PNG Air Limited

Consolidated Financial Statements
for the year ended 31 December 2018

CONTENT

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 2018 Annual Report

OVERVIEW

The global economy was still going through fluctuations in oil prices and other commodities that had an impact on the aviation industry. Here in PNG, the economy continued to struggle with its own set of challenges such as the lack of new projects that limited additional charter opportunities and unfavourable movement in foreign exchange rates.

FINANCIAL PERFROMANCE

The financial year of 2018 saw a much-improved performance compared to 2017. The company managed to generate a profit after tax of PGK2.2 million compared to the loss of 2017 of PGK0.5 million. The increase in revenue enabled the company to strengthen its balance sheet by building on its reserves for future maintenance of its brand new ATRs resulting in the improvement of its net shareholder equity by 38%, which is PGK29.7 million in 2018 and PGK21.5 million in 2017.

The company's financial position was impacted by change in accounting policies mainly in the treatment of lease accounting, which also resulted in the adjustments of the financials.

With the Board's improved focus in 2018, the company was able to turnaround from shareholders support to a self-sustaining entity. Therefore, 2018 was the first year where the shareholders did not contribute any additional funds to support the company, as the company was able to generate sufficient cash flow to sustain itself.

Overall, this result was a welcoming sign that the airline was heading for better times into the future and showing its potential to finally becoming a profitable entity.

HIGHLIGHTS

The following are a few key factors that enabled the company to achieve better results during this financial year:

- Total revenue grew by 9% compared to 2017 despite the soft prevailing economic conditions and restricted flights during the APEC leaders meeting. However, despite these challenges the Airline continued to increase its share in the PNG market. This supports the airline's strategy of proving to be the superior regular passenger transport in the market by bringing in brand new ATR aircrafts and providing a competitive alternative for the travelling public of Papua New Guinea.

- Our charter business grew significantly compared to last year, mostly because of the Newcrest contract awarded to the airline in the second half of 2017. The Airline also continues to service the St. Barbara contract for the Simberi mines and is well positioned to win more charter contracts as they are tendered.

- Freight services greatly improved following the conversion in late 2017 of one of the airline's Dash 8 aircraft to a full freighter. The Dash 8 freighter allows transport of up to 4 tonnes of freight offering a new alternative for primary producers, businesses and projects to move cargo around PNG. The freighter proved its capabilities and the airline's commitment to PNG when providing emergency services to the earthquake stricken regions of the country in early 2018.

- The investment in human resource requirements for the business coupled with high quality performance, improved special skill sets to maintain the high level of revenue.

OTHER KEY ACHIEVEMENTS IN 2018

- The company for the first time was able to satisfy the requirements of CASA, which resulted in the approval of operating certificates and maintenance certificates renewal for three years.

- Improved our compliance position to attract mining contracts such as achieving BARS Gold accreditation.

- Increase employment for national staff in technical areas.

SUBSEQUENT EVENTS

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 caused an unprecedented disruption to businesses and economic activity. The Group considers this as 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 as at 31 December 2018.

However, the continued impact of COVID-19 has reflected negatively on the current operations of the Group. The Group's primary operations are located within Papua New Guinea targeting the domestic market.

Its domestic operations were halted for a two-week period commencing from 24th of March 2020 due to a declared State of Emergency lockdown in an effort by the government to contain the local transmission of the virus. Even though the Group had resumed its operations on the 7th of April 2020, it could not continue to operate at its pre-pandemic levels due to government restrictions and the general hesitation to travel by the public due to fear of contracting the virus. The Group has not been able to resume normal charter service for its major mine clients due to ongoing border restrictions as at the date that these financial statements were authorised for issue. Despite this, the current payment plans that we have in place with our creditors and lessors are continuing on the respective contracts, as contractual obligations have not been suspended.

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 were authorised for issue, the Directors of the Company consider that the financial effects of COVID-19 on the Group's consolidated financial statements could not be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 outbreak has materially affected the consolidated financial results of the Group for the full year of 2020.

The global effects of the pandemic has crippled economies on a global scale and forced many businesses into liquidation with one of the most hard-hit industries being the aviation industry. In PNG, the government reacted strongly to manage the spread of COVID-19 in its very early stages of detection domestically by imposing strict conditions and restrictions, which unfortunately had a severe negative effect on the operations of PNG Air. The declining revenue fluctuated between 40% to 60% and recorded its lowest at 20% revenue of pre-Covid levels. With these alarming statistics and forecasted impact on revenue, the Board through the Management responded promptly by reducing costs to sustain the business. Overall, with further uncertainties surrounding COVID-19, strategies and the overall business model have had to be re-visited in order to allow business continuity for PNG Air during these challenging economic times.

Business Operations and Significant Undertakings

- The Group cancelled its agreement with Pacific Energy Aviation (PNG) Limited to acquire PNG Ground Services Limited.
- Postponement of delivery dates of the six new ATR planes, 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 a three-year lease term in 2019.
- The Group renegotiated a reduction of its long-term debt repayments and interest with Castlelake USD 4.5m to USD 2.7m. Interest reduced from 18% to 8% p.a. The agreement was executed on 20 October 2020.
- Engineering department in 2019 was able to obtain for the first time ever, EASA certification, which enabled the company to offer engineering services to outside aviation businesses.
- Opening of corporate lounges in Mt. Hagen, Lae and Rabaul in 2019 and 2020.

CHAIRMAN'S REPORT

- The Board for the first time in 2020 delivered a corporate strategy foundation for PNG Air for the next three years.
- The Group renegotiated a reduction of its long-term debt repayments and interest with Castlelake USD 4.5m to USD 2.7m. Interest reduced from 18% to 8% p.a. The agreement was executed on 20 October 2020.
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- The Board for the first time in 2020 delivered a corporate strategy foundation for PNG Air for the next three years.

***Proposed sale of Nasfund shares in PNG Air Limited to* Link PNG**

In 2020, Nasfund, one of the company's major shareholders, decided to sell its shares in PNG Air Limited to Link PNG, a subsidiary of Air Niugini Limited. The Independent Consumer and Competition Commission (ICCC) rejected the acquisition proposal.

Subsequently, in 2021, with the current trends of COVID-19 and the declining financial position of PNG Air, the Board entered into a Memorandum of Understanding (MOU) with Link PNG to consider the proposed passive investment by Link PNG/Air Niugini.

Presently, the determination is before Independent Consumer and Competition Commission (ICCC) and awaiting the outcome.

Suspension on PNGX Market (formerly known as POMSOX)

PNGX Market suspended the securities of PNG Air Limited from official quotation on 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 is expected to be lifted once the audited financial reports are submitted for the years 2019 & 2020.

The suspension was due to the delay in lodging the 2017 Financial Reports due to the hesitance of shareholders to provide financial backing or guarantees for the company, which concerned the auditors when finalizing the accounts. Consequently, 2018 was also delayed as a result.

