



PNG Air Limited

Consolidated Financial Statements for
the year ended 31 December 2017



CONTENT

PNG Air Limited.....	2
Chairman's Report.....	3
Board of Directors.....	5
Our Network.....	7
Corporate Governance Statement.....	8
Directors' Statement.....	14
Directors' Report.....	15
Financials.....	17
Independent Auditor's Report.....	63
Corporate Directory.....	67
Shareholders Information.....	68
Other Information.....	69



PNG AIR LIMITED

Airlines of Papua New Guinea Limited became PNG Air Limited in June 2016, having operated under the PNG Air name since November 2015 when the first of the Company's brand new ATR 72-600 aircraft was introduced to the fleet. The PNG Air name reflects the new concentration and identity of the business after it became majority owned by major PNG institutions and more heavily focused on the domestic regular passenger transport (RPT) market.

As PNG's next generation airline, we're proud of our role connecting people throughout our country. Through the many miles we fly, we want to be with you every step of the way, whether it's in business, friendship or family life, we understand how important connections are as we continue to take pride in serving the people and this beautiful Nation of Papua New Guinea.

We do this by flying to more places with the newest aircraft in PNG. We're growing our ATR 72-600 fleet to connect Papua New Guinea in the biggest cities and towns, and also in the smallest villages. This will open up new opportunities, and a newer, brighter, stronger future for all Papua New Guineans. No matter where you are flying we'll stay true to our promise. You will receive warmest welcome with PNG Air.

The Company floated on the Port Moresby Stock Exchange in June 2008.

Our Vision

To be PNG's first choice airline

Our Mission

We are proudly PNG owned and will lead the way in providing safe, reliable, on time, value for money air services to the people of PNG. Through this commitment we deliver world class customer service and be an employer of choice, whilst respecting PNG's culture and natural environment.



CHAIRMAN'S REPORT

Welcome to PNG Air's 2017 Annual Report.

OVERVIEW

Against the drop of economic activity due to completion of PNG LNG project, the company struggled to strategies to find its market place. However, financial year 2017 was an interesting year for PNG Air.

Operating under its new brand name for only the second year, the company managed to finally break through the struggles of continuous losses in the past many years.

I am delighted to inform the members of a small profit of PGK0.3 million before tax for the first time compared to the loss of 2016 of PGK70 million. Even though the profit was small, it was a turnaround of PGK70 million from last year. This result was a promising outcome and it was a sign that the airline is heading for better times into the future.

The biggest difference in the turnaround was the re-fleeting of PNG Air.

FINANCIAL PERFORMANCE

The company declared a profit of PGK6.9m in the ordinary course of business. However, abnormal items of ATR induction, rebranding, Dash 8 impairment and Dash 8 early exits diminished the profit further. The net results is a small profit of PGK0.3 million before tax.

HIGHLIGHTS

Few key factors enable the company to achieve the results.

- The market was thrilled with the new ATR 72-600's that were introduced in 2016 which flowed through to 2017 gaining widespread acceptance by the travelling public who wanted to try this modern brand new plane in Papua New Guinea. The new fleet provided a sense of pride to the nation and the strong desire for the public to test by travelling. Regular Passenger Travel therefore increased from 2016 by 28%.
- PNG Air was able to introduce more destinations into its schedule as the new planes, which are turbo props were able to comfortably land and take off only needing a much shorter runway, which were existing at some of these airports. The new destinations increased the market share of the organisation and consequently generated a higher level of revenue compared to financial year 2016. Regular Passenger Transport and Cargo increased.
- Our mining customers Newcrest, which came on board in mid-way in 2017, and St. Barbara have also contributed significantly to high revenue levels via their charter and regular passenger transport business. Compared to 2016, total charter revenue grew by 112%.
- The cost of operating ATR aircraft is much lower and from an operational point of view, therefore this was a great advantage for PNG Air.
- During the first half of 2017, our major shareholders Nasfund and MRDC have continued to contribute additional funds to the company to enable the company to grow. With the additional capacity of the new ATR's compared to the DASH8's, growth is crucial to cater to the additional capacity that the airline has. This contribution therefore was done at the right time for the airline.



CHAIRMAN'S REPORT

OTHER ACHIEVEMENTS AND PROJECTS DURING 2017

- We joined with Post PNG to increase our sales distribution throughout the country.
- Two additional brand new ATR 72-600 aircraft were introduced to the Airline's fleet during 2017, increasing the ATR fleet size to seven. The Airline now has the youngest fleet in PNG, which highlights the commitment of the Airline to ensure quality aviation services.
- The Airline completed conversion of one of its Dash 8 aircraft to full freighter configuration, allowing transport of up to 4 tonnes of freight and offering a new alternative for primary producers, businesses and projects to move cargo around PNG.
- New services to Wapenamanda were introduced in August 2017.
- PNG Air also commenced its international Charter Services operating 3 times a week between Cairns and Lihir.
- PNG Air maintains gold safety registration on BARS. Only eight companies worldwide are approved to perform BARS Audits.
- Ground services provision to other airlines also contributed to the results. These services will extend in 2018 and beyond to other foreign airlines.

THE FUTURE

The Board is continuously adapting strategies to meet the challenges that lay ahead for the company. The company wishes to continue its engagement with all stakeholders in various undertakings.

Board hereby takes the opportunity to thank all the shareholders, staff and other stakeholders for their continued trust and support.



Augustine Mano
Interim Chairman, Board of Directors



BOARD OF DIRECTORS

AUGUSTINE MANO

DIRECTOR since 2010 and appointed as INTERIM CHAIRMAN from 29th September 2020.

Mr. Mano was appointed as a director on 17 March 2010. Mr. Mano is the Managing Director of Mineral Resources Development Company. Before that appointment, he was a Consultant to the Department of Petroleum and Energy on major petroleum projects in PNG. Mr. Mano also served as an Executive Director on various national construction, engineering and transportation companies and was responsible for the establishment of a successful national insurance company in PNG.

WATT KIDDIE

DIRECTOR since 2015

Mr. Kiddie was appointed as a director on 7 April 2015. Mr. Kiddie was nominated for appointment by MRDC, and is a highly experienced PNG accountant (CPA) and Registered Company Auditor. He holds council positions in a number of professional bodies. Mr. Kiddie has been awarded an MBE for services to Commerce & Accountancy.

EDWARD MATANE

DIRECTOR since 2015

Mr. Matane was appointed as a director on 21 January 2015. Mr. Matane was nominated for appointment by NASFUND and since 2012, Mr. Matane has been Oil search's Aviation Logistics Coordinator and brings professional aviation expertise and PNG aviation market knowledge to the Board. Mr. Matane worked for Air Niugini for 13 years in maintenance and flight engineering positions, culminating in the position of Manager, Special Projects Department (administering and fostering relationships with mining company clients), and had a stint as Chief Engineer at Air link PNG.

ANDREW OGIL

DIRECTOR since December 2019

Mr. Ogil was appointed as a director on 10th December 2019. Mr. Ogil is an independent director who is a highly experienced leader in PNG who had previous roles as CEO and Managing Director of Air Niugini and Civil Aviation Safety Authority (CASA). He holds director's position in various other companies.

ANDREW CROMPTON

DIRECTOR since November 2020

Mr. Crompton was appointed as a director on 04th November 2020. Mr. Crompton was nominated for appointment by NASFUND. Mr Crompton has a background in the finance sector dating back to 1995 and holds director's positions in a number of other PNG registered companies.

WILLIAM LAMUR

CHAIRMAN since June 2018 and stepped down on 25th September 2020.

Mr. Lamur was appointed as a director and as the Chairman on June 2018. Mr. Lamur was nominated for appointment by NASFUND. A highly regarded professional who holds, on various other Boards.



BOARD OF DIRECTORS

MURRAY WOO

CHAIRMAN since 2014 and resigned effective from 03rd May 2018.

Mr. Woo was appointed as a director on 29 August 2012 and as the Chairman on 9 December 2014. Mr. Woo is the Managing Director of Woo Textile Corporation Limited. He is the Chairman of the manufacturers' Council of Papua New Guinea, having been a founding Director of that body. Mr. Woo holds positions on various other boards, including (amongst other directorships) those of the National Superannuation Fund, and the NASFUND Contributors Saving & Loans Society.

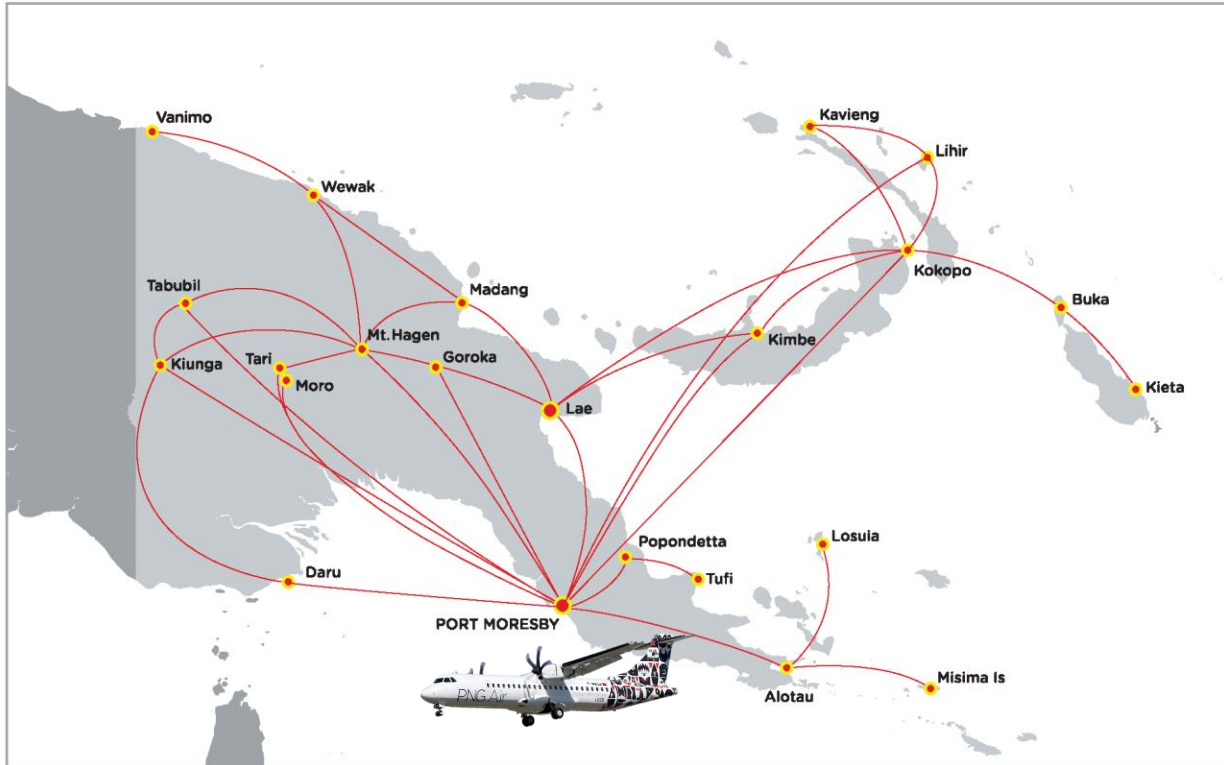
SIMON WOOLCOTT

DIRECTOR since 2014 and resigned effective from 02nd Februarys 2019.

Mr. Woolcott was appointed as a director on 22 October 2014. Mr. Woolcott was the Company's Chief Financial Officer between 2009 and 2012, and maintained his involvement with the Company as a member of its Board Audit Risk and Compliance Committee from March 2013. He has significant experience as an accountant (qualified Australian and PNG CPA and a Graduate of the Australian Institute of Company Accountants) and as an aviation analyst.



OUR NETWORK - Where we fly



CORPORATE GOVERNANCE STATEMENT

The Company has in place corporate governance practices which include an audit committee of the Board. These were originally adopted by the Board on 2 October 2008 and subsequently updated on the 18 March 2009, with further amendments on 29 November 2012 and 7 March 2013. The corporate governance practices also include the adoption of a board charter and specific charters for each of the Audit Risk and Compliance Committee and Remuneration and Nominations Committee of the Board. Following is a summary of those practices:

COMMUNICATION WITH SHAREHOLDERS

The Company's Code of Conduct requires its employees to act with high standards of integrity, transparency, accountability and equity in all aspects of their employment with the Company. With this in mind, the Company commits to dealing fairly, transparently and openly with both current and prospective shareholders using available channels and technologies to communicate widely and promptly. The Company commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries. The Company's shareholder communication policy is built around compliance with disclosure obligations and aspiring to be at the forefront of best practice in disclosure. The framework for communicating with shareholders is to concisely and accurately communicate:

- The Company's strategy;
- How the Company implements that strategy; and
- The financial results consequent upon that strategy and its implementation.

The Company uses shareholder forums such as the Annual General Meeting, and group meetings with larger shareholders, within disclosure policies, to communicate financial performance and strategies.

THE BOARD OF DIRECTORS

The Board, with support of its Committees, is responsible to the shareholders for the overall corporate governance and performance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of those goals with a view to optimizing Company performance and increasing shareholders value. Key functions of the Board include:

- Overall strategy of the Company, including operating, financing, dividend and risk management;
- Appointing the Chief Executive Officer and setting an appropriate remuneration package;
- Endorsing appropriate policy settings for management;
- Reviewing Board composition and performance;
- Reviewing the performance of the Chief Executive Officer;
- Approving a strategic plan and annual budget for the Company and monitoring results on a regular basis;
- Ensuring that appropriate risk management systems are in place and are operating to protect the Company's financial position and assets;
- Ensuring that the Company complies with the law and relevant regulations and conforms to the highest standards of financial and ethical behavior;
- Acquisitions and disposals material to the business;
- Establishing authority levels;
- Directors' remuneration (via the Remuneration and Nomination Committee);
- Selecting (with the assistance of the Audit, Risk and Compliance Committee) and recommending to shareholders, the appointment of external auditors; and
- Approving financial statements.

