



Dear Shareholder,

Following our visit to MDI we are pleased to confirm our expectations for MDI



Our team in Carros
From left
John Mennega,
Annic Negre,
Mick Kain,
Paul Gurr,
Russell Fitts &
Cyril Nègre

and anticipate great progress in 2017.

Report from Paul Gurr – Chief Operating Officer (COO) Air Volution Limited on trip to France.

In December MDI made the final eight in the United Nations Department of Economic & Social Affairs grant under the heading "Powering the Future We Want - Recognising Leadership and Innovative Practices in Energy for Sustainable Development", The theme was "Energy for sustainable transport" This grant is for USD 1 Million. MDI's application for the grant was to develop a version of the Air Pod Cargo that used the cold exhaust of their air engine to refrigerate the cargo space.

Following the presentation in New York on Dec 16th 2016, a two day conference was held at which all finalists expressed their interest in working with MDI in the future. Details of the achievement of MDI are on their website. www.mdi.lu

In January we visited MDI in Carros, France as the next step in progressing commercialisation of MDI technology in our region. The objectives of this trip were to better understand:

- MDI technology current developments
- MDI factory and production processes
- MDI progress
- Solar project
- Confirm license rights agreements



MDI Progress

The production version of the 7 kW engine is virtually complete. It was running on the test rig optimised for all different speed and load conditions. There are a number of features of this engine that remain secret until they are readily available. These features increase the flexibility of the engine and make maintenance extremely simple. The standard of engineering is very high.



The moulds for panels of Air Pod 2.0 are currently being manufactured by MDI. The biggest ones are 3m x 3m. Machining of this occurs around the clock. With two moulds for each panel, one for the foam core and the other for the Resin Transfer Moulding (RTM) this is a big job!



Considerable thought has gone into the design of the Air Pod to make it easy to build and maximise utilisation of every part by having multiple functions wherever possible. The moulded construction plays a big part in making this possible. It's good for achieving a low weight too!

One of the great advantages of the MDI vehicles is that they are lightweight.

By having a light body, a smaller engine is needed. This in turn means smaller powertrain parts, (gearbox, differential, axles) which can lead to further reduction in body weight. This

'virtuous circle' means benefits in one area allow benefits in another and eventually circle back to the beginning. It's the opposite to the 'viscous circle' spiral of increasing weight.

The manufacture of Generator Sets, known as Air Power are not as advanced as the Air Pod. Currently there is a Generator Set running at the factory, but the final alternator and software are yet to be finalised. This is due for completion in the third quarter of this year. At this stage there is insufficient costing information for us to complete the costing models as we have for the Air Pod, however some early basis work by MDI demonstrates its viability.



MDI's factory in Carros has been mainly used for R&D, however it is now moving towards being able to do some production. This enabled us a get a good look at how MDI vehicle factories will look and operate.

The first impression is one of a bright, well organised facility. This will make for a pleasant workplace. Closer examination revealed considerable thought has gone into the production processes and layout to optimise efficiency. The equipment chosen is high quality, for example the CNC machines are from Haas, the American manufacturer, who are the largest in the western world.



In late 2016, we proposed to MDI a project to develop a solution for energy storage as part of solar energy systems for both on and off grid applications. This suited MDI well as they are focusing more on energy applications. We are now working on this project together and got to meet and discuss the project with the MDI people we are working with.

The MDI factory is based on a turn key model, so all

the MDI factories will be similar. In turn they will all benefit from volume purchases for vehicle manufacture. How this would work for us on the other side of the world was discussed and we found MDI to be practical and flexible. We will be reviewing exactly what will be sent from MDI and what will be purchased locally. Some is obvious to get from MDI, or locally, but there will be a grey area in the middle, which will be easily resolved when the factory implementation gets nearer.

At this early stage we know what equipment will be going into the Gen Set factory, but details are yet to be determined by MDI. As the Gen Set gets nearer to completion, equipment details and factory characteristics will be determined.

Discussions were held around making improvements to the contracts, with some minor draft changes suggested to MDI. MDI would like to reach fair outcomes on all contract matters raised and over the next few weeks will be reviewing the contracts and suggestions.



The Future

As outlined in our recent capital raising documentation, our next tasks are around market and route to market development. This will be integral to capital raising for the initial factories.

One very nice problem to have is that MDI have expressed concern that there will be insufficient manufacturing capacity to meet the immediate demand for the Air Pod once it becomes available.



As COO, the values that are important to me in factory operation are safety, quality and efficiency. This is consistent with MDI and the factory they have developed. I am very confident in MDI and in their CEO Cyril Nègre. MDI has vision, ability and drive to bring about major changes through their air powered engine technology.

Paul Gurr
Chief Operation Officer
Air Volution Ltd