



PNG Air Limited

Annual Reports for the years ended

31 December 2019 to 2023



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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 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

Striving to be Papua New Guinea's First Choice Domestic Airline.

Our Mission

Our Airline is committed to deliver safe, reliable, on time travel, coupled with quality customer service, connecting the people of Papua New Guinea whilst respecting our country's diverse cultural heritage and recognizing its unique natural environment.

Our Values

- **Safety and Quality**

Compliance to our evolving safety and quality management systems are cultural cornerstones enabling PNG Air to deliver safe air operations for its customers.

- **Customer Focus**

We welcome and value our customers while recognizing they are the lifeblood of our business.

- **Stakeholders**

Our shareholders, business partners and employees are our investment community facilitating the delivery of safe, cost effective and reliable air services necessary to drive socio-economic development whilst protecting our cultural and environmental heritage.

- **Honesty & Accountability**

Our Board, Management and Employees are all responsible for the success of PNG Air and accountable for our actions.

- **Constant Improvement**

We are committed to high standards and continually improve what we do. We look for ways to do better, welcome challenges and try new things.

- **Gender Equality**

We promote gender equality across our Board, Management and organization.

CHAIRMAN'S REPORT

Welcome to PNG Air's 2019 to 2023 Annual Reports

OVERVIEW

PNG Air successfully completed its five years of audited financial accounts for the period 2019 to 2023, which were finalized in June 2025.

In 2019, PNG Air posted a profit before tax of PGK 10.5 million, up from PGK 9.7 million in 2018. This strong performance reflected the company's successful turnaround strategy and marked one of our best financial years to date. It also represented one of our highest revenues in the domestic RPT market, reinforcing PNG Air's competitive position across Papua New Guinea.

From 2020 to 2022, however, the global COVID-19 pandemic profoundly impacted our business. Travel restrictions, border closures, and other public health measures led to a substantial drop in passenger numbers and revenue. PNG Air, as a vital domestic carrier connecting communities across the country, was acutely affected. Although we supported these health measures to protect public safety, they placed significant strain on the company's financial position.



To manage these unprecedented challenges, the Board and management implemented a range of critical actions:

- In 2020 and again in 2021, Link PNG (a subsidiary of Air Niugini) sought ICCC approval to acquire a minority stake in PNG Air, aiming to enhance connectivity and long-term sustainability. Despite our mutual interest in partnership, both applications were declined by the ICCC.
- In 2021, we successfully completed our 2017 and 2018 financial accounts and held our AGM on 16 July 2021 — a key step toward improving transparency and accountability.
- In 2022, we initiated a creditors' restructuring scheme to address liquidity challenges arising from the pandemic and broader economic downturn.

SCHEME OF CREDITORS

On 15 December 2023, the National Court (Hartshorn J. presiding) approved PNG Air's Scheme of Arrangement under Part XVI of the Companies Act 1997, which took effect immediately. This Scheme enabled PNG Air to restructure its debts with major creditors — a priority that had been central to the Board and management's focus.

Major creditors agreed to materially reduce PNG Air's debt and our key shareholders — MRDC and Nasfund — committed to new capital to strengthen the airline. Smaller creditors and employees were paid in full. This capital injection of PGK 55 million from MRDC underpinned a significant turnaround.

As a result of this restructuring, the airline recorded a one-off gain of PGK 110.5 million through the reduction of its debt obligations. This gain is reflected under 'other income' in the accounts and was the key driver behind our reported net profit after tax of PGK 55.5 million for the year. This result represents a remarkable turnaround from the net loss of PGK 64.4 million reported in 2022. It is important to note that, while revenue saw only a modest increase of 0.63% compared to the previous year and gross profit improved by 13.6%, the return to profitability was primarily due to the debt restructure, which was largely driven by a reduction in lease costs. The restructure has placed PNG Air on a more stable financial footing, and while challenges remain, this outcome marks an encouraging step forward in our recovery journey.

ACKNOWLEDGEMENT

The Board extends its sincere thanks to all creditors who supported the Scheme and enabled its successful implementation. Our gratitude also goes to our shareholders, especially MRDC, which provided PGK 55 million as rescue capital to help fund the airline's recovery. Together with Nasfund, MRDC played a vital role in resolving historical capital provided in 2016 and 2017.

I would also like to recognize the leadership of the Airline Management team under Stanley Stevens, who served as Chief Executive Officer from 2021 until June 2023. Stanley's stewardship through the challenges of the pandemic was invaluable. Brian Fraser, who succeeded him in June 2023, is now leading PNG Air into its next chapter, setting new targets and implementing new strategies.

Finally, my appreciation goes to my fellow Directors. Their commitment, expertise, and guidance have been crucial as we navigated the depths of the crisis and prepared for recovery and growth.

CHAIRMAN'S REPORT

OUTLOOK FOR 2023 AND BEYOND

2024 has posed further operational challenges — notably a national fuel crisis and fuel rationing measures that affected payloads and reduced flights. Despite these difficulties, PNG Air is finalizing its 2024 financials with audits targeted for completion by year-end.

Building on our recovery plan, we have established a more competitive, agile, and resilient airline, and remain optimistic about our long-term prospects. Going forward, PNG Air will focus on:

- Completing our fleet modernization strategy to reduce maintenance and operating costs.
- Strengthening our balance sheet through disciplined financial management and diversified revenue streams.
- Prioritizing safety and on-time performance to rebuild full trust with the traveling public.

Once again, thank you for your continued support of PNG Air as we work toward sustainable recovery and long-term success.



Augustine Mano
Chairman, Board of Directors

CURRENT BOARD OF DIRECTORS

AUGUSTINE MANO

DIRECTOR since 2010 and *CHAIRMAN* since 29 September 2020.

Mr Augustine S Mano is Chairman of PNG Air Ltd. He was appointed to chair the Board on 29 September 2020. He has been a director of the PNG Air Board since 2010, and is one of the longest serving director of the company.

Mr Mano is the Managing Director and Chief Executive Officer of Mineral Resources Development Company (MRDC), and also serves as a Director on the boards of MRDC and its 21 subsidiary companies. He is also Chairman of MRDC's investment companies the Star Mountain Plaza Ltd, and Pearl Resort Fiji.

Mr. Mano was appointed Chairman of the Southern Highlands Provincial Health Authority Board in 2022. This year, he also took on the role of Chairman of the Gulf Provincial Health Authority Board.

Mr Mano holds Degrees in Economics and Arts -Environmental Science from the University of Papua New Guinea, and a Master of Science Degree in Petroleum Economics from the Dundee University, Scotland.

WATT KIDDIE

DIRECTOR since 2015 and Chairman of the Board Audit & Risk Compliance Committee (BARCC).

Mr. Kiddie is an independent Director and the Chairman of the Board Audit & Risk Compliance Committee (BARCC) since April 2019. He is a highly experienced PNG accountant with CPA qualification and the principal of the public accounting firm Hanrick Curran & Kiddie. Mr Kiddie has over 35 years' experience in accountancy practice in PNG, having provided services to government and major state owned entities, and many private sector and resources industry clients. He holds and memberships or council positions in a number of professional bodies

Mr Kiddie holds a Bachelor of Commerce degree and is a Registered Company Auditor and Liquidator. Mr. Kiddie has been awarded an MBE for services to Commerce & Accountancy.

EDWARD MATANE

DIRECTOR since 2015

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

SIMON WOOLCOTT

DIRECTOR since May 2024

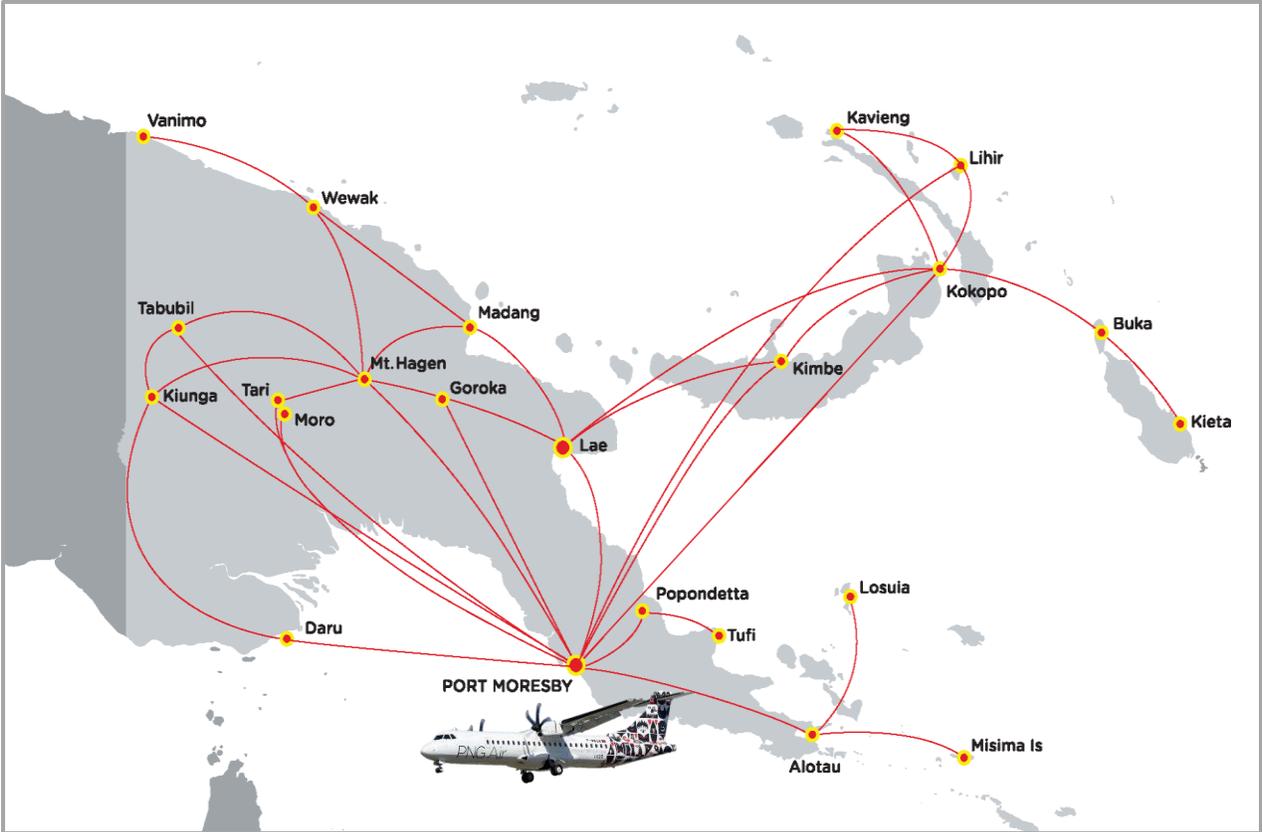
Mr. Woolcott was re-appointed as a director and was nominated by MRDC. Mr. Woolcott was the Chief Financial Officer between 2009 and 2012 and maintained his involvement with the company as a member of its Board Audit Risk and Compliance Committee from March 2013 until his resignation on 02 February 2019.

VALENTINA KAMAN

DIRECTOR since April 2023 and Chairlady of the Remuneration and nomination Committee (RNC)

Ms. Kaman was appointed as a director in April 2023 and was nominated by MRDC. MS Kaman has more than 15 years' experience in Oil and Gas industries as a lawyer.

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.

CORPORATE GOVERNANCE STATEMENT

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 07 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.

CORPORATE GOVERNANCE STATEMENT

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.

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 trading restrictions, during each of the periods of 8 weeks (40 working days) following the announcements of half yearly and yearly results, or the date of issue of a prospectus. Management should discuss proposed share trades with the Chief Executive Officer in advance, who in turn will keep the Chairman of the Board apprised of management activities.

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
- General Manager Operations
- Company Secretary
- General Manager Flight Operations
- General Manager MRO

CORPORATE GOVERNANCE STATEMENT

- 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 the 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

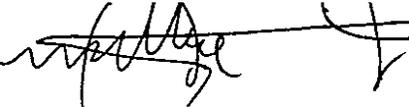
In the opinion of the Directors of PNG Air Limited:

- a) the consolidated financial statements of the Group for the financial years ended 31 December 2019, 2020, 2021, 2022 and 2023 as presented further in this report, have been drawn up to give a true and fair view of the state of the Group's affairs, as well as its results, cash flow and changes in equity for each of those financial year ended on those respective dates; 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, 20 June 2025



Watt Kiddie
Director
Port Moresby, 20 June 2025

PNG Air Limited

Consolidated Financial Statements for
the year ended 31 December 2023

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 2023. In order to comply with the provisions of the Companies Act 1997 (amended 2022), the directors’ report as follows:

The Directors

The names and particulars of the directors during or since the end of the financial year are:

| | |
|--------------------|---------------------|
| Mr. Augustine Mano | Ms. Valentina Kaman |
| Mr. Simon Woolcott | Mr. Andrew Ogil |
| Mr. Edward Matane | Mr. Andrew Crompton |
| Mr. Watt Kiddie | |

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

- Andrew Crompton was appointed on 04 November 2020 and resigned from 01 December 2022.
- Mr. Andrew Ogil was appointed as an Independent Director on 10 December 2019 and appointed as the Chairman of Remuneration and Nomination Committee in August 2020 and resigned on 04 April 2023.
- Mr. Watt Kiddie was appointed the Chairman of the Audit and Risk Committee in April 2019 and was appointed as Deputy Chairman on 30 July 2021.
- Mr. Augustine Mano was appointed as Chairman on 30 July 2021.
- Ms. Valentina Kaman who was appointed as a director in April 2023 is the current Chairlady of the Remuneration and Nomination Committee.
- Mr. Simon Woolcott resigned effective from 02 February 2019 and later re-appointed on 27 May 2024.

