

THE FUTURE IS AIR!

Air Future Ltd

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AFL Shareholders – End of Year Newsletter

- From AVL CEO John Mennega

As the year 2016 approaches a close I have been invited by the Air Future Limited Board to pen this end of year Newsletter.

As CEO of AFL's subsidiaries responsible for our operating thrust into **affordable clean transport, renewable energy, and energy storage**, I am very excited but also very respectful of the year ahead. The year 2017 will, in many respects, be our launch year. And I would like to share with you herein how we plan to execute that. But first some preamble topics.

Reflection

On reflection on our history, including 2016, you would be forgiven for experiencing frustration, as the years may have appeared to slip by. In part this has been symptomatic of a potentially huge industry in renewable energy that has been globally finding its feet. Groundbreaking technologies in such environments do take time to gain traction. Likewise MDI has been progressing its applications, plus we ourselves have been scarce on funds and people resources.

But patience prevails, as seen in our case with our technology partner MDI gaining traction with some of the largest corporations in the world, in joint venture projects. More on that in 2017. **The tailwind behind renewable energy has become unstoppable**, regardless of what one might hear in media or politically. This is evidenced by the level of investment and commitment – both by Governments globally and corporations.

And there are two simple reasons: **long-term economics and a cleaner environment**. But short term will always have challenges during the evolution.



Funding

Businesses such as ours that can contribute to major change have two components. The first of course is the business itself. The second is funding the business. And they are interlinked. And they don't stop, whether funding is sourced out of profits, or via external capital.

The key to funding is that added shareholder value exceeds dilution on every funding round. So whether you inject \$1M or \$10M and immediately increase valuation by that amount, the objective from those funds is to add much more value than the funding itself. This is the maths behind increasing share price. And for us this will be done via achieving our milestones presented herein.

What we don't do though is seek to raise money before we can apply it to maximise value. Rather we do it in stages, increasing value proportionality as we go. So in 2016 we sought to raise \$1M against 2017 milestones that would increase value accordingly. If a lesser amount is raised then some immediately achievable milestones may be delayed, whilst others proceed and achieve increasing value.

Whilst our 2016 AFL shareholder raising didn't achieve the \$1M, it did surpass the minimum needed by raising over \$280,000 from 82 shareholders. We are grateful to those shareholders for their support, and also to all 3,000 shareholders for their patience. We will continue our raising of the balance of the \$1M in the external market in the New Year.

To build a business with the sort of contribution and shareholder value that we envisage it's a big road ahead, and funding is a key part. But our timeline is not necessarily that long, with business plans spanning 1, 3 & 5 years, and a liquidity event for access to one's investment planned within that period.



Operations

So that's the preamble. Now how to execute our plans. Operationally we refer to the next period as stage 1, and that's all I'll address herein. The next period of stage 2, whilst preparation does run in parallel, is about the factories and their funding, and production. Clearly stage 1 is necessary in order to ready us for that, and these are some of the key steps, more in parallel than sequentially.

- ***France MDI Visit***

We will travel to MDI in January to update and finalise many of our joint venture (licensee/licensor) arrangements for our region. This is especially important re technology, but also for marketing & MDI support and relations.



- ***Demonstrations & Trials***



We will be seeking to bring out an AirPod and electricity GenSet for demonstration in our region. In due course, co-ordinated with below, we will seek to run trial applications in market customers' premises.

- ***Product Applications***

Products aren't just sold off the rack. They are adapted to markets. So a vehicle might have various commercial applications as well as consumer. A GenSet might be stand alone, or might have software to integrate into consumer or commercial applications. Also MDI has numerous new products in the pipeline, including the larger vehicles, and advanced mode engines and GenSets. Re' vehicles this is relevant especially as there are currently some local AirPod limitations in some zones but not in others (e.g. our exports to MDI Europe, Pacific Islands, etc). This is not the case for the larger models, plus indications are it may be changing locally.



- **Target Zones**

By zones we refer to a geographic location, or an area of independent political or financial influence. In Australia that means Federal, States, Local, CBD, etc. Ditto re New Zealand and our region's Islands. We will seek considerable support from zones, sometimes in kind, or financially, or as customers.



- **Target Markets**



Markets refer to customer types or categories for our product applications. Gated communities might be an AirPods example, as might be local Government. Home energy storage as part of a solar package to decrease energy costs might be another. So early milestones in 2017 are to identify and establish these relationships into our many markets and zones.

Let me say that in many cases we will not be creating a new market. Not necessary -as the industry and in some cases competition have already created the markets. We just need to demonstrate our capability and advantages. With our big price advantage as well as storage scale capacity we have clear differentiation.

