)
Accumulated depreciation at 30 June 2o15	**-**	**11,628**	**205,780**	**217,408**
Depreciation	10,759	29,626	325,104	365,489
Disposals	-	-	(6,350)	(6,350)
Accumulated depreciation at 30 June 2o16	**10,759**	**41,254**	**524,534**	**576,547**
Net book value 30 June 2015	**-**	**45,808**	**747,527**	**793,335**
Net book value 30 June 2016	**325,986**	**129,670**	**1,373,001**	**1,828,657**

12. Intangible assets

	FOR THE YEAR ENDED 30 JUNE 2016			
	Software NZ$	Development Asset NZ$	Patents NZ$	Total NZ$
Cost at 1 July 2014	**111,521**	**-**	**357,603**	**469,124**
Additions	276,628	2,864,676	167,247	3,308,551
Cost at 30 June 2015	**388,149**	**2,864,676**	**524,850**	**3,777,675**
Additions	494,884	8,408,414	125,527	9,028,825
Cost at 30 June 2016	**883,033**	**11,273,090**	**650,377**	**12,806,500**
Accumulated amortisation at 1 July 2014	**93,517**	**-**	**12,521**	**106,038**
Amortisation	46,944	-	15,855	62,799
Accumulated amortisation at 30 June 2015	**140,461**	**-**	**28,376**	**168,837**
Amortisation	266,337	-	25,102	291,439
Impairment	-	2,597,979	-	2,597,979
Accumulated amortisation and impairment at 30 June 2016	**406,798**	**2,597,979**	**53,478**	**3,058,255**
Net book value at 30 June 2015	**247,688**	**2,864,676**	**496,474**	**3,608,838**
Net book value at 30 June 2016	**476,235**	**8,675,111**	**596,899**	**9,748,245**

Included in development asset cost capitalised during the year is $2,528,141 of salary costs (2015: $788,048).

Development assets have been reviewed to ensure the recognition criteria of NZ IAS 38 continues to be met. In particular, key judgements around the ability of the Group to demonstrate the technical feasibility of completing the asset and having the adequate financial resources to complete the development have been assessed as being met. A letter of support from the major shareholder KCS has assisted the Directors in making this assessment.

However, as a result of the assessment, the Directors have derecognized and impaired $2.6 million of development assets at 30 June 2016. This is because the required accounting tests to capitalise certain components of the development cost have not been met as these items have been superseded by new technology and will not be carried forward from the P12 prototype to the future series of aircraft to be sold to customers. Therefore, there is not an ongoing benefit from these costs.

13. Investment accounted for using the equity method

Details of the Group's joint ventures at the end of the reporting period is as follows:

			PROPORTION OF OWNERSHIP INTEREST AND VOTING POWER HELD BY COMPANY	
Name of Joint Venture	Principal activity	Place of incorporation and Operation	30 June 2016	30 June 2015
KuangChi Martin Jetpack Limited	Commercialising Jetpacks in China and Hong Kong	Hong Kong	95%	0%

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

	30 June 2016 NZ$	30 June 2015 NZ$
Opening share of net assets at 1 July	-	-
Issued shares in KMJ joint venture company (cash paid)	2,390,305	-
Share of losses from investment accounted for using the equity method	(49,253)	-
Reclassification KMJ from joint venture investment to subsidiary	(2,341,052)	-
Closing share of net assets	-	-

The above joint ventures are accounted for using the equity method until 29 February 2016 when it became a subsidiary.

KuangChi Martin Jetpack Limited

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 24, 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 granted KCS an option to sell to the Company at any time on or before 22 August 2017 KCS' 51% interest in KMJ. On 29 February 2016 the option to sell a 46% interest in KMJ was exercised. With the exercise of the option the Company's interest in KMJ increased to 95% and the nature of the investment changed to an investment in a subsidiary (refer note 14).

14. Acquisition of subsidiary

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired %	Consideration Transferred $
KuangChi Martin Jetpack Limited	Commercialising Jetpacks in China and Hong Kong	29/02/2016	46%	2,192,945

On 29 February 2016, the Company's equity interest in KuangChi Martin Jetpack Limited increased from 49% to 95%, resulting in the Company obtaining control of KuangChi Martin Jetpack Limited. The equity interest increased with the exercise of the Hong Kong joint venture share swap option (refer note 24). The consideration transferred with the exercise of the Hong Kong share swap option was the fair value of the net assets in KuangChi Martin Jetpack Limited at the date of acquisition.

Assets acquired and liabilities recognised at the date of acquisition	$NZ
Cash and cash equivalents	4,823,377
Receivables	9,584
Trade and Other payables	(55,302)
	4,777,659

15. Derivative financial liabilities

	FOR THE YEAR ENDED 30 JUNE 2016		
	30 June 2016 NZ$	30 June 2015 * Restated NZ$	30 June 2015 *Original NZ$
Derivative liability - Joint Venture Company Option	4,551,073	73,386,510	-
Derivative liability - Convertible Notes	-	24,655,001	-
Total derivatives	**4,551,073**	**98,041,511**	**-**

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 30 June 2016 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), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets

for identical assets or liabilities

- Level 2 fair value measurements are those defined from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- 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.