GOING FORWARD

Given the challenges faced in today's environment, the company is focused on certain key strategies to ensure business continuity. These include continuous focus on marketing strategies and public relations to increase sales, exploring funding options to reduce debts and achieve business efficiency through cost restructure.

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

Thank you.

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 21January 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.

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.

BOARD OF DIRECTORS

MURRAY WOO
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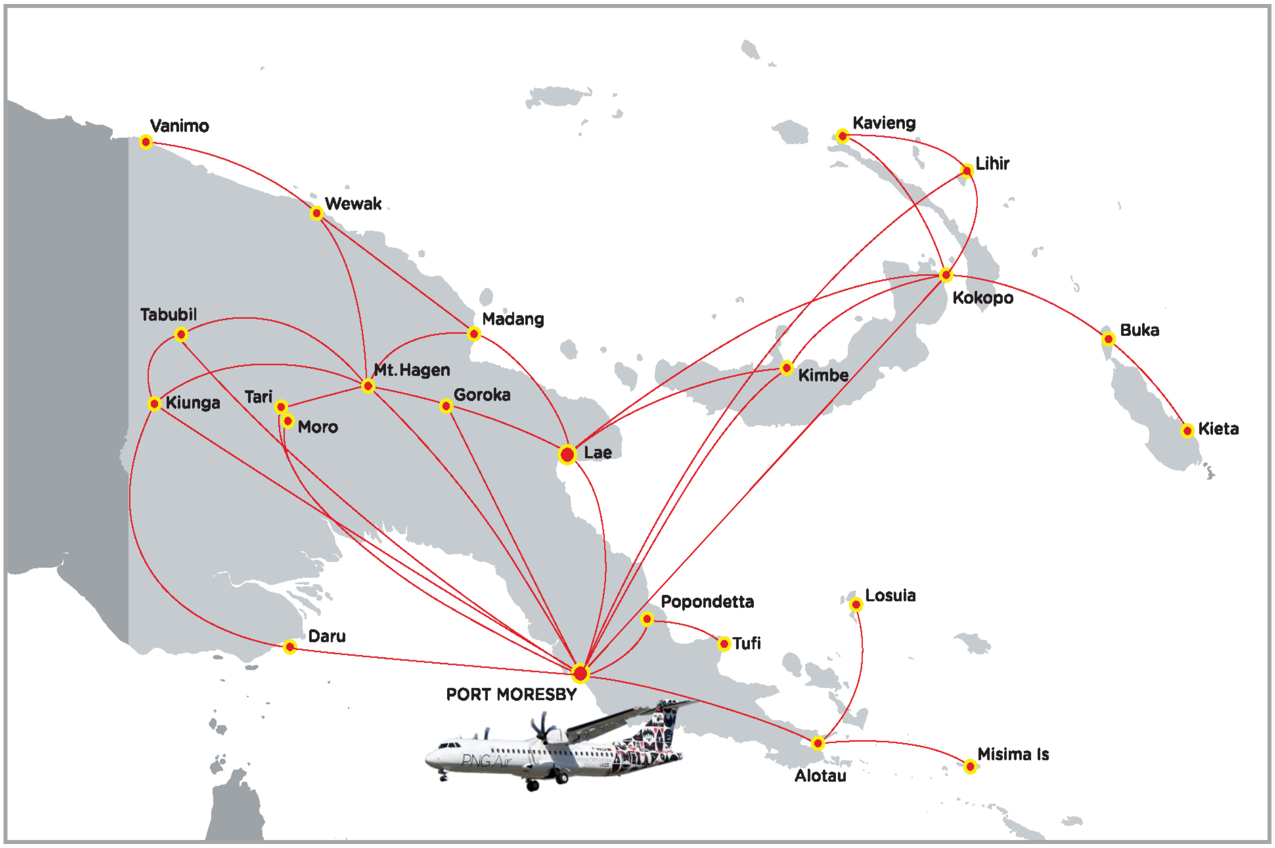
SIMON WOOLCOTT
DIRECTOR since 2014 and resigned effective from 02nd Februarys 2019.

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;
- 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.

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;
- 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.

CORPORATE GOVERNANCE STATEMENT

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 tradition 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.

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.

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.

CORPORATE GOVERNANCE STATEMENT

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 18 to 61 are drawn up so as to give a true and fair view of the state of the Group's affairs as at 31 December 2018, 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, 02 November 2020

Watt Kiddie
Director
Port Moresby, 02 November 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 2018. 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
Mr. William Lamur

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
- Mr. Simon Woolcott resigned 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. Watt Kiddie was appointed the Chairman of the Board Audit and Risk Committee in April 2019.

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 replaced him on 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 K3.3 million compared to the pre-tax operating profit of K0.3 million in 2017. The Group incurred one-off costs related to Dash 8 early lease exit, re-fleeting and re-branding in 2017.

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

Other than the adoption of new accounting standards as disclosed in Note 2.1, there has been no other changes in accounting policies during the current year.

Disclosure of Interest

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

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 (2017: Knil).

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 62. 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, 02 November 2020

Watt Kiddie
Director
Port Moresby, 02 November 2020

Consolidated statement of profit or loss for the year ended 31 December 2018

	Notes	Consolidated Year ended 31/12/18 K'000	Consolidated Year ended 31/12/17 K'000	Company Year ended 31/12/18 K'000	Company Year ended 31/12/17 K'000
Revenue	5(a)	311,133	285,858	308,476	283,531
Cost of sales	5(c)	(176,255)	(150,295)	(174,731)	(149,229)
Gross profit		134,878	135,563	133,745	134,302
Other income	5(b)	2,647	259	2,647	259
Operational expenses	5(d)	(94,477)	(91,788)	(94,255)	(91,501)
Occupancy expenses		(8,593)	(6,899)	(8,170)	(6,494)
Administration expenses	5(e)	(23,217)	(22,839)	(22,764)	(22,371)
Finance costs	7	(7,916)	(7,409)	(7,916)	(7,409)
		3,322	6,887	3,287	6,786
Other items of profit or loss					
ATR Induction and rebranding cost		-	(1,513)	-	(1,513)
Dash 8 impairment and early lease exit costs		-	(5,114)	-	(5,114)
Profit/(loss) before tax		3,322	260	3,287	159
Income tax expense	8.1	(1,119)	(770)	(1,082)	(732)
PROFIT/(LOSS) FOR THE YEAR		**2,203**	**(510)**	**2,205**	**(573)**
Profit /(Loss) attributable to:					
Owners of the Company		2,203	(510)	2,205	(573)
Earnings Per Share					
From profit/(loss) through continuing operations:					
Basic and diluted loss per share (toea)	17	0.71	(0.17)	0.72	(0.19)

The attached notes from pages 23 to 61 form part of these consolidated financial statements