THE CHAIRMAN OF THE BOARD

The Chairman is elected by the Directors. The Chairman's role includes:

- Providing effective leadership on the Company's strategy;
- Presenting the views of the Board to the public;



CORPORATE GOVERNANCE STATEMENT

- Ensuring the Board meets regularly throughout the year and that minutes are taken and recorded accurately;
- Setting the agenda of meetings and maintaining proper conduct during meetings; and
- Reviewing the performance of non-executive Directors. The Chairman is not permitted to occupy the role of the Chief Executive Officer.

COMPOSITION OF THE BOARD

The maximum number of Directors, as prescribed by the Constitution approved by the shareholders, is (9). The Board currently consists of 5 Non-executive Directors including the Chairman. The Board tests independence of its members using the following criteria:

- The Director is not an executive of the Company;
- The Director is not a substantial shareholder of the Company or otherwise associated directly with a substantial shareholder of the Company (substantial shareholder is currently defined as more than 15%);
- The Director has not within the last 3 years been a material consultant, or a principal of a material professional adviser, to the Company or a group member, or an employee materially associated with the service provided;
- The Director is not a material supplier to, or a customer of, the Company or other group member or a material consultant to the Company or other group member or an employee materially associated with the material supplier or customer;
- The Director has no material contractual relationship with the Company or other group member other than as a Director of the Company; and
- The Director is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company. Independent Board members are required to review their independence annually. Materiality will be assessed on a case-by-case basis. The Board does not accept that any office bearer and/ or employee of an institutional shareholder has an automatic right to be appointed to the Board by virtue only of his/her position within that Organisation.

BOARD PERFORMANCE REVIEW

The Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment of the Board as a whole to include an assessment of the contribution of each individual Director.

The Board is cognisant of the need to continually identify areas for improvement, to ensure that it meets the highest standards of corporate governance and for the Board and each Director to make an appropriate contribution to the Company's objective of providing value to all its stakeholders. The performance review is conducted periodically and may involve assistance from external consultants.

BOARD'S RELATIONSHIP WITH MANAGEMENT

The management of the business of the Company is conducted by and under the supervision of the Chief Executive Officer and by those other officers and employees to whom the management function is properly delegated by the Chief Executive Officer.

The Board is responsible for:

- Defining the limits to management's responsibilities;
- Approving the corporate objectives for which the Chief Executive Officer is responsible.

All Directors have unrestricted access to Company records and information and receive regular detailed financial and operational reports to enable them to carry out their duties. The direct reports to the Chief Executive Officer make regular presentations to the Board on their areas of responsibility. The Chairman and the nonexecutive Directors have the opportunity to meet with the Chief Executive Officer and his direct reports for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors. Non-executive Directors may meet on their own periodically to review the performance and management processes of the Company.



CORPORATE GOVERNANCE STATEMENT

BOARD COMMITTEES

To assist in the execution of its responsibilities, the Board has established two Board Committees. Executive Directors may not be members of such Committees. Each Committee has a formal Charter approved by the Board. After amendment of the Audit Risk and Compliance Committees Charter on the 7 March 2013, the members of that Committee may recommend to the Board that a third member, who need not be a Director, be appointed to that Committee. Committee members are chosen for the skills, experience and other qualities they bring to the

Committee. At the next Board meeting following each Committee meeting, the Board is given a report by the Chairman of the relevant Committee.

Audit Risk and Compliance Committee

The Audit Risk and Compliance Committee is comprised of two Non-executive Directors who are independent and who are duly appointed by the Board. The Committee members may recommend appointment of a third member to the Committee by the Board. The Chairman of the Audit Risk and Compliance Committee must be one of the independent Directors and cannot be the Chairman of the Board. Simon Woolcott is currently Chairman of this Committee.

Each member should be capable of making a valuable contribution to the Committee and membership is reviewed annually by the Board. The Key responsibilities of this Committee include:

- Integrity of the Company's financial statements and the financial reporting and audit process;
- External auditor's qualifications, performance and independence;
- The system of internal control and management of all risks;
- The systems for ensuring operational efficiency and cost control;
- The systems for approval and monitoring expenditure including capital expenditure;
- The process for monitoring compliance with laws and regulations (both in Papua New Guinea and overseas).
- Implementation of Board decisions by management and making recommendations to the Board for the appointment of the external auditor;
- Annual internal audit plan and its ongoing review. In the course of fulfilling its mandate, the Committee may meet with both the internal and external auditors without management present.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is comprised of two Non-executive Directors who are independent and who are duly appointed by the Board. The Chairman of the Remuneration and Nomination Committee must be one of the independent Directors and cannot be the Chairman of the Board. Augustine Mano is currently the Chairman of this Committee. Each member should be capable of making a valuable contribution to the Committee and membership is reviewed annually by the Board. The Remuneration and Nomination Committee has been established to assist the Board in fulfilling its oversight responsibilities in respect of Board and executive management selection, appointment, review and remuneration.

The key responsibilities of this Committee include:

- To oversee the selection and appointment of a Chief Executive Officer and recommend an appropriate remuneration and benefits package to the full Board;
- Identify and maintain a clear succession plan for the executive management team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly;
- Determine and review appropriate remuneration & benefits of Directors for recommendation to the full Board and subsequently to the shareholders;
- Ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfil its responsibilities to shareholders while maintaining a world class corporate governance regime;
- Receive & endorse positions/titles recommend by the Chief Executive Officer from time to time as applying to designated executive management positions;



CORPORATE GOVERNANCE STATEMENT

- Review the procedures in place to ensure that all new executive appointees are adequately qualified and experienced and that proper recruitment procedures are followed;
- Review transactions between the Company and any of the Directors or relevant executive managers;
- Review employee remuneration and benefits policies and practices generally; and
- Review Board performance, tenure and succession planning.

BOARD AND BOARD COMMITTEE MEETINGS

Scheduled meetings of the Board are held at least every two months and the Board meets on other occasions to deal with matters requiring attention. Meetings of Committees are scheduled regularly during the year.

The Chairman, in consultation with the Chief Executive Officer, determines meeting agendas. Meetings provide regular opportunities for the Board to assess the Company's management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Directors one week in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the Board's decision making process.

DISCLOSURES BY DIRECTORS

Prior to appointment a Director designate is required to provide information to the Board for it to assess their independence in terms of the criteria set out above for assessing independence. This information is assessed by the Board to determine whether on balance the relationship could, or could reasonably be perceived to, materially interfere with the exercise of the Director's responsibilities. Materiality is assessed on a case-by-case basis.

The Board is cognisant of the need to avoid conflicts of interest and it has in place policies and procedures for the reporting of any matter which may give rise to a conflict between the interests of a Director and those of the Company. These arrangements are designed to ensure that the independence and integrity of the Board are maintained.

PURCHASE/SALE OF SHARES BY DIRECTORS

The Board encourages Non-executive Directors to own shares in the Company to further link their interests with those of all shareholders. Nonexecutive Directors are not eligible to participate in any employee share ownership scheme.

Directors are subject to Securities Act restrictions on buying, selling or subscribing for securities in the Company if they are in possession of inside information, i.e. information which is not generally available and which, if the information were generally available, a reasonable person would expect to have a material effect on the price or value of the securities of the Company. Directors should discuss proposed share trades with the Chairman of the Board in advance. Further, Directors may only trade in the securities of the Company, subject to the foregoing insider trading restrictions, during each of the periods of 8 weeks (40 working days) following the announcements of half yearly and yearly results, or the date of issue of a prospectus. In addition, Directors must not trade in any other entity if inside information on such entity comes to the attention of the Director by virtue of holding office as a Director of the Company.

PURCHASE AND SALE OF SHARES BY MANAGEMENT

Management of the Company is subject to the Securities Act restrictions on buying, selling or subscribing for securities in the Company if they are in possession of inside information, i.e. information which is not generally available and which, if the information were generally available, a reasonable person would expect to have a material effect on the price or value of the securities of the Company. Further, management may only trade in the securities of the Company, subject to the foregoing insider trading restrictions, during each of the periods of 8 weeks (40 working days) following the announcements of half yearly and yearly results, or the date of issue of a prospectus. Management should discuss proposed share trades with the Chief Executive Officer in advance, who in turn will keep the Chairman of the Board apprised of management activities.



CORPORATE GOVERNANCE STATEMENT

In addition, management must not trade in any other entity if inside information on such entity comes to the attention of management by virtue of holding office as an officer of the Company. In the context of this policy, management is defined as the persons occupying the following positions:

- Chief Executive Officer
- Chief Financial Officer
- Chief Commercial Officer
- Chief Operating Officer
- General Counsel & Company Secretary
- Manager Flight Operations
- Manager MRO
- General Manager Continuing Airworthiness
- Manager Charter Operations
- General Manager Information Technology
- Manager Facilities & Ground Services
- Manager People & Resources
- General Manager Safety & Corporate Strategy
- Finance & Planning staff involved with preparation of financial records

INDEPENDENT ADVICE TO DIRECTORS

The Board recognises that in certain circumstances individual Directors may need to seek independent professional advice, at the expense of the Company on matters arising in the course of their duties. Any advice so received is made available to other Directors. Any Director seeking such advice is required to give prior notice to the Chairman of his or her intention to seek independent professional advice.

DIRECTORS' FEES

The maximum aggregate amount of fees that can be paid to non-executive Directors is determined by shareholders at annual general meetings of the Company in accordance with the Constitution. Fees are intended to remunerate non-executive Directors for time spent on Board and Committee matters, including review and preparation time, meeting attendance, visits to Company operations and travel.

The Chairman may be required to spend additional time attending to the Chairman's special responsibilities.

Annual fees are paid to the following, with the actual fees paid each year being disclosed in the Annual Report:

- Board Chairman;
- Non-executive Directors; and
- Board Committee Chairmen and Board Committee members.

EXTERNAL AUDITOR

The Audit Risk and Compliance Committee is responsible for making recommendations to the Board on appointment and terms of engagement of the Company's external auditor.

The selection is made from appropriately qualified firms and the recommended appointee is submitted to shareholders for ratification. In line with the policy of the Company, if it is proposed that the external auditor be appointed or confirmed for periods in excess of three years, the signing partner in the external audit firm must be rotated at least every three years. The Committee reviews annually the performance of the external auditors and makes recommendations to the Board regarding the continuation or otherwise of their appointment while ensuring their independence is in line with Board policy.



CORPORATE GOVERNANCE STATEMENT

There is a review of the external auditor's proposed audit scope and approach to ensure there are no unjustified restrictions. Meetings are held separately with the external auditor to discuss any matters that the Committee or the external auditor believes should be discussed privately. The external auditor attends meetings of the Audit Risk and Compliance Committee at which the external audit and half yearly review are agenda items. The Committee ensures

There is a review of the external auditor's proposed audit scope and approach to ensure there are no unjustified restrictions. Meetings are held separately with the external auditor to discuss any matters that the Committee or the external auditor believes should be discussed privately. The external auditor attends meetings of the Audit Risk and Compliance Committee at which the external audit and half yearly review are agenda items. The Committee ensures that significant findings and recommendations made by the external auditor are received and discussed promptly and that management responds to recommendations by the external auditor in a timely manner. The external auditor is invited to the Annual General Meeting of the shareholders and is available to answer any relevant questions from shareholders.

INTERNAL AUDITOR

The Audit Risk and Compliance Committee approves, on the recommendation of management, the appointment of the internal auditors.

Reviews are undertaken of the scope of the work of the internal audit function to ensure no unjustified restrictions or limitations have been placed upon the internal auditors. The Audit Risk and Compliance Committee also reviews the qualifications of internal audit personnel and endorses their appointment, replacement, reassignment or dismissal.

The Audit Risk and Compliance Committee may meet separately with the internal auditors to discuss and matters that the Committee or the internal auditors believe should be discussed privately. The internal auditors have direct access to the Audit Risk and Compliance Committee and to the Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations made by the internal auditors on a timely basis. The internal auditors meet with the external auditors half yearly to review the scope and findings of internal audit's annual audit plan and the extent of the external audit plan having regard to internal audit's findings.

COMPLIANCE

The Audit Risk and Compliance Committee reviews the effectiveness for monitoring compliance with all legal requirements, accounting standards, regulatory obligations both economic and corporate, air safety and services regulations and listing rules, and with ensuring effective systems for internal financial control and for reporting non-financial operating data. It also reviews the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.

The Committee obtains regular updates from management and the Company's legal officers regarding compliance matters and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

Reviews of the findings of any examination by regulatory agencies are undertaken and the Chairman of the Audit Risk and Compliance Committee has the right to approach a regulatory agency directly in the event of an issue arising.



DIRECTORS STATEMENT

Directors' Statement

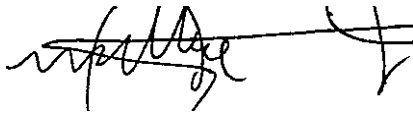
In the opinion of the Directors of PNG Air Limited:

- a) the financial statements of the Group as set out on page 22 to 62 are drawn up so as to give a true and fair view of the state of the Group's affairs as at 31 December 2017, and of its results, cash flow and changes in equity for the financial year ended on that date; and
- b) there are, when this statement is made out, reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the Directors.



Augustine Mano
Director
Port Moresby, 13 October 2020



Watt Kiddie
Director
Port Moresby, 13 October 2020



DIRECTORS REPORT

The directors of PNG Air Limited ("the company") submit herewith the annual consolidated financial statements of the company and its subsidiaries ("the Group") for the financial year ended 31 December 2017. In order to comply with the provisions of the Companies Act 1997, the directors report as follows:

Office Holders

The names and particulars of the directors and office holders during the financial year are:

Mr. Murray Woo
Mr. Augustine Mano
Mr. Simon Woolcott
Mr. Edward Matane
Mr. Watt Kiddie

The above named directors held office during or since the end of the financial year except for;

Mr Murray Woo resigned effective from 03 May 2018 and Simon Woolcott effective from 02 February 2019.