Company Secretary

The company secretary as at 31 December 2023 was Deborah Poya.

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. For the year ended 31 December 2023, the Group reported a pre-tax profit of K72.3 million (2022: pre-tax loss of K77.4 million). The return to profitability in 2023 was primarily driven by the extinguishment of certain liabilities resulting from entering into scheme arrangements with major creditors, which significantly improved the Group’s financial position. Excluding the impact of this non-recurring item, the Group’s underlying operating performance would be a pre-tax loss of K38.2 million.

The Company is listed on Papua New Guinea’s National Stock Exchange (“PNGX”). PNGX suspended the securities of PNG Air Limited from official quotation on 15 January 2019 following the Company’s failure to lodge its periodic reports on a timely manner. The securities remain suspended at the date of approval of these financial statements.

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 which supplies 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 Notes 2.1 and 2.2, there has been no other changes in accounting policies during the current year.

DIRECTORS REPORT

Disclosure of interest and other directorship

The disclosures on Directors interest and other directorship is provided below:

| Name of Director | Organisation | Interest |
|--------------------------------------|---|---------------------------|
| Augustine Mano | PNG Air Ltd | Board Director & Chairman |
| | 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 |
| | Ok Tedi Mining Limited | Director |
| | GFS Limited | Director |
| | 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 |
| | CIVPAC Limited | Chairman |
| | Handy Group Limited | Chairman |
| | SMA Investments | Chairman |
| | Bogasi Investments Ltd | Director |
| | PNG Ground Services (subsidiary of PNG Air) | Director |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | Andrew Ogil | PNG Air Ltd |
| North QLD & Northern Territory | | PNG Consul in Cairns |
| Air Niugini | | CEO / Managing Director |
| Civil Aviation Authority | | CEO / Managing Director |
| Tropic Group | | Director |
| PNG Power | | Board Chairman |
| Missionary Aviation Fellowship (MAF) | | Board Member |

DIRECTORS REPORT

Directors' report (continued)

Disclosure of interest and other directorship (continued)

| Name of Director | Organisation | Interest |
|------------------|---|--|
| Watt Kiddie | PNG Air Ltd | Board Director & Deputy Chairman |
| | First National Insurance Brokers Ltd | Director |
| | Wooner Trading Limited | Director |
| | Diamond Finance Limited | Director |
| | Business Arm of the Lutheran Renewal Church of PNG | Director/Chairman |
| | WK Kiddie PNG Peace & Gutpela Sindaun Foundation Inc. | Principal Custodian and Founder |
| | Lutheran Renewal Investments Group Limited | Chairman |
| | Hanrick Curran Kiddie Limited | Director |
| | Statutory Committee of Board PNG Air BARCC Committee | Chairman Chairman |
| Andrew Crompton | PNG Air Ltd | Board Member (resigned) |
| | Coastwatchers Court Ltd | Chairman |
| | Moki No 10 Limited | Chairman |
| | OPH Limited | Chairman |
| | Pacific Capital Partners (PNG) Limited | Board Member |
| | Rangeview Heights Limited | Chairman |
| | Waigani Asset Limited | Chairman |
| Edward Matane | PNG Air Ltd | Board Director |
| | Matsi Holdings Ltd | Director |
| | Pacific Helicopters Ltd | CEO |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | PNG Ground Services Limited (subsidiary of PNG Air) | Director |
| Simon Woolcott | PNG Air Ltd | Board Director |
| | TISA | Director and ARC Member |
| | TISA Bank | Director & Chairman of Audit Committee |
| | Capital Insurance Group | Director & Chairman of Audit Committee |
| | BKS Services | Managing Director |
| | MRDC | Chief Finance Officer |
| Valentina Kaman | PNG Air Limited | Board Director |
| | PNG Air RNC Committee | Chairperson |
| | Mineral Resource Development Company Limited | Manager Legal |
| | Mineral Resources Star Mountain Limited | Manager Legal & Company Secretary |
| | Mineral Resources CMCA Holdings Limited | Manager Legal & Company Secretary |
| | Mineral Resources OK Tedi Limited | Manager Legal & Company Secretary |
| | Business Professional Women's Club | Vice President |
| | Piku Conservation Network | Director |
| | Malma Holdings Limited | Shareholder & Director |

DIRECTORS REPORT

Directors' report (continued)

Directors' remuneration

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

| Director | 2023 K | 2022 K |
|--|-----------|-----------|
| Augustine Mano | 50,000 | 50,000 |
| Edward Matane | 50,000 | 50,000 |
| Watt Kiddie | 50,000 | 50,000 |
| Andrew Ogil (resigned April 2023) | 25,000 | 50,000 |
| Andrew Crompton (resigned December 2022) | - | 50,000 |
| Valentine Kaman (appointed April 2023) | 25,000 | - |

Remuneration above K100,000 per annum

| Remuneration K'000 | 2023 Nos. | 2022 Nos. | Remuneration K'000 | 2023 Nos. | 2022 Nos. |
|-----------------------|--------------|--------------|-----------------------|--------------|--------------|
| 100 – 110 | 2 | 2 | 340 - 350 | 1 | 1 |
| 110 – 120 | 2 | 3 | 350 – 360 | 5 | 6 |
| 120 – 130 | 1 | 1 | 360 – 370 | 1 | 1 |
| 130 – 140 | 1 | 3 | 370 – 380 | - | 1 |
| 140 – 150 | 1 | 3 | 380 – 390 | 1 | - |
| 150 – 160 | 4 | 2 | 390 – 400 | - | 4 |
| 170 – 180 | 3 | 11 | 400 – 410 | 4 | 1 |
| 180 – 190 | 2 | 1 | 410 – 420 | 1 | 4 |
| 190 – 200 | 8 | 3 | 420 – 430 | - | 1 |
| 200 – 210 | 2 | 9 | 430 – 440 | 1 | 1 |
| 210 – 220 | 6 | 5 | 440 - 450 | 1 | 1 |
| 220 – 230 | 3 | - | 450 – 460 | 2 | 1 |
| 230 - 240 | 4 | 5 | 460 – 470 | - | 1 |
| 240 – 250 | 4 | 4 | 480 – 490 | 2 | 2 |
| 250 – 260 | 2 | - | 490 – 500 | 1 | 1 |
| 270 – 280 | - | 2 | 500 - 510 | 5 | 2 |
| 280 – 290 | 1 | 1 | 510 – 520 | - | 1 |
| 290 – 300 | 2 | 5 | 530 – 540 | 1 | - |
| 300 – 310 | 1 | 2 | 550 – 560 | 1 | 2 |
| 310 – 320 | 1 | 4 | 630 - 640 | 1 | 2 |
| 320 – 330 | 11 | 10 | 800 - 900 | - | 1 |
| 330 – 340 | 2 | 3 | 1,100 – 1,600 | 1 | - |

Corresponding last year's figure has been adjusted at 2023 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.

Dividends

There were no dividends declared during the year by the Group (2022: Nil).

DIRECTORS REPORT

Directors' report (continued)

Donations

There were no donations made during the year by the Group (2022: Nil).

Independent audit report

The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent auditor's reports on pages 66-70. Audit fees and non-audit fees are disclosed at Note 27.

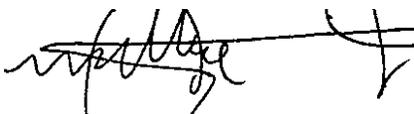
Registered office and principal place of business

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, 20 June 2025



Watt Kiddie
Director
Port Moresby, 20 June 2025

FINANCIALS

Consolidated statement of profit or loss for the year ended 31 December 2023

| | Notes | Consolidated | | Company | |
|--|-------|---------------|-----------------|---------------|---------------|
| | | 2023 K'000 | 2022 K'000 | 2023 K'000 | 2022 K'000 |
| Revenue | 5.1 | 229,923 | 228,490 | 229,854 | 227,652 |
| Cost of sales | 5.3 | (125,690) | (136,762) | (126,535) | (136,884) |
| Gross profit | | 104,233 | 91,728 | 103,319 | 90,768 |
| Other income/(expense), net | 5.2 | 106,503 | (553) | 106,503 | (553) |
| Operational expenses | 5.4 | (68,851) | (99,050) | (68,152) | (98,388) |
| Occupancy expenses | 5.6 | (4,630) | (4,746) | (4,677) | (4,822) |
| Administration expenses | 5.5 | (27,340) | (26,991) | (27,234) | (26,927) |
| Finance costs | 7 | (37,617) | (37,798) | (37,516) | (37,679) |
| Profit/(loss) before tax | | 72,298 | (77,410) | 72,243 | (77,601) |
| Income tax (expense)/ benefit | 8.1 | (16,848) | 13,006 | (16,799) | 13,084 |
| PROFIT/(LOSS) FOR THE YEAR | | 55,450 | (64,404) | 55,444 | 64,517 |
| Earnings/(Loss) Per Share | | | | | |
| Basic and diluted earnings/(loss) per share (toea) | 18 | 1.36 | (20.89) | 1.36 | (20.93) |

The attached notes from pages 25 to 65 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of comprehensive income for the year ended 31 December 2023

| | Notes | Consolidated | | Company | |
|--|-------|---------------|-----------------|---------------|-----------------|
| | | 2023 K'000 | 2022 K'000 | 2023 K'000 | 2022 K'000 |
| PROFIT/(LOSS) FOR THE YEAR | | 55,450 | (64,404) | 55,444 | 64,517 |
| Other comprehensive income | | | | | |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> | | | | | |
| Gain on revaluation of non-current assets, net of tax | 19 | - | 435 | - | 435 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Exchange difference on translation of foreign operation | 20 | 3 | (19) | - | - |
| Other comprehensive income for the year net of tax | | 3 | 416 | - | 435 |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | 55,453 | (63,988) | 55,444 | (64,082) |

The attached notes from pages 25 to 65 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of financial position at 31 December 2023

| | Notes | Consolidated | | Company | |
|--------------------------------------|-------|-----------------|------------------|-----------------|------------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | K'000 | K'000 | K'000 | K'000 |
| Assets | | | | | |
| <i>Non-current assets</i> | | | | | |
| Property, plant and equipment | 11 | 113,650 | 106,389 | 111,411 | 104,494 |
| Right of use assets | 23.1 | 156,212 | 196,953 | 155,274 | 195,780 |
| Other financial assets | 12 | 1,054 | 11,971 | 1,074 | 11,991 |
| Deferred tax assets, net | 8.2 | 350 | 17,198 | 575 | 17,374 |
| Other assets | 13 | 44,224 | 83,819 | 44,224 | 83,819 |
| Total non-current assets | | 315,490 | 416,330 | 312,558 | 413,458 |
| <i>Current assets</i> | | | | | |
| Inventories | 15 | 8,139 | 9,413 | 7,423 | 8,565 |
| Trade and other receivables | 16 | 24,646 | 30,979 | 24,338 | 30,858 |
| Cash and bank balances | 10 | 1,772 | 739 | 1,239 | 666 |
| Other assets | 13 | 7,824 | 4,757 | 9,987 | 7,119 |
| Asset held for sale | 14 | - | 796 | - | 796 |
| Total current assets | | 42,381 | 46,684 | 42,987 | 48,004 |
| Total assets | | 357,871 | 463,014 | 355,545 | 461,462 |
| <i>Non-current liabilities</i> | | | | | |
| Provisions | 24 | 12,257 | 15,162 | 12,248 | 15,151 |
| Lease liabilities | 23.2 | 232,042 | 226,279 | 231,135 | 225,095 |
| Borrowings | 21 | 5,406 | - | 5,406 | - |
| Other liabilities | 22 | 44,688 | - | 44,688 | - |
| Total non-current liabilities | | 294,393 | 241,441 | 293,477 | 240,246 |
| <i>Current liabilities</i> | | | | | |
| Provisions | 24 | 5,312 | 2,362 | 5,283 | 2,335 |
| Lease liabilities | 23.2 | 19,325 | 89,817 | 19,076 | 89,587 |
| Borrowings | 21 | 7,782 | 40,907 | 7,782 | 40,907 |
| Trade and other payables | 25.1 | 42,914 | 179,947 | 42,552 | 180,608 |
| Revenue received in advance | 25.2 | 16,342 | 14,904 | 16,342 | 14,904 |
| Other liabilities | 22 | 7,617 | 8,699 | 7,617 | 8,699 |
| Total current liabilities | | 99,292 | 336,636 | 98,652 | 337,040 |
| Total liabilities | | 393,685 | 578,077 | 392,129 | 577,286 |
| Net liabilities | | (35,814) | (115,063) | (36,584) | (115,824) |
| Equity | | | | | |
| Issued capital | 17.1 | 155,496 | 77,271 | 155,496 | 77,271 |
| Other contributed equity | 17.2 | 21,134 | 70,563 | 21,134 | 70,563 |
| Revaluation reserve | 19 | 925 | 925 | 925 | 925 |
| Accumulated losses | 20 | (213,369) | (268,822) | (214,139) | (269,583) |
| Total equity | | (35,814) | (115,063) | (36,584) | (115,824) |