Financial instrument - Fair value at	Intital Recognition	30 June 2015 * Restated	30 June 2016
Joint Venture Company Option	3,482,699	73,386,510	4,551,073
Convertible Notes	5,410,249	24,655,001	-
	8,892,948	98,041,511	4,551,073

* refer to note 2 for details of the statement.

		SIGNIFICANT UNOBSERVABLE INPUTS		
Financial instrument	Valuation techniques and key inputs used in determining fair value	Intital recognition	30 June 2015 *Restated	30 June 2016
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: 53.86% Discount rate: 22.5% 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 fee 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 fee rate: 2.18% Discount rate: 17.95% Perpetual growth rate: 2% Exercise price: A$0.4/share Market price: A$0.755/share	n/a

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

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

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

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 *Restated NZ$
Opening fair value	98,041,511	-
Initial fair value on transaction date	-	8,892,948
Fair value (gain)/loss through profit or loss	(21,258,159)	89,148,563
Fair value transferred to share capital on the exercise of JV company option	(54,988,277)	-
Fair value transferred to share capital on the conversion of convertible note	(17,244,002)	-
Closing fair value	**4,551,073**	**98,041,511**

* refer to note 2 for details of the retstatement.

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$0.51 at 30 June 2016.

16. Trade and other payables

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 NZ$
Trade payables	1,048,877	777,058
Payables due to related parties (note 24)	33,336	27,857
Accrued expenses	1,619,218	764,595
Employee entitlements	308,256	117,506
Total trade and other payables	**3,009,687**	**1,687,016**

17. Borrowings

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 NZ$
Current borrowings	-	-
Non-current borrowings	-	1,136,765
Total borrowings	**-**	**1,136,765**

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. On 29 February 2016 the loan was repaid in full by way of offsetting the loan amount against the Convertible Note subscription price payable by KuangChi Science Limited on subscription of the Convertible Note.

18. Deferred tax assets and liabilities

Accumulated tax losses have not been recognised as a deferred tax asset as it is not expected that the requisite shareholder continuity for carry forward of tax losses will be maintained and the lack of probability the Group will generate future taxable income for the losses to be utilised. Total tax losses as at 30 June 2016 amounted to $12,386,229 (30 June 2015 $2,548,039).

Research and development costs have been carried forward for tax purposes amounting to $7,985,376 (30 June 2015 $7,956,876).

19. Share capital

		FOR THE YEAR ENDED 30 JUNE 2016		
	Note	30 June 2016	30 June 2015 *Restated	30 June 2015 *Original
Ordinary Shares				
Value $				
Opening share capital		39,109,154	13,251,839	13,251,839
Shares Issued:				
Issue of share capital		-	4,623,178	4,623,178
Issue of share capital at initial public offering (IPO)		-	28,004,511	28,004,511
Ordinary shares issued from convertible preference shares		-	4,600,000	4,600,000
Issue of share capital from exercise of share options		220,001	120,000	120,000
Issue of share capital from exercise of warrants		-	100,000	100,000
Increase in capital under share option schemes		77,955	33,241	33,241
Increase in capital under warrant option		-	51,938	51,938
Fair value transfer from exercise of convertible bond for ordinary shares	15	17,244,002	-	-
Ordinay shares issued from exercise of convertible bond		24,783,333	-	-
Fair value transfer from exercise of joint venture option for ordinary shares	15	54,988,277	-	-
Ordinay shares issued in exchange for interest in KuangChi Martin Jetpack Limited		2,192,945	-	-
Cost of capital raising		3,678	(2,782,605)	(2,782,605)
Decrease in capital under Convertible Note		-	(5,410,249)	-
Decrease in capital under share swap option		-	(3,482,699)	-
Closing share capital		**$138,619,345**	**$39,109,154**	**$48,002,102**
Number:				
Opening number of shares on issue		245,294,108	10,681,211	10,681,211
Shares issued:				
Ordinary shares issued		-	13,609,918	13,609,918

	FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)			
	Note	30 June 2016	30 June 2015 * Restated	30 June 2015 * Original
Ordinary shares issued at initial public offering (IPO)		-	67,500,000	67,500,000
Share split (10:1)		-	97,330,609	97,330,609
Ordinary shares issued from convertible preference shares		-	55,172,370	55,172,370
Ordinay shares issued from exercise of share options		916,670	500,000	500,000
Ordinay shares issued under warrant option		-	500,000	500,000
Ordinay shares issued from exercise of convertible bond	24	61,208,728	-	-
Ordinay shares issued in exchange for interest in KuangChi Martin Jetpack Limited	24	89,445,000	-	-
Total number of shares on issue		**396,864,506**	**245,294,108**	**245,294,108**
Convertible Preference Shares Value $				
Opening convertible preference shares		-	4,600,000	4,600,000
Conversion of convertible preference shares to ordinary shares		-	(4,600,000)	(4,600,000)
Closing Convertible Preference Shares		**-**	**-**	**-**
Number:				
Opening convertible preference shares		-	5,517,237	5,517,237
Share split (10:1)		-	49,655,133	49,655,133
Conversion of convertible preference shares to ordinary shares			(55,172,370)	(55,172,370)
Closing convertible preference shares		**-**	**-**	**-**
Total Share Capital				
Value		**$138,619,345**	**$39,109,154**	**$48,002,102**
Number		**396,864,506**	**245,294,108**	**245,294,108**

* refer to note 2 for details of the restatement

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 year.