Mr William Lamur was appointed as a director and the Chairman from 19 June 2018 and he stepped down on 25 September 2020.

Mr. Augustine Mano was appointed as Interim Chairman from 29 September 2020.

The company secretary as at the end of the financial year is John Biddle. Subsequent to year end, Dianna Penrose 8 March 2019, who was in turn replaced by Nisaal Jai on 2 July 2020.

Review of operations and changes in state of affairs

The Group's principal activities are the operation of a charter and scheduled passenger airline throughout Papua New Guinea. The Group reported a pre-tax operating profit of K6.89 million before the one-off significant costs related to Dash 8 early lease exit and re-fleeting and re-branding, a noteworthy turnaround compared to the pre-tax operating loss of K35.22 million for the year 2016.

The company also owned 100% interest in its subsidiary companies as follows; Galatoire Investments which is involved in investment property, PNG Ground Services which is involved in the supply of aircraft fuel and APNG Services Pty Ltd for supply of international aircrew. During the financial year, there was no significant change in the principal activities or state of affairs of the company other than that referred to in the consolidated financial statements or notes thereto.

Change in accounting policies

No changes in accounting policies occurred during the current year.

Disclosure of Interest

The Directors of the Company have disclosed their interests in Note 27.6.



DIRECTORS REPORT

Directors' report (cont'd)

Directors' remuneration

Subject to the following paragraph, since the end of the previous financial year, no Director of the Group has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts, or the fixed salary of a full time employee of the Group or related corporation) by reason of a contract made by the Group or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Total directors' remuneration is disclosed at Note 27.4.

Donations

There were no donations made during the year by the Group (2016: Nil).

Independent audit report

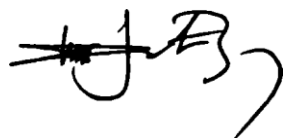
The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent auditor's report on page 51. Audit fees and non-audit fees are disclosed at Note 25.

Registered office and principal place of business

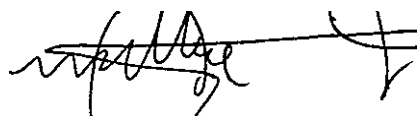
Part Portion 97
Milinch Granville
Jackson's International Airport
Seven Mile NCD

Papua New Guinea

Signed in accordance with a resolution of and on behalf of the directors



Augustine Mano
Director
Port Moresby, 13 October 2020



Watt Kiddie
Director
Port Moresby, 13 October 2020



FINANCIALS

Consolidated statement of profit or loss for the year ended 31 December 2017

	Notes	Consolidated		Company	
		Year ended 31/12/17	Year ended 31/12/16 (Restated)	Year ended 31/12/17	Year ended 31/12/16 (Restated)
		K'000	K'000	K'000	K'000
Revenue	5(a)	281,683	218,614	279,360	215,962
Cost of sales	5(c)	(150,295)	(134,750)	(149,229)	(133,385)
Gross profit		131,388	83,864	130,131	82,577
Other revenue	5(b)	4,434	4,419	4,430	4,419
Operational expenses	5(d)	(91,788)	(83,980)	(91,501)	(83,545)
Occupancy expenses		(6,899)	(7,928)	(6,494)	(7,515)
Administration expenses	5(e)	(22,839)	(25,434)	(22,371)	(24,976)
Finance costs	7	(7,409)	(6,160)	(7,409)	(6,160)
		6,887	(35,219)	6,786	(35,200)
<i>Other items of profit or loss</i>					
ATR Induction and rebranding cost		(1,513)	(6,603)	(1,513)	(6,603)
Dash 8 impairment and early lease exit costs		(5,114)	(28,472)	(5,114)	(28,472)
Profit/(loss) before tax		260	(70,294)	159	(70,275)
Income tax (expense) / benefit	8.1	(770)	1,885	(732)	1,907
PROFIT/(LOSS) FOR THE YEAR		(510)	(68,409)	(573)	(68,368)
Profit /(Loss) attributable to:					
Owners of the Company		(510)	(68,409)	(573)	(68,368)
Earnings Per Share					
From loss through continuing operations:					
Basic and diluted loss per share (toea)	17	(0.17)	(22.57)	(0.19)	(22.56)

(The attached notes from pages 22 to 62 form part of these consolidated financial statements)

FINANCIALS

Consolidated statement of comprehensive income for the year ended 31 December 2017

	Notes	Consolidated		Company	
		Year ended 31/12/17	Year ended 31/12/16 (Restated)	Year ended 31/12/17	Year ended 31/12/16 (Restated)
		K'000	K'000	K'000	K'000
PROFIT / LOSS FOR THE YEAR		(510)	(68,409)	(573)	(68,368)
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Gain on revaluation of non-current assets, net of tax	18	-	770	-	770
Impairment of revalued non-current assets, net of tax	18	(1,274)	(8,428)	(1,274)	(8,428)
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange difference on translation of foreign operation		9	(119)	-	-
Other comprehensive loss for the year net of tax		(1,265)	(7,777)	(1,274)	(7,658)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,775)	(76,186)	(1,847)	(76,026)
Total Comprehensive profit/(loss) attributable to:					
Owners of the Company		(1,775)	(76,186)	(1,847)	(76,026)

(The attached notes from pages 22 to 62 form part of these consolidated financial statements)

FINANCIALS

Consolidated statement of financial position at 31 December 2017

		Consolidated		Company	
	Notes	Year ended 31/12/17	Year ended 31/12/16 (Restated)	Year ended 31/12/17	Year ended 31/12/16 (Restated)
		K'000	K'000	K'000	K'000
Assets					
Non-current assets					
Property, plant and equipment	11	138,240	133,884	137,074	132,816
Other financial assets	12	22,611	17,610	22,631	17,630
Deferred tax assets	8.2	34,042	33,913	33,804	33,674
Other assets	13	23,597	-	23,597	-
Total non-current assets		218,490	185,407	217,106	184,120
Current assets					
Inventories	14	14,047	12,634	13,487	11,868
Trade and other receivables	15	28,752	22,348	28,562	22,057
Other financial assets	12	-	483	-	483
Other assets	13	12,114	18,256	13,229	19,216
Cash and bank balances	10	557	653	534	495
Assets held for sale		-	5,079	-	5,079
Total current assets		55,470	59,453	55,812	59,198
Total assets		273,960	244,860	272,918	243,318
Non-current liabilities					
Borrowings	20	25,280	28,962	25,280	28,962
Other liabilities	21(b)	32,032	32,336	32,032	32,336
Deferred tax liabilities	8.2	33,946	33,913	33,804	33,788
Provisions	22	11,311	6,532	11,233	6,491
Total non-current liabilities		102,569	101,743	102,349	101,577
Current liabilities					
Trade and other payables	23(a)	66,752	87,082	66,567	86,274
Borrowings	20	38,763	40,353	38,763	40,353
Other liabilities	21(a)	9,951	1,510	9,951	1,510
Provisions	22	11,554	12,582	11,547	12,572
Deferred revenue	23(b)	22,868	13,875	22,868	13,875
Total current liabilities		149,888	155,402	149,696	154,584
Total liabilities		252,457	257,145	252,045	256,161
Net Assets		21,503	(12,285)	20,873	(12,843)
Equity					
Capital and reserves					
Issued capital	16(a)	77,271	77,271	77,271	77,271
Other capital contributions from shareholders	16(b)	70,563	35,000	70,563	35,000
Reserves	18	1,241	2,515	1,241	2,515
Accumulated losses	19	(127,572)	(127,071)	(128,202)	(127,629)
Total equity		21,503	(12,285)	20,873	(12,843)

(The attached notes from pages 22 to 62 form part of these consolidated financial statements)

FINANCIALS

Consolidated statement of changes in equity for the year ended 31 December 2017

Consolidated	Share capital	Contributed equity	Revaluation reserve	Retained earnings	Total
	K'000	K'000	K'000	K'000	K'000
Balance at 1 January 2016	77,271	5,000	10,933	(58,529)	34,675
Net loss for the year (Restated)	-	-	-	(68,409)	(68,409)
Other comprehensive income	-	-	(8,418)	(133)	(8,551)
Total comprehensive income for the period	-	-	(8,418)	(68,542)	(76,960)
Transactions with owners in their capacity as owners:					
Additional capital contribution from shareholders	-	30,000	-	-	30,000
Balance at 31 December 2016 (Restated)	77,271	35,000	2,515	(127,071)	(12,285)
Net Profit for the year	-	-	-	(510)	(510)
Other comprehensive income	-	-	(1,274)	9	(1,265)
Total comprehensive income for the period	-	-	(1,274)	(501)	(1,775)
Transactions with owners in their capacity as owners:					
Additional capital contribution from shareholders	-	35,563	-	-	35,563
Balance at 31 December 2017	77,271	70,563	1,241	(127,572)	21,503

Company	Share capital	Contributed equity	Revaluation reserve	Retained earnings	Total
	K'000	K'000	K'000	K'000	K'000
Balance at 1 January 2016	77,271	5,000	10,933	(59,247)	33,957
Net loss for the year (Restated)	-	-	-	(68,368)	(68,368)
Other comprehensive income	-	-	(8,418)	(14)	(8,432)
Total comprehensive income for the period	-	-	(8,418)	(68,382)	(76,800)
Transactions with owners in their capacity as owners:					
Additional capital contribution from shareholders	-	30,000	-	-	30,000
Balance at 31 December 2016 (Restated)	77,271	35,000	2,515	(127,629)	(12,843)
Net Profit for the year	-	-	-	(573)	(573)
Other comprehensive income	-	-	(1,274)	-	(1,274)
Total comprehensive income for the period	-	-	(1,274)	(573)	(1,847)
Transactions with owners in their capacity as owners:					
Additional capital contribution from shareholders	-	35,563	-	-	35,563
Balance at 31 December 2017	77,271	70,563	1,241	(128,202)	20,873

(The attached notes from pages 22 to 62 form part of these consolidated financial statements)

FINANCIALS

Consolidated statement of cash flows for the year ended 31 December 2017

Notes	Consolidated		Company	
	Year ended 31/12/17 K'000	Year ended 31/12/16 K'000	Year ended 31/12/17 K'000	Year ended 31/12/16 K'000
Cash flows from operating activities				
Receipts from customers	277,670	216,327	275,306	213,648
Other revenue	10,508	8,360	10,489	8,360
Payments to suppliers and employees	(291,644)	(230,622)	(290,986)	(229,181)
Cash used in operations	(3,466)	(5,935)	(5,191)	(7,173)
Interest paid	(5,778)	(4,727)	(5,778)	(4,727)
Net cash used in operating activities	(9,244)	(10,662)	(10,969)	(11,900)
Cash flows from investing activities				
Payments for property, plant and equipment	(15,683)	(23,872)	(15,498)	(23,872)
Proceeds from disposal of property, plant and equipment	101	1,391	101	1,391
Net cash used in investing activities	(15,582)	(22,481)	(15,397)	(22,481)
Cash flows from financing activities				
Proceeds from borrowings (secured notes)	-	21,500	-	21,500
Other capital contributions from shareholders	30,000	10,000	30,000	10,000
Proceeds from/ (repayments of) borrowings				
- Financial institutions	13,896	(5,538)	13,896	(5,538)
- Other	(1,014)	(1,139)	(1,014)	(1,139)
- Affiliated/Related parties	-	-	1,675	1,305
Net cash generated by financing activities	42,882	24,823	44,557	26,128
Net increase/ (decrease) in cash and cash equivalents	18,056	(8,320)	18,191	(8,253)
Cash and cash equivalents at the beginning of the year	(25,961)	(17,641)	(26,119)	(17,866)
Cash and cash equivalents at the end of the year	(7,905)	(25,961)	(7,928)	(26,119)
10				
Represented by:				
Cash and bank balances	557	653	534	495
Bank overdraft	(8,462)	(26,614)	(8,462)	(26,614)
	(7,905)	(25,961)	(7,928)	(26,119)

(The attached notes from pages 22 to 62 form part of these consolidated financial statements)

FINANCIALS

1. General information

PNG Air Limited (the 'Parent' or 'Parent Company') is incorporated in Papua New Guinea (PNG). The Parent Company was formerly known as Airlines of Papua New Guinea Limited and changed its name to PNG Air Limited on 29 June 2016. The addresses of its registered office and principal place of business are disclosed in the Directors report. The principal activities of the Company and its subsidiaries (the 'Group') are categorized in note 6 in the segment note.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

2.1 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (note 20) and certain other financial liabilities (note 21). A reconciliation between the opening and closing balances of these items is provided in notes 20 and 21. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in notes 20 and 21, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in the disposal group that is classified, as held for sale.

2.2 New and revised IFRSs on issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications) ¹
IFRS 16	Leases ²
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle ¹
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

³ Effective for annual periods beginning on or after a date to be determined.

FINANCIALS

2.2 New and revised IFRSs in issue but not yet effective (cont'd)

IFRS 9 Financial Instruments

IFRS 9 was reissued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an economic relationship. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the entity's risk management activities have also been introduced.

Based on an analysis for the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at the date, the directors the Company have assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

All existing financial assets and financial liabilities will continue to be subsequently measured at amortised cost upon the application of IFRS 9. All financial assets of all existing instruments meet the solely payments of principal and interest test and the business model is to hold and collect cash flows.

FINANCIALS

2.2 New and revised IFRSs in issue but not yet effective (cont'd)

Impairment

Financial assets measured at amortised cost will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, finance lease receivables and amounts due from customer under construction contracts as required or permitted by IFRS 9. The directors expect to recognise lifetime and 12-month expected credit losses for all financial assets.