The attached notes from pages 25 to 65 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of changes in equity for the year ended 31 December 2023

| Consolidated | Issued capital | Other contributed equity | Revaluation reserve | Accumulated losses | Total |
|---|-----------------------|---------------------------------|----------------------------|---------------------------|------------------|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| At 1 January 2022 | 77,271 | 70,563 | 490 | (204,399) | (56,075) |
| Issuance of convertible loan notes (Note 17.2) | - | 5,000 | - | - | 5,000 |
| Loss for the year | - | - | - | (64,404) | (64,404) |
| Other comprehensive income | - | - | 435 | (19) | 416 |
| Total comprehensive income | - | - | 435 | (64,423) | (63,988) |
| At 31 December 2022 | 77,271 | 75,563 | 925 | (268,822) | (115,063) |
| Capital contributions received (Note 17.2) | - | 20,000 | - | - | 20,000 |
| Equity settled transaction (Note 17.2) | - | 5,527 | - | - | 5,527 |
| Issuance of ordinary shares (Note 17) | 73,225 | (73,225) | - | - | - |
| Conversion of unsecured loan into ordinary shares (Note 17) | 5,000 | (5,000) | - | - | - |
| Conversion of other contributed equity to debt (Note 17.2) | - | (1,731) | - | - | (1,731) |
| Profit for the year | - | - | - | 55,450 | 55,450 |
| Other comprehensive income | - | - | - | 3 | 3 |
| Total comprehensive income | - | - | - | 55,453 | 55,453 |
| At 31 December 2023 | 155,496 | 21,134 | 925 | (213,369) | (35,814) |
| Company | Issued capital | Other contributed equity | Revaluation reserve | Accumulated losses | Total |
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| At 1 January 2022 | 77,271 | 70,563 | 490 | (205,066) | (56,742) |
| Issuance of convertible loan notes (Note 17.2) | - | 5,000 | - | - | 5,000 |
| Loss for the year | - | - | - | (64,517) | (64,517) |
| Other comprehensive income | - | - | 435 | - | 435 |
| Total comprehensive income | - | - | 435 | (64,517) | (64,082) |
| At 31 December 2022 | 77,271 | 75,563 | 925 | (269,583) | (115,824) |
| Capital contributions received (Note 17.2) | - | 20,000 | - | - | 20,000 |
| Equity settled transaction (Note 17.2) | - | 5,527 | - | - | 5,527 |
| Issuance of ordinary shares (Note 17) | 73,225 | (73,225) | - | - | - |
| --Conversion of unsecured loan into ordinary shares (Note 17) | 5,000 | (5,000) | - | - | - |
| Conversion of other contributed equity to debt (Note 17.2) | - | (1,731) | - | - | (1,731) |
| Profit for the year | - | - | - | 55,444 | 55,444 |
| Total comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | 55,444 | 55,444 |
| At 31 December 2023 | 155,496 | 21,134 | 925 | (214,139) | (36,584) |

The attached notes from pages 25 to 65 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of cash flows for the year ended 31 December 2023

| Notes | Consolidated | | Company | |
|---|-------------------|-----------------|-----------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Cash flows from operating activities | | | | |
| Receipts from customers | 234,120 | 223,263 | 234,238 | 222,421 |
| Payments to suppliers and employees | (122,147) | (145,840) | (121,980) | (143,837) |
| Cash generated from operations | 111,973 | 77,423 | 112,258 | 78,584 |
| Interest paid | (36,949) | (34,912) | (36,793) | (34,793) |
| Net cash generated from operating activities | 75,024 | 42,511 | 75,465 | 43,791 |
| Cash flows from investing activities | | | | |
| Payments for purchase of property, plant and equipment | (38,758) | (13,045) | (38,286) | (12,696) |
| Proceeds from disposal of property, plant and equipment | 886 | 30 | 886 | 30 |
| Net cash used in investing activities | (37,872) | (13,015) | (37,400) | (12,667) |
| Cash flows from financing activities | | | | |
| Proceeds from/ (repayments of) borrowings | | | | |
| - Financial institutions | (6,251) | (11,190) | (6,251) | (11,190) |
| - Other | (3,739) | (2,915) | (3,739) | (2,915) |
| (Repayments of)/ Proceeds from related parties | - | - | (1,576) | (1,725) |
| Proceeds from capital contributions received | 20,000 | - | 20,000 | - |
| Proceeds from issuance of convertible notes | - | 5,000 | - | 5,000 |
| Principal payment of lease liabilities | (36,964) | (26,221) | (36,761) | (25,843) |
| Net cash generated used in financing activities | (26,954) | (35,326) | (28,327) | (36,673) |
| Net change in cash and cash equivalents | 10,198 | (5,830) | 9,738 | (5,549) |
| Cash and cash equivalents at the beginning of the year | (13,360) | (7,530) | (13,433) | (7,884) |
| Cash and cash equivalents at the end of the year | 10 (3,162) | (13,360) | (3,695) | (13,433) |

The attached notes from pages 25 to 65 form part of these consolidated financial statements

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2023

1. General information

PNG Air Limited (the 'Parent' or 'Parent Company') is incorporated in Papua New Guinea (PNG). 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 Notes 6 and 9.

Scheme of Creditors

On 15 December 2023, the National Court (Hartshorn J. presiding) approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Approval of the Scheme gave a legal effect to the restructuring of the Company's external debts with its major creditors which has been a focus of the Directors and management's attention for the 2 preceding years. The Company's major creditors entered into letters of intent with the Company detailing the terms on which the Company's indebtedness to those creditors will be materially reduced. Those letters of intent became binding on the Company and its major creditors as a consequence of the National Court approving the Scheme.

Outlined below are the key aspects of arrangements with major creditors:

Lessors

- Two of the existing lease agreements were terminated early and the lease term for certain other lease agreements were extended;
- Late penalty charges and default interest and lease payments in arrears amounting to USD1.5 million were waived; and
- Repayment terms were agreed for remaining lease payments in arrears.

Finance lenders (banks and note holders)

- Partial waiver of K12.0 million of existing debt; and
- Monthly repayment plan for the remaining outstanding balances to note holders was agreed and no interest will be charged provided that monthly payments are made in full and when due.

Other creditors

- Penalties and interest due amounting to K15.7 million were waived; and
- Monthly repayment plans for the remaining outstanding balances were agreed.

Also, as part of the restructuring, the Company's major shareholders, MRDC and Nasfund, have agreed to:

- Convert K58.2 million of previously contributed K70.6 million (included in other contributed equity at 31 December 2022) into shares;
- The remaining amount of K12.4 million was converted to debt, of which K10.3 million was forgiven and K2.1 million is to be repaid in 21 monthly installments commencing in January 2025.

MRDC also provided additional capital of K55 million to the Company during 2023 and 2024, for which additional shares were issued by the Company in 2023 and 2025.

Refer to Notes 17, 21, 22 and 23 for further details.

2. Adoption of new and revised IFRS Accounting Standards

2.1 New and amendments to IFRS Accounting Standards that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amended IFRS Accounting Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2023.

- Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*
- IFRS 17 (including the June 2021 amendments to IFRS 17) *Insurance Contracts*
- Amendments to IAS 8 *Definition of Accounting Estimates*
- Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The adoption of these new and amended IFRS Accounting Standards and Interpretations has not had any material impact on the disclosures or on the amounts reported in these financial statements.

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2023

2. Adoption of new and revised IFRS Accounting Standards (continued)

2.2 New, amendments, and revised accounting standards in issue but not yet effective for the year ended 31 December 2023 and not early adopted

At the date of authorisation of these financial statements, the Group and the Company have not applied the following revised IFRS Accounting Standards that have been issued but are not yet effective:

| Standards | Description | Effective for annual reporting periods beginning on or after |
|--|---|--|
| Amendment to IFRS 16 | Leases on sale and leaseback | 1 January 2024 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current. The IASB has aligned the effective date with the 2022 amendments to IAS. | 1 January 2024 |
| Amendments to IAS 1 | Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7 | Supplier Finance Arrangements | 1 January 2024 |
| Amendments to IFRS 10 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2025 |
| Consolidated Financial Statements and IAS 28 | Investments in Associates and Joint Ventures | |
| Amendments to IAS 21 | Lack of Exchangeability | 1 January 2025 |
| Amendments to IFRS 9 and IFRS 7 | Amendments to the Classification and Measurement of Financial Instruments | 1 January 2026 |
| IFRS 18 | Presentation and Disclosures in Financial Statements | 1 January 2027 |
| IFRS 19 | Subsidiaries without Public Accountability: Disclosures | 1 January 2027 |

The directors anticipate that the application of the above Standards and amendments to them may have an impact on the financial statements of the Group and the Company in future periods.

3. Material accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS Accounting Standards) and the requirements of the Papua New Guinea Companies (Amended) Act 2022.

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 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 (K'000) 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.

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2023

3.2 Basis of preparation (continued)

Going concern

The consolidated financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Financial metrics

For the year ended 31 December 2023, the Group and the Company reported a net profit of K55.5 million and K55.4 million, respectively (2022: K64.4 million and K64.5 million net loss) and generated net cash inflows from operating activities of K75.0 million and K75.5 million (2022: net cash inflows of K42.5 million and K43.8 million).

As at 31 December 2023, the Group and the Company had negative cash and bank balances of K3.2 million and K3.7 million, respectively (31 December 2022: negative K13.4 million and K13.4 million) and net current liabilities of K56.9 million and K55.7 million (31 December 2022: K289.9 million and K289.0 million).

The net current liability position reflects the fact that the Group has been unable to meet certain payment obligations to its creditors, including lease payments for aircraft, interest payments on borrowings, and other trade payables.

The Directors and management have taken the following steps to improve the Group's liquidity position and ensure the Group has sufficient funding to meet its operating and capital expenditures as they fall due:

Cost Reduction Initiatives

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

The Group has established a cost committee and implemented several cost-cutting measures, including workforce reductions, salary cuts, deferral of non-essential capital expenditures and re-structuring the Group's organisational structure to eliminate duplication and increase productivity.

Creditors Scheme

On 15 December 2023, the National Court approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Details of the scheme are contained in Note 1.

Three-year Strategic Plan

On 10 December 2024, the Directors endorsed a three-year Strategic plan for 2025 to 2027 aimed to grow the Group and leverage the improved operational capabilities to drive earnings and performance. Outlined below are the key aspects of this strategic plan:

- The Group continuing to focus on improving its performance, including:
 - Retire and dispose of the Dash 8 fleet and reinvest the net realisable value to fund turnaround initiatives.
 - Source additional aircrafts at competitive rates to replace the Dash 8 fleet and increase the fleet capacity.
 - Growing the passenger 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
- Re-negotiating current lease rental payments as part of cash flow relief;
- Pursue the raising of additional capital to fund any shortfall in working capital;
- Re-structuring the Group's organisational structure to eliminate duplication and increase productivity with an aim to reduce costs;
- Continuing support from financial lenders. This includes the extension of the financing facilities with BSP; and
- Continuing 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.

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2023

3.2 Basis of preparation (continued)

Letter of Support

The Company's directors have obtained a letter of financial support from the Company's largest shareholder, MRDC, which confirms that it will provide sufficient financial assistance as needed to enable the Company and the Group to continue as a going concern and to satisfy their debts and commitments as they become due and payable for a period of at least 12 months from the date of signing these consolidated financial statements.

MRDC has also confirmed that:

- It has no plans or intentions to liquidate the Company or the Group or to cease its trading within the next 12 months from the date of signing of the consolidated financial statements;
- It has no plans that may materially affect the carrying value or classification of the Group's assets and liabilities; and
- It is financially sustainable and will not demand payment of any amounts due to it or any of its controlled entities until such time when the Company and the Group have sufficient cash to settle such amounts due to it or to any of its controlled entities.

In addition, in April 2025 MRDC agreed to provide guarantees in favour of DAE, as aircraft lessor, and BSP, as lead financier, to support the Group's plans to re-negotiate lease rental payments and to extend the financing facilities, respectively.

As a result of the above actions taken by Directors and management, the Group's forecast cash flows indicate that the Group will have a surplus of liquidity throughout the twelve-month period from the date of signing these consolidated financial statements. The achievement of the Group's forecast is primarily dependent, amongst other matters, upon:

- the successful implementation of the strategic plan, including sourcing additional aircraft by the end of 2025;
- the Group's ability to obtain the necessary funding to maintain the Group's liquidity position;
- continued implementation of the Group's cost reduction initiatives; and
- the continued support of the Group's major shareholder, financial lenders and scheme creditors.

Notwithstanding that the respective outcomes of the matters referred to above are not entirely within the control of the Group, the Directors are confident, based on achievement of previous milestones, that the Group can achieve successful outcomes. Accordingly, the Directors have determined that it is appropriate for the Company and the Group to continue to adopt the going concern basis in preparing these consolidated financial statements.

Should the Group not be able to achieve successful outcomes in respect of the above matters, a material uncertainty would exist which may cast significant doubt regarding the Company and the Group's ability to continue as a going concern and therefore whether they will be able to realise their assets and discharge their liabilities in the normal course of business. The consolidated 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 Company and the Group be unable to continue as a going concern.

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. 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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.3 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.

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.

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.

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.

3.4 Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.4.1 Revenue from carriage of passenger and freight

Revenue from carriage of passengers and freight is recognised at the time the passenger or cargo 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.

3.4.2 Revenue from charters

Revenue from charters is recognised at the time the passenger or cargo is uplifted for carriage and includes other handling and fuel re-charges.

3.4.3 Revenue from sale of fuel

Revenue from fuel sale is recognised when fuel is supplied to aircraft operators, which are final customers of the Group.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.4 Revenue recognition (continued)

Interest income

3.4.4 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.

3.5 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease, that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and a corresponding lease liability is recognised with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.5.1 Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

| | |
|---------------|-------------|
| Aircraft | 4 - 9 years |
| Office leases | 2 - 4 years |

The right-of-use assets are also subject to impairment. Refer to the accounting policy in Note 3.9.3.