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

During the financial period to 30 June 2016, 916,670 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 year (12 months to 30 June 2015: Nil).

In accordance with the Constitution the Convertible Preference Shares (CPS) automatically converted to fully paid ordinary shares with effect from the date of the offer close on 13 February 2015.

Capital Management
The Company's objectives when managing capital are to safeguard its ability to continue as a going concern so that the Company can achieve its objectives of developing commercial Jetpack products. 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; however, under the IPO Investment Agreement with KuangChi Science Limited (KCS), amongst other things KCS approval is required to issue new equity securities.

On listing on 24 February 2015, 3,980,489 shares were placed in ASX compulsory escrow for 12 months, 67,389,024 shares were placed in ASX compulsory escrow for 24 months and 46,691,060 shares were held in voluntary escrow until December 2015. At balance date 67,389,024 shares remain in escrow until February 2017 (refer Statutory Information).

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

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

	FOR THE YEAR ENDED 30 JUNE 2016		
	30 June 2016 NZ$	30 June 2015 * Restated NZ$	30 June 2015 * Original NZ$
Profit/(loss) after income tax	7,905,081	(94,346,078)	(5,197,515)
Non-cash Items			
Depreciation	365,489	78,567	78,567
Amortisation of intangibles	291,439	62,799	62,799
Loss on disposal of fixed assets	2,646	-	-
Share option expenses	245,379	231,151	231,151
Foreign exchange gain on monetary assets	(76,449)	(333,151)	(333,151)
Share of losses from investment accounted for using the equity method	49,253	-	-
Impairment of intangibles	2,597,979	-	-
Fair value gain on derivative liabilities	(21,258,159)	89,148,563	-
Other	(42,344)	-	-
Changes in			
Increase/(decrease) in trade and other payables	1,322,670	1,194,497	1,194,497
Decrease /(increase) in trade and other receivables	(529,275)	(601,710)	(601,710)
Decrease /(increase) in inventory	(430,978)	-	-
Less items classified as investing and financing activities	(113,934)	(823,680)	(823,680)
Net Cash flow from operating activities	**(9,671,203)**	**(5,389,042)**	**(5,389,042)**

* refer to note 2 for details of the restatement

21. 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. The vesting period is normally over three years.

At 30 June 2016 there are 3,150,000 options remaining to be exercised under this legacy 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 5 years. Payment must be made in full for all options exercised on the dates they are exercised.

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

During the period to 30 June 2016 there were no options issued or cancelled.

At 30 June 2016 there are 4,640,000 options remaining to be exercised under this new scheme (June 2015: 4,640,000).

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

Expiry Month	Exercise Month	Exercise Price	June 2016 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
Jan 2016	Jan 2013	$0.24	-	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

(continue)

Expiry Month	Exercise Month	Exercise Price	June 2016 No. of Shares	June 2015 No. of shares
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
			7,790,000	**8,706,670**

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

	AS AT 30 JUNE 2016		AS AT 30 JUNE 2015	
	Weighted average exercise price $ per share	Options	Weighted average exercise price $ per share	Options
Balance at beginning of year	$0.34	8,706,670	$2.40	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	(916,670)	$0.24	(500,000)
Lapsed	n/a	-	$0.34	(680,830)
Balance at end of year	**$0.35**	**7,790,000**	**$0.34**	**8,706,670**

22. 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.

	FOR THE YEAR ENDED 30 JUNE 2016		
	30 June 2016 NZ$	30 June 2015 *Restated NZ$	30 June 2015 *Original NZ$
Profit/(loss) after income tax attributable to shareholders	**7,925,122**	**(94,346,078)**	**(5,197,515)**
Ordinary number of shares	396,864,506	245,294,108	245,294,108
Weighted average number of shares on issue	296,141,846	214,455,637	214,455,637
Basic earnings/(loss) per share	**0.03**	**(0.44)**	**(0.02)**
Diluted earnings/(loss) per share	**0.03**	**(0.44)**	**(0.02)**

* refer to note 2 for details of the restatement

23. Financial instruments

Credit Risk

Financial instruments that potentially subject the Group to credit risk principally consist of bank balances - the maximum potential exposure to credit risk is $29,630,704 (30 June 2015: $23,571,319). The Group 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 Group has not provided any guarantees or collateral and has no securities registered against it.

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

Concentrations of Credit Risk

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

Liquidity Risk

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

Foreign Exchange Risk

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

The Group holds cash of NZ$4,478,451 in HKD at 30 June 2016. If the HKD was to appreciate by 10% the effect would be an increase of $447,845 to other comprehensive income.

The Group has a derivative financial liability of NZ$4,551,073 that is denominated in AUD. If the derivative were to increase in value by 10% the effect would be an increase of $455,107 to the profit or loss for the period.