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	Notes	Consolidated		Company	
		Year ended 31/12/18 K'000	Year ended 31/12/17 K'000	Year ended 31/12/18 K'000	Year ended 31/12/17 K'000
PROFIT / (LOSS) FOR THE YEAR		**2,203**	**(510)**	**2,205**	**(573)**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Gain/(Loss) on revaluation of non-current assets, net of tax	18	6,167	(1,274)	6,167	(1,274)
Items that may be reclassified subsequently to profit or loss:					
Exchange difference on translation of foreign operation	19	(18)	9	-	-
Other comprehensive income/(loss) for the year net of tax		**6,149**	**(1,265)**	**6,167**	**(1,274)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**8,352**	**(1,775)**	**8,372**	**(1,847)**
Total Comprehensive profit/(loss) attributable to:					
Owners of the Company		8,352	(1,775)	8,372	(1,847)

The attached notes from pages 23 to 61 form part of these consolidated financial statements

Consolidated statement of financial position at 31 December 2018

	Notes	Consolidated Year ended 31/12/18 K'000	Consolidated Year ended 31/12/17 K'000	Company Year ended 31/12/18 K'000	Company Year ended 31/12/17 K'000
Assets					
Non-curent assets					
Property, plant and equipment	11	145,790	138,240	144,783	137,074
Other financial assets	12	23,587	22,611	23,607	22,631
Deferred tax assets	8.2	33,751	34,042	33,533	33,804
Other assets	13	40,644	23,597	40,644	23,597
Total non-current assets		**243,772**	**218,490**	**242,567**	**217,106**
Current assets					
Inventories	14	14,040	14,047	13,256	13,487
Trade and other receivables	15	21,038	28,752	20,906	28,562
Other assets	13	13,327	12,114	14,973	13,229
Cash and bank balances	10	702	557	580	534
Total current assets		**49,107**	**55,470**	**49,715**	**55,812**
Total assets		**292,879**	**273,960**	**292,282**	**272,918**
Non-current liabilities					
Borrowings	20	30,034	25,280	30,034	25,280
Other liabilities	21(b)	19,267	32,032	19,267	32,032
Deferred tax liabilities	8.2	37,398	33,946	37,221	33,804
Provisions	22	15,186	11,311	15,119	11,233
Total non-current liabilities		**101,885**	**102,569**	**101,641**	**102,349**
Current liabilities					
Trade and other payables	23(a)	67,937	66,752	68,206	66,567
Borrowings	20	33,553	38,763	33,553	38,763
Other liabilities	21(a)	13,752	9,951	13,752	9,951
Provisions	22	17,234	11,554	17,222	11,547
Deferred revenue	23(b)	28,832	22,868	28,832	22,868
Total current liabilities		**161,308**	**149,888**	**161,565**	**149,696**
Total liabilities		**263,193**	**252,457**	**263,206**	**252,045**
Net Assets		**29,686**	**21,503**	**29,076**	**20,873**
Equity					
Capital and reserves					
Issued capital	16(a)	77,271	77,271	77,271	77,271
Other contributed equity	16(b)	70,563	70,563	70,563	70,563
Revaluation reserve	18	7,408	1,241	7,408	1,241
Accumulated losses	19	(125,556)	(127,572)	(126,166)	(128,202)
Total equity		**29,686**	**21,503**	**29,076**	**20,873**

The attached notes from pages 23 to 61 form part of these consolidated financial statements

Consolidated statement of changes in equity for the year ended 31 December 2018

Consolidated	Issued capital K'000	Other contributed equity K'000	Revaluation reserve K'000	Accumulated losses K'000	Total K'000
Balance at 1 January 2017	**77,271**	**35,000**	**2,515**	**(127,071)**	**(12,285)**
Net loss 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**
First time adoption of IFRS 9 (net of tax)	-	-	-	(169)	(169)
Net profit for the year	-	-	-	2,203	2,203
Other comprehensive income	-	-	6,167	(18)	6,149
Total comprehensive income for the period	**-**	**-**	**6,167**	**2,016**	**8,183**
Transactions with owners in their capacity as owners:					
Additional capital contribution from shareholders	-	-	-	-	-
Balance at 31 December 2018	**77,271**	**70,563**	**7,408**	**(125,556)**	**29,686**

Company	Issued capital K'000	Other contributed equity K'000	Revaluation reserve K'000	Accumulated losses K'000	Total K'000
Balance at 1 January 2017	**77,271**	**35,000**	**2,515**	**(127,629)**	**(12,843)**
Net loss 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**
First time adoption of IFRS 9 (net of tax)	-	-	-	(169)	(169)
Net profit for the year	-	-	-	2,205	2,205
Other comprehensive income	-	-	6,167	-	6,167
Total comprehensive income for the period	-	-	6,167	2,036	8,203
Transactions with owners in their capacity as owners:					
Additional capital contribution from shareholders	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2018	**77,271**	**70,563**	**7,408**	**(126,166)**	**29,076**

The attached notes from pages 23 to 61 form part of these consolidated financial statements

Consolidated statement of cash flows for the year ended 31 December 2018	Notes	Consolidated		Company	
		Year ended 31/12/18 K'000	Year ended 31/12/17 K'000	Year ended 31/12/18 K'000	Year ended 31/12/17 K'000
Cash flows from operating activities					
Receipts from customers		316,251	277,670	313,600	275,306
Other receipts		12,767	10,508	12,770	10,489
Payments to suppliers and employees		(310,593)	(291,644)	(306,787)	(290,986)
Cash generated from / (used) in operations		18,425	(3,466)	19,583	(5,191)
Interest paid		(7,916)	(5,778)	(7,916)	(5,778)
Tax paid		-	-	-	-
Net cash generated from/(used in) operating activities		**10,509**	**(9,244)**	**11,667**	**(10,969)**
Cash flows from investing activities					
Payments for property, plant and equipment		(10,405)	(15,683)	(10,369)	(15,498)
Proceeds from disposal of property, plant and equipment		499	101	498	101
Net cash used in investing activities		**(9,906)**	**(15,582)**	**(9,871)**	**(15,397)**
Cash flows from financing activities					
Other capital contributions from shareholders		-	30,000	-	30,000
Proceeds from/ (repayments of) borrowings				(2,750)	
- Financial institutions		(2,750)	13,896	4,600	13,896
- Other		4,600	(1,014)	-	(1,014)
- Affiliated/Related parties		-	-	(1,292)	1,675
Net cash generated from financing activities		**1,850**	**42,882**	**558**	**44,557**
Net increase in cash and cash equivalents		2,452	18,056	2,354	18,191
Cash and cash equivalents at the beginning of the year		(7,905)	(25,961)	(7,928)	(26,119)
Cash and cash equivalents at the end of the year	10	**(5,452)**	**(7,905)**	**(5,574)**	**(7,928)**

Represented by:

Cash and bank balances	702	557	580	534
Bank overdraft	(6,154)	(8,462)	(6,154)	(8,462)
	(5,452)	**(7,905)**	**(5,574)**	**(7,928)**

The attached notes from pages 23 to 61 form part of these consolidated financial statements

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 2018.