3.5.2 Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3.5.3 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.5 Leases (continued)

3.5.4 Lease provisions

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.

3.6 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 profit or loss 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.

3.7 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.

3.8 Taxation

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

3.8.1 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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.8 Taxation (continued)

3.8.2 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.

3.8.3 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.

3.8.4 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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.9 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.

Owned 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

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 accumulated impairment losses. Revaluations for 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 owned aircraft and 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.

Other 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.

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 vehicles | 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.

3.9.1 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.

3.9.2 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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.9 Property, plant and equipment (continued)

3.9.3 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.

3.10 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.

3.11 Provisions

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

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

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

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.

3.12 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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.12 Financial instruments (continued)

3.12.1 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.

Financial assets at amortised cost

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

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

Cash and cash equivalents

For statement of cash flows purposes, cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts.

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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.12 Financial instruments (continued)

3.12.1 Financial assets (continued)

(i) Significant increase in credit risk (continued)

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.

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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.12 Financial instruments (continued)

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.

3.12.2 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 5.2) 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.

3.13 Maintenance reserve deposits

Maintenance reserve deposits 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 reserve deposits 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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

3.14 Pre-delivery payments

Pre-delivery payments are capitalised and represent deposits made with aircraft manufacturers for future delivery of aircraft. Upon delivery of aircraft, these are transferred to leased or owned aircraft and subsequently depreciated.

3.15 Security deposits

Security deposits are deposits made with aircraft financiers or operating lessors to provide security for future maintenance work or lease payments. These security deposits for leased aircraft are recorded at their present value when payment terms extend beyond one year discounted using the incremental borrowing rate at the inception of the lease and amortised over the lease term.

3.16 Revaluation reserve

The revaluation reserve primarily arises on the revaluation of aircraft and rotables. Any revaluation increase arising on the revaluation of owned aircraft and rotatable parts are recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously expensed. At the date of the revaluation, the accumulated depreciation is eliminated against the gross carrying amount of owned aircraft and rotatable parts and net carrying amount is adjusted to reflect the fair values at the date of the revaluation.

3.17 Comparative information

Where applicable, comparative amounts have been reclassified to be consistent with current year classifications.

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 Leased Aircrafts

For aircraft held under lease agreements, the Group is contractually committed to return the leased aircraft in a certain condition which includes completion of certain maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts. The provision for lease return costs for these leased aircraft is determined based on the best estimate of the costs that will be incurred to fulfil the stipulated lease return conditions.

At the inception of the lease, management estimates 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 right-of-use 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 at each reporting period and, when warranted, adjusts its assumptions.

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Notes to the consolidated financial statements For the year ended 31 December 2023

4. Critical judgements in applying accounting estimates (continued)

4.1 Critical judgements in applying accounting policies (continued)

Useful Lives, Depreciation Method and Residual Values of Property, Aircraft and Equipment, including Right-of-use assets

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. Depreciation method is based on management's judgment of the most appropriate method an asset's future economic benefit expected to be consumed. Among other factors, management considered industry standards, manufacturers' guidelines and company-specific history and experience. Useful lives are estimated based on internal technical evaluation and experience with similar assets.

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

The Group's owned aircraft are measured at fair value for financial reporting purposes. The 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. During periods where no external valuation is performed, Directors assess the fair value of aircraft with reference to any significant change in current market conditions from the last external valuation performed.

Information about the valuation techniques and inputs used in determining the fair value of owned aircraft are disclosed in Note 11.

Allowance for expected 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, in general, 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. The Group also reviews its inventories at year period end and recognise a specific allowance as necessary.

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Notes to the consolidated financial statements For the year ended 31 December 2023

5. Revenue and costs

An analysis of revenue and costs for the year is as follows:

| | Consolidated | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| 5.1 Revenue from contracts with customers | | | | |
| Revenue from carriage of passenger and freight | 169,658 | 147,127 | 169,658 | 147,127 |
| Revenue from charters | 60,196 | 80,525 | 60,196 | 80,525 |
| Revenue from sale of fuel | 69 | 838 | - | - |
| | 229,923 | 228,490 | 229,854 | 227,652 |
| 5.2 Other income/ (expense), net | | | | |
| Interest income | 4,768 | 973 | 4,768 | 973 |
| Aircraft operator lease income | 141 | 1,692 | 141 | 1,692 |
| Rent received | 30 | 54 | 30 | 54 |
| Realised foreign currency (loss)/ gain | (8,605) | 64 | (8,605) | 64 |
| Unrealised foreign currency loss | (9,242) | (2,387) | (9,242) | (2,387) |
| Loss on the sale of plant and equipment | (3,866) | (2,759) | (3,866) | (2,759) |
| Aircraft handling income | 885 | 811 | 885 | 811 |
| Engineering sales | 288 | 294 | 288 | 294 |
| Sublease income | 10,174 | - | 10,174 | - |
| Gain on debt extinguishment (refer below) | 110,493 | - | 110,493 | - |
| Other revenue | 1,437 | 705 | 1,437 | 705 |
| | 106,503 | (553) | 106,503 | (553) |
| Gain on debt extinguishment includes: | | | | |
| Scheme arrangements | | | | |
| From lessors and related to: | | | | |
| Lease liabilities (Note 23.2) | 9,980 | - | 9,980 | - |
| Other liabilities (Note 22) | 4,750 | - | 4,750 | - |
| From lenders (Note 21) | 14,034 | - | 14,034 | - |
| From other creditors (Note 22) | 81,467 | - | 81,467 | - |
| | 110,231 | - | 110,231 | - |
| Other | | | | |
| From other creditors | 262 | - | 262 | - |
| | 110,493 | - | 110,493 | - |
| 5.3 Cost of sales | | | | |
| Direct activity costs | (7,003) | (7,285) | (6,542) | (6,396) |
| Short term leases | (2,634) | (2,010) | (1,998) | (976) |
| Fuel, air navigation and landing costs | (40,199) | (47,751) | (42,141) | (49,796) |
| Engineering costs | (24,403) | (25,575) | (24,403) | (25,575) |
| Depreciation of aircraft | (19,025) | (7,336) | (19,025) | (7,336) |
| Amortisation of right of use assets – aircraft | (21,852) | (36,754) | (21,852) | (36,754) |
| Aircraft insurance costs | (7,172) | (7,492) | (7,172) | (7,492) |
| Commission and agent fees | (3,402) | (2,559) | (3,402) | (2,559) |
| | (125,690) | (136,762) | (126,535) | (136,884) |
| 5.4 Operational expenses | | | | |
| Crew and engineering staff costs | (42,403) | (45,948) | (42,403) | (45,948) |
| Other operational staff costs | (12,601) | (12,130) | (12,229) | (11,779) |
| Amortisation of right of use assets – offices | (2,677) | (2,655) | (2,442) | (2,420) |
| Loss on revaluation of property, plant and equipment (Note 11) | - | (30,668) | - | (30,668) |
| Impairment loss on asset held for sale (Note 14) | - | (2,808) | - | (2,808) |
| Impairment loss on property, plant and equipment | (7,125) | - | (7,125) | - |
| Other operational costs | (4,045) | (4,841) | (3,953) | (4,765) |
| | (68,851) | (99,050) | (68,152) | (98,388) |

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Notes to the consolidated financial statements For the year ended 31 December 2023

5. Revenue and costs (continued)

| | Consolidated | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| 5.5 Administration expenses | | | | |
| Management and other administrative staff costs | (11,800) | (10,144) | (11,800) | (10,144) |
| Bank charges | (793) | (882) | (793) | (882) |
| Fines and penalties | - | (9,780) | - | (9,780) |
| Depreciation of plant and equipment | (1,615) | (1,543) | (1,511) | (1,488) |
| Subscription and publication costs | (870) | (747) | (870) | (747) |
| Expected credit loss and bad debts written off | (144) | (1,151) | (144) | (1,151) |
| Restructure and other legal and advisor's fees | (10,845) | (2,471) | (10,845) | (2,471) |
| Other administration costs | (1,273) | (273) | (1,271) | (264) |
| | (27,340) | (26,991) | (27,234) | (26,927) |
| 5.6 Occupancy expenses | | | | |
| Electricity and other utilities | (960) | (894) | (934) | (883) |
| Security expenses | (2,788) | (2,889) | (2,804) | (2,556) |
| Insurance expenses | (203) | (280) | (203) | (280) |
| Short term leases | (39) | (137) | (108) | (578) |
| Property maintenance expenses | (640) | (546) | (628) | (525) |
| | (4,630) | (4,746) | (4,677) | (4,822) |

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 – Papua New Guinea.

7. Finance costs

| | Consolidated | | Company | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Interest on loans | (17) | (634) | (17) | (634) |
| Interest on bank overdraft | (1,146) | (2,246) | (1,146) | (2,246) |
| Interest on leases | (33,794) | (33,836) | (33,693) | (33,717) |
| Other interests | (2,660) | (1,082) | (2,606) | (1,082) |
| | (37,617) | (37,798) | (37,516) | (37,679) |

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Notes to the consolidated financial statements For the year ended 31 December 2023

8. Income taxes

8.1 Income tax recognised in consolidated statement of profit or loss

| | Consolidated | | Company | |
|------------------------------------|---------------|-----------------|---------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Current tax expense | - | - | - | - |
| Deferred tax expense/(benefit) | 16,848 | (13,006) | 16,799 | (13,084) |
| Total tax expense/(benefit) | 16,848 | (13,006) | 16,799 | (13,084) |

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

| | Consolidated | | Company | |
|--|---------------|-----------------|---------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Profit/(loss) before tax | 72,298 | (77,410) | 72,243 | (77,601) |
| Income tax expense/(benefit) calculated at 30% | 21,689 | (23,220) | 21,673 | (23,280) |
| Effect of expenses that are not deductible in determining taxable profit | 33 | 2,952 | - | 2,934 |
| Effect of non-assessable income | (4,874) | - | (4,874) | - |
| Effect of prior year adjustments | - | (171) | - | (171) |
| Effect of tax losses not recognised as deferred tax | - | 7,433 | - | 7,433 |
| Income tax expense/(benefit) | 16,848 | (13,006) | 16,799 | (13,084) |

The tax rate used for the 2023 and 2022 reconciliations above is the corporate tax rate of 30% payable by corporate entities under tax law that have been enacted or substantively enacted by reporting date.

8.2 Deferred taxes

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

| | Consolidated | | Company | |
|--|--------------|---------------|------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Expected credit loss | 141 | 373 | 124 | 356 |
| Leave entitlements | 1,403 | 1,623 | 1,391 | 1,612 |
| Return conditions | 3,828 | 3,579 | 3,828 | 3,579 |
| Stock obsolescence | 3,245 | 2,732 | 3,245 | 2,732 |
| Leases and right of use assets | 27,767 | 19,542 | 27,420 | 19,469 |
| Unrealised foreign exchange (gain)/ losses | (1,320) | 416 | (1,320) | 416 |
| Tax losses | 43 | 6,284 | - | 6,226 |
| Scheme arrangement | (19,950) | - | (19,950) | - |
| Inventory | (5,472) | (5,302) | (5,472) | (5,302) |
| Property, plant and equipment | (9,016) | (11,799) | (8,369) | (11,464) |
| Prepayments | (322) | (250) | (322) | (250) |
| Others | 3 | - | - | - |
| Deferred tax assets, net | 350 | 17,198 | 575 | 17,374 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

8. Income taxes (continued)

8.2 Deferred taxes (continued)

The table below summarises the amount and expiry date of carry forward tax losses and amount of tax losses for which no deferred tax asset is recognised in the statement of financial position:

| Year of expiry | Carry forward tax losses K'000 | Tax losses where deferred tax is not recognised K'000 |
|----------------|-----------------------------------|---|
| 2025 | 179,710 | 179,710 |
| 2026 | - | - |
| 2027 | 35,247 | 35,247 |
| 2028 | 27,276 | 27,276 |
| 2029 | 24,778 | 24,778 |
| Total | 267,011 | 267,011 |

Movements in deferred taxes are as follows:

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2023 K'000 | 2022 K'000 | 2023 K'000 | 2022 K'000 |
| Balance at beginning of the year | 17,198 | 4,379 | 17,374 | 4,476 |
| Consolidated statement of profit or loss credits/ (charges) | (16,848) | 13,005 | (16,799) | 13,084 |
| Consolidated statement of OCI credits/ (charges) | - | (186) | - | (186) |
| Balance at end of the year | 350 | 17,198 | 575 | 17,374 |

9. Subsidiaries

Details of the Company's subsidiaries at 31 December 2023 are as follows:

| Subsidiary | Principal activities | Place of Incorporation | Ownership Interest | |
|-------------------------|---------------------------------|------------------------|--------------------|------|
| | | | 2023 | 2022 |
| Galatoire Ltd | Investment property management | Papua New Guinea | 100% | 100% |
| PNG Ground Services Ltd | Supply of aviation fuel | Papua New Guinea | 100% | 100% |
| APNG Services Pty Ltd | Supply of international aircrew | Australia | 100% | 100% |

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Notes to the consolidated financial statements For the year ended 31 December 2023

10. Cash and cash equivalents

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 | |
|------------------------|----------------|-----------------|----------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Cash and bank balances | 1,772 | 739 | 1,239 | 666 |
| Bank overdraft | (4,934) | (14,099) | (4,934) | (14,099) |
| | (3,162) | (13,360) | (3,695) | (13,433) |