Cash Flow and Fair Value Interest Rate Risk

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

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

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

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

Financial Instruments by Category and Level of Fair Value Hierarchy
The Group's financial instruments consist of cash and cash equivalents and other receivables, which are all categorised as "loans and receivables". Trade and accrued expenses are classified as liabilities at amortised cost. The fair value of these instruments is considered approximately equal to their carrying amount. The Group has no "financial assets or liabilities at fair value through the profit and loss", with the exception of the financial liabilities disclosed in note 15.

24. Related party transactions

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

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 NZ$
Salaries and other short-term benefits paid	1,513,919	941,454
Directors fees paid	291,062	182,309
Directors due diligence and IPO fees	-	300,860
Directors IPO share based payments	-	354,093
Share based payments	245,379	231,151
Consulting fees paid to G Martin	-	120,000
	2,050,360	**2,129,867**

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 $33,336 for Director fees payable to Dennis Chapman.

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.

The Investment Agreement consisted of a series of transactions whereby KCS

- provide an interest free unsecured loan of A$1 million (note 17)
- 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 (note 19)
- subscribe for a zero coupon note 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

Prior to the financial period KCS had

- provided an A$1.0m interest free loan to the Company on 31 December 2014 (note 17)
- 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 been allotted 52,500,000 (40.8 million to KCS and 11.7 million to KCS' financial adviser REORIENT Group Limited) new fully paid ordinary shares under the IPO at an issue price of A$0.40 per share, representing an aggregate investment of A$21 million (note 19)

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 (note 19)

In accordance with the terms of the Investment Agreement between the Company and KCS dated 19 December 2014, the Company agreed to issue KCS with a Convertible Note with a total face value of A$23,020,000 convertible to fully paid ordinary shares in the Company.

On 29 February 2016 KCS subscribed for the Convertible Note providing the Company with net proceeds after set off of the A$1.0m interest free 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 Note 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 Note, the Company 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 subscribed for, issued and converted into fully paid ordinary shares. The Company's obligations, and KCS' rights with respect to the Convertible Note are now fully extinguished.

Hong Kong Joint Venture Company (note 19)
Under the terms of the Investment Agreement, the Company and KCS agreed to establish a company, to be incorporated in Hong Kong, of which 49% of the issued share capital would be held by the Company and 51% held by KCS (HKCo).

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

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

Following discussions between KCS and the Company, KCS decided to exercise its option to sell 90% of its interest in HKCo to the Company on 29 February 2016. 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 now owns a 95% interest in HKCo.

In consideration for the transfer of the 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 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 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.

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

Voting Power of Kuang-Chi Science Limited

As a result of the above transactions, KCS increased its shareholding 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.

US Company

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

25. Commitments and contingencies

The following details commitments associated with the Company.

(a) Capital commitments

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

(b) Lease commitments: Company as lessee

The Company leases a premise 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.

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 hanger until 31 May 2033.

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

	FOR THE YEAR ENDED 30 JUNE 2016	
	30 June 2016 NZ$	30 June 2015 NZ$
No later than 1 year	351,183	308,435
Later than 1 year and no later than 5 years	624,724	852,741
Later than 5 years	143,000	-
Total	**1,118,907**	**1,161,176**