New and revised Standards and amendments thereof effective for the current financial year, and which have been applied in the preparation of these financial statements, that are relevant to the Group include:

- IFRS 9 *Financial Instruments* and related amending Standards
- IFRS *15 Revenue from Contracts with Customers* and related amending Standards.

The adoption of IFRS 9 and IFRS 15 have resulted in change of accounting policies of the Group.

Impact of initial application of IFRS 9: Financial Instruments

The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets and financial liabilities

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

The Group has reviewed and assessed the its existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets and liabilities as regards their classification and measurement:

- Loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding;
- There are no financial instruments that should be classified or otherwise designed at FVTOCI.
- The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.
- The Group has no hedging instruments.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an 'expected credit loss' (ECL) model as opposed to an 'incurred credit loss' model under IAS 39. The expected credit loss model requires the Group to account for ECLs and changes in those ECLs at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2.1 Amendments to IFRSs that are mandatorily effective for the current year (cont'd)

Specifically, IFRS 9 requires the Group to recognise a loss allowance for ECL on i) debt investments subsequently measured at amortised cost or at FVTOCI, ii) lease receivables, iii) contract assets and iv) loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been separately considered. The group has therefore concluded that the expected loss rates for trade receivables are different to the loss rates for the contract assets. On that basis, the loss allowance as at 1 January 2018 was determined as follows:

Trade and other receivables

Group **1 January 2018**	**Current**	**1-30 days past due**	**31-60 days past due**	**61-90 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	0.8%	2.1%	10.9%	30.0%	100%	-
Gross carrying amount (K'000)	15,751	7,355	916	231	281	24,354
Loss allowance (K'000)	**126**	**154**	**100**	**69**	**281**	**730**

Company **1 January 2018**	**Current**	**1-30 days past due**	**31-60 days past due**	**61-90 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	0.8%	2.1%	10.9%	30.0%	100%	-
Gross carrying amount (K'000)	15,496	7,350	901	231	206	24,184
Loss allowance (K'000)	**124**	**154**	**98**	**69**	**206**	**651**

The loss allowances for trade receivables and contract assets as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

Group	Contract Assets	Trade Receivables
	K'000	K'000
At 31 December 2017 – calculated under IAS 39	-	489
Amounts restated through opening retained earnings	-	241
Opening loss allowance as at 1 January 2018 - calculated under IFRS 9	**-**	**730**

Company	Contract Assets	Trade Receivables
	K'000	K'000
At 31 December 2017 – calculated under IAS 39	-	410
Amounts restated through opening retained earnings	-	241
Opening loss allowance as at 1 January 2018 - calculated under IFRS 9	**-**	**651**

Impact of initial application of IFRS 15 Revenue Contracts with Customers

The Group has applied IFRS 15 – Revenue from Contracts with Customers (as amended) for the first time in the current period. IFRS 15 introduces 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Apart from providing more extensive disclosures on the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. Significant revenue streams of the Group falling within the scope of IFRS 15 are explained in Note 3.5.

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 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 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.

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.

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 will have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. The Group is yet to finalise its assessment of the full impact of IFRS 16 on its financial statements.

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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

All amounts are presented in Papua New Guinea Kina, unless otherwise stated.

The financial statements have been rounded to the nearest thousand kina unless otherwise stated.

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.

3.2 Basis of preparation (cont'd)

Material uncertainty relating to going concern

The Group reported a profit of K2.2 million (after tax) during the year ended 31 December 2018, generated K10.5 million net cash in operating activities and, as of that date, the Group was in a net current liability position of K112.2 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 statements, the Directors are confident that the Group will be able to continue as a going concern and the Directors have 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 the Group's 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 Group's major creditors;
- Continuing support from financial lenders; and
- Restructuring initiatives resulting in sufficient operating profit and positive cash flows to enable the Group 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.

The financial statements have 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 Castlelake from USD4.5m to USD2.7m. Interest reduced from 18% to 8% p.a.
- 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.
- Continued forbearance from the Group's major creditors.
- Postponement of delivery dates of the six ATR which were initially scheduled to begin delivery from May 2020 to June 2022. Pre delivery payments amounting to USD2.8m have 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 Group 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 financial lenders. 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 Group, 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 manage 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 the Group has achieved all its forecasts.

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

3.3 Basis of preparation (cont'd)

Material uncertainty relating to going concern (cont'd)

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 it would be able to realise its assets and discharge its 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 Group be unable to continue as a 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:

- 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.

3.5 Basis of consolidation (cont'd)

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 IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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 Fuel

Revenue from the fuel sale is recognised when fuel is supplied to aircraft operators.

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 redelivery conditions, provision is made during the lease term. The provision is based on the expected future costs of meeting the redelivery 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 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 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.

3.9 Taxation

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

3.9.1 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.

3.9.2 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.

3.9.3 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.

3.9 Taxation (cont'd)

3.9.4 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.

3.10 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 rotables 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 rotable 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

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.

3.10 Property, plant and equipment (cont'd)

3.10.1 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.

3.10.2 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.

3.10.3 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.

3.11 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.

3.12 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 is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

3.13 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, 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.

3.13 Financial instruments (cont'd)

3.13.1 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

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

The Group recognises a loss allowance for expected credit losses on trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) credit rating
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse condition that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3.13 Financial instruments

Impairment of financial assets

(i) Significant increase in credit risk (cont'd)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default,
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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.

3.13 Financial instruments

3.13.2 Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

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

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other income' line item in profit or loss (Note 5b) for financial liabilities that are not part of a designated hedging relationship.

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.

3.14 Maintenance reserves

Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contracts. 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.

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.

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 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.

4.1 Critical judgements in applying accounting policies

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.

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.

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 note 11.

Allowance for credit losses

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognised a loss allowance of 100% against all receivables over 180 days past due because historical experience has indicated that these receivables are generally not recoverable.