In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items. As at the date of the signing of the financial report, the Company has been unable to quantify the value of the potential impact of this standard.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue 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. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

IFRS 15 applies to annual periods beginning on or after 1 January 2018. The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. The adoption of IFRS 15 is not expected to have a material impact on the Group's revenue recognition.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related Interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will be also be affected as operating lease payments under IAS 17 are

FINANCIALS

2.2 New and revised IFRSs in issue but not yet effective (cont'd)

presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 applies to annual periods beginning on or after 1 January 2019. The directors of the Group anticipate that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities and to decrease net cash used in financing activities by the same amount.

Annual Improvements to IFRSs 2014 - 2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Group. The package also includes amendments to IFRS 12 which is mandatorily effective for the Group in the current year – see note 2.1 for details of application.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The directors of the Company do not anticipate that the application of the amendments in the future will have any impact on the Group's consolidated financial statements as the Group is neither a first-time adopter of IFRS nor a venture capital organisation.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of the transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

FINANCIALS

2.2 New and revised IFRSs in issue but not yet effective (cont'd)

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements. This is because the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statement have been prepared in accordance with International Financial Reporting Standards as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain property plant and equipment that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, therefore ensuring that the substance of the underlying transactions or other events is reported. The accounting policies adopted are consistent with those of the previous year unless otherwise specified.

Material uncertainty relating to going concern

The Group reported a modest profit of K260 thousand before tax during the year ended 31 December 2017, utilised K9.24 million net cash in operating activities and, as of that date, the Group was in a net current liability position of K94.42 million and the financial statements have been prepared on the going concern basis, which assumes that the Group will be able to meet its liabilities and obligations as and when they fall due in the normal course of business for the foreseeable future.

As at the date of signing the financial report, the Directors are confident that the Group will be able to continue as a going concern and the Directors of the entity endorsed a three-year Strategic plan for 2021 to 2023. Outlined below are the key aspects of this strategic plan:

- Re-negotiating current lease rental payments and restructuring maintenance reserves payments related to ATR aircraft;
- Re-structuring organisational structure to eliminate duplication and increase productivity, including cost reductions to a consolidated total of approximately K69.5m per annum.
- The Group continuing to improve performance, including:
 - Growing the RPT business with an aim to increase market share.
 - Continuing to pursue new charter contracts with corporate customers, and
 - Continuing to increase existing client base to secure higher revenue
- The continued forbearance of the consolidated entity's major creditors;
- Continuing support from financial lenders; and
- Restructuring initiatives resulting in sufficient operating profit and positive cash flows to enable the consolidated entity to meet its liabilities as and when they fall due.

Directors and Management continue their effort to reduce costs and increase revenue. These costs reductions were in no manner allowed to adversely impact on safety related issues and the Airline continues its strict policy of maintaining the highest standards of safety and quality of over its fleet and services.

FINANCIALS

3. Significant accounting policies (cont'd)

3.3 Basis of preparation (cont'd)

The financial report has been prepared on the going concern basis, based on management's strategic plan which incorporates the following:

- Renegotiated reduction of long-term debt repayments and interest with Castlake from USD4.5m to USD2.7. Interest reduced from 18% to 8%.
- Re-negotiating current lease rental payments and restructuring maintenance reserves payments related to ATR aircraft; Negotiations have been progressed
- Continued support of financial lenders. This includes the extension of the financing facilities with BSP which is subject to annual review.
- Continuing forbearance from consolidated entity's major creditors.
- Postponement of delivery dates of the six ATR which was initially schedule to begin delivery from May 2020 to June 2022. Pre delivery payments amounting to USD2.8m has been paid by the group to date to the manufacturer, ATR, for the delivery of the new aircraft.

At the date of this report and having considered the above factors, the Directors are confident that the consolidated entity will be able to continue as a going concern. The following are to be noted in conjunction with the above measures being undertaken:

- The financing facility with BSP was restructured and extended during 2017. The restructure included conversion of a portion of the overdraft facility into a term loan and reduction in interest rates, indicating continued support extended by the bank. The restructured facilities are subject to an annual review.
- Management are in continual discussion with major creditors. The Group has entered into agreed deferred payment plans with certain creditors. The deferred payment plans entered into have been met. Where payment plans have been proposed but are yet to be formally approved, the Group continues to make payments according to these proposed plans.

Notwithstanding that the respective outcomes of the matters referred to above are not entirely within the control of the consolidated entity, the Board is confident, based on achievement of previous milestones, that it can achieve successful outcomes and believes that it is appropriate to prepare these financial statements on the going concern basis. In this respect the Group continues to improve performance and managing costs. The restructuring initiatives due to COVID 19 continue to yield results in reducing costs. RPT business continues to grow and since April to July 2020 it has achieved all its forecasts.

The Directors and Management are satisfied that the conditions of the Company have been sufficiently disclosed.

Based on the above, the ability of the Group to continue as a going concern is dependent upon:

- the successful implementation of the strategic plan and cost containment measures;
- the continued forbearance of the Group's creditors in respect of amounts owing beyond normal settlement periods; and
- the continued support of the Group's financial lenders.

Should any of the above matters not occur, a material uncertainty would exist which would cast significant doubt regarding the Group's ability to continue as a going concern and therefore whether they would be able to realise their assets and discharge their liabilities in the normal course of business. The strategy, when this occurs, will need to be readjusted in line with the economic conditions. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the consolidated entity and the Group be unable to continue as going concern.

3.4 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 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:

FINANCIALS

3. Significant accounting policies (cont'd)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.5 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and subsidiaries controlled by the Company (the "Group"). 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; and
- 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; and
- 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

FINANCIALS

3. Significant accounting policies (cont'd)

3.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.5.1 Carriage of passenger and freight

Revenue from the carriage of passengers and freight is recognised at the time the passenger or freight is uplifted for carriage, includes concession revenue and is after deducting returns, commissions and taxes.

Air tickets that remain unutilised after a twelve-month period are released to revenue. The estimate is based on historical statistics and data that takes into account the terms and conditions for various ticket types.

3.5.2 Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.5.3 Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

3.6 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group has no finance leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Provision is made for aircraft maintenance expenditure which the Group incurs in connection with major airframe and engine overhauls on operating leased aircraft, where the terms of the lease imposes obligations on the lessee to have these overhauls carried out. Provision for expenditure to meet the contractual return conditions is also included. The actual expenditure on the overhauls is charged against the provision when incurred. Any residual balance is transferred to profit or loss. All other replacement spares and other expenditure relating to maintenance of leased fleet assets is charged to profit or loss on consumption or as incurred.

With regards to leased aircraft, where the Group has an obligation to return the aircraft with adherence to certain maintenance conditions, provision is made during the lease term. The provision is based on the expected future costs of meeting the maintenance return conditions.

3.7 Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results

FINANCIALS

3. Significant accounting policies (cont'd)

and financial position of each group entity are expressed in Papua New Guinea Kina ('K'), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in consolidated statement of comprehensive income in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Papua New Guinea Kina using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

3.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in consolidated statement of profit or loss in the period in which they are incurred.

3.9 Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

FINANCIALS

3. Significant accounting policies (cont'd)

3.10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.10.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.10.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.10.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in consolidated statement of profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside statement of profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

3.10.4 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the Internal Revenue Commission, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the Internal Revenue Commission is included as part of receivables or payables.

FINANCIALS

3. Significant accounting policies (cont'd)

3.11 Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Rotable parts held for use in the supply of goods or services are stated at the revalued amounts, being the fair value at the date of revaluation, less any subsequent depreciation and accumulated impairment losses. Revaluations for aircraft and rotatables are performed with sufficient regularity (i.e. annually) such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such rotatable parts are recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously expensed.

Freehold land is not depreciated.

Plant and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method except for aircraft and aircraft components which are depreciated based on usage. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Aircraft held for use in the supply of services are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Owned aircraft are depreciated based on estimated useful life and usage of its components, as each component of an aircraft namely airframe, propeller, landing gear, engine and auxiliary power unit, have specific useful lives prescribed by the manufacturer and their specific usage.

Effective annual depreciation rates resulting from those methods are:

Aircraft:

Dash 8 Aircraft is depreciated based on flying hours over remaining life of the aircraft

Twin Otter aircraft did not operate after 31 January 2014 following a decision by the Board to cease their operations.

Other assets:

Buildings	3.00% straight line
Plant and equipment	11.25% straight line
Motor vehicle	30.00% straight line

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

3.11.1 The cost associated with the overhaul of aircraft engines and major components

The cost associated with the overhaul of aircraft engines and major components for owned aircraft assets is amortised over the lifetime of those specific overhaul costs. When aircraft are revalued these costs are taken into account to arrive at the revaluation increase or decrease, hence the costs will be adjusted accordingly to reflect the fair value of the total aircraft asset upon revaluation.

3.11.2 The cost of subsequent major cyclical maintenance checks

The cost of subsequent major cyclical maintenance checks for owned aircraft are capitalised and depreciated over the scheduled usage period to the next major inspection or the remaining life of the aircraft. The costs incurred for scheduled major maintenance of the aircraft's fuselage and engines are capitalised and depreciated until the next maintenance. The depreciation rate is determined on technical grounds, according to its use expressed in terms of cycles and flight hours.

FINANCIALS

3. Significant accounting policies (cont'd)

3.11.3 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The impairment loss recognised during the year was taken to revaluation reserve.

3.12 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs include the cost of direct materials and cost of transportation and duties are expensed as and when incurred. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

3.15 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities,

FINANCIALS

3. Significant accounting policies (cont'd)

3.15 Financial instruments (cont'd)

as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.15.1 Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through statement of comprehensive income, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, and maintenance reserves) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

FINANCIALS

3. Significant accounting policies (cont'd)

3.15 Financial instruments (cont'd)

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire.

3.15.2 Financial liabilities and equity instruments

Financial liabilities

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

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

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.

3.16 Maintenance reserves

Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contract. The lessors are contractually obligated to reimburse the Group and company for the qualifying maintenance expenditure incurred on aircraft if the Group and company has a maintenance reserves credit. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed annually against the entity's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve payments are expensed accordingly.

Reimbursement amounts are only recognised as assets in respect of maintenance costs to be reimbursed if the work has been performed and it is probable that the amounts claimed are recoverable in terms of the aircraft lease contract and based on the available balance in the maintenance reserve account.

The reimbursement amounts claimed from lessors in respect of qualifying maintenance are transferred to receivables until actually received.

4 Critical judgements in applying accounting estimates

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 estimate is 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.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see note 4.2 below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Maintenance Reserves

Maintenance reserves prepayments unutilised at the expiry of the lease term are not refundable. The Group estimates the unutilised balance that is likely to remain at the end of the lease term based on planned events and assumed consumed life of leased aircraft and their components between year-end and the lease expiry date and uses this estimate as the basis for expensing maintenance reserve payments. The recognition of the maintenance reserves assets and values

FINANCIALS

4 Critical judgements in applying accounting estimates (cont'd)

Thereof are subject to critical judgements followed by management. The difference between the net maintenance reserve and the claimable major maintenance is the consumed life. The critical judgements that management had to make are with regards to how much of the maintenance reserves outstanding will not be utilised by the end of the lease term and how much will be claimed from lessors. To do this management needed to estimate when the next event will happen in order to determine if the next event is likely to happen after the end of the lease term. Management generally looks at the scheduled events and the time elapsed since the last event to estimate when the next event will happen.

Useful Lives, Depreciation Method and Residual Values of Property, Aircraft and Equipment

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date.

Impairment of Property, Plant and Equipment - Aircraft

Impairment is recognised when events and circumstances indicate that the aircraft may be impaired and the carrying amounts of the aircraft exceed the recoverable amounts. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

In performing its impairment testing, the management considered assets that cannot be tested individually are grouped together into the group of assets that generates cash inflows that are independent of the cash inflows of other assets or cash-generating units. The amount of impairment during the year has been disclosed in note 11.

Provision for Lease liabilities

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts, are accrued and charged to profit or loss over the lease term for this contractual obligation.

The contractual obligation to maintain and replenish aircraft held under operating leases exists independently of any future actions within the control of the Group. These elements of accounting policies involve the use of estimates in determining the quantum of both the initial maintenance asset and/or the amount of provisions to be recorded and the respective periods over which such amounts are charged to profit or loss. The major sources of estimation uncertainty, regarding the calculation of the provision include the price at which the life limited parts will be replaced based on current prices, the quantity of the limited life parts that will need to be replaced, the cost of the next event regarding the major maintenance and, the expected timing of the next event. The occurrence of major events is either time or activity based therefore the time that has passed or activity that has been consumed since the last event also required management's judgement.

At the inception of the lease, management need to estimate the cost of returning the aircraft to the condition required by lessors including the costs of painting the aircraft and replacing certain components which affect both the restoration asset and the related provision. In making such estimates, the Group has primarily relied on its own and industry experience, industry regulations and recommendations from manufacturers, however, these estimates can be subject to revision, depending on a number of factors, such as the timing of the planned maintenance, the ultimate utilisation of the aircraft, changes to government and international regulations and increases or decreases in estimated costs. The Group evaluates its estimates and assumptions in each reporting period and, when warranted, adjusts its assumptions, which generally impact maintenance and depreciation expense in the statement of profit or loss and other comprehensive income on a prospective basis.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

FINANCIALS

4 Critical judgements in applying accounting estimates (cont'd)

Fair value measurements and valuation processes

Only the Group's owned aircraft are measured at fair value for financial reporting purposes. The board of directors of the Company and Management determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified External valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the assets and liabilities. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes 11 and 24.

Allowance for credit losses

Credit losses or bad debts are treated on an individual basis and no general provision has been made. Allowances for doubtful debtors are provided for based on irrecoverable amounts determined by reference to past default experience of the counterparty.