11. Property, plant and equipment

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Cost or valuation | 157,468 | 129,512 | 152,775 | 125,323 |
| Accumulated depreciation and impairment losses | (43,818) | (23,123) | (41,364) | (20,829) |
| | 113,650 | 106,389 | 111,411 | 104,494 |
| Land and buildings- at cost | 5,493 | 5,213 | 3,284 | 3,340 |
| Owned aircraft- at fair value | 74,654 | 57,484 | 74,653 | 57,484 |
| Plant and equipment- at cost | 2,388 | 3,054 | 2,389 | 3,032 |
| Rotable parts- at fair value | 30,957 | 40,583 | 30,957 | 40,583 |
| Motor vehicles- at cost | 128 | 55 | 128 | 55 |
| | 113,620 | 106,389 | 111,411 | 104,494 |

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

| Consolidated | Land and Buildings | Owned aircraft | Plant and equipment | Rotable parts | Motor vehicles | Total |
|---|--------------------|----------------|---------------------|---------------|----------------|----------------|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| Cost or valuation | | | | | | |
| Balance at 1 January 2022 | 7,503 | 95,793 | 20,431 | 40,705 | 2,627 | 167,059 |
| Additions | 343 | 10,174 | 541 | 1,987 | - | 13,045 |
| Revaluation (decrease) increase | - | (30,668) | - | 620 | - | (30,048) |
| Elimination on revaluation | - | (14,211) | - | - | - | (14,211) |
| Disposals | - | - | - | (2,729) | - | (2,729) |
| Reclassification to asset held for sale (Note 14) | - | (3,604) | - | - | - | (3,604) |
| Balance at 31 December 2022 | 7,846 | 57,484 | 20,972 | 40,583 | 2,627 | 129,512 |
| Balance at 1 January 2023 | 7,846 | 57,484 | 20,972 | 40,583 | 2,627 | 129,512 |
| Additions | 557 | 36,196 | 683 | 1,498 | 117 | 39,051 |
| Impairment | - | - | - | (7,139) | - | (7,139) |
| Disposals | - | - | (1) | (3,955) | - | (3,956) |
| Balance at 31 December 2023 | 8,403 | 93,680 | 21,653 | 30,987 | 2,744 | 157,468 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

11. Property, plant and equipment (continued)

| Consolidated | <u>Land and Buildings</u> K'000 | <u>Owned aircraft</u> K'000 | <u>Plant and equipment</u> K'000 | <u>Rotable parts</u> K'000 | <u>Motor vehicles</u> K'000 | <u>Total</u> K'000 |
|--|--|------------------------------------|---|-----------------------------------|------------------------------------|-----------------------|
| Accumulated depreciation | | | | | | |
| Balance at 1 January 2022 | 2,433 | 6,875 | 16,654 | - | 2,474 | 28,436 |
| Depreciation charge | 200 | 7,336 | 1,264 | - | 98 | 8,898 |
| Elimination on revaluation | - | (14,211) | - | - | - | (14,211) |
| At 31 December 2022 | 2,633 | - | 17,918 | - | 2,572 | 23,123 |
| Balance at 1 January 2023 | 2,633 | - | 17,918 | - | 2,572 | 23,123 |
| Depreciation charge | 277 | 19,026 | 1,348 | - | 44 | 20,695 |
| Balance at 31 December 2023 | 2,910 | 19,026 | 19,266 | - | 2,616 | 43,818 |
| Net book value | | | | | | |
| At 31 December 2023 | 5,493 | 74,654 | 2,388 | 30,987 | 128 | 113,650 |
| At 31 December 2022 | 5,213 | 57,484 | 3,054 | 40,583 | 55 | 106,389 |
| Company | <u>Land & Buildings</u> K'000 | <u>Owned aircraft</u> K'000 | <u>Plant and Equipment</u> K'000 | <u>Rotable Parts</u> K'000 | <u>Motor vehicles</u> K'000 | <u>Total</u> K'000 |
| Cost or valuation | | | | | | |
| Balance at 1 January 2022 | 4,680 | 95,793 | 19,930 | 40,705 | 2,110 | 163,218 |
| Additions | - | 10,174 | 536 | 1,987 | - | 12,697 |
| Revaluation (decrease) increase | - | (30,668) | - | 620 | - | (30,048) |
| Elimination on revaluation | - | (14,211) | - | - | - | (14,211) |
| Disposals | - | - | - | (2,729) | - | (2,729) |
| Reclassification to asset held for sale (Note 14) | - | (3,604) | - | - | - | (3,604) |
| At 31 December 2022 | 4,680 | 57,484 | 20,466 | 40,583 | 2,110 | 125,323 |
| Balance at 1 January 2023 | 4,680 | 57,484 | 20,466 | 40,583 | 2,110 | 125,323 |
| Additions | 85 | 36,194 | 683 | 1,468 | 117 | 38,547 |
| Impairment | - | - | - | (7,139) | - | (7,139) |
| Disposals | - | - | (1) | (3,955) | - | (3,956) |
| At 31 December 2023 | 4,765 | 93,678 | 21,148 | 30,957 | 2,227 | 152,775 |
| Accumulated depreciation | | | | | | |
| Balance at 1 January 2022 | 1,200 | 6,875 | 16,184 | - | 1,957 | 26,216 |
| Depreciation charge | 140 | 7,336 | 1,250 | - | 98 | 8,824 |
| Elimination on revaluation | - | (14,211) | - | - | - | (14,211) |
| At 31 December 2022 | 1,340 | - | 17,434 | - | 2,055 | 20,829 |
| Balance at 1 January 2023 | 1,340 | - | 17,434 | - | 2,055 | 20,829 |
| Depreciation charge | 141 | 19,025 | 1,325 | - | 44 | 20,535 |
| At 31 December 2023 | 1,481 | 19,025 | 18,759 | - | 2,099 | 41,364 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

11. Property, plant and equipment (continued)

| Company | Land & Buildings K'000 | Owned aircraft K'000 | Plant and Equipment K'000 | Rotable Parts K'000 | Motor vehicles K'000 | Total K'000 |
|----------------------------|------------------------------|----------------------------|---------------------------------|---------------------------|----------------------------|----------------|
| Net book value | | | | | | |
| at 31 December 2023 | 3,284 | 74,653 | 2,389 | 30,957 | 128 | 111,411 |
| at 31 December 2022 | 3,340 | 57,484 | 3,032 | 40,583 | 55 | 104,494 |

11.1.1 Impairment losses recognised in the period

During the year ended 31 December 2023, the Group recognised K7.1 million impairment loss in the statement of profit or loss (2022: Nil).

11.1.2 Loss on revaluation recognised in the period

During the year ended 31 December 2023, the Group recognised loss on revaluation of Knil in the statement of profit or loss (2022: K30.7 million loss) and Knil (2022: K0.6 million gain) through the revaluation reserve.

11.2 Owned aircraft and rotables carried at fair value

Owned aircraft and rotables were last revalued by an independent valuer at 31 December 2022. The owned aircraft valuations were conducted using the market approach which involves considering the listed prices of similar aircraft being offered for sale in the open market. Key variables include the age, condition, model, serial numbers (of the airframe, propellers, APUs, and engines where possible), locations and recent transaction prices of comparable aircraft. The valuer key techniques in determining the fair value includes direct communication with entity personnel and in the aircraft sales industry, review of order book history, delivery streams, operator and leasing demand, international availability, current and projected base and market values. The rotables valuations were conducted by considering the current market conditions. Key variable considerations include service tags or component status cards, turnover of rotatable parts, market appeal, and desirability where the valuer indicated that the dash 8 spare parts are quite buoyantly traded and landing gear parts and propeller parts are very sought after with strong trading prices.

As at 31 December 2023, Directors' assessment was carried out to assess the reasonableness of the fair values of aircraft and rotables and determined that the carrying amounts of aircraft and rotables are not materially different from their fair value. Details of the Group's aircraft and information about the fair value hierarchy are as follows:

| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2023 K'000 |
|---------------|------------------|------------------|------------------|---|
| Aircraft | - | 93,678 | - | 93,678 |
| Rotable parts | - | 30,957 | - | 30,957 |
| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2022 K'000 |
| Aircraft | - | 57,484 | - | 57,484 |
| Rotable parts | - | 40,583 | - | 40,583 |

11.3 Assets pledged as security

Aircraft with a carrying amount of K74.6 million (2022: K57.5 million) and land and buildings with carrying amount of K2.1 million (2022: K0.6 million) have been pledged to secure borrowings of the Group (see Note 21).

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Notes to the consolidated financial statements For the year ended 31 December 2023

12. Other financial assets

| | Consolidated | | Company | |
|------------------------------------|--------------|---------------|--------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Security deposits on leased assets | 1,054 | 11,971 | 1,054 | 11,971 |
| Investments in subsidiaries | - | - | 20 | 20 |
| | 1,054 | 11,971 | 1,074 | 11,991 |

13. Other assets

| | Consolidated | | Company | |
|--------------------------------|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | | | | |
| Prepayments to suppliers | 5,305 | 2,863 | 4,580 | 2,863 |
| Maintenance reserve deposits | 2,519 | 1,894 | 2,519 | 1,894 |
| Related party receivables | - | - | 2,888 | 2,362 |
| | 7,824 | 4,757 | 9,987 | 7,119 |
| Non-current | | | | |
| Maintenance reserve deposits | 35,768 | 75,843 | 35,768 | 75,843 |
| Aircraft pre-delivery payments | 8,456 | 7,976 | 8,456 | 7,976 |
| | 44,224 | 83,819 | 44,224 | 83,819 |
| | 52,048 | 88,576 | 54,211 | 90,938 |
| Current asset | 7,824 | 4,757 | 9,987 | 7,119 |
| Non-current asset | 44,224 | 83,819 | 44,224 | 83,819 |
| | 52,048 | 88,576 | 54,211 | 90,938 |

14. Asset held for sale

| | Consolidated | | Company | |
|--|--------------|------------|---------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| At beginning of the year | 796 | - | 796 | - |
| Reclass from property, plant and equipment (Note 11) | - | 3,604 | - | 3,604 |
| Impairment loss | - | (2,808) | - | (2,808) |
| Disposals | (796) | - | (796) | - |
| Balance at end of the year | - | 796 | - | 796 |

Non-current asset classified as held for sale as at 31 December 2022 include one Twin otter owned aircraft that was approved by the Board for disposal in August 2022. The sale of the twin otter aircraft was completed in February 2023 and it was sold on as is condition. The Company recognised an impairment loss, being the difference between the carrying amounts and the fair value less costs to sell of the asset, of K2.8 million at the date of initial classification of the asset as held for sale, and was included in the statement of profit or loss for the year ended 31 December 2022 as operational expenses in Note 5.4.

A registered first mortgage was held by the note holders over the aircraft, and the full sale proceeds were distributed to the note holders as disclosed in Note 21.

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Notes to the consolidated financial statements For the year ended 31 December 2023

15. Inventories

| | Consolidated | | Company | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Consumables stock on hand – at cost | 18,957 | 18,520 | 18,241 | 17,672 |
| Allowance for stock obsolescence | (10,818) | (9,107) | (10,818) | (9,107) |
| | 8,139 | 9,413 | 7,423 | 8,565 |

16. Trade and other receivables

| | Consolidated | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Trade receivables | 19,580 | 28,18 | 19,345 | 28,410 |
| Allowance for expected credit losses | (470) | (1,245) | (412) | (1,187) |
| | 19,110 | 27,173 | 19,023 | 27,223 |
| Other receivables | 5,518 | 3,788 | 5,315 | 3,636 |
| Income tax receivable | 18 | 18 | - | - |
| | 24,646 | 30,979 | 24,338 | 30,859 |

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

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

| | Consolidated | | Company | |
|---|--------------|----------------|--------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of the year | (1,187) | (203) | (1,187) | (145) |
| Impairment provision release/(charge) in the year | 717 | (1,042) | 775 | (1,042) |
| Balance at end of the year | (470) | (1,245) | (412) | (1,187) |

Ageing of past due but not impaired

| | Consolidated | | Company | |
|--------------------|--------------|-------|---------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| 61-90 days | 2,119 | 1,230 | 2,119 | 1,230 |
| Over 90 days | 665 | 1,722 | 660 | 1,717 |
| Total | 2,784 | 2,952 | 2,779 | 2,946 |
| Average age (days) | 23 | 29 | 23 | 29 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

17. Issued capital and other contributed equity

17.1 Issued capital

| | Consolidated | | Company | |
|---|----------------|---------------|----------------|---------------|
| | 2023 K'000 | 2022 K'000 | 2023 K'000 | 2022 K'000 |
| Opening Issued capital | | | | |
| 308,292,080 fully paid ordinary shares | 77,271 | 77,271 | 77,271 | 77,271 |
| Issuance of ordinary shares (Note 17.2) | | | | |
| 3,171,731,910 ordinary shares | 73,225 | - | 73,225 | - |
| Conversion of unsecured loan to ordinary shares (Note 17.2) | | | | |
| 593,119,810 ordinary shares | 5,000 | - | 5,000 | - |
| Closing issued capital | | | | |
| 4,073,143,800 fully paid ordinary shares | 155,496 | 77,271 | 155,496 | 77,271 |

On 19 December 2023, the Company issued 2,580,812,574 ordinary shares and 1,184,039,146 ordinary shares to Mineral Resources Development Company Limited, Mineral Resources OK TEDI No. 2 Limited and Mineral Resources Star Mountain Limited (collectively "MRDC entities") and National Superannuation Fund Limited (Nasfund), respectively, in lieu of cash contributions made by them in previous and current periods which were recognised as 'other contributed equity'. Refer to Note 17.2 below.