- **Distribution**

Our markets are way too big to sell retail. We will have that capability, and we will do so, but the volume is via joint venture distribution. The best way to visualise distribution is think of any industry or application. Agriculture, mining, building & gated communities, home or commercial solar & storage, etc. All those markets already have established distribution. It's too big and varied a task for us to do effectively in house, and why reinvent what already exists. The added cost of distribution is warranted by the additional volume. But we have the choice.



- **Funding**

During stage 1 our most critical resource is our own people, plus the external relations they have in the above areas, plus those that they develop. As previously indicated we budgeted costs for stage 1 as \$1M, and the recent shareholder capital raising kicked that off with \$280K. We look to raise the balance externally, plus then add value to that investment via achieving our budgeted milestones in each of the above areas. We (the Group) also need to complete the structuring of Air to Energy in the New Year.

- **Stage 1 Summary**

Stage 1 will be challenging, but then what new business with great opportunities isn't. Importantly we have a very clear and achievable business plan. And we have the capability. Plus we have the products. The market needs these products. And we



are differentiated, where we have competitors, via affordability and scale. And we actually welcome competition as in relatively new industries it helps open up markets. For example we welcome Tesla, as they open markets in both vehicles and energy, but are above our target markets affordability in cars, and are expensive and they don't scale (scale means being able to provide greater capacity without becoming prohibitively priced). The markets are so large there is ample room for competition as the industry grows. None the less we have early mover advantages.

- **Stage 2 Summary**

By achieving the stage 1 objectives we seek to gain public credibility by identifying and commencing to establish customer volume and distribution. We seek zones to help us



in this. Then we will be in a position to take our factory construction and production model to sophisticated, cornerstone and government funders. Factories require funding for construction or fit out, equipment, MDI licensing, recruitment, and regulatory costs. Sounds a lot, but the MDI distributed manufacturing costs is minuscule compared to traditional centralised factory models. And we bring many benefits, none the least being employment and local manufacture.

- **Profitability & Valuation**

There are two characteristics of innovative businesses such as ours. Firstly they can become very profitable with high valuations. Secondly they have a gestation (establishment) period. Our gestation period is that we don't generate profits till factories are constructed and producing. But the counter to that is valuation can none the less increase significantly before being reflected in financials. I would say undoubtedly that will be our case. And remember we are not talking of that long.

- **Timelines**

In January 2017 we will complete the France trip and the stage 1 detail plan immediately thereafter. That plan involves named identification of the parties above. We will immediately commence the relationships with those parties. In parallel we will progress application design to link in MDI products into our markets. By say May, we expect to have demonstration models to show to the relationship parties. At the same time we will be seeking to raise the balance of the \$1M funds target, as we don't want that to be limiting us. We also anticipate during this period new development updates from MDI, and hopefully from their major corporate relationships independently. The progress of these stage 1 steps will then determine stage 2 and subsequent funding.

- **Liquidity event**

AFL has, or is, establishing, its operations via subsidiaries Air Volution Limited and Air to Energy. The rationale for that is to separate our transport and energy operation, as the two have different markets and potentially different funders. AFL is or will be the major shareholder in these companies, with the minority being previous new investors from prior years directly into AVL.



So AFL returns can include cash flows and increased share value via the increased operating companies.

- **Values**

There are numerous ways to achieve this. Dividends are a well-known example. Revaluation of the operating companies is another. Other arrangements between the companies may exist. But in all cases these considerations are internal to the Group.



Whereas I refer to a liquidity event as an external event which provides shareholders liquidity - which is the ability to sell or trade shares. The best known example is listing on a Stockmarket. Another might be a trade sale of a company or part thereof. There are numerous other examples. We are very aware that in private companies there is no real market for trading shares, and at an appropriate time we would seek along with shareholders to consider the merit and timing of creating liquidity.

There are numerous prior considerations which determine timing and alternatives. We also need to consider the best structural approach to provide that benefit in a Group structure such as ours. These options can also provide various benefits, such as having more than one such event. These are all future considerations, and we will involve you along the way. I suspect from 2018 onwards we will be doing our homework around this, and there will be many communications between then and now.

- **Invitation**

I opened this Newsletter stating that I understood the past frustrations re time taken. I also stated excitement and respect for 2017. I'm hoping that you can see the changes that we are now entering into in the development of your Company and its subsidiaries.

I would like to invite you to share in this journey in 2017 and be part of it. To share thoughts you might have, provide feedbacks, praise or complaints when warranted.



The year 2017 is not going to be easy, there will be frustrations, there will be big milestones, but it will be fun. And most of all we will be getting closer to materialising benefits for your investment, its timelines, and internally the hard work and dedication from our team.

On behalf of your AFL Board, the AVL Board, Russell Fitts, Mick Kain, our Business Manager Phillip Foubister, our Chief Operating Officer Paul Gurr, and myself, we would all like to wish you and your families a safe and enjoyable Christmas and holiday period, and again thank you for your participation as shareholders.



John Mennega
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