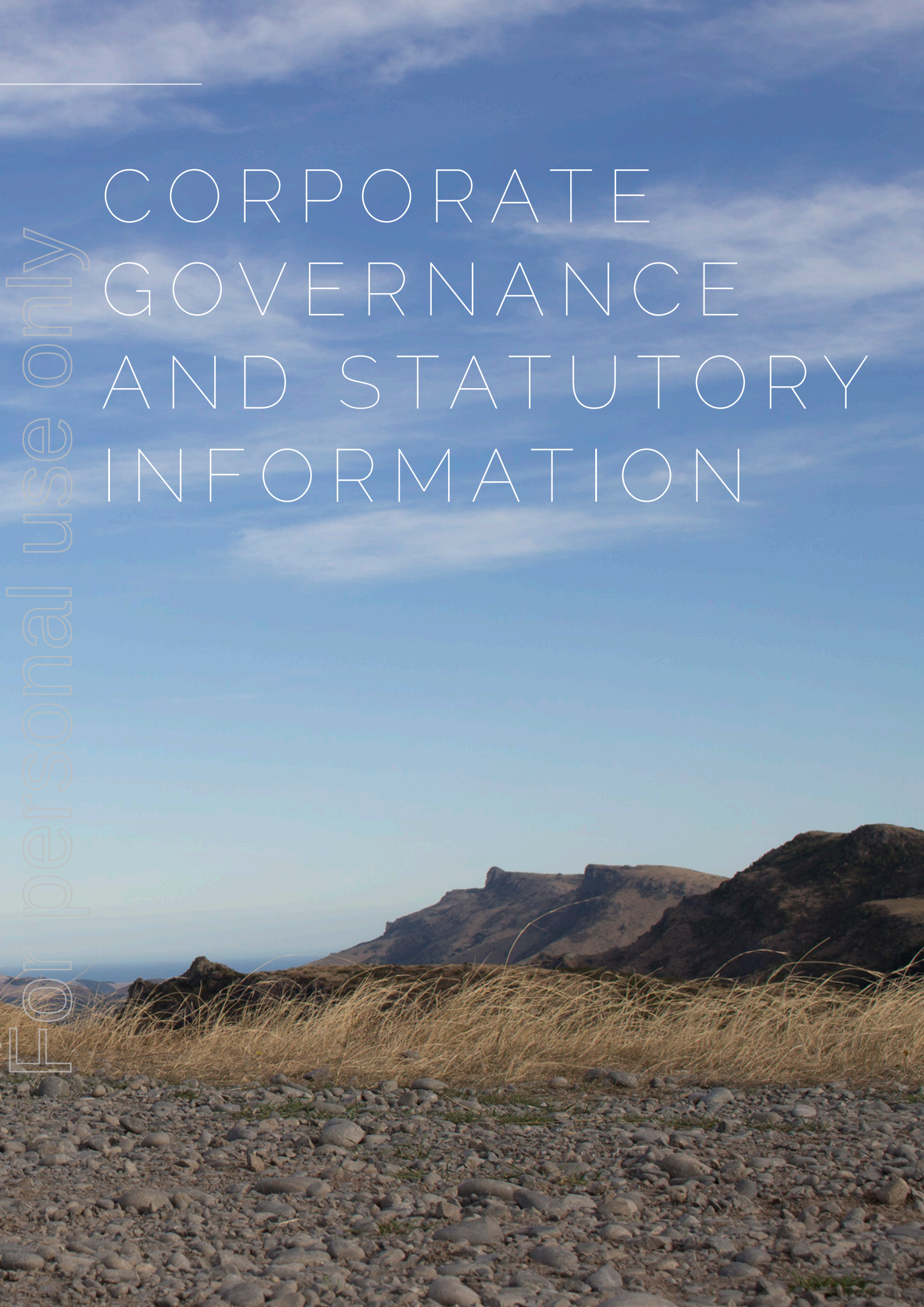
(c) Contingent liabilities

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

26. Subsequent events

KCS has provided a Letter of Financial Support to the Company for 12 months from the date of signature of these financial statements. Also, the Company announced a restructure of non-core roles on 26 August 2016 to ensure a greater focus on the development of the Series 1 aircraft.

CORPORATE GOVERNANCE AND STATUTORY INFORMATION



CORPORATE GOVERNANCE STATEMENT

Introduction

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

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

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

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

The Board

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

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

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

risk appetite within which the Board expects management to operate

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

Diversity and inclusiveness

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

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

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

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

Delegation

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

Role of the Company Secretary

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

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

Performance management

The Remuneration and Nomination Committee has determined that a formal evaluation process for the Board and its committees and the individual Directors will occur annually. The Chairman conducts annual performance reviews with individual Directors.

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

For the reporting period ended 30 June 2015, a performance evaluation of executives was undertaken for the period prior to the Company's listing on ASX. Since the ASX listing the Board has approved the Business Plan for the reporting period 1 July 2015 to 30 June 2016 which includes key performance indicators and objectives for executives, against which the executives will be measured during the next financial reporting period in accordance with the Company's performance management system.

PRINCIPLE 2 – STRUCTURE OF THE BOARD TO ADD VALUE

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

Composition of the Board

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

Name	Position	Date appointed to Board
Jon Mayson	Chairperson, Independent, Non-executive Director	1 April 2014
Hamish Bell	Independent, Non-executive Director	16 August 2016
Steve Bayliss	Independent, Non-executive Director	28 November 2012
Dr Liu Ruopeng	Non-executive Director	24 February 2015
Dr Luan Lin	Non-executive Director	14 August 2015

The Board acknowledges that the current number of independent Directors on the Board is below the majority that is recommended in the ASX Recommendations. Having regard to each Director's expertise, skills and knowledge of the business, the Board believes that the current composition of the Board is the most appropriate to achieve the Company's objectives during its development phase and that each Director will act independently in the best interests of the Company.

Selection and role of the Chairperson

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

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

Board Committees

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

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

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

Remuneration and Nomination Committee

The Board acknowledges that, at the date of this Annual Report, a majority of the members of the Remuneration and Nomination Committee are not independent Directors contrary to ASX Recommendations. On the basis that the Remuneration and Nomination Committee is chaired by an independent Director, and that each member is a non-executive Director, the Board believes that the

current members of the committee (having regard to their experience and skills) are the most appropriate to achieve its objectives and that each member will bring independent judgement to the Remuneration and Nomination Committee's deliberations.

The Remuneration and Nomination Committee met formally five times in the year ended 30 June 2016. The individual attendances of the members at those meetings was as follows:

Name	Position	Number of meetings eligible to attend	Number of meetings attended
Steve Bayliss	Chairman	5	5
Dr Liu Ruopeng	Member	5	3
Jenny Morel	Member	3	3
John Diddams	Member	2	2
Jon Mayson	Member	1	1

Note:
Dr Liu Ruopeng was appointed by the Board as a member of the Remuneration and Nomination Committee on 11 August 2015 to replace Glenn Martin who resigned as a Director of the Company on 2 June 2015. Jon Mayson was appointed to the Remuneration and Nomination Committee on 11 August 2016.