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:

5. (a) Revenue	Consolidated Year ended 31/12/18 K'000	Consolidated Year ended 31/12/17 K'000	Company Year ended 31/12/18 K'000	Company Year ended 31/12/17 K'000
Revenue from carriage of passenger and cargo	251,438	248,939	251,438	248,939
Revenue from charters	49,752	27,469	49,752	27,469
Revenue from sale of fuel	3,538	2,323	-	-
Aircraft handling income	2,657	2,952	3,538	2,952
Engineering sales	828	954	828	954
Other revenue	2,920	3,221	2,920	3,217
	311,133	**285,858**	**308,476**	**283,531**
5. (b) Other income				
Interest received	2	1	2	1
Aircraft operator lease income	1,228	-	1,228	-
Rent received	77	63	77	63
Realised foreign currency gain	(103)	252	(103)	252
Unrealised foreign currency (loss)/ gain	1,270	(59)	1,270	(59)
Profit on the sale of plant and equipment	173	2	173	2
	2,647	**259**	**2,647**	**259**
5. (c) Cost of sales				
Direct activity costs	(13,843)	(12,942)	(12,781)	(11,903)
Fuel, air navigation and landing costs	(58,869)	(49,613)	(58,407)	(49,586)
Engineering costs	(33,883)	(28,751)	(33,883)	(28,751)
Depreciation of aircraft and rotable improvements	(4,319)	(5,796)	(4,319)	(5,796)
Lease hire costs	(59,244)	(47,940)	(59,244)	(47,940)
Aircraft insurance costs	(6,097))	(5,253)	(6,097)	(5,253)
	(176,255)	**(150,295)**	**(174,731)**	**(149,229)**
5. (d) Operational expenses				
Crew and engineering staff costs	(73,933)	(69,576)	(73,933)	(69,576)
Other operational staff costs	(16,162)	(17,491)	(16,194)	(17,476)
Other operational costs	(4,382)	(4,721)	(4,128)	(4,449)
	(94,477)	**(91,788)**	**(94,255)**	**(91,501)**
5. (e) Administration expenses				
Management and other admin staff costs	(13,988)	(15,069)	(13,957)	(15,069)
Other administration costs	(9,229)	(7,770)	(8,807)	(7,302)
	(23,217)	**(22,839)**	**(22,764)**	**(22,371)**

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 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Interest on loans	1,862	1,081	1,862	1,081
Interest on bank overdraft	1,351	2,198	1,351	2,198
Interest on other borrowings (non-financial institutions)	4,703	4,130	4,703	4,130
	7,916	**7,409**	**7,916**	**7,409**

8. Income taxes

8.1 Income tax recognised in consolidated statement of profit or loss

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Current tax				
In respect of the current year	(3,906)	(866)	(3,906)	(846)
In respect of prior periods	-	-	-	-
Total current tax expense	(3,906)	(866)	(3,906)	(846)
Deferred income tax				
In respect of the current year	2,787	96	2,824	114
Other	-	-	-	-
Total Deferred tax	2,787	96	2,824	114
Total tax expense relating to continuing operations	**(1,119)**	**(770)**	**(1,082)**	**(732)**

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

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Profit before tax	3,322	260	3,287	159
Income tax expense calculated at 30%	(997)	(78)	(986)	(48)
Effect of prior year adjustments				-
Effect of expenses that are not deductible in determining taxable profit (tax effect of permanent differences)	(122)	(692)	(96)	(684)
Effect of tax losses not recognized as a deferred tax asset	-	-	-	-
Income tax expense	**(1,119)**	**(770)**	**(1,082)**	**(732)**

The tax rate used for the 2018 and 2017 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. Income taxes (cont'd)

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 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Deferred tax assets				
Doubtful debts	131	147	107	123
Leave entitlements	2,763	2,588	2,739	2,588
Maintenance	6,963	4,246	6,963	4,246
Stock obsolescence	782	574	782	574
Tax losses	23,112	26,487	22,942	26,273
	33,751	**34,042**	**33,533**	**33,804**
Deferred tax liabilities				
Capitalised expenses	(26,207)	(25,833)	(26,207)	(25,833)
Inventory	(3,977)	(4,046)	(3,977)	(4,046)
Property, plant and equipment	(6,387)	(3,411)	(6,210)	(3,269)
Unrealised currency losses	(827)	(656)	(827)	(656)
	(37,398)	**(33,946)**	**(37,221)**	**(33,804)**
Net deferred tax assets / (liabilities)	**(3,647)**	**96**	**(3,688)**	**-**

At year-end, the Company had carry-forward tax losses available for utilisation against future taxable income of K77.1m (2017: K87.7m). Tax losses available at year end will expire in 2025.

Movements in deferred taxes are as follows:

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Deferred tax assets				
Balance at beginning of year	34,042	33,913	33,804	33,674
Consolidated statement of profit or loss credits/ (charges)	(291)	(417)	(271)	(416)
Consolidated statement of OCI credits/ (charges)	-	546	-	546
Balance at end of year	33,751	34,042	33,533	33,804
Deferred tax liabilities				
Balance at beginning of year	(33,946)	(33,913)	(33,804)	(33,788)
Consolidated statement of profit or loss credits/ (charges)	(535)	(33)	(500)	(16)
Consolidated statement of OCI credits/ (charges)	(2,917)	-	(2,917)	-
Balance at end of year	(37,398)	**(33,946)**	(37,221)	**(33,804)**
Net deferred tax assets / (liabilities)	**(3,647)**	**96**	**(3,688)**	**-**

9. Subsidiaries

Details of the Company's subsidiaries at 31 December 2018 are as follows:

Subsidiary	Principal activities	Place of Incorporation	Ownership Interest	
			2018	2017
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 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Cash and bank balances	702	557	580	534
Bank overdraft	(6,154)	(8,462)	(6,154)	(8,462)
	(5,452)	**(7,905)**	**(5,574)**	**(7,928)**

11. Property, plant and equipment

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Cost or valuation	240,379	233,223	237,983	230,863
Accumulated depreciation	(94,589)	(94,983)	(93,200)	(93,789)
	145,790	**138,240**	**144,783**	**137,074**
Land and buildings	4,309	3,700	3,639	2,920
Aircraft	91,926	85,916	91,926	85,916
Plant and equipment	6,271	6,308	6,030	6,018
Rotable parts	42,937	41,999	42,936	41,998
Motor vehicles	347	317	252	222
	145,790	**138,240**	**144,783**	**137,074**

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

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 2017	4,368	150,903	16,674	46,498	3,240	221,683
Additions	323	9,650	1,112	4,594	69	15,748
Disposals	-	-	(149)	(1,927)	(38)	(2,114)
Transfer from asset held for sale	72	5,079	145	-	47	5,343
Impairment	-	(7,437)	-	-	-	(7,437)
Balance at 31 December 2017	**4,763**	**158,195**	**17,782**	**49,165**	**3,318**	**233,223**
Additions	849	1,644	1,353	2,641	172	6,659
Impairment	-	(1,039)	-	-	-	(1,039)
Revaluation	-	3,879	-	-	-	3,879
Disposals	-	-	(28)	(2,064)	(251)	(2,343)
Balance at 31 December 2018	**5,612**	**162,679**	**19,107**	**49,742**	**3,239**	**240,379**

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
Accumulated depreciation						
Balance at 1 January 2017	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**
Depreciation charge	240	4,319	1,385	-	142	(6,087)
Revaluation		(5,845)	-	-	-	(5,845)
Disposal	-	-	(24)	(361)	(250)	(636)
Balance at 31 December 2018	**1,303**	**70,753**	**12,835**	**6,805**	**2,892**	**94,589**
Net book value at 31 December 2018	**4,309**	**91,926**	**6,271**	**42,937**	**347**	**145,790**
Net book value at 31 December 2017	3,700	85,916	6,308	41,999	317	138,240