Allowance for slow moving, damaged and obsolete inventories

Inventory obsolescence is recognised on the basis of inventory ageing, therefore inventory that has not been used in the last 5 years is provided for 50% of the value and inventory and inventory items that have not been used for more than 5 years is fully provided for.

5. Revenue and costs

An analysis of the Group's revenue and costs for the year from continuing operations is as follows:

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
5. (a) Revenue				
Revenue from carriage of passenger and cargo	248,939	198,977	248,939	198,977
Revenue from charters	27,469	12,972	27,469	12,972
Revenue from sale of fuel	2,323	2,652	-	-
Aircraft handling income	2,952	4,013	2,952	4,013
	281,683	218,614	279,360	215,962
5. (b) Other income				
Engineering sales	954	40	954	40
Interest received	1	1	1	1
Other revenue	3,221	3,237	3,217	3,237
Rent received	63	54	63	54
Realised foreign currency gain	252	383	252	383
Unrealised foreign currency (loss)/ gain	(59)	631	(59)	631
Profit on the sale of plant and equipment	2	73	2	73
	4,434	4,419	4,430	4,419
5. (c) Cost of sales				
Direct activity costs	12,942	10,558	11,903	9,466
Fuel, air navigation and landing costs	49,613	41,953	49,586	41,680
Engineering costs	28,751	31,774	28,751	31,774
Depreciation of aircraft and rotatable improvements	5,796	8,608	5,796	8,608
Lease hire costs	47,940	36,367	47,940	36,367
Aircraft insurance costs	5,253	5,490	5,253	5,490
	150,295	134,750	149,229	133,385
5. (d) Operational expenses				
Crew and engineering staff costs	69,576	62,077	69,576	62,077
Other operational staff costs	17,491	18,010	17,476	17,838
Other operational costs	4,721	3,893	4,449	3,630
	91,788	83,980	91,501	83,545

FINANCIALS

5. Revenue and costs (cont'd)

5. (e) Administration expenses

Management and other admin staff costs	15,069	15,034	15,069	15,035
Other administration costs	7,770	10,400	7,302	9,941
	22,839	25,434	22,371	24,976

6. Segment information

6.1 Operating segments

IFRS 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The group operates in one (1) operating segment being Regular Passenger Travel (RPT) and Aircraft Charters.

For detailed breakdown of revenue refer to note 5.

6.2 Geographical information

The Group operates in one principal geographical area which is its country of domicile.

7. Finance costs

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16 (Restated)	Year ended 31/12/17	Year ended 31/12/16 (Restated)
	K'000	K'000	K'000	K'000
Interest on loans	1,081	1,172	1,081	1,172
Interest on bank overdraft	2,198	2,100	2,198	2,100
Interest on other borrowings (non-financial institutions)	4,130	2,888	4,130	2,888
	7,409	6,160	7,409	6,160

8. Income taxes

8.1 Income tax recognised in consolidated statement of profit or loss

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
<i>Current tax</i>				
In respect of the current year	866	(22,060)	846	(22,054)
In respect of prior periods	-	-	-	-
Total current tax expense	866	(22,060)	846	(22,054)
<i>Deferred income tax</i>				
In respect of the current year	(96)	20,175	(114)	20,147
Other	-	-	-	-
Total Deferred tax	(96)	20,175	(114)	20,147
Total tax expense / (benefit) relating to continuing operations	770	(1,885)	732	(1,907)

FINANCIALS

8. Income taxes (cont'd)

The expense for the year can be reconciled to the accounting loss as follows:

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16 (Restated)	Year ended 31/12/17	Year ended 31/12/16 (Restated)
	K'000	K'000	K'000	K'000
Profit /(Loss) before tax	260	(70,294)	159	(70,275)
Income tax (expense) / benefit calculated at 30%	(78)	21,088	(48)	21,082
Effect of prior year adjustments		(14)	-	-
Effect of expenses that are not deductible in determining taxable profit (tax effect of permanent differences)	(692)	(7)	(684)	(7)
Effect of tax losses not recognized as a deferred tax asset	-	(19,182)	-	(19,168)
Income tax (expense) / benefit	(770)	1,885	(732)	1,907

The tax rate used for the 2017 and 2016 reconciliations above is the corporate tax rate of 30% payable by corporate entities under tax law that have been enacted or substantively enacted by reporting date.

8.2 Deferred taxes

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Deferred tax assets				
Doubtful debts	147	83	123	71
Leave entitlements	2,588	2,915	2,588	2,900
Maintenance	4,246	2,819	4,246	2,819
Stock obsolescence	574	556	574	556
Tax losses	26,487	27,540	26,273	27,328
	34,042	33,913	33,804	33,674
Deferred tax liabilities				
Capitalised expenses	(25,833)	(24,730)	(25,833)	(24,730)
Inventory	(4,046)	(3,560)	(4,046)	(3,560)
Property, plant and equipment	(3,411)	(5,434)	(3,269)	(5,309)
Unrealised currency losses	(656)	(189)	(656)	(189)
	(33,946)	(33,913)	(33,804)	(33,788)
Net deferred tax assets / (liabilities)	96	-	-	(114)

At year-end, the Company had carry-forward tax losses available for utilisation against future taxable income of K87.7m (2016: K91.1m). Tax losses available at year end will expire in 2025.

FINANCIALS

8. Income taxes (cont'd)

Movements in deferred taxes are as follows:

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Deferred tax assets				
Balance at beginning of year	33,913	37,708	33,674	37,474
Consolidated statement of profit or loss credits/ (charges)	(417)	(3,795)	(416)	(3,800)
Consolidated statement of OCI credits/ (charges)	546	-	546	-
Balance at end of year	<u>34,042</u>	<u>33,913</u>	<u>33,804</u>	<u>33,674</u>
Deferred tax liabilities				
Balance at beginning of year	(33,913)	(37,708)	(33,788)	(37,597)
Consolidated statement of profit or loss credits/ (charges)	(33)	3,795	(16)	3,809
Balance at end of year	<u>(33,946)</u>	<u>(33,913)</u>	<u>(33,804)</u>	<u>(33,788)</u>
Net deferred tax assets / (liabilities)	<u>96</u>	<u>-</u>	<u>-</u>	<u>(114)</u>

9. Subsidiaries

Details of the Company's subsidiaries at 31 December 2017 are as follows:

Subsidiary	Principal activities	Place of Incorporation	Ownership Interest	
			2017	2016
Galatoire Ltd	Holds Investment property	Papua New Guinea	100%	100%
PNG Ground Services Ltd	Supplying Aviation fuel	Papua New Guinea	100%	100%
APNG Services Pty Ltd	Supply of International Aircrew	Australia	100%	100%

The Company owns 100% equity shares of three subsidiary entities and the relevant activities of these subsidiary entities are determined by the board of directors of PNG Air Limited on voting rights. Therefore, the directors of the Group concluded that the Company has full control over three subsidiary entities and they are consolidated in these financial statements.

10. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Cash and bank balances	557	653	534	495
Bank overdraft	(8,462)	(26,614)	(8,462)	(26,614)
	<u>(7,905)</u>	<u>(25,961)</u>	<u>(7,928)</u>	<u>(26,119)</u>

FINANCIALS

11. Property, plant and equipment

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Cost or valuation	233,223	221,683	230,863	219,688
Accumulated depreciation	(94,983)	(87,799)	(93,789)	(86,872)
	138,240	133,884	137,074	132,816
Land and buildings	3,700	3,592	2,920	2,795
Aircraft	85,916	84,420	85,916	84,420
Plant and equipment	6,308	6,386	6,018	6,207
Rotable parts	41,999	39,005	41,998	39,055
Motor vehicles	318	431	222	339
	138,240	133,884	137,074	132,816

The movements in property, plant and equipment are as follows:

Consolidated	Land and Buildings	Aircraft	Plant and equipment	Rotable parts	Motor vehicle	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Cost or valuation						
Balance at 1 January 2016	4,120	156,677	14,476	48,064	3,222	226,559
Additions	248	18,341	2,211	2,958	114	23,872
Disposals	-	-	(13)	(4,524)	(96)	(4,633)
Revaluation	-	(107)	-	-	-	(107)
Impairment	-	(24,008)	-	-	-	(24,008)
Balance at 31 December 2016	4,368	150,903	16,674	46,498	3,240	221,683
Additions	323	9,650	1,112	4,594	69	15,748
Impairment	-	(7,437)	-	-	-	(7,437)
Transfer from asset held for sale	72	5,079	145	-	47	5,343
Disposals	-	-	(149)	(1,927)	(38)	(2,114)
Balance at 31 December 2017	4,763	158,195	17,782	49,165	3,318	233,223
Accumulated depreciation						
Balance at 1 January 2016	633	58,173	8,988	8,475	2,685	78,954
Depreciation charge	143	9,916	1,307	-	220	11,586
Disposal	-	-	(7)	(1,032)	(96)	(1,135)
Write back	-	(1,606)	-	-	-	(1,606)
Balance at 31 December 2016	776	66,483	10,288	7,443	2,809	87,799
Depreciation charge	287	5,796	1,308	-	229	7,620
Disposal	-	-	(122)	(277)	(37)	(436)
Balance at 31 December 2017	1,063	72,279	11,474	7,166	3,001	94,983
Net book value at 31 December 2017	3,700	85,916	6,308	41,999	317	138,240
Net book value at 31 December 2016	3,592	84,420	6,386	39,055	431	133,884

FINANCIALS

11. Property, plant and equipment (cont'd)

Company	Land & Buildings K'000	Aircraft K'000	Plant & Equipment K'000	Rotable Parts K'000	Motor vehicle K'000	Total K'000
Cost or valuation						
Balance at 1 January 2016	3,104	156,677	14,019	48,063	2,701	224,564
Additions	248	18,341	2,211	2,958	114	23,872
Revaluation	-	(107)	-	-	-	(107)
Disposals	-	-	(13)	(4,524)	(96)	(4,633)
Impairment	-	(24,008)	-	-	-	(24,008)
Balance at 31 December 2016	3,352	150,903	16,217	46,497	2,719	219,688
Additions	226	9,650	1,107	4,594	69	15,646
Impairment	-	(7,437)	-	-	-	(7,437)
Transfer from asset held for sale	-	5,079	-	-	-	5,079
Disposals	-	-	(149)	(1,927)	(37)	(2,113)
Balance at 31 December 2017	3,578	158,195	17,175	49,164	2,751	230,863
Accumulated depreciation						
Balance at 1 January 2016	463	58,173	8,752	8,472	2,314	78,174
Depreciation charge	94	9,916	1,265	-	162	11,437
Write back	-	(1,606)	-	-	-	(1,606)
Disposal	-	-	(7)	(1,030)	(96)	(1,133)
Balance at 31 December 2016	557	66,483	10,010	7,442	2,380	86,872
Depreciation charge	101	5,796	1,268	-	189	7,354
Disposal	-	-	(121)	(276)	(40)	(437)
Balance at 31 December 2017	658	72,279	11,157	7,166	2,529	93,789
Net book value at 31 December 2017	2,920	85,916	6,018	41,998	222	137,074
Net book value at 31 December 2016	2,795	84,420	6,207	39,055	339	132,816

11.1 Impairment losses recognised in the period

During the year, the Group recognized impairment of K7.44 million (2016: K24.01 million) in respect of Dash 8 aircraft related non-current assets through the revaluation reserve and profit or loss.

11.2 Aircraft carried at fair value

Dash 8 aircraft and rotables were last revalued by an independent valuer at 31 December 2016. The valuations were based on the physical inspection of the aircraft, relevant documents together with the comparison of recent sale prices of similar aircraft type. Further, aircraft ageing has also been factored in. The revaluations for the Group were undertaken by a Registered Independent Aircraft valuer not related to the Group and the valuer has appropriate qualifications and recent experience in the fair value measurement of Aircraft. The revaluations were based on the fair market value in continued use of the Dash 8 aircraft fleet and considered recent market transactions on arm's length terms for similar assets.

As at 31 December 2017 carrying amounts, a Directors' assessment was carried out to assess the reasonableness of the fair values. The carrying amounts of the aircraft have been adjusted accordingly. The next revaluation was performed at 31 December 2018.

FINANCIALS

11. Property, plant and equipment (cont'd)

Details of the Group's aircraft and information about the fair value hierarchy as at 31 December 2017 are as follows:

	Level 1 K'000	Level 2 K'000	Level 3 K'000	Fair value as at 31/12/17 K'000
Aircraft	-	85,916	-	85,916
Rotables		41,999		41,999

	Level 1 K'000	Level 2 K'000	Level 3 K'000	Fair value as at 31/12/16 K'000
Aircraft	-	84,420	-	84,420
Rotables		39,055		39,055

11.3 Assets pledged as security

Aircraft with a carrying amount of K74.3 million (2016: K76.9 million) have been pledged to secure borrowings of the Group (see note 20). Aircraft and land and buildings have been pledged as security for bank loans, leases, secured notes and other financial institution loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

12. Other financial assets

	Consolidated		Company	
	Year ended 31/12/17 K'000	Year ended 31/12/16 K'000	Year ended 31/12/17 K'000	Year ended 31/12/16 K'000
Investments and deposits carried at cost				
Security deposits on leased assets	22,611	17,610	22,611	17,610
Investments in subsidiaries	-	-	20	20
ATR lease incentive assets (note 21)	-	483	-	483
	<u>22,611</u>	<u>18,093</u>	<u>22,631</u>	<u>18,113</u>
Current asset	-	483	-	483
Non-current asset	<u>22,611</u>	<u>17,610</u>	<u>22,631</u>	<u>17,630</u>
	<u>22,611</u>	<u>18,093</u>	<u>22,631</u>	<u>18,113</u>

FINANCIALS

13. Other assets

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Prepayments to suppliers	10,451	8,053	10,292	7,966
Maintenance reserve	25,260	10,203	25,260	10,203
Loans carried at amortised cost	-	-	1,274	1,047
	35,711	18,256	36,826	19,216
Current asset	12,114	18,256	13,229	19,216
Non-current asset	23,597	-	23,597	-
	35,711	18,256	36,826	19,216

14. Inventories

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Consumables stock on hand – at cost	15,962	14,487	15,402	13,721
Allowance for stock obsolescence	(1,915)	(1,853)	(1,915)	(1,853)
	14,047	12,634	13,487	11,868

15. Trade and other receivables

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Trade receivables	24,354	14,367	24,184	14,134
Allowance for doubtful debts	(489)	(277)	(410)	(235)
	23,865	14,090	23,774	13,899
Other receivables	4,869	8,240	4,788	8,158
Income tax receivable	18	18	-	-
	28,752	22,348	28,562	22,057

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost less impairment.