John Diddams resigned as a non-executive director on 3 March 2016.

Jenny Morel resigned as a non-executive director on 4 March 2016.

Composition and membership of the Board of Directors

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

The procedure for the selection and appointment of new Directors and re-election of incumbent Directors, and the Board's policy for the nomination and appointment of directors, is available on the Company's web site in the Remuneration and Nomination Committee Charter.

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

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

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

Skills, experience and attributes

The Board recognises that having a diverse range of skills, backgrounds and experience represented amongst its Directors is important to ensuring effective decision-making and the effective governance

of the Company. The range of skills, backgrounds and experience currently represented on the Board includes experience in senior roles in aviation, shipping, trade, air, defence, technology, finance, marketing, retail and research industries, as well as qualifications across a range of fields including finance, business management, accounting and humanities.

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

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

The Company undertakes appropriate checks before appointing a person or putting forward to security holders a candidate for election as a Director.

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

Board meetings

The Board met formally 11 times during the financial year ended 30 June 2016. In addition there were separate meetings of the Board Committees. At each meeting the Board considers key financial and operational information as well as matters of strategic importance.

Name	Position	Number of meetings eligible to attend	Number of meetings attended
Jon Mayson	Chairman	11	10
Peter Coker	Chief Executive Officer and Managing Director	11	10
Steve Bayliss	Non-Executive Director	11	11
Dr Liu Ruopeng	Non-Executive Director	11	4
Dr Zhang YangYang	Non-Executive Director	11	6
Dr Luan Lin	Non-Executive Director	11	7
John Diddams	Non-Executive Director	6	6
Jenny Morel	Non-Executive Director	6	6
Dennis Chapman	Non-Executive Director	8	8

Note:
Dr Luan Lin joined the Board as a non-executive director with effect from 14 August 2015.

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

John Diddams resigned as a non-executive Director of the Company on 3 March 2016. Mr Diddams attended six out of six board meetings prior to his resignation.

Jenny Morel resigned as a non-executive Director of the Company on 4 March 2016. Ms Morel attended six out of six board meetings prior to her resignation.

Peter Coker resigned as Chief Executive Officer and Managing Director of the Company on 16 August 2016. Mr Coker attended 10 out of 11 Board meetings prior to his resignation.

Dr Zhang YangYang resigned as a non-executive Director of the Company on 16 August 2016. Dr Zhang attended 6 out of 11 board meetings prior to his resignation.

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

PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

A listed entity should act ethically and responsibly.

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

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

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

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

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

Financial Reports

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

Audit and Risk Committee

The Audit and Risk Committee oversees the integrity of the financial reporting process and oversees risk management within the business. The Audit and Risk Committee comprises a majority of independent

Directors as recommended by the ASX Recommendations. The Audit and Risk Committee met formally six times in the year ended 30 June 2016. The individual attendances of the members at those meetings are as follows:

Name	Position	Number of meetings eligible to attend	Number of meetings attended
John Diddams	Chairman	6	6
Jon Mayson	Member	6	3
Jenny Morel	Member	6	5

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

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

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

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

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

PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS

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

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

The Company keeps shareholders informed through

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

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

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

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

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

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

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

The Audit and Risk Committee reviews the Company's risk management framework at least annually to satisfy it that the framework continues to be suitable. For the reporting period ended 30 June 2016, the Audit and Risk Committee has conducted a review and concluded that the Company's risk management framework is appropriate.

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

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

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

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

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

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

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

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

of the Directors or any committee of the Directors or general meetings of the Company or otherwise in connection with the Company's business.

In September 2014 the Board approved a new Company Option Scheme to issue options to selected executives and Directors. Any options or incentives offered to Directors will be subject to Board and/or shareholder approval as required.

Statutory Information

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

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

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

Entities Recorded in the Interest Register
The Company maintains an Interest Register in accordance with the Companies Act 1993 and the Securities Market Act 1988. The following are particulars of entries made in the Interest Register for the period 1 July 2015 to 30 June 2016 that are relevant to Martin Aircraft Company Limited.

Steve Bayliss
- Branded Culture Limited
- Shareholder in Martin Aircraft Company Limited

Dennis Chapman (resigned 16 August 2016)
- An investor in No 8 Ventures Nominees Limited (which holds shares in Martin Aircraft)
- DAC No.8 Limited

John Diddams (resigned 3 March 2016)
- Whitfield Investments Pty Limited (which holds shares in Martin Aircraft)
- Galdarn Pty Limited (which holds shares in Martin Aircraft)

Dr Luan Lin
- KuangChi Science Limited (which holds shares in Martin Aircraft)

Jenny Morel (resigned 4 March 2016)
- No 8 Ventures Management Limited
- No 8 Ventures Nominees Limited (which holds shares in Martin Aircraft)
- Auriga Holdings Limited

Dr Liu Ruopeng
- KuangChi Science Limited (which holds shares in Martin Aircraft)

Dr Zhang YangYang
- KuangChi Science Limited (which holds shares in Martin Aircraft)

Directors' Shareholdings

The shareholdings of the Directors as at 27 September 2016 are as follows:

	Beneficial	Non beneficial	Share options
Steve Bayliss	500,000		360,000
Peter Coker			3,000,000
Dr Liu Ruopeng		206,417,364	
Jon Mayson			360,000
Dr Luan Lin		206,417,364	

Note:
Peter Coker resigned as Chief Executive Officer and Managing Director of the Company on 16 August 2016.