17.2 Other contributed equity

| | | Consolidated | | Company | |
|--|---------|---------------|---------------|---------------|---------------|
| | | 2023 K'000 | 2022 K'000 | 2023 K'000 | 2022 K'000 |
| At beginning of year | (a.i) | 75,563 | 70,563 | 75,563 | 70,563 |
| Issuance of convertible loan notes | (a.ii) | - | 5,000 | - | 5,000 |
| Additional capital contribution received | (b.i) | 20,000 | - | 20,000 | - |
| Conversion of loan notes through issuance of ordinary shares (Note 17.1) | (b.iv) | (5,000) | - | (5,000) | - |
| Issuance of ordinary shares (Note 17.1) | (b.iv) | (73,225) | - | (73,225) | - |
| Equity settled transactions | (b.ii) | 5,527 | - | 5,527 | - |
| Converted to debt | (b.iii) | (12,338) | - | (1,731) | - |
| Gain on extinguishment of equity related transactions | (b.iii) | 10,607 | - | - | - |
| At end of year | | 21,134 | 75,563 | 21,134 | 75,563 |

Other contributed equity as at end of period comprises of the following:

| | | Consolidated | | Company | |
|---|---------|---------------|---------------|---------------|---------------|
| | | 2023 K'000 | 2022 K'000 | 2023 K'000 | 2022 K'000 |
| <i>Items for future share issuance</i> | | | | | |
| Equity settled transaction | (b.ii) | 5,527 | - | 5,527 | - |
| Capital contribution received | (b.i) | 5,000 | 75,563 | 5,000 | 75,563 |
| <i>Other components of other contributed equity</i> | | | | | |
| Gain on equity related transactions | (b.iii) | 10,607 | - | 10,607 | - |
| At end of year | | 21,134 | 75,563 | 21,134 | 75,563 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

17. Issued capital and other contributed equity (continued)

17.2 Other contributed equity (continued)

(a) Historical capital contributions

- i. Between 2015 to 2017, the Company received additional capital contribution from its two major shareholders: National Superannuation Fund contributed K45.7 million and MRDC entities contributed K25.0 million. In 2017, principal and accrued interest of 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 other capital contribution.
- ii. In August 2022, the Company issued a convertible loan note to MRDC in the amount of K5.0 million which had a maturity of February 2023. This was converted to ordinary shares in December 2023.

(b) Scheme of creditors

- i. As disclosed in Note 1, MRDC entities committed to provide additional capital of K55.0 million to the Company of which K20 million was received in June 2023, October 2023, and December 2023. Of the K20 million additional capital contribution received from MRDC entities in 2023, K15 million had been issued with fixed ordinary shares as at 31 December 2023 as disclosed in Note 17.2 (b.iv) and the fixed number of shares equivalent to the remaining K5 million capital contributions were issued in June 2025.
- ii. Equity settled transaction of K5.5 million refers to the professional fees charged by advisors in connection with the scheme of creditors arrangement. These advisors' fees are paid by MRDC on behalf of the Company and MRDC will be issued ordinary shares in consideration thereof and issued a fixed number of shares in 2025.
- iii. As disclosed in Note 1, the contribution amount from Nasfund of K12.4 million was converted to debt where K10.3 million was forgiven and K2.1 million is to be repaid in monthly installments.

The amount recognised at conversion as debt amounted to K1.7 million which was an equivalent to the fair value of the new financial liability. The difference between the fair value of the financial liability and the carrying amount previously recognised in equity was recognised as an adjustment within equity.

As a result of above, the gain on equity related transactions is derived as the total of K10.3 million as amount forgiven, and K0.3 million as the difference between the carrying amount of previously recognised other contributed equity and newly recognised financial liability.

- iv. In December 2023, the Company issued ordinary shares to MRDC entities and Nasfund as follows:

| | <u>MRDC entities</u> K'000 | <u>Nasfund</u> K'000 | <u>Total</u> K'000 |
|--|-------------------------------|-------------------------|-----------------------|
| Issuance of ordinary shares related to additional capital contributions: | | | |
| Received in prior periods | 25,000 | 33,225 | 58,225 |
| Received during the year | <u>15,000</u> | <u>-</u> | <u>15,000</u> |
| | 40,000 | 33,225 | 73,225 |
| Conversion of convertible loan notes | <u>5,000</u> | <u>-</u> | <u>5,000</u> |
| Total | <u>45,000</u> | <u>33,325</u> | <u>78,225</u> |

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Notes to the consolidated financial statements For the year ended 31 December 2023

18. Earnings/ (Loss) per share

| | Consolidated | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2023 Toea | 2022 Toea | 2023 Toea | 2022 Toea |
| Basic and diluted earnings/ (loss) per share | 1.36 | (20.89) | 1.36 | (20.93) |

Basic and diluted earnings/ (loss) is calculated by dividing the profit or loss for the year by the weighted average number of shares that were outstanding during the year.

Basic and diluted earnings/ (loss) per share

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

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2023 K'000 | 2022 K'000 | 2023 K'000 | 2022 K'000 |
| Profit/ (Loss) for the year | 55,450 | (64,404) | 55,444 | 64,517 |
| Earnings/ (Loss) used in the calculation of basic and diluted earnings per share | 55,450 | (64,404) | 55,444 | 64,517 |
| Weighted average number of ordinary shares | 4,073,143,080 | 308,292,080 | 4,073,143,080 | 308,292,080 |

19. Revaluation reserve

| | Consolidated | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2023 K'000 | 2022 K'000 | 2023 K'000 | 2022 K'000 |
| Balance at beginning of year | 925 | 490 | 925 | 490 |
| Revaluation of aircraft (net of tax) | - | 435 | - | 435 |
| Balance at end of year | 925 | 925 | 925 | 925 |

20. Accumulated losses

| | Consolidated | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2023 K'000 | 2022 K'000 | 2023 K'000 | 2022 K'000 |
| Balance at beginning of year | (268,822) | (204,399) | (269,583) | (205,066) |
| Exchange gain/(loss) on translation of foreign operation | 3 | (19) | - | - |
| Profit/(loss) for the year | 55,450 | (64,404) | 55,444 | (64,517) |
| Balance at end of year | (213,369) | (268,822) | (214,139) | (269,583) |

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Notes to the consolidated financial statements For the year ended 31 December 2023

21. Borrowings

| | | Consolidated | | Company | |
|--|-------|----------------------|----------------------|----------------------|----------------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | K'000 | K'000 | K'000 | K'000 |
| a) Current | | | | | |
| Bank loans and overdrafts | (i) | 4,934 | 15,255 | 4,934 | 15,255 |
| Secured notes | (ii) | 2,848 | 24,450 | 2,848 | 24,450 |
| Secured loan from other financial institutions | (iii) | - | 1,202 | - | 1,202 |
| | | <u>7,782</u> | <u>40,907</u> | <u>7,782</u> | <u>40,907</u> |
| b) Non-current | | | | | |
| Secured notes | (ii) | 3,675 | - | 3,675 | - |
| Loan from shareholder | | 1,731 | - | 1,731 | - |
| | | <u>5,406</u> | <u>-</u> | <u>5,406</u> | <u>-</u> |
| Total Borrowings | | <u>13,188</u> | <u>40,907</u> | <u>13,188</u> | <u>40,907</u> |

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) and (iii) below) 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 bank loan was fully paid during the year.

- (ii) The Group's secured notes are held by two private companies, which matured in 2018 and 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 9.65% (2022: 8.00%) per annum.

- (iii) The Group had loans with other financial institutions which was fully paid during the year.

Further details concerning interest rates and repayments are included in Note 26.

The table below sets out an analysis of borrowings (excluding bank overdraft) movements during the year:

| | | Consolidated | | Company | |
|--------------------------------|-----------|---------------------|----------------------|---------------------|----------------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | K'000 | K'000 | K'000 | K'000 |
| At beginning of year | | 26,808 | 37,977 | 26,808 | 37,999 |
| Cash payments | | (6,251) | (11,169) | (6,251) | (11,169) |
| Effect of scheme arrangements: | | | | | |
| Partial waiver of debt | (i), (ii) | (11,829) | - | (11,829) | - |
| Debt extinguishment | (iii) | (2,205) | - | (2,205) | - |
| Conversion of equity to debt | (iv) | 1,731 | - | 1,731 | - |
| At end of year | | <u>8,254</u> | <u>26,808</u> | <u>8,254</u> | <u>26,808</u> |

Bank overdraft balance amounted to K4.93 million and 14.10 million as at 31 December 2023 and 2022, respectively.

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Notes to the consolidated financial statements For the year ended 31 December 2023

21. Borrowings (continued)

As disclosed in Note 1, the Company entered into scheme of arrangements with creditors. As a result:

- (i) Loans with the bank financial institutions have been extinguished resulting to K0.578 million gain on debt extinguishment;
- (ii) Portion of the secured notes has been waived amounting to K11.251 million which has been presented as gain on debt extinguishment.
- (iii) The remaining outstanding balance of secured notes were agreed to be paid on a monthly basis. The difference between the fair value of the new financial liability and the previous carrying amount of secured note was K2.205 million and was recognised as gain on debt extinguishment.
- (iv) As disclosed in Note 17.2, the remaining capital contributions that were not converted to equity were converted to debt resulting in a new financial liability of K1.731 million to be repaid in monthly installments commencing January 2024.

Financing facilities

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>Secured loan from other financial institutions</i> | | | | |
| - amount used | - | 1,202 | - | 1,202 |
| - amount unused | - | - | - | - |
| | - | 1,202 | - | 1,202 |
| <i>Secured bank overdraft facility</i> | | | | |
| - amount used | 4,934 | 14,099 | 4,934 | 14,099 |
| - amount unused | 15,066 | 5,901 | 15,066 | 5,901 |
| | 20,000 | 20,000 | 20,000 | 20,000 |
| <i>Secured bank loans</i> | | | | |
| - amount used | - | 1,156 | - | 1,156 |
| - amount unused | - | - | - | - |
| | - | 1,156 | - | 1,156 |
| <i>Secured notes from non-financial institution</i> | | | | |
| - amount used | 6,523 | 24,450 | 6,523 | 24,450 |
| - amount unused | - | - | - | - |
| | 6,523 | 24,450 | 6,523 | 24,450 |
| <i>Unsecured loan from shareholder</i> | | | | |
| - amount used | 1,731 | - | 1,731 | - |
| - amount unused | - | - | - | - |
| | 1,731 | - | 1,731 | - |
| <i>Total</i> | | | | |
| - amount used | 13,188 | 40,907 | 13,188 | 40,907 |
| - amount unused | 15,066 | 5,901 | 15,066 | 5,901 |
| | 28,254 | 46,808 | 28,254 | 46,808 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

22. Other liabilities

| | Consolidated | | Company | |
|---------------------------------------|---------------|--------------|---------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| (a) Current | | | | |
| Dash 8 early lease exit liability (i) | 6,136 | 8,699 | 6,136 | 8,699 |
| Liabilities to other creditors (ii) | 1,481 | - | 1,481 | - |
| | 7,617 | 8,699 | 7,617 | 8,699 |
| (b) Non-current | | | | |
| Liabilities to other creditors (ii) | 44,688 | - | 44,688 | - |
| | 44,688 | - | 44,688 | - |
| | 52,305 | 8,699 | 52,305 | 8,699 |

(i) 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 was considered a financial liability (refer Note 25.8). These fees were required to be partially repaid by 31 July 2019 and by 31 December 2019 but remained unpaid as at 31 December 2019. The Group renegotiated a reduction of repayments of these fees from USD 4.5m (K15.2 million) to USD 2.7m (K9.4 million), subject to the Company not defaulting on any agreed monthly payments, and reduction of interest from 18% to 8% p.a. Should the Group meet these requirements, USD1.8 million (K2.1 million) will be forgiven. The renegotiated agreement was executed on 20 October 2020 and the agreed repayment period is from 1 November 2020 to 1 December 2023.

(ii) Liabilities to other creditors

As disclosed in Note 1, the Company and other creditors agreed to monthly repayment plans which resulted in the derecognition of previous obligations and the recognition of new financial liabilities measured at fair value.

Prior to derecognition of previous obligations, the Company reclassified the total obligations subject to monthly repayment plans of K128.9 million from trade and other payables to other liabilities. The Company then recognised a gain on the extinguishment of debt of K15.7 million, which is waiver of penalties and interest, and K67 million as the difference between the carrying amount of the previous obligations and fair value of newly recognised financial liabilities.