The average credit period on sales of goods is 30 days.

Before accepting any new customer, the Group uses an internal credit appraisal process to assess the potential customer's credit quality and defines credit limits by customer.

FINANCIALS

15. Trade and other receivables (cont'd)

Ageing of past due but not impaired

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
61-90 days	855	742	843	739
Over 90 days	469	524	374	524
Total	1,324	1,266	1,217	1,263
Average age (days)	31	24	31	24

Movement in the allowance for doubtful debts

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Balance at beginning of the year	(277)	(302)	(235)	(260)
Impairment provision release/(charge) in the year	(212)	25	(175)	25
Balance at end of the year	(489)	(277)	(410)	(235)

16(a) Issued capital

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Opening Issued capital 303,000,000 fully paid ordinary shares	77,271	77,271	77,271	77,271
Closing issued capital 303,000,000 fully paid ordinary shares	77,271	77,271	77,271	77,271

16(b) Other capital contributions from shareholders

Balance at beginning of year	35,000	5,000	35,000	5,000
Additional capital contribution from shareholders During the year (i), (ii), (iii)	35,563	30,000	35,563	30,000
Balance at end of year	70,563	35,000	70,563	35,000

- On 13 April 2017, the Company received additional capital contribution from NasFund, one of its major shareholders, amounting to K20 million.
- During the year, the Company received capital contributions from Mineral Resource Development Company (MRDC) amounting to K10 million. The contributions of K3 million, K3 million, and K4 million were received in April, June and July, respectively.
- During the year, the PNG Air Note 73 and Note 74 amounting to K1 million and K4 million, respectively, and related accrued interest of K0.563 million were converted to equity.

In return for these capital contributions, a fixed number of shares will be issued, which is yet to be completed.

FINANCIALS

17. Earnings per share

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16 (Restated)	Year ended 31/12/17	Year ended 31/12/16 (Restated)
	Toea	Toea	Toea	Toea
Basic and diluted loss per share				
From continuing operations	(0.17)	(22.57)	(0.19)	(22.56)
Total	(0.17)	(22.57)	(0.19)	(22.56)

Basic and diluted loss is calculated by dividing the Profit or loss for the year attributable to owners of the company by the weighted average number of shares that were outstanding in the year.

Basic and diluted loss per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16 (Restated)	Year ended 31/12/17	Year ended 31/12/16 (Restated)
	K'000	K'000	K'000	K'000
Profit / (Loss) for the year	(510)	(68,409)	(573)	(68,368)
Earnings used in the calculation of basic and diluted EPS from continuing operations	(510)	(68,409)	(573)	(68,368)
Weighted average number of ordinary shares	303,000,000	303,000,000	303,000,000	303,000,000

18. Revaluation reserves

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16 (Restated)	Year ended 31/12/17	Year ended 31/12/16 (Restated)
	K'000	K'000	K'000	K'000
Balance at beginning of year	2,515	10,933	2,515	10,933
Revaluation of aircraft (net of tax)	-	770	-	770
Impairment on revalued aircraft (net of tax)	(1,274)	(8,428)	(1,274)	(8,428)
Rotables disposal	-	(760)	-	(760)
Balance at end of year	1,241	2,515	1,241	2,515

The revaluation reserve arises on the revaluation of aircraft and rotables. When revalued aircraft and rotables are sold, the portion of the revaluation reserve that relates to that asset is effectively realised and is transferred directly to retained earnings.

19. Accumulated losses

Balance at beginning of year	(127,071)	(58,529)	(127,629)	(59,247)
Exchange gain/(loss) on translation of foreign operation	9	(133)	-	(14)
Net loss attributable to owners of the Company	(510)	(68,409)	(573)	(68,368)
Balance at end of year	(127,572)	(127,071)	(128,202)	(127,629)

FINANCIALS

20. Borrowings

		Consolidated		Company	
		Year ended 31/12/17 K'000	Year ended 31/12/16 K'000	Year ended 31/12/17 K'000	Year ended 31/12/16 K'000
a) Current					
Bank Loans and Overdrafts	(i)	28,462	27,638	28,462	27,638
Secured notes	(ii)	9,000	9,000	9,000	9,000
Secured loan from other financial institutions	(iii)	1,301	1,301	1,301	1,301
Other		-	2,414	-	2,414
		38,763	40,353	38,763	40,353
b) Non-current					
Bank Loans	(i)	-	-	-	-
Secured notes	(ii)	25,000	25,000	25,000	25,000
Secured loan from other financial institution	(iii)	280	1,295	280	1,295
Finance lease – Bank South Pacific		-	2,667	-	2,667
		25,280	28,962	25,280	28,962
Total Borrowings		64,043	69,315	64,043	69,315

Summary of borrowing arrangements

- (i) The bank holds a registered first mortgage over the aircraft owned by the Group which are not otherwise secured to the note holders (described per (ii) below (iii) and holds a floating charge over the whole of the Company's assets and undertakings including: Called, but unpaid capital; and uncalled capital.

The overdrafts are repayable on demand and attract the same interest as the bank loans.

The Group is required to maintain certain financial and non-financial covenants. The secured bank loan was classified as current due to breaches of covenants. The directors are confident that in continuing negotiations with its bankers that they will be able to satisfy the conditions of a new waiver agreement or financing arrangement which is yet to be negotiated in an appropriate timeframe.

- (ii) The Group's secured notes held by two private companies mature in 2018 and 2021 respectively. The Trustee for the note holders holds a registered mortgage over four of the aircraft owned by the Group. The effective interest rate on the bank loans is 7.75% (2016: 7.75%) per annum.
- (iii) The Group has loans with other financial institutions with an effective interest rate on the bank loans is 13% (2016: 13%) per annum. Other financial institutions hold a registered mortgage over the property at Matorogo owned by the Group, which is not otherwise secured to the banks and/or note holders.

Further details concerning interest rates and repayments are included in Note 24.

FINANCIALS

20. Borrowings (cont'd)

Financing facilities

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
<i>Secured loan from other financial institutions</i>				
- amount used	1,581	2,596	1,581	2,596
- amount unused	-	-	-	-
	<u>1,581</u>	<u>2,596</u>	<u>1,581</u>	<u>2,596</u>
<i>Secured bank overdraft facility</i>				
- amount used	8,462	26,614	8,462	26,614
- amount unused	11,538	2,996	11,538	2,996
	<u>20,000</u>	<u>29,610</u>	<u>20,000</u>	<u>29,610</u>
<i>Secured bank loans</i>				
- amount used	20,000	1,024	20,000	1,024
- amount unused	-	-	-	-
	<u>20,000</u>	<u>1,024</u>	<u>20,000</u>	<u>1,024</u>
<i>Secured lease facilities</i>				
- amount used	-	5,081	-	5,081
- amount unused	-	4,919	-	4,919
	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
<i>Total</i>				
- amount used	30,043	35,315	30,043	35,315
- amount unused	11,538	7,915	11,538	7,915
	<u>41,581</u>	<u>43,230</u>	<u>41,581</u>	<u>43,230</u>

21. Other liabilities

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
(a) Current				
Lease incentive liability on ATR (i), (ii)	1,510	1,510	1,510	1,510
Dash 8 early lease exit liability (iii)	8,441	-	8,441	-
	<u>9,951</u>	<u>1,510</u>	<u>9,951</u>	<u>1,510</u>
(b) Non-current				
Lease Incentive liability on ATR (i)	21,515	15,736	21,515	15,736
Aircraft lease rental waiver/incentive (ii)	425	-	425	-
Dash 8 early lease exit liability (iii)	10,092	16,600	10,092	16,600
	<u>32,032</u>	<u>32,336</u>	<u>32,032</u>	<u>32,336</u>

FINANCIALS

21. Other liabilities (cont'd)

I. Lease incentive liability

Sale and purchase agreement between the Group and ATR manufacturer included certain incentives to be provided by ATR manufacturer to support the Airline with the induction expenses. The IAS 17 "Leases" requires these lease incentives to be treated as a reduction of the lease expenses over the lease term of 12 years. The applicable incentives related to each ATR aircraft were recorded as an asset and a liability as and when the respective aircraft were delivered. The asset has been reduced by the funds/parts received from ATR manufacturer.

II. Aircraft lease rental waiver/incentive

An agreement entered into between the Group and Lessor of Dash 8 aircraft included a waiver of six months' lease rental. The benefit of the waiver is recognised over the remaining lease period as a reduction of the lease expenses as per the requirements of IAS 17 "Leases". Further, an agreement with lessor of ATR aircraft included reduced lease rental for an aircraft at the start of the lease period and this benefit is also recognised over the lease term of 12 years.

III. Dash 8 early lease exit liability

Lease exit agreement entered into in 2016 between the Group and Dash 8 lessor included early return fee payable to the lessor and is considered a financial liability (refer note 25.9). Two early exit fees related to the early termination were required to be repaid by 31 December 2019, 4 were required to be repaid by 31 December 2018 and one was required to be repaid by 31 July 2019).

22. Provisions

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Current				
Provision for annual leave (i)	3,273	3,185	3,266	3,175
Provision for maintenance (iii)	8,281	9,397	8,281	9,397
	11,554	12,582	11,547	12,572
Non-current				
Provision for long service leave (ii)	5,439	6,532	5,361	6,491
Provision for maintenance (iii)	4,906	-	4,906	-
Provision for restoration expense(iv)	966	-	966	-
	11,311	6,532	11,233	6,491
	K'000	K'000	K'000	K'000

FINANCIALS

22. Provisions (cont'd)

(i) Movement in provision for annual leave

Balance at the start of the year	3,185	3,475	3,175	3,466
Additional provision / (amount used)	88	(290)	91	(291)
Balance at the end of the year	3,273	3,185	3,266	3,175

(ii) Movement in provision for long service leave

Balance at the start of the year	6,532	5,219	6,491	5,184
Amount used	(1,640)	(1,405)	(1,640)	(1,406)
Additional provision recognised	588	2,718	510	2,713
Balance at the end of the year	5,439	6,532	5,361	6,491

(iii) Movement in provision for contract maintenance

Balance at the start of the year	9,397	14,155	9,397	14,155
Provision recognised	4,409	13,461	4,409	13,461
Amount used	(619)	(18,219)	(619)	(18,219)
Balance at the end of the year	13,187	9,397	13,187	9,397

(iv) Movement in provision for restoration costs

Balance at the start of the year	-	-	-	-
Provision recognised	966	-	966	-
Amount used	-	-	-	-
Balance at the end of the year	966	-	966	-

23(a). Trade and other payables

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Trade payables	46,982	52,151	44,019	49,994
Accrued expenses	17,015	30,879	15,779	30,127
Related party payable (note 27)	-	-	4,014	2,113
Salary and wages tax and GST payable	2,755	4,052	2,755	4,040
Total trade and other payables	66,752	87,082	66,567	86,274

23(b). Deferred revenue

Deferred revenue	22,868	13,875	22,868	13,875
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The amounts payable are unsecured and are usually paid between 7 and 60 days after recognition. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Deferred revenue is made up of sales that have not been uplifted at year end.

FINANCIALS

24. Financial instruments

24.1 Recognised financial instruments

The Group does not enter into or trade financial instruments, including derivative instruments, for speculative purposes. While the Group does make use of short term deposits and bank overdraft facilities with registered trading banks to manage short term funds, the use of other financial assets and liabilities requires the specific prior approval of the Board of Directors.

24.2 Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports quarterly to the Group's risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

24.3 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see 25.5 below) and interest rates (see 25.6 below). Market risk exposures are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

24.4 Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. The Group has negotiated a number of contracts with its customers where payments are received in either United States or Australian dollars. The value of these contracts is roughly equal to the anticipated outflow of expenditure in those respective currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31/12/17	31/12/16	31/12/17	31/12/16
	K'000	K'000	K'000	K'000
Australian Dollar	570	359	383	414
United States Dollar	4,653	6,009	1,379	366

24.5.1 Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% increase and decrease in the Kina against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit where the Kina strengthens 10% against the relevant currency. For a 10% weakening of the Kina against the relevant currency, there would be a comparable impact on the profit, and the balances below would be negative.

	Australian Dollar impact		United States Dollar impact	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Profit or loss	90	13	1,125	1,668

FINANCIALS

24. Financial instruments (cont'd)

24.6 Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating borrowings. Interest rates are subject to change based on review by the financial institutions and agreed by management.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

254.7 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and presents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- Profit for the year ended 31 December 2017 would increase/decrease by K320,217 (2016: by increase/decrease K346,574). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the reduction in variable rate debt instruments.

24.8 Commodity Risk

The group is exposed to commodity risk from fuel price changes. Fuel prices are regulated in PNG by the Government and are set in Kina.

24.9 Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly. The Group measures credit risk on a fair basis.

Trade receivables consist of a number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and from time to time there may be a significant concentration of credit risk for a particular contract.