Share Dealings

Shares held and Share Dealings of Directors
Directors disclosed pursuant to section 148 of the Companies Act 1993, the following acquisitions and disposals of relevant interests in the Company during the year ended 30 June 2016.

Steve Bayliss
During the period to 30 June 2016 Mr Bayliss exercised 316,670 options at $0.24.

Dennis Chapman (resigned 16 August 2016)
During the period to 30 June 2016 No.8 Ventures Nominees Limited undertook an *in specie* distribution of company shares. 360,903 shares were distributed to DAC No.8 Limited, an entity controlled by Mr Chapman. On ceasing to be a Director, Dennis Chapman held 100,000 shares as a beneficial owner and 360,903 shares as a non-beneficial owner.

Dr Liu Ruopeng, Dr Luan Lin and Dr Zhang YangYang.
Dr Liu, Dr Luan and Dr Zhang are employed by and are beneficiaries of KuangChi Science Limited (KCS). During the period from 1 July 2015 to 30 June 2016 the Company issued 61,208,728 ordinary shares on conversion of the Convertible Note and issued 89,445,000 ordinary shares on transfer of 90% of KuangChi Science Limited's 51% interest in the Hong Kong Joint Venture. This increases KuangChi Science Limited's shareholding to 206,417,364 ordinary shares.

Jenny Morel (resigned 4 March 2016)
Jenny Morel is a Director of No 8 Ventures Nominees Limited, which holds shares on behalf of investors of venture capital funds. During the period to 30 June 2016 No 8 Ventures Nominees Limited

- was issued 200,000 shares at $0.24 post IPO via the exercise of options
- undertook an in specie distribution of MJP shares held by No. 8 Ventures Nominees Limited to each of the investors in the No.8 Ventures Fund

On ceasing to be a Director, Jenny Morel held 231,481 shares as the beneficial owner, an interest in a trust that indirectly held 1,203,010 shares and holds 360,000 options at NZ$0.43 that can be exercised before 1 March 2017.

John Diddams (resigned 3 March 2016)

- John Diddams is a Director and sole shareholder of Whitfield Investments Pty Limited and of Galdarn Pty Limited
- During the period to 30 June 2016 Whitfield Investments Pty Limited sold 113,889 shares
- On John Diddams ceasing to be a Director, Whitfield Investments Pty Limited held 1,186,111 shares, all

of which are held in escrow, Galdarn Pty Limited held 150,000 shares, of which 125,000 shares are held in escrow, and John Diddams holds 360,000 options at NZ$0.43 that can be exercised before 1 March 2017.

Remuneration of Directors

Transactions with Directors

The aggregate Directors' fees per annum approved by shareholders are $400,000.

Details of the total remuneration of, and the value of other benefits received by, each non-executive Director of the Company during the financial year ended 30 June 2016 are as follows:

Director Fees	Board Fees	Committee Fees	Total Fees
Steve Bayliss (Branded Culture Limited)	48,333	19,167	67,500
Jon Mayson (Chairman)	76,667	9,583	86,250
Dennis Chapman (from 1 Nov 2015)	12,562	-	12,562
John Diddams (resigned in March 2016)	60,000	9,583	69,583
Jenny Morel (resigned in March 2016)	36,000	19,167	55,167
Dr Liu Ruopeng	-	-	-
Dr Zhang Yangyang	-	-	-
Dr Luan Lin (from 11 August 2015)	-	-	-
Total	**233,562**	**57,500**	**291,062**

The following Directors' fees disclosed above were unpaid to Directors as at 30 June 2016:

Fees Outstanding as at 30 June 2016	Board Fees
Dennis Chapman (from 1 Nov 2015)	20,774

No other remuneration for services provided to the Company for the 12 months ended 30 June 2016 has been paid to Directors in addition to Directors Fees.

Employee Remuneration

The total number of employees of the Company receiving remuneration and benefits above $100,000 in the year ended 30 June 2016 are set out in the table below:

Employee Remuneration NZ$	Number of Employees
$130,000-$140,000	2
$140,000-$150,000	1
$220,000-$230,000	1
$250,000-$260,000	1
$310,000-$320,000	1

Analysis of Shareholding at 31 August 2016

Holding Distribution

Range	Securities	%	No. of holders	%
100,001 and Over	376,423,849	94.85	118	4.62
10,001 to 100,000	13,038,627	3.29	421	16.50
5,001 to 10,000	3,618,855	0.91	506	19.83
1,001 to 5,000	3,510,117	0.88	1,101	43.14
1 to 1,000	273,058	0.07	406	15.91
Total	**396,864,506**	**100.00**	**2,552**	**100.00**

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

As disclosed in note 21 of the Consolidated Financial Statements, there were 7,790,000 options on issue to Directors and employees as at 30 June 2016. The Company only has one class of shares on issue, ordinary shares, and these are listed on the ASX.