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

Company	Land & Buildings	Aircraft	Plant & 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 2017	3,352	150,903	16,217	46,497	2,719	219,688
Additions	226	9,650	1,107	4,594	69	15,646
Transfer from asset held for sale	-	5,079	-	-	-	5,079
Disposals	-	-	(149)	(1,927)	(37)	(2,113)
Impairment	-	(7,437)	-	-	-	(7,437)
Balance at 31 December 2017	**3,578**	**158,195**	**17,175**	**49,164**	**2,751**	**230,863**
Additions	849	1,644	1,317	2,641	172	6,623
Revaluation	-	3,879	-	-	-	3,879
Impairment	-	(1,039)	-	-	-	(1,039)
Disposals	-	-	(28)	(2,064)	(251)	(2,343)
Balance at 31 December 2018	**4,427**	**162,679**	**18,464**	**49,741**	**2,672**	**237,983**
Accumulated depreciation						
Balance at 1 January 2017	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**
Depreciation charge	130	4,319	1,301	-	142	5,892
Revaluation	-	(5,845)	-	-	-	(5,845)
Disposal	-		(24)	(361)	(251)	(636)
Balance at 31 December 2018	**788**	**70,753**	**12,434**	**6,805**	**2,420**	**93,200**
Net book value at 31 December 2018	**3,639**	**91,926**	**6,030**	**42,936**	**252**	**144,783**
Net book value at 31 December 2017	**2,920**	**85,916**	**6,018**	**41,998**	**222**	**137,074**

11.1 Impairment losses recognised in the period

During the year, the Group recognized impairment of K1.04 million in respect of the Twin Otter (2017: K7.44 million impairment 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 2018. 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.

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

Details of the Group's aircraft and information about the fair value hierarchy as at 31 December 2018 are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31/12/18
	K'000	K'000	K'000	K'000
Aircraft	-	91,926	-	91,926
Rotables	-	42,937	-	42,937

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

11.3 Assets pledged as security

Aircraft with a carrying amount of K82.8 million (2017: K74.3 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 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Security deposits on leased assets	23,587	22,611	23,587	22,611
Investments in subsidiaries	-	-	20	20
	23,587	**22,611**	**23,607**	**22,631**
Current asset	-	-	-	-
Non-current asset	23,587	22,611	23,607	22,631
	23,587	**22,611**	**23,607**	**22,631**

13. Other assets

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Prepayments to suppliers	8,219	10,451	8,021	10,292
Maintenance reserve	45,752	25,260	45,752	25,260
Loans carried at amortised cost	-	-	1,844	1,274
	53,971	**35,711**	**55,617**	**36,826**
Current asset	13,327	12,114	14,973	13,229
Non-current asset	40,644	23,597	40,644	23,597
	53,971	**35,711**	**55,617**	**36,826**

14. Inventories

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Consumables stock on hand – at cost	16,646	15,962	15,862	15,402
Allowance for stock obsolescence	(2,606)	(1,915)	(2,606)	(1,915)
	14,040	**14,047**	**13,256**	**13,487**

15. Trade and other receivables

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Trade receivables	16,904	24,354	16,794	24,184
Allowance for credit losses	(435)	(489)	(356)	(410)
	16,469	23,865	16,438	23,774
Other receivables	4,551	4,869	4,468	4,788
Income tax receivable	18	18	-	-
	21,038	**28,752**	**20,906**	**28,562**

The average credit period on sales of goods is 30 days. No interest is charged on outstanding trade receivables.

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.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

Group

31 December 2018	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due	Total
Expected loss rate	0.8%	2.1%	10.9%	31%	100%	-
Gross carrying amount (K'000)	10,675	5,167	760	207	95	16,904
Loss allowance (K'000)	**85**	**108**	**83**	**64**	**95**	**435**

Company

31 December 2018	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due	Total
Expected loss rate	0.8%	2.1%	10.9%	31%	100%	-
Gross carrying amount (K'000)	10,644	5,167	760	207	16	16,794
Loss allowance (K'000)	**85**	**108**	**83**	**64**	**16**	**356**

15. Trade and other receivables (cont'd)

The following table shows the movement in lifetime ECL that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9.

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Balance as at 1 January under IAS 39	(489)	(277)	(410)	(235)
Adjustment upon application of IFRS 9	(241)	-	(241)	-
Balance at beginning of the year as restated	(730)	(277)	(651)	(235)
Impairment provision release/(charge) in the year	295	(212)	295	(175)
Balance at end of the year	**(435)**	**(489)**	**(356)**	**(410)**

Ageing of past due but not impaired

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
61-90 days	760	855	760	843
Over 90 days	224	469	224	374
Total	984	1,324	984	1,217
Average age (days)	20	31	20	31

16(a) Issued capital

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	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

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
Balance at beginning of year	70,563	35,000	70,563	35,000
Additional capital contribution from shareholders During the year (i), (ii)	-	35,563	-	35,563
Balance at end of year	70,563	70,563	70,563	70,563

i. In 2017, the Company received additional capital contribution from its two major shareholders, NasFund and Mineral Resource Development Company (MRDC) in the amount of K20 million and K10 million, respectively.
ii. In 2017, 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.

17. Earnings per share

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	Toea	Toea	Toea	Toea
Basic and diluted profit/loss per share				
From continuing operations	0.71	(0.17)	0.72	(0.19)
Total	0.71	(0.17)	0.72	(0.19)

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 profit/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 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Profit / (Loss) for the year	2,203	(510)	2,205	(573)
Earnings used in the calculation of basic and diluted EPS from continuing operations	2,203	(510)	2,205	(573)
Weighted average number of ordinary shares	308,292,080	308,292,080	308,292,080	308,292,080

18. Revaluation reserve

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Balance at beginning of year	1,241	2,515	1,241	2,515
Revaluation of aircraft (net of tax)	6,167	(1,274)	6,167	(1,274)
Balance at end of year	**7,408**	**1,241**	**7,408**	**1,241**

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

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
Balance at beginning of year	(127,572)	(127,071)	(128,202)	(127,629)
Exchange gain/(loss) on translation of foreign operation	(18)	9	-	-
First time adoption of IFRS 9	(169)	-	(169)	-
Net profit/(loss) attributable to owners of the Company	2,203	(510)	2,205	(573)
Balance at end of year	**(125,556)**	**(127,572)**	**(126,166)**	**(128,202)**

20. Borrowings

		Consolidated		Company	
		Year ended 31/12/18 K'000	Year ended 31/12/17 K'000	Year ended 31/12/18 K'000	Year ended 31/12/17 K'000
a) Current					
Bank Loans and Overdrafts	(i)	23,404	28,462	23,404	28,462
Secured notes	(ii)	9,000	9,000	9,000	9,000
Secured loan from other financial institutions	(iii)	1,149	1,301	1,149	1,301
		33,553	**38,763**	**33,533**	**38,763**
b) Non-current					
Bank Loans	(i)	-	-	-	-
Secured notes	(ii)	25,000	25,000	25,000	25,000
Secured loan from other financial institution	(iii)	5,034	280	5,034	280
		30,034	**25,280**	**30,034**	**25,280**
Total Borrowings		**63,587**	**64,043**	**63,587**	**64,043**

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 are held by two private companies, one of which matured in 2018 (rollover option exercised) and the other maturing in 2021. 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 7.90% (2017: 7.90%) per annum.