24.10 Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

24.10.1 Liquidity and risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

FINANCIALS

24. Financial instruments (cont'd)

Liquidity and interest risk tables

	Weighted average effective interest rate	Variable interest rate	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
	%	%	K'000's	K'000's	K'000's	K'000's	K'000's	K'000's	K'000's
Consolidated									
31 December 2017									
Financial liabilities									
Trade payables	Non-interest bearing		46,982	-	-	-	-	-	46,982
Other payables	Non-interest bearing		19,770	-	-	-	-	-	19,770
Dash 8 early exit lease exit liability	9.25%		8,441	10,092	-	-	-	-	18,533
Non-bank loans	13.00%	-	1,471	353	-	-	-	-	1,824
Bank loans & leases	9.75%	-	3,026	5,151	5,572	5,992	-	-	19,741
Bank overdraft	9.75%	-	9,287	-	-	-	-	-	9,287
Secured notes	8.00%	-	9,720	-	-	-	27,000	-	36,720
			98,697	15,596	5,572	5,992	27,000	-	152,857
31 December 2016									
Financial liabilities									
Trade payables	Non-interest bearing		52,151	-	-	-	-	-	52,151
Other payables	Non-interest bearing		48,805	-	-	-	-	-	48,805
Dash 8 early exit lease exit liability	9.25%			16,600	-	-	-	-	16,600
Non-bank loans	13.00%	-	1,470	1,515	129	-	-	-	3,114
Bank overdraft	12.20%	-	3,866	3,099	255	-	-	-	7,220
Bank loans & leases	12.83%	-	29,861	-	-	-	-	-	29,861
Secured notes	8.17%	-	9,736	-	-	-	27,043	-	36,779
			145,889	4,614	384	-	27,043	-	177,930
Company									
31 December 2017									
Financial liabilities									
Trade payables	Non-interest bearing		36,886	-	-	-	-	-	36,886
Other payables	Non-interest bearing		71,983	-	-	-	-	-	71,983
Dash 8 early exit lease exit liability	9.25%		8,441	10,092	-	-	-	-	18,533
Related party loans (PGK)	Non-interest bearing		4,014	-	-	-	-	-	4,014
Non-bank loans	13.00%	-	1,470	353	-	-	-	-	1,823
Bank loans	9.75%	-	3,026	5,151	5,572	5,992	-	-	19,741
Bank overdraft	9.75%	-	9,287	-	-	-	-	-	9,287
Secured notes	7.90%	-	9,720	-	-	-	27,000	-	36,720
			136,386	5,504	5,572	5,992	27,000	-	180,454
31 December 2016									
Financial liabilities									
Trade payables	Non-interest bearing		44,019	-	-	-	-	-	44,019
Other payables	Non-interest bearing		48,041	-	-	-	-	-	48,041
Dash 8 early exit lease exit liability	9.25%			16,600	-	-	-	-	16,600
Related party loans (PGK)	Non-interest bearing		2,113	-	-	-	-	-	2,113
Non-bank loans	13.00%	-	1,470	1,515	129	-	-	-	3,114
Bank loans & leases	12.83%	-	3,866	3,099	255	-	-	-	7,220
Bank overdraft	12.20%	-	29,861	-	-	-	-	-	29,861
Secured notes	8.17%	-	9,736	-	-	-	27,043	-	36,779
			145,081	4,614	384	-	27,043	-	177,122

At the end of the reporting period, there were no financial guarantee contracts (2016: Nil).

FINANCIALS

25. Auditors Remuneration

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Deloitte Touche Tohmatsu:				
- Audit Fee	332	316	332	316
- Other service fees	111	61	89	39
	443	377	421	355

26. Other company information

The total number of employees at the group at year end was:

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
National employees	663	607	654	600
Expatriate employees	126	123	118	123
	789	730	772	723

27. Related parties

27.1 Transactions with subsidiaries and affiliated companies

The following transactions with related parties occurred on normal trading terms during the year. The amounts recoverable (refer below)) and amounts payable (refer to note 23).

Related Party	Relationship	Nature of transaction	2017	2016
			K'000	K'000
APNG Services Pty Ltd	Subsidiary Company	Supply of Aircrew Settlement	(12,611) 11,766	(13,749) 13,967
Galatoire Limited	Subsidiary Company	Rental charges Maintenance costs	(420) 1,694	(360) 1,408
PNG Ground Services Limited	Subsidiary Company	Fuel Sales Settlement	(23,977) 20,808	(16,521) 14,626

Outstanding balances	Related party receivable		Related party payable	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
APNG Services Pty Ltd	-	-	846	218
Galatoire Limited	1,274	1,048	-	-
PNG Ground Services Limited	-	-	3,168	1,895
	1,274	1,048	4,014	2,113

FINANCIALS

27. Related parties (cont'd)

27.2 Transactions with key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

2017

Muralee Siva
Craig Chapple
Paul Abbot
Adrian Smith

Jaydip Sengupta
John Biddle
Andrew Serenc
Glenn Dunstan

Elias Bade
Phil Braz
Stanley Stevens
William Kalipa

2016

Muralee Siva
Craig Chapple
Paul Abbot
Adrian Smith

Jaydip Sengupta
John Biddle
Andrew Serenc
Glenn Dunstan

Hannes Bezuidenhout
Elias Bade
Phil Braz
Stanley Stevens

The aggregate compensation made to above key management personnel of the Group is set out below:

27.3 Transactions with key management personnel

	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000
Short-term benefits	6,589	6,199

Corresponding last year figure has been adjusted at 2017 period-end exchange rate between PGK and AUD for comparison to eliminate impact from conversion of AUD denominated remuneration at two different exchange rates on respective reporting dates. The remuneration of key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

27.4 Details of Board Remuneration

The following table shows the level of remuneration received by the Non-Executive Directors in the respective financial years:

Director	Date of appointment	Year ended 31/12/17	Year ended 31/12/16
		K	K
Augustine Mano	17/03/2012	47,252	47,252
Murray Woo	29/08/2012	49,252	49,252
Simon Woolcott	22/10/2014	47,252	47,252
Edward Matane	19/01/2015	46,752	46,252
Watt Kiddie	07/04/2015	46,752	46,252

FINANCIALS

27. Related parties (cont'd)

27.5 Remuneration above K100,000

The following table shows remuneration of K100,000 and above received by staff:

Remuneration K'000's	2017 Nos.	2016 Nos.	Remuneration K'000's	2017 Nos.	2016 Nos.
100 - 110	9	4	380 - 390	-	2
110 - 120	3	6	390 - 400	5	9
120 - 130	6	4	400 - 410	3	-
130 - 140	4	1	410 - 420	1	5
140 - 150	6	3	420 - 430	4	3
150 - 160	3	2	440 - 450	1	2
160 - 170	4	2	450 - 460	2	2
170 - 180	1	4	460 - 470	1	3
180 - 190	3	4	470 - 480	6	-
190 - 200	4	6	480 - 490	1	2
200 - 210	6	1	490 - 500	3	6
210 - 220	12	9	500 - 510	2	2
220 - 230	2	2	510 - 520	1	1
230 - 240	9	1	520 - 530	-	2
240 - 250	3	4	530 - 540	2	3
250 - 260	6	12	540 - 550	2	2
260 - 270	6	5	550 - 560	3	2
270 - 280	2	5	560 - 570	1	2
280 - 290	3	6	570 - 580	2	2
290 - 300	7	4	580 - 590	1	1
300 - 310	6	3	590 - 600	-	1
310 - 320	6	8	600 - 610	1	-
320 - 330	4	4	610 - 620	1	-
330 - 340	5	2	620 - 630	1	1
340 - 350	4	4	630 - 640	1	1
350 - 360	3	3	650 - 660	1	1
360 - 370	6	2	1,300 - 1,400	1	1
370 - 380	4	6			

Corresponding last year figure has been adjusted at 2017 period-end exchange rate between PGK and AUD for comparison to eliminate impact from conversion of AUD denominated remuneration at two different exchange rates on respective reporting dates.

FINANCIALS

27. Related parties (cont'd)

27.6 Disclosure of interest

Name of Director	Organisation	Interest
William Lamur	PNG Air Ltd	Board Chairman
	ENBDC Group of Companies	Group Chairman / CEO
	Origin Energy PNG Limited	CEO/Director
	Rabaul Chamber of Commerce	Executive Member
	Planters Association of PNG	Executive Member
	ENBP Land Transport Board	Board Member
	Post Telikom and PANGTEL	Chairman
	New Guinea Islands Produce Company	Director
	Telikom	Director
	PNG Business Council	Board Member
	POM Chamber of Commerce & Industry	Board Member
	PNG Chamber of Commerce & Industry	Board Member
	Andersons Foodland Limited	Director
	Nasfund Board of Trustees	Chairman
	Institute of National Affairs	Councillor
	ENB Port Services	Chairman
	PNG Institute of Directors	Member
	National Development Bank Limited	Chairman
	Trukai Rice Industries Limited	Director
	NASFUND Audit & Remuneration Committee	Chairman
	NCSL	Director
	Pacific Insurance Group (PAG)	Chairman
	Kumul Group of Hotels	Director
	Mainland Holdings Limited	Chairman
	Grand Pacific Hotel, Fiji	Director
	Cloud APPS Ltd	Director
	Loloata Island Resort	Director
	ENB Chamber of Commerce	Vice President
	TKI (Tabubil)	Director
	Digicel Financial Services	Chairman
Augustine Mano	PNG Air Ltd	Board Director
	Mineral Resources Development Company Ltd	Managing Director
	Mineral Resources Star Mountains	Director
	Mineral Resource Ok Tedi (No.2)	Director
	Ramu Ltd	Director
	Enga Ltd	Director
	Mineral Resource Madang	Director
	Petroleum Resources Kutubu Ltd	Director
	Gas Resources Kutubu Ltd	Director
	Petroleum Resource Moran Ltd	Director
	Gas Resources Moran Ltd	Director
	Hides 4 Ltd	Director
	Gigira Ltd	Director
	Juha Ltd	Director
	Angore Ltd	Director
	Stanley Ltd	Director
	LLG Ltd	Director
	PNG LNG Plant Ltd	Director
	Bank of South Pacific Ltd	Director
	Ok Tedi Mining Limited	Director
	GFS Limited	Director
	Leisure Holidays & Travel Ltd	Director
	Hevilift (PNG) Ltd	Director

FINANCIALS

27. Related parties (cont'd)

27.6 Disclosure of interest (cont'd)

Name of Director	Organisation	Interest
Augustine Mano	Petroleum Resource Gobe	Director
	Gas Resources Gobe Ltd	Director
	Star Mountain Plaza	Chairman
	South Pacific Pearl Resort, Fiji	Chairman
	Taumeasina Island Resort, Samoa	Chairman
	INSPAC Limited	Chairman
	CIVIPAC Limited	Chairman
	Handy Group Limited	Chairman
	SMA Investments	Chairman
	Bogasi Investments Ltd	Director
	Dirio Gas & Power	Director
	PNG Ground Services (subsidiary of PNG Air)	Director
Andrew Ogil	PNG Air Ltd	Board Director
	North QLD & Northern Territory	PNG Consul in Cairns
	Air Niugini	CEO / Managing Director
	Civil Aviation Authority	CEO / Managing Director
	Tropic Group	Director
	PNG Power	Board Chairman
	Missionary Aviation Fellowship (MAF)	Board Member
	Wantok Radio Light	Board Chairman
Edward Matane	PNG Air Ltd	Board Director
	Matsi Holdings Ltd	Director
Watt Kiddie	PNG Air Ltd	Board Director
	Mineral Resources Development Company Ltd	Former Board Director
	First National Insurance Brokers Ltd	Director
	Wooner Trading Limited	Director
	Diamond Finance Limited	Director
	Business Arm of the Lutheran Renewal Church of PNG	Director/Chairman
	WK Kiddie PNG Peace & Gutpela Sindaun Foundation Inc.	Principal Custodian and Founder
	Lutheran Renewal Investments Group Limited	Chairman
	Hanrick Curran Kiddie Limited	Director
	Statutory Committee of Board	Chairman
	PNG Air BARCC Committee	Chairman
Murray Woo	National Superannuation Fund	Director
	Getaway Travel Limited	Director
	NASFUND Contributors Saving & Loans Society	Director
	Woo Textile Corporation	Managing Director
	Manufacturer's Council of Papua New Guinea	Chairman
	Oil Search Limited	Shareholder
	Highlands Pacific Limited	Shareholder
	Print Monster Limited	Director
	Galatoire Limited (subsidiary APNG)	Director
	City Centre Development Limited	Chairman
	Heathly Kamwood Limited	Director

FINANCIALS

27. Related parties (cont'd)

27.6 Disclosure of interest (cont'd)

Name of Director	Organisation	Interest
Simon Woolcott	APNG Services Pty Ltd (subsidiary of PNG Air)	Director
	Kavieng Port Services Limited	Director
	Lae Port Services Limited	Director
	Madang Port Services Limited	Director
	Palm Stevedoring & Transport Limited	Director
	Port Services PNG Limited	Director

28. Contingent liabilities

- (i) The Group has given a guarantee of K250,000 to the ANZ Banking Corporation in respect of corporate credit cards;
- (ii) The Group has provided a letter of credit for approx. K 1,048,000 (A\$401,575) to National Australia Bank for merchant facility.
- (iii) The company has commitments as stated in Note 30.

29. Commitments

Significant contracted expenditure at the end of the reporting period but not recognised as liabilities is as follows:

	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000
1 to 2 years	134,895	97,577
3 to 4 years	251,313	176,016
5 years & longer	261,241	197,402

The commitments are in respect of delivery of the new ATR 72-600 aircraft fleet and Dash 8 aircraft and early return of leased Dash 8 aircraft.

The Group has entered into an agreement with Vector Aerospace to maintain its Dash 08 aircraft engines through a power by the hour programme through progressive payments in respect of future engine repairs or events. Monthly payments are to be made at a certain rate per engine hour based on the actual engine hours flown in a month for the engines covered under the programme.