Movement in other liabilities are as follows:

| | Consolidated | | Company | |
|---------------------------------------|---------------|--------------|---------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| At 1 January | 8,699 | 11,573 | 8,699 | 11,573 |
| Payments made during the year | (3,739) | (3,346) | (3,739) | (3,346) |
| Interest during the year | 723 | 431 | 723 | 431 |
| Effect of scheme of arrangements: | | | | |
| Reclass from trade and other payables | 132,424 | - | 132,424 | - |
| Extinguishment of debt | (86,217) | - | (86,217) | - |
| Effect of foreign exchange difference | 415 | 41 | 415 | 41 |
| | 52,305 | 8,699 | 52,305 | 8,699 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

23. Leases

23.1 Right-of-use assets

| | Consolidated | | Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Cost | 341,213 | 356,963 | 339,105 | 354,855 |
| Accumulated depreciation | (185,001) | (160,010) | (183,831) | (159,075) |
| | 156,212 | 196,953 | 155,274 | 195,780 |

The reconciliation of the written down values at the beginning and end of the current financial year are set out below:

| Consolidated | Aircraft | Office premises | Total |
|------------------------------------|------------------|-----------------|------------------|
| | K'000 | K'000 | K'000 |
| <i>Cost</i> | | | |
| Balance at 1 January 2022 | 341,641 | 21,446 | 363,087 |
| Remeasurement | (5,826) | (298) | (6,124) |
| Balance at 31 December 2022 | 335,815 | 21,148 | 356,963 |
| Balance at 1 January 2023 | 335,815 | 21,148 | 356,963 |
| Remeasurement | (16,000) | 250 | (15,750) |
| Balance at 31 December 2023 | 319,815 | 21,398 | 341,213 |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2022 | (114,057) | (6,537) | (120,594) |
| Charge during the year | (36,761) | (2,655) | (39,416) |
| Balance at 31 December 2022 | (150,818) | (9,192) | (160,010) |
| Balance at 1 January 2023 | (150,818) | (9,192) | (160,010) |
| Charge during the year | (22,315) | (2,676) | (24,991) |
| Balance at 31 December 2023 | (173,133) | (11,868) | (185,001) |
| <i>Carrying amount</i> | | | |
| At 31 December 2022 | 184,997 | 11,956 | 196,953 |
| At 31 December 2023 | 146,681 | 9,531 | 156,212 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

23. Leases (continued)

| Company | Aircraft K'000 | Office premises K'000 | Total K'000 |
|------------------------------------|-------------------------|-----------------------------|-------------------------|
| <i>Cost</i> | | | |
| Balance at 1 January 2022 | 341,641 | 19,338 | 360,979 |
| Remeasurement | <u>(5,826)</u> | <u>(298)</u> | <u>(6,124)</u> |
| Balance at 31 December 2022 | <u>335,815</u> | <u>19,040</u> | <u>354,855</u> |
| Balance at 1 January 2023 | 335,815 | 19,040 | 354,855 |
| Remeasurement | <u>(16,000)</u> | <u>250</u> | <u>(15,750)</u> |
| Balance at 31 December 2023 | <u>319,815</u> | <u>19,290</u> | <u>339,105</u> |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2022 | (114,057) | (5,836) | (119,893) |
| Charge during the year | <u>(36,762)</u> | <u>(2,420)</u> | <u>(39,182)</u> |
| Balance at 31 December 2022 | <u>(150,819)</u> | <u>(8,256)</u> | <u>(159,075)</u> |
| Balance at 1 January 2023 | (150,819) | (8,256) | (159,075) |
| Charge during the year | <u>(22,315)</u> | <u>(2,441)</u> | <u>(24,756)</u> |
| Balance at 31 December 2023 | <u>(173,134)</u> | <u>(10,697)</u> | <u>(183,831)</u> |
| <i>Carrying amount</i> | | | |
| At 31 December 2022 | <u>184,996</u> | <u>10,784</u> | <u>195,780</u> |
| At 31 December 2023 | <u>146,681</u> | <u>8,593</u> | <u>155,274</u> |

23.2 Lease liabilities

| | Consolidated | | Company | |
|-------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | 19,325 | 89,817 | 19,076 | 89,587 |
| Non-current | <u>232,042</u> | <u>226,280</u> | <u>231,135</u> | <u>225,095</u> |
| | <u>251,367</u> | <u>316,097</u> | <u>250,211</u> | <u>314,682</u> |

The maturity analysis of lease liabilities are as follows:

| | Consolidated | | Company | |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Within 1 Year | 55,143 | 119,957 | 54,785 | 119,572 |
| 2 to 3 Years | 117,250 | 127,301 | 116,589 | 126,640 |
| 4 to 5 Years | 104,991 | 123,794 | 104,660 | 123,133 |
| More than 5 Years | 121,530 | 46,517 | 121,530 | 46,157 |
| Less: Discounting effect | <u>(147,547)</u> | <u>(101,473)</u> | <u>(147,353)</u> | <u>(101,179)</u> |
| | <u>251,368</u> | <u>316,097</u> | <u>250,211</u> | <u>314,682</u> |

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Notes to the consolidated financial statements For the year ended 31 December 2023

23. Leases (continued)

The table below sets out an analysis of lease liabilities movements during the year:

| | Consolidated | | Company | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| At 1 January | 316,097 | 339,144 | 314,682 | 337,352 |
| Lease modification during the year | (14,232) | (298) | (14,232) | (298) |
| Effect of scheme arrangement | (9,980) | - | (9,980) | - |
| Actual lease payments | (87,225) | (57,585) | (86,867) | (57,089) |
| Interest | 33,794 | 33,838 | 33,694 | 33,720 |
| Effect of foreign exchange | 12,914 | 998 | 12,914 | 998 |
| At 31 December | 251,368 | 316,097 | 250,211 | 314,682 |

The weighted average incremental borrowing rate applied to the lease liabilities during the year were between 13.70% and 14.65% (2022: between 11.60% and 12.68%). The average lease term has been disclosed in Note 3.5.1.

23.3 Amounts recognised in the statement of profit or loss

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Depreciation charges included in: | | | | |
| - Cost of sales | 22,315 | 36,761 | 22,315 | 36,761 |
| - Administration expenses | 2,676 | 2,655 | 2,442 | 2,422 |
| | 24,991 | 39,416 | 24,757 | 39,133 |
| Interest expense included in finance costs | 33,794 | 33,838 | 33,694 | 33,720 |
| Short term and low value leases | 2,673 | 1,424 | 2,106 | 4 |

24. Provisions

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | | | | |
| Provision for annual leave (i) | 2,027 | 2,362 | 1,998 | 2,335 |
| Provision for return conditions costs (iii) | 3,285 | - | 3,285 | - |
| | 5,312 | 2,362 | 5,283 | 2,335 |
| Non-current | | | | |
| Provision for long service leave (ii) | 2,781 | 3,232 | 2,772 | 3,221 |
| Provision for return conditions costs (iii) | 9,476 | 11,930 | 9,476 | 11,930 |
| | 12,257 | 15,162 | 12,248 | 15,151 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

24. Provisions (continued)

Movements in provisions are as follow:

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>(i) Movement in provision for annual leave</i> | | | | |
| Balance at the start of the year | 2,362 | 2,610 | 2,335 | 2,587 |
| Additional provision / (amount used) | (335) | (248) | (337) | (252) |
| Balance at the end of the year | 2,027 | 2,362 | 1,998 | 2,335 |
| <i>(ii) Movement in provision for long service leave</i> | | | | |
| Balance at the start of the year | 3,232 | 4,568 | 3,221 | 4,535 |
| Amount used | (1,937) | (3,351) | (1,937) | (3,351) |
| Additional provision recognised | 1,485 | 2,018 | 1,488 | 2,037 |
| Balance at the end of the year | 2,781 | 3,232 | 2,722 | 3,221 |
| <i>(iii) Movement in provision for return conditions costs</i> | | | | |
| Balance at the start of the year | 11,930 | 16,637 | 11,930 | 16,637 |
| Unwinding of discount | 1,625 | 1,083 | 1,625 | 1,083 |
| Change in estimates | (1,518) | (5,834) | (1,518) | (5,834) |
| Effect of foreign exchange | 724 | 43 | 724 | 43 |
| Balance at the end of the year | 12,761 | 11,930 | 12,761 | 11,930 |

25. Trade and other payables and revenue received in advance

25.1 Trade and other payables

| | Consolidated | | Company | |
|--------------------------------------|---------------|----------------|---------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Trade payables | 15,777 | 144,788 | 15,570 | 142,475 |
| Accrued expenses | 20,155 | 19,015 | 19,918 | 20,758 |
| Related party payable (Note 29) | - | - | 397 | 1,447 |
| Salary and wages tax and GST payable | 2,215 | 2,452 | 2,028 | 2,364 |
| Income tax payable | 128 | 128 | - | - |
| Advance payment from customers | 4,639 | 7,933 | 4,639 | 7,933 |
| Other | - | 5,631 | - | 5,631 |
| | 42,914 | 179,947 | 42,552 | 180,608 |

In 2023, the Company reclassified liabilities affected by the scheme arrangements of K132.4 million from trade and other payables to other liabilities as disclosed in Note 22.

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Notes to the consolidated financial statements For the year ended 31 December 2023

25. Trade and other payables and revenue received in advance (continued)

25.1 Trade and other payables (continued)

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.

25.2 Revenue received in advance

| | Consolidated | | Company | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Revenue received in advance | 9,342 | 14,904 | 9,342 | 14,904 |
| Revenue received as subsidy | 7,000 | - | 7,000 | - |
| | 16,342 | 14,904 | 16,342 | 14,904 |

Revenue received in advance is made up of sales to passengers in advance of the date of passenger travel.

Revenue recognised that was included in the revenue received in advance balance at the beginning of the period amounted to K5.2 million (2022: K7.9 million).

Revenue received as subsidy represents government grants provided to the Company to subsidise freight costs to be incurred by the Company in the future on specified regional routes.

26. Financial instruments

26.1 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.

26.2 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.

26.3 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see Note 26.4 below) and interest rates (see Note 26.5 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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

26. Financial instruments (continued)

26.4 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 | |
|----------------------|-------------|---------|--------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Australian Dollar | 457 | 2,149 | 166 | 154 |
| United States Dollar | 247,817 | 368,381 | 3,056 | 2,882 |

26.4.1 Foreign currency sensitivity analysis

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

| | Australian Dollar impact | | United States Dollar impact | |
|-------------------------------------|--------------------------|-------|-----------------------------|----------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Effect of 10% strengthening of Kina | 27 | 181 | 22,251 | 33,227 |
| Effect of 10% weakening of Kina | (29) | (199) | (24,476) | (36,550) |

26.5 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.

26.5.1 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:

- Loss for the year ended 31 December 2023 would increase/decrease by K1.7 million (2022: by increase/decrease K1.1 million). 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.

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Notes to the consolidated financial statements For the year ended 31 December 2023

26. Financial instruments (continued)

26.6 Commodity Risk

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

26.7 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. As at 31 December 2023 and 2022, the Group has not identified any significant concentration of credit risk.

26.8 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.

26.8.1 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.

Liquidity and interest risk tables

| | Weighted average effective interest rate | Variable interest rate | Within 1 year | 1-2years | 2-3 years | 3+ Years | Total |
|------------------------------|--|------------------------------|------------------|----------------|----------------|----------------|----------------|
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Consolidated | | | | | | | |
| 31 December 2023 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | | Non-interest bearing | 15,777 | - | - | - | 15,777 |
| Other payables | | Non-interest bearing | 24,794 | - | - | - | 24,794 |
| Bank loans and overdrafts | 9.65% | - | 4,934 | - | - | - | 4,934 |
| Secured notes | 7.90% | - | 3,275 | 2,400 | 2,201 | - | 7,876 |
| Loan from shareholder | 9.65% | - | - | 1,200 | 856 | - | 2,056 |
| Lease liabilities | 12.14% | - | 54,785 | 116,589 | 104,660 | 121,530 | 397,564 |
| Other liabilities | 6.66% | - | 9,085 | 1,639 | 3,744 | 103,327 | 117,795 |
| | | | 112,650 | 121,828 | 111,461 | 224,857 | 570,796 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

26. Financial instruments (continued)

| | Weighted average effective interest rate | Variable interest rate | Within 1 | 1-2 | 2-3 | 3+ | Total |
|--|--|------------------------------|----------------|----------------|----------------|---------------|----------------|
| | | | year | years | years | Years | |
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Consolidated | | | | | | | |
| 31 December 2022 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 144,788 | - | - | - | 144,788 |
| Other payables | Non-interest bearing | | 32,579 | - | - | - | 32,579 |
| Bank loans and overdrafts | 9.75% | - | 15,255 | - | - | - | 15,255 |
| Secured loan from other financial institution | 11.00% | - | 1,202 | - | - | - | 1,202 |
| Secured notes | 7.90% | - | 24,450 | - | - | - | 24,450 |
| Lease liabilities | 12.14% | | 119,957 | 127,301 | 123,794 | 46,517 | 417,570 |
| Other liabilities | 8.0% | - | 8,699 | - | - | - | 8,699 |
| | | | 346,930 | 127,301 | 123,794 | 46,517 | 644,542 |

| | Weighted average effective interest rate | Variable interest rate | Within 1 | 1-2 | 2-3 | 3+ | Total |
|------------------------------|--|------------------------------|----------------|----------------|----------------|----------------|----------------|
| | | | year | years | years | Years | |
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Company | | | | | | | |
| 31 December 2023 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 15,570 | - | - | - | 15,570 |
| Related party payables | Non-interest bearing | | 397 | - | - | - | 397 |
| Other payables | Non-interest bearing | | 24,557 | - | - | - | 24,557 |
| Bank loans and overdrafts | 9.65% | - | 4,934 | - | - | - | 4,934 |
| Secured notes | 7.75% | - | 3,275 | 2,400 | 2,201 | - | 7,876 |
| Loan from shareholder | 9.65% | - | - | 1,200 | 856 | - | 2,056 |
| Lease liabilities | 12.30% | - | 55,143 | 117,250 | 104,991 | 125,065 | 402,449 |
| Other liabilities | 8.0% | | 9,085 | 1,639 | 3,744 | 103,327 | 117,795 |
| | | | 112,961 | 122,489 | 111,792 | 228,392 | 575,634 |

| | | | | | | | |
|--|----------------------|---|----------------|----------------|----------------|---------------|----------------|
| Company | | | | | | | |
| 31 December 2022 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 142,475 | - | - | - | 142,475 |
| Other payables | Non-interest bearing | | 34,322 | - | - | - | 34,322 |
| Related party payables | Non-interest bearing | | 1,447 | - | - | - | 1,447 |
| Bank loans and overdrafts | 9.75% | - | 20,255 | - | - | - | 20,255 |
| Secured loan from other financial institution | 11.00% | - | 1,202 | - | - | - | 1,202 |
| Secured notes | 7.90% | - | 24,450 | - | - | - | 24,450 |
| Lease liabilities | 12.14% | | 119,572 | 126,640 | 123,133 | 46,517 | 415,861 |
| Other liabilities | 8.0% | - | 8,699 | - | - | - | 8,699 |
| | | | 352,421 | 126,640 | 123,133 | 46,517 | 648,711 |

At the end of the reporting period, there were no financial guarantee contracts (2022: Nil).