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

The total number of shares on issue at 30 June 2016 was 396,864,506 and 31 August 2016 was 396,864,506.

Twenty Largest Shareholders at 31 August 2016

The names and holdings of the 20 largest registered shareholders in the Company as at 31 August 2016 were as follows:

Rank	Name	31 August 2016	%IC
1	KUANGCHI SCIENCE LIMITED	206,417,364	52.01
2	GLENN NEIL MARTIN	38,353,086	9.66
3	NZVIF INVESTMENTS LIMITED	18,420,333	4.64
4	MR STEPHEN PAUL JOHN MATTHEWS	12,934,522	3.26
5	BELL POTTER NOMINEES LTD	11,686,364	2.94
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	11,319,436	2.85
7	THE DAVID HUNTER SUPERANNUATION FUND	10,584,311	2.67
8	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	9,786,977	2.47
9	CITICORP NOMINEES PTY LIMITED	4,605,201	1.16
10	HAIYIN EQUITY INVESTMENT FUND LP	2,875,000	0.72
11	ZDENEK 1	2,683,340	0.68
12	MCCONNELL SUPERANNUATION PTY LTD	2,625,930	0.66
13	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,543,447	0.64
14	MR STEPHEN PAUL JOHN MATTHEWS	2,406,020	0.61
15	UBS NOMINEES PTY LTD	1,219,559	0.31
16	FRANKLIN P JONHSON JR & CATHERINE H JONHSON	1,203,010	0.30
16	VENTURE FUND IVESTMENT LIMITED	1,203,010	0.30
16	MAGPIE INVESTMENTS LIMITED	1,203,010	0.30
16	AURIGA HOLDINGS LIMITED	1,203,010	0.30
17	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,193,932	0.30
18	WHITFIELD INVESTMENTS PTY LTD	1,186,111	0.30
19	ARROW WRIGHTS LIMITED	1,103,010	0.28
20	OSCAR TIME LIMITED	1,018,519	0.26
	Total	**347,774,502**	**87.63**
	Balance of register	**49,090,004**	**12.37**
	Grand total	**396,864,506**	**100.00**

Substantial Shareholders as at 31 August 2016

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

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

On 21 January 2016 NZVIF Investments Limited provided a notice of initial substantial holder form to ASX based on the transfer of 18,420,333 ordinary shares from No 8 Ventures Nominees Limited to the beneficial owner NZIF Investments Limited. On 23 March 2016 NZVIF Investments Limited provided notice of ceasing to be a substantial holder to ASX.

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

Limitations on the Acquisition of Shares

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

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

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

Restricted Securities
In accordance with ASX requirements a summary of the shares on issue and escrowed shares subject to ASX trading restrictions from 24 February 2015 is as follows:

Fully paid ordinary shares (no ASX restriction)	329,158,812
Escrowed shares (24 month escrow)	67,389,024
Escrowed shares – Options issued to Director to be held in escrow 24 February 2017)	316,670
Total Shares on issue	**396,864,506**

In the period from the IPO on 24 February 2015 to year ended 30 June 2016, all the 12 month escrow shares and voluntary escrow shares have been released. 67,705,694 shares remain in escrow until 24 February 2017.

Subsidiary Company Directors
Jon Mayson is the sole director of Martin Jetpack USA, Inc a non-trading Delaware corporation in the United States.
Dr Luan Lin and Peter Coker are directors of KuangChi Martin Jetpack Limited, company incorporated in Hong Kong.

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

Disciplinary Action Taken by the ASX
The ASX has not taken any disciplinary action against the Company during the financial year ended 30 June 2016.

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

Donations
The Company made no donations in the year ended 30 June 2016.

Credit Rating
The Company has no credit rating.

Annual Shareholders Meeting
The Annual General Meeting of shareholders will be held at Martin Aircraft Company's premises at 39 Ballarat Way, Wigram, Christchurch on Thursday 27 October 2016 at 4.00 pm.

DIRECTORY

Company Name

Martin Aircraft Company Limited

New Zealand Incorporation

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

Australian Registered Body Number (ARBN)

601 582 638

Registered Office

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

Board of Directors

Jon Mayson
Chairman, Non-Executive Director, Independent

Steve Bayliss
Non-Executive Director, Independent

Hamish Bell
Non-Executive Director, Independent

Dr Liu Ruopeng
Non-Executive Director, Non-Independent

Dr Luan Lin
Non-Executive Director, Non-Independent

Chief Executive Officer

James West

Company Secretary

Ben Taylor

The Company's registered office address in Australia is

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
Level 4, 151 Cambridge Terrace
PO Box 248, Christchurch 8013, New Zealand

Legal Advisers

Bell Gully (New Zealand)
Norton Rose Fulbright Australia

Bankers

ASB
ANZ

MARTIN
JETPACK