(iii) The Group has loans with other financial institutions with an effective interest rate on the bank loans is 11% (2017: 13%) per annum. Other financial institutions hold a registered mortgage over the property at Matirogo 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.

20. Borrowings (cont'd)

Financing facilities

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Secured loan from other financial institutions				
- amount used	6,183	1,581	6,183	1,581
- amount unused	-	-	-	-
	6,183	1,581	6,183	1,581
Secured bank overdraft facility				
- amount used	6,154	8,462	6,154	8,462
- amount unused	13,846	11,538	13,846	11,538
	20,000	20,000	20,000	20,000
Secured bank loans				
- amount used	17,250	20,000	17,250	20,000
- amount unused	-	-	-	-
	17,250	20,000	17,250	20,000
Total				
- amount used	29,587	30,043	29,587	30,043
- amount unused	13,846	11,538	13,846	11,538
	43,433	41,581	43,433	41,581

21. Other liabilities

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
(a) Current				
Lease incentive liability on ATR (i), (ii)	2,174	1,510	2,174	1,510
Dash 8 early lease exit liability (iii)	11,578	8,441	11,578	8,441
	13,752	**9,951**	**13,752**	**9,951**
(b) Non-current				
Lease Incentive liability on ATR (i)	18,676	21,515	18,676	21,515
Aircraft lease rental waiver/incentive (ii)	591	425	591	425
Dash 8 early lease exit liability (iii)	-	10,092	-	10,092
	19,267	**32,032**	**19,267**	**32,032**

(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 24.9). Two early exit fees related to the early termination were required to be repaid by 31 December 2019 and one was required to be repaid by 31 July 2019. The Group renegotiated a reduction of its long-term debt repayments and interest with Castlelake USD 4.5m to USD 2.7m. Interest reduced from 18% to 8% p.a. The agreement was executed on 20 October 2020.

22. Provisions

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Current				
Provision for annual leave (i)	3,452	3,273	3,440	3,266
Provision for long service leave (ii)	1,536	-	1,536	-
Provision for maintenance (iii)	12,246	8,281	12,246	8,281
	17,234	**11,554**	**17,222**	**11,547**
Non-current				
Provision for long service leave (ii)	4,223	5,439	4,156	5,361
Provision for maintenance (iii)	9,221	4,906	9,221	4,906
Provision for restoration expense(iv)	1,742	966	1,742	966
	15,186	**11,311**	**15,119**	**11,233**
Movements in provisions are as follow:				
(i) Movement in provision for annual leave				
Balance at the start of the year	3,273	3,185	3,266	3,175
Additional provision / (amount used)	179	88	174	91
Balance at the end of the year	3,452	3,273	3,440	3,266
(ii) Movement in provision for long service leave				
Balance at the start of the year	5,439	6,532	5,361	6,491
Amount used	(1,945)	(1,640)	(1,945)	(1,640)
Additional provision recognised	2,265	547	2,276	510
Balance at the end of the year	5,759	5,439	5,692	5,361
(iii) Movement in provision for contract maintenance				
Balance at the start of the year	13,187	9,397	13,187	9,397
Provision recognised	11,819	4,409	11,819	4,409
Amount used	(3,539)	(619)	(3,539)	(619)
Balance at the end of the year	21,467	13,187	21,467	13,187
(iv) Movement in provision for restoration costs				
Balance at the start of the year	966	-	966	-
Provision recognised	776	966	776	966
Balance at the end of the year	1,742	966	1,742	966

23(a) Trade and other payables

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Trade payables	45,319	46,982	41,987	44,019
Accrued expenses	19,949	17,015	20,061	15,779
Related party payable (note 27)	-	-	3,292	4,014
Salary and wages tax and GST payable	2,669	2,755	2,866	2,755
Total trade and other payables	**67,937**	**66,752**	**68,206**	**66,567**
23(b) Deferred revenue				
Deferred revenue	**28,832**	**22,868**	**28,832**	**22,868**

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.

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 24.4 below) and interest rates (see 24.6 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	
	31/12/18	31/12/17	31/12/18	31/12/17
	K'000	K'000	K'000	K'000
Australian Dollar	411	570	208	383
United States Dollar	5,307	4,653	755	1,379

24.5.1 <u>Foreign currency sensitivity analysis</u>

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	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Profit or loss	4	90	143	1,125

24. Financial instruments (cont'd)

24.5.2 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.

24.6 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 2018 would increase/decrease by K317,929 (2017: by increase/decrease 320,217). 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.

24.7 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.

24.8 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.

24.9 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.

24.9.1 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.

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 2018									
Financial liabilities									
Trade payables	Non-interest bearing		45,319	-	-	-	-	-	45,319
Other payables	Non-interest bearing		22,618	-	-	-	-	-	22,618
Dash 8 early exit lease exit liability	9.25%		11,578	-	-	-	-	-	11,578
Non-bank loans	11.00%	-	1,275	2,347	2,550	1,717	-	-	7,889
Bank loans & leases	9.75%	-	6,045	6,582	7,119	1,008	-	-	20,754
Bank overdraft	9.75%	-	6,755	-	-	-	-	-	6,755
Secured notes	7.90%	-	9,709	-	26,969	-	-	-	36,678
			103,299	8,929	36,638	2,725	-	-	151,591
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	11.00%	-	1,471	353	-	-	-	-	1,824
Bank overdraft	9.75%	-	3,026	5,151	5,572	5,992	-	-	19,741
Bank loans & leases	9.75%	-	9,287	-	-	-	-	-	9,287
Secured notes	8.00%	-	9,709	-	-	-	27,000	-	36,709
			98,696	15,596	5,572	5,992	27,000	-	152,846

	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
Company									
31 December 2018									
Financial liabilities									
Trade payables	Non-interest bearing		41,987	-	-	-	-	-	41,987
Other payables	Non-interest bearing		22,927	-	-	-	-	-	22,927
Dash 8 early exit lease exit liability	9.25%		11,578	-	-	-	-	-	11,578
Related party loans (PGK)	Non-interest bearing		4,014	-	-	-	-	-	4,014
Non-bank loans	11.00%	-	1,275	2,347	2,550	1,717	-	-	7,889
Bank loans	9.75%	-	6,045	6,582	7,119	1,008	-	-	20,754
Bank overdraft	9.75%		6,755	-	-	-	-	-	6,755
Secured notes	7.90%	-	9,709	-	26,969	-	-	-	36,678
			104,290	8,929	36,638	2,725	-	-	152,582
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				-	-	-	-	-
Non-bank loans	13.00%	-	1,470	353	-	-	-	-	1,823
Bank loans & leases	12.83%	-	3,026	5,151	5,572	5,992	-	-	19,741
Bank overdraft	12.20%	-	9,287	-	-	-	-	-	9,287
Secured notes	8.17%	-	9,720	-	-	-	27,000	-	36,720
			140,813	15,596	5,572	5,992	27,000	-	194,973

At the end of the reporting period, there were no financial guarantee contracts (2017: Nil).