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Notes to the consolidated financial statements For the year ended 31 December 2023

27. Auditors Remuneration

| | Consolidated | | Company | |
|---------------------------|--------------|------------|------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| | K'000 | K'000 | K'000 | K'000 |
| Deloitte Touche Tohmatsu: | | | | |
| - Audit Fee | 660 | 660 | 660 | 660 |
| - Other services fees | 23 | 35 | 21 | 21 |
| | 683 | 695 | 681 | 681 |

28. Other company information

The total number of employees at the Group level at year end was:

| | Consolidated | | Company | |
|----------------------|--------------|------------|------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| National employees | 523 | 555 | 514 | 544 |
| Expatriate employees | 38 | 50 | 38 | 50 |
| | 561 | 605 | 552 | 594 |

29. Related parties

29.1 Transactions with subsidiaries and affiliated companies

The Group and the Company had the following transactions with related parties that occurred on normal trading terms during the year.

| Related Party | Relationship | Nature of transaction | 2023 | 2022 |
|---|--------------|-------------------------------------|---------------------------------|------------------------------|
| | | | K'000 | K'000 |
| APNG Services Pty Ltd | Subsidiary | Supply of Aircrew Settlement | (545) | (972) |
| Galatoire Limited | Subsidiary | Rental charges Maintenance costs | 1,264 (420) | 1,471 (420) |
| PNG Ground Services Limited | Subsidiary | Fuel Sales Settlement | 2,589 (23,144) 22,747 | 2,284 (29,111) 27,665 |
| Mineral Resources Development Corporation | Shareholder | Commercial Office rental | 264 | 269 |
| Outstanding balances | | | | |
| | | | Related party receivable | Related party payable |
| | | | 2023 | 2022 |
| | | | K'000 | K'000 |
| APNG Services Pty Ltd | | | 719 | 499 |
| Galatoire Limited | | | 2,169 | 1,864 |
| PNG Ground Services Limited | | | - | - |
| Mineral Resources Development Corporation | | | 1,526 | 480 |
| | | | 4,414 | 2,843 |
| | | | 397 | 1,447 |

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Notes to the consolidated financial statements For the year ended 31 December 2023

29.2 Remuneration of key management personnel

The members of key management personnel during the year follow:

2023

| | | |
|--------------------|--------------------|--------------------|
| Brian Fraser | Nemani Batau | Deborah Poya |
| Elias Bade | Abdul Ifran Haiyum | Bryan Rigby |
| Nisaal Chandra Jai | Peter McGee | Soren Byrjalsen |
| John Hill | Nancy Nakikus | Godege Don Sampath |
| Stanley Stevens | Richard Cadet | Abeyawardena |
| Simon Pitt | | Martin Hart |

2022

| | | |
|------------------|-----------------|----------------------|
| Anthony Pereira | Glenn Dunstan | Sujeewa Samaranayake |
| Michael Fry | Emmanuel Kadiko | Richard Cadet |
| Richard Clifford | Elias Bade | William Kalipa |
| Adrian Smith | Stanley Stevens | |

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

| | 2023 | 2022 |
|---------------------|--------------|--------------|
| | K'000 | K'000 |
| Short-term benefits | <u>7,383</u> | <u>5,350</u> |

The remuneration of key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Key Management changes

- Brian Fraser was appointed as CEO in June 2023 taking over from Stanley Stevens.

30. Contingent liabilities

- The Group has provided a letter of credit for approximately K991,788 (A\$401,575) to National Australia Bank for merchant facility. The facility was terminated in 2024.
- The company has commitments as stated in Note 31.

31. Commitments

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

| | 2023 | 2022 |
|------------------|---------|--------|
| | K'000 | K'000 |
| 1 to 2 years | 133,879 | 93,068 |
| 3 to 4 years | - | 15,531 |
| 5 years & longer | - | - |

The commitments are in respect of (i) delivery of the new ATR 72-600 aircraft fleet (the commitments were terminated in 2025 and subsequently new agreement for acquisition of three new ATR 42-600 were signed), and (ii) unpaid maintenance reserve.

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Notes to the consolidated financial statements For the year ended 31 December 2023

32. Events after the reporting period

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

Support from major shareholder

As disclosed in Note 1, as part of the Scheme, MRDC agree provided additional capital of K55.527 million to the Company by subscribing for additional shares in the Company, of which K25 million was received in 2024 and K30.527 million received in 2025. As at 31 December 2023, shares were only issued for K20 million and the balance of shares were fully issued by June 2025.

In addition, in April 2025 MRDC agreed to provide guarantees in favour of DAE, as aircraft lessor, and BSP, as lead financier, to support the Group's plans to re-negotiate lease rental payments and to extend the financing facilities, respectively.

Business Operations and Significant Commitments

- Three (3) new ATR 42-600 were ordered which are scheduled to begin delivery in 2026;
- Two major charter contracts were renewed for a further two years from December 2023;
- Maintenance Organisation Certificate (MOC) was renewed for three years expiring 31 October 2027;
- The Group leased one (1) ATR 72-600 in April 2024 for six (6) years;
- In June 2024 the Group, after negotiations with certain lessors, concluded the purchase of all leased Dash 8 aircraft.

Other than the matters described above or elsewhere in the consolidated financial statements, no matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations or state of affairs of the Group in subsequent accounting periods.

33. Approval of financial statements

The financial statements were approved by the directors and authorized for issue on 20 June 2025.

Independent Auditor's Report



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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PNG Air Limited (the "Company") and its subsidiaries (the "Group") which comprise the Group and the Company's statements of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In our opinion, the accompanying financial statements of the Group and the Company, give a true and fair view of the Group's and the Company's financial position as at 31 December 2023 and of their financial performance and their cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of the *Companies Act 1997 (amended 2022)*.

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 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 2023 the Group and the Company have an excess of current liabilities over current assets of K56.9 million and K55.7 million, respectively. 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 and the Company's ability to continue as going concerns. 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 financial statements of the Group for the current period. These matters were addressed in the context of our audit of the 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 matters described below to be the key audit matters to be communicated in our report.

Independent Auditor's Report



| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|--|
| <p>Valuation of the Group's owned aircrafts</p> <p>The carrying value of the Group's owned aircrafts as at 31 December 2023 was K70.65 million.</p> <p>The Group applies the revaluation model for its owned aircrafts and at the end of each reporting period estimates the fair value of its revalued aircrafts taking into consideration factors such as changes in fleet composition, market values and technical factors.</p> <p>We have identified the carrying value of aircraft as a key audit matter because of its significance to the consolidated financial statements.</p> | <p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the relevant controls associated with the preparation and review of the Group's owned aircraft valuations • Assessing the reasonableness of management's judgements, assumptions 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 • Challenging and assessing the reasonableness of assumptions and judgements used by management, taking into account recent developments in the airline industry and future operating plans. <p>We also assessed the completeness and accuracy of the disclosures in the consolidated financial statements.</p> |
| <p>Accounting for restructuring of obligations as a result of scheme of arrangement</p> <p>The Group executed various agreements to restructure its obligations with its creditors, lessors and major shareholders in accordance with the scheme of arrangement approved by the National Court of Papua New Guinea on 15 December 2023.</p> <p>We identified the accounting for the restructuring of obligations as a key audit matter because of:</p> <ul style="list-style-type: none"> • the significance of the amounts involved; and • the complexity of the accounting implications taking into consideration the contents of the court approved scheme of arrangement and the terms and conditions of the various agreements entered into with lessors, creditors and major shareholders. | <p>Through our discussions with management and reading relevant agreements such as the court approved scheme of arrangement and various agreements with its creditors, lessors and major shareholders we obtained a detailed understanding of the scheme of arrangement transactions.</p> <p>Our procedures primarily consisted of:</p> <ul style="list-style-type: none"> • Obtaining the Group's accounting treatment of the scheme of arrangement and evaluating whether the accounting treatment applied by management to account for the scheme transactions is in accordance with the underlying facts and circumstances in the agreements and relevant IFRS Accounting Standards • Checking the accuracy of calculations of the net present value of certain obligations with agreed repayment plans of more than twelve months prepared by management • Obtaining and inspecting relevant documents evidencing additional capital contributions from major shareholders. <p>We also assessed the completeness and accuracy of the disclosures in the consolidated financial statements.</p> |

Independent Auditor's Report



Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Directors' Declaration for the year ended 31 December 2023, which we obtained prior to the date of this auditor's report, and the Group and Company's annual report, 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies Act 1997 (amended 2022) and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view of the financial position and performance of the Group and the Company and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability of the Group and the Company 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 and the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the 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 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.

Independent Auditor's Report



- 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 and the Company'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 and the Company'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 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 and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report



Report on Other Legal and Regulatory Requirements

In accordance with section 200 of the Companies Act 1997 (*amended 2022*), in our opinion:

- We obtained all information and explanations that were required; and
- Proper accounting records have been kept by the Group and the Company for the year ended 31 December 2023.

We also provided PNG Air Limited and its subsidiaries with tax compliance services.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to be "Herbert Maguma".

Herbert Maguma

Partner

Registered under the Accountants Act 1996

Port Moresby, 20 June 2025

PNG Air Limited

Consolidated Financial Statements
for the year ended 31 December 2022

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 2022. In order to comply with the provisions of the Companies Act 1997 (amended 2022), the directors report as follows:

The Directors

The names and particulars of the directors during or since the end of the financial year are:

| | |
|--------------------|---------------------|
| Mr. Augustine Mano | Ms. Valentina Kaman |
| Mr. Simon Woolcott | Mr. Andrew Ogil |
| Mr. Edward Matane | Mr. Andrew Crompton |
| Mr. Watt Kiddie | |

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

- Andrew Crompton was appointed on 4 November 2020 and resigned from 1 December 2022.
- Mr. Andrew Ogil was appointed as an Independent Director on 10 December 2019 and appointed as the Chairman of Remuneration and Nomination Committee in August 2020 and resigned on 4 April 2023.
- Mr. Watt Kiddie was appointed the Chairman of the Audit and Risk Committee in April 2019 and was appointed as Deputy Chairman on 30 July 2021.
- Mr. Augustine Mano was appointed as Chairman on 30 July 2021.
- Ms. Valentina Kaman was appointed as a director in April 2023 is the current Chairlady of the Remuneration and Nomination Committee.
- Mr. Simon Woolcott resigned effective from 2 February 2019 and later re-appointed on 27 May 2024.

Company Secretary

The company secretary as at 31 December 2022 was Deborah Poya. Deborah Poya replaced Nisaal Jai on 3 May 2022.

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. For the year ended 31 December 2022, the Group reported a pre-tax loss of K77.4 million (2021: pre-tax loss of K36.7 million).

The Company is listed on Papua New Guinea’s National Stock Exchange (“PNGX”). PNGX suspended the securities of PNG Air Limited from official quotation on 15 January 2019 following the Company’s failure to lodge its periodic reports on a timely manner. The securities remain suspended at the date of approval of these financial statements.

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 which supplies international aircrew. During the financial year, there was no significant change in the principal activities or state of affairs of the Group and 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 Notes 2.1 and 2.2, there has been no other changes in accounting policies during the current year.

DIRECTORS REPORT

Disclosure of interest and other directorship

The disclosure on Directors interest and other directorships is provide below:

| Name of Director | Organisation | Interest |
|--------------------------------------|---|---------------------------|
| Augustine Mano | PNG Air Ltd | Board Director & Chairman |
| | 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 |
| | Ok Tedi Mining Limited | Director |
| | GFS Limited | Director |
| | 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 |
| | CIVPAC Limited | Chairman |
| | Handy Group Limited | Chairman |
| | SMA Investments | Chairman |
| | Bogasi Investments Ltd | Director |
| | PNG Ground Services (subsidiary of PNG Air) | Director |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | Andrew Ogil | PNG Air Ltd |
| North QLD & Northern Territory | | PNG Consul in Cairns |
| Air Niugini | | CEO / Managing Director |
| Civil Aviation Authority | | CEO / Managing Director |
| Tropic Group | | Director |
| PNG Power | | Board Chairman |
| Missionary Aviation Fellowship (MAF) | | Board Member |

DIRECTORS REPORT

Directors' report (continued)

Disclosure of interest and other directorship (continued)

| Name of Director | Organisation | Interest |
|-----------------------|--|--|
| Watt Kiddie | PNG Air Ltd | Board Director & Deputy Chairman |
| | 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 & Gupela Sindaun Foundation Inc. | Principal Custodian and Founder |
| | Lutheran Renewal Investments Group Limited | Chairman |
| | Hanrick Curran Kiddie Limited | Director |
| | Statutory Committee of Board | Chairman |
| | PNG Air BARCC Committee | Chairman |
| Andrew Crompton | PNG Air Ltd | Board Member (resigned) |
| | Coastwatchers Court Ltd | Chairman |
| | Moki No 10 Limited | Chairman |
| | OPH Limited | Chairman |
| | Pacific Capital Partners