30. Non-cancellable operating leases

The Group leases various offices, residential accommodation and retail stores under non-cancellable operating leases expiring within one to ten years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

The Group has entered into operating leases of Dash 8 aircraft with lease terms of between 2 and 8 years and ATR 72-600 aircraft for lease terms averaging 12 years.

FINANCIALS

30. Non-cancellable operating leases (cont'd)

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated		Company	
	Year ended 31/12/17	Year ended 31/12/16	Year ended 31/12/17	Year ended 31/12/16
	K'000	K'000	K'000	K'000
Minimum lease payments	47,557	36,153	47,557	36,153
<i>Operating lease commitments</i>				
Not later than 1 year	45,372	44,561	45,372	44,561
Later than 1 year and not later than 5 years	170,761	169,902	170,761	169,902
Later than 5 years	202,040	236,694	202,040	236,694
Total	418,173	451,157	418,173	451,157

Corresponding last year (2016) operating lease commitments have been adjusted at 2017 period-end exchange rate between PGK and USD for comparison.

31. Restatement

In September 2016, the group terminated 7 aircraft leases and recorded a liability at the gross value of K19,837k. The terms of the early termination exit fees were to pay for the early termination fees for 4 leases by 31 December 2018, 2 leases by 31 December 2019 and 1 lease by 31 July 2019, the terms of which did not include charging interest until the payment dates, with the amount being unsecured. As a result, the recorded liability should have been net present valued and recorded at a lower amount than the gross value. As the arrangement did not include charging interest on the early termination fees, we have used an implied interest rate based on similar PNG Air unsecured borrowings of 9.25%. In addition, as the liability is determined in USD, there is a forex exchange movement from 2016 to 2017. The impact of correcting for this error is as follows:

Group

Account Balance	As per 2016 Financial Statements (K000's)	Correcting Entry (K000's)	Restated 2016 Amount (K000's)
Dash 8 early lease exit liability (at 30 Sept 2016)	19,837	(3,616)	16,222
Interest expense	NIL	379	379
Retained earnings (loss)	(130,308)	3,237	(127,071)

Company

Account Balance	As per 2016 Financial Statements (K000's)	Correcting Entry (K000's)	Restated 2016 Amount (K000's)
Dash 8 early lease exit liability (at 30 Sept 2016)	19,837	(3,616)	16,222
Interest expense	NIL	379	379
Retained earnings (loss)	(130,866)	3,237	(127,629)

FINANCIALS

32. Events after the reporting period

The following material items or matters or circumstances have arisen since the end of the financial year and the date of this approval of the financial statements:

COVID-19

The outbreak of COVID-19 and the subsequent quarantine measures imposed by the PNG and other governments as well as the travel and trade restrictions imposed by PNG and other countries in early 2020 have caused disruption to businesses and economic activity. The Group considers this to be a non-adjusting post balance sheet event and accordingly the financial effects of COVID-19 have not been reflected in the Group's financial statements at 30 June 2017.

The outbreak of COVID-19 has had a negative impact on the current operations of the Group. The Group's primary operations are located in Papua New Guinea. Its domestic operations were halted for a two week period commencing from March 24 2020 due to State of Emergency lockdown in an effort to contain the spread of coronavirus pandemic.

Even though the Group resumed its operations since 7th of April 2020, it is still not operating at normal capacity due to restrictions imposed by the government in an effort to contain the spread of the pandemic. The Group has not yet been able to resume normal charter service for its major mine clients due to ongoing border restriction as at the date of these financial statements are authorised for issue. The current payment plans that we have in place with our creditors and lessors are continuing on the respective contracts.

As the situation remains fluid (due to continuing changes in government policy and evolving business and customer reactions thereto), as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 outbreak are expected to materially affect the consolidated results of the Group for the first half and full year of 2020.

Business Operations and Significant Commitments

- The Group cancelled its agreement with Pacific Energy Aviation (PNG) Limited to acquire PNG Ground Services Limited.
- Postponement of delivery dates of the six ATR which was initially schedule to begin delivery from May 2020 to June 2022.
- Two major charter contracts renewed for further two years.
- Dry lease of One Dash aircraft to another operator for three year lease term.
- Air Operator Certificate (AOC) renewed for two years expiring 30 April 2022 & Maintenance Organisation Certificate (MOC) renewed for three years expiring 30 April 2023.

Proposed sell of Nasfund shares in PNG Air Limited to Link PNG

Nasfund, one of the major shareholders, has decided to sell its share in PNG Air Limited to Link PNG, a subsidiary of Air Niugini Limited. The Independent Consumer and Competition Commission (ICCC) rejected the acquisition proposal.

Suspension on PNGX (formerly known as POMSOX)

POMSoX suspended the securities of PNG Air Limited from official quotation on the 15th January 2019 following the Company's failure to lodge its periodic report for the period 31 December 2017. The securities remain suspended at the date of approval of these financial statements. The suspension will be uplifted once the audited financial reports are submitted for 2017 & 2018.

Director changes

- Chairman of the Board of the Group Murray Woo resigned from the position in early May 2018.
- William Lamur was appointed as a director and the Chairman of the Board in June 2018 and stepped down on 25 September, 2020.
- Andrew Ogil was appointed as an Independent director on 10 December 2019.
- Augustine Mano was appointed Interim Chairman on 29 September 2020.

Company secretary changes

- On 8 March 2019, Ms. Diana Penrose replaced John Biddle as Company Secretary.
- On 2 July 2020, Nisaal Jai replaced Ms. Diana Penrose as Company Secretary.

FINANCIALS

32. Events after the reporting period (cont'd)

Key Management changes

- Muralee Siva, Chief Executive Officer of the Group resigned from the position in late April 2018.
- Paul Abbot, Chief Commercial Officer was appointed as the Acting CEO in April 2018 and in 2019 as the CEO. Mr. Paul Abbot employment ceased with the Organisation in May 2020.
- Jaydip Sengupta resigned as CFO in September 2018 and was replaced by Sujeewa Samaranayake in an acting capacity.
- Anthony Pereira was appointed as CFO on 10 December 2019 and subsequently as Acting CEO on 8 May 2020 replacing Paul Abbot. Mr. Pereira was confirmed as CEO on 29th September 2020.

Changes in Tax legislation

In 2018, changes in tax legislation resulted in tax losses expiring after 7 years with transitional provisions in place. Any tax losses incurred up to 2018 must be utilized by 2025.

Other than the items described above, there have been no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations or state of affairs of the company in the financial year subsequent to 31 December 2017.

33. Approval of financial statements

The date the financial statements were approved by the directors and authorized for issue is shown in the directors' report.

Independent Auditor's Report



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Independent Auditor's Report to the members of PNG Air Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of PNG Air Limited (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the Company and Group's consolidated financial position as at 31 December 2017 and of their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the *Companies Act 1997 (amended 2014)*.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Papua New Guinea, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3.2 in the financial statements, which indicates that the Group incurred net cash outflows from operating activities of K9.24 million for the financial year ended 31 December 2017 and, as of that date, the Group has an excess of current liabilities over current assets of K94.42 million. Further, the outbreak of the COVID-19 pandemic and the subsequent quarantine measures imposed by the government as well as the travel restrictions implemented by the government and other countries in early 2020 have caused disruption to normal flight schedules. These events or conditions, along with other matters as set forth in Note 3.2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Independent Auditor's Report



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Valuation of aircraft</p> <p>The carrying value of the Group's aircraft as at 31 December 2017 was K85.9 million.</p> <p>The carrying value of aircraft is reviewed annually taking into consideration factors such as changes in fleet composition, market values and technical factors which may affect the useful life expectancy of the assets and therefore could have a material impact on any impairment charges for the year.</p> <p>We have identified the carrying value of aircraft as a key audit matter because of its significance to the consolidated financial statements.</p>	<p>In performing our procedures we:</p> <ul style="list-style-type: none">• obtained an understanding of the relevant controls associated with the preparation and review of asset valuations• assessed the reasonableness of management's assertions and estimates using valuation reports published by third party specialists, our knowledge of the airline industry and the Group's historical experience and future operating plans.• challenged the assumptions and critical judgement used by management by assessing the reasonableness of management's estimates and plans and taking into account recent developments in the airline industry and future operating plans.• discussed indicators of possible impairment of aircraft with the management and, where such indicators were identified, assessed whether management performed impairment testing in accordance with the requirements of IFRS.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group and Company's annual report for the year ended 31 December 2017, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the *Companies Act 1997 (amended 2014)* and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report



Report on Other Legal and Regulatory Requirements

In accordance with section 200 of the *Companies Act 1997 (amended 2014)*, in our opinion:

- (i) We obtained all information and explanations that were required; and
- (ii) Proper accounting records have been kept by the Group for the year ended 31 December 2017.

We also provided PNG Air Limited with tax compliance services.

The engagement partner on the audit resulting in this independent auditor's report is Benjamin Lee.

A stylized, handwritten signature of Benjamin Lee in black ink, written over the printed name "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A stylized, handwritten signature of Benjamin Lee in black ink, written below the firm name.

Benjamin Lee
Registered under the Accountants Act 1996
Partner
Chartered Accountants

Port Moresby, 13 October 2020

CORPORATE DIRECTORY

The following information provided and the circumstances prevailing at the date of publishing this report are as follows;

PNG Air Limited

Incorporated in Papua New Guinea

Directors

Augustine Mano

Edward Matane

Watt Kiddie

Andrew Ogil

Andrew Crompton

Company Secretary

Nisaal Jai

Registered Office, address for service and principal administrative office

Part Portion 97 Milinch

Granville

Jackson's International Airport Seven Mile

NCD

Papua New Guinea

Principal place of business

Jackson's International Airport

Port Moresby

Papua New Guinea

Postal address

PO Box 170

Boroko NCD 111

Papua New Guinea

Subsidiaries

Galatoire Limited

PNG Ground Services Limited

APNG Services Pty Ltd

Auditors

Deloitte Touche Tohmatsu

Level 9, Deloitte Haus

MacGregor Street

PO Box 1275

Port Moresby NCD 121

Papua New Guinea

Registry

PNG Registries Limited

Level 2, AON House

McGregor Street

PO Box 1265

Port Moresby, NCD

Papua New Guinea

Telephone 321 6377

Stock Exchanges

The company maintains a listing only on PNGX Market.

SHAREHOLDERS INFORMATION

Distribution of Shareholders

a. The distribution of ordinary shares ranked to size at 31 December 2017 is as follows

Range PGK	Shareholders	Shares	% Issued Capital
1-1000	111	93,686	.03
1,001-5,000	1,783	4,466,805	1.45
5,001-10,000	319	2,966,424	.96
10,001-100, 000	337	9,372,841	3.04
100, 0001 and Over	32	291,392,324	94.52
Total	2,582	308,292,080	100.00

b. The twenty largest Shareholders representing 93.83% of the ordinary shares as at 31 December 2017 were as follows

	Shareholder	Number of shares	% of issued capital
1	National Superannuation Fund Limited	121,000,000	39.25
2	Mineral Resources OK TEDI No 2 Limited	50,500,000	16.38
3	Mineral Resources Development Company Ltd	40,000,000	12.97
4	Mineral Resources Star Mountains Ltd	34,000,000	11.03
5	John Ralston Wild (Deceased)	15,750,000	5.11
6	Pacific Nominees Limited	8,967,100	2.91
7	Teachers Savings & Loans Society Ltd	7,000,000	2.27
8	Credit Corporation (PNG) Ltd	2,000,000	0.65
9	Steffen Wirth <Skills Development A/C>	2,000,000	0.65
10	BSP Capital Limited	1,411,566	0.46
11	Paul Anthony Povey	1,100,000	0.36
12	Kambang Holding Limited	1,000,000	0.32
13	Star mountain properties & Investment Ltd	750,000	0.24
14	Dan corporation limited	700,000	0.23
15	George Mannga Tagobe	600,000	0.19
16	Philip Depis	500,000	0.16
17	Nasfund Contributors Savings & Loan Society Limited	500,000	0.16
18	Pacific MMI Insurance limited	500,000	0.16
19	Star Mountain Investment Holding Ltd	500,000	0.16
20	Tabubil Hotel Limited	500,000	0.16
Total		289,278,666	93.83%

c. Issued capital as at 31 December 2017 was 308,292,080 ordinary fully paid shares.

OTHER INFORMATION

Directors' Interests

Director	Direct / Indirect	Shares Held	%
Mr. Mano and Mr. Kiddie (Mineral Resources OK TEDI No 2 Limited)	Indirect	50,500,000	16.38
Mr. Mano and Mr. Kiddie (Mineral Resources Development Company Ltd)	Indirect	40,000,000	12.97
Mr. Mano and Mr. Kiddie (Mineral Resources Star Mountains Limited)	Indirect	34,000,000	11.03
Mr. Crompton and Mr. Matane National Superannuation Fund Limited)	Indirect	121,000,000	39.25

Other Information

There was a material variance between the Audit Accounts of the Company and the Appendix 4B Report filed with PNGX Market for the period. An updated explanation was uploaded on PNGX market on 15 October 2020.

The Company has no restricted securities on issue.

The Company has no unquoted equity securities on issue.

The Company has no listed debt securities on issue. The voting rights attaching to each quoted ordinary share in the Company are set out in full in the Constitution. In summary, this includes one vote on each resolution at a general or extraordinary meeting of shareholders. It includes the right to participate equally with each other ordinary shareholder in any distributions or dividends by the Company. There are restrictions on the extent of foreign ownership permitted in the Company and the Company retains the power to force the sale of any offending foreign shareholdings. The Company must remain more than 50% PNG owned to ensure PNG Air retains Papua New Guinea nationality for the purposes of the various bilateral air service agreements.



PNG Air