25. Auditors Remuneration

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Deloitte Touche Tohmatsu:				
- Audit Fee	354	332	354	332
- Other service fees	40	111	21	89
	394	**443**	**375**	**421**

26. Other company information

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

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
National employees	676	663	667	654
Expatriate employees	106	126	100	118
	782	**789**	**767**	**772**

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. Refer below for the amounts recoverable. For the amounts payable, refer to note 23.

Related Party	**Relationship**	**Nature of transaction**	**2018**	**2017**
			K'000	K'000
APNG Services Pty Ltd	Subsidiary Company	Supply of Aircrew	(9,649)	(12,611)
		Settlement	8,987	11,766
Galatoire Limited	Subsidiary Company	Rental charges	(420)	(420)
		Maintenance costs	1,602	1,694
PNG Ground Services Limited	Subsidiary Company	Fuel Sales	(30,740)	(23,977)
		Settlement	27,448	20,808

Outstanding balances	Related party receivable		Related party payable	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
APNG Services Pty Ltd	662	-	-	846
Galatoire Limited	1,182	1,274	-	-
PNG Ground Services Limited	-	-	3,292	3,168
	1,844	**1,274**	**3,292**	**4,014**

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:

2018

Paul Abbot	Glenn Dunstan	Sujeewa Samaranayake
Craig Chapple	Emmanuel Kadiko	Phil Braz
John Biddle	Elias Bade	William Kalipa
Adrian Smith	Stanley Stevens	

2017

Muralee Siva	Jaydip Sengupta	Elias Bade
Craig Chapple	John Biddle	Phil Braz
Paul Abbot	Andrew Serenc	Stanley Stevens
Adrian Smith	Glenn Dunstan	William Kalipa

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 31/12/18	Year ended 31/12/17
	K'000	K'000
Short-term benefits	**5,908**	**6,589**

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 31/12/18	Year ended 31/12/17
		K	K
Augustine Mano	17/03/2012	47,252	47,252
Murray Woo	29/08/2012	16,783	49,252
Simon Woolcott	22/10/2014	47,252	47,252
Edward Matane	19/01/2015	46,752	46,752
Watt Kiddie	07/04/2015	46,752	46,752
William Lamur	19/06/2018	26,245	-

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	2018 Nos.	2017 Nos.	Remuneration K'000's	2018 Nos.	2017 Nos.
100 – 110	5	10	360 – 370	4	4
110 – 120	8	6	370 – 380	1	3
120 – 130	3	3	380 – 390	3	2
130 – 140	2	8	390 – 400	2	2
140 – 150	5	4	400 – 410	3	2
150 – 160	3	0	410 – 420	1	1
170 – 180	5	3	420 – 430	1	1
180 – 190	2	3	430 – 440	2	1
190 – 200	9	6	450 – 460	1	2
200 – 210	10	13	460 – 470	1	3
210 – 220	7	1	470 – 480	5	2
220 – 230	3	6	480 – 490	1	1
240 – 250	7	7	490 – 500	2	0
250 – 260	1	5	510 – 520	1	3
260 – 270	3	0	520 – 530	3	2
270 – 280	14	12	530 – 540	3	1
280 – 290	2	6	540 – 550	4	3
290 – 300	6	4	550 – 560	2	0
300 – 310	4	7	570 – 580	1	1
310 – 320	12	3	590 – 600	2	1
320 – 330	9	5	610 – 620	2	0
330 – 340	8	4	650 – 660	1	0
350 – 360	3	5	1,100 –1,200	1	0

Corresponding last year figure has been adjusted at 2018 average 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.

27. Related parties (cont'd)

27.6 Disclosure of interest

Name of Director	Organisation	Interest

27. Related parties (cont'd)

27.6 Disclosure of interest (cont'd)

William Lamur	PNG Air Ltd	Board Chairman – Resigned (Note 31)
	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	Interim Board Chairman (Note 31)
	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 - Resigned
	Ok Tedi Mining Limited	Director
	GFS Limited	Director
	Leisure Holidays & Travel Ltd	Director
	Hevilift (PNG) Ltd	Director

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 - Former
	Civil Aviation Authority	CEO / Managing Director - Former
	Tropic Group	Director
	PNG Power	Former Board Chairman - Former
	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 Accountants Registration 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

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 29.

29. Commitments

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

	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000
1 to 2 years	136,989	134,895
3 to 4 years	254,392	251,313
5 years & longer	212,731	261,241

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 8 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.

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

	Consolidated		Company	
	Year ended 31/12/18	Year ended 31/12/17	Year ended 31/12/18	Year ended 31/12/17
	K'000	K'000	K'000	K'000
Minimum lease payments	58,774	47,557	58,774	47,557
Operating lease commitments				
Not later than 1 year	46,710	45,372	46,710	45,372
Later than 1 year and not later than 5 years	167,409	170,761	167,409	170,761
Later than 5 years	170,893	202,040	170,893	202,040
	385,012	418,173	385,012	418,173

31. 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 31 December 2018.

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.
- The Group renegotiated a reduction of its long-term debt repayments and interest with Castlelake USD 4.5m to USD 2.7m. Interest reduced from 18% to 8% p.a. The agreement was executed on 20 October 2020.

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

Nasfund, one of the major shareholders, 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 is expected to 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.
- Watt Kiddie was appointed the Chairman of the Board Audit and Risk Committee in April 2019.

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

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.

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. 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.

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 2018.

32. Approval of financial statements

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

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Deloitte Touche Tohmatsu

Level 9, Deloitte Haus
MacGregor Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea

Tel: +675 308 7000
Fax: +675 308 7001
www.deloitte.com.pg

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 2018, the consolidated statement of profit or loss, the consolidated statement of 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 2018 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 as at 31 December 2018 the Group has an excess of current liabilities over current assets of K112.2 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.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of aircraft The carrying value of the Group's aircraft as at 31 December 2018 was K91.93 million. 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. We have identified the carrying value of aircraft as a key audit matter because of its significance to the consolidated financial statements.	In performing our procedures we: • 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 2018, 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.

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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.

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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 2018.

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Benjamin Lee
Registered under the Accountants Act 1996
Partner
Chartered Accountants

Port Moresby, 2 November 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 AirportSeven 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 2018 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 2018 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 2018 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 09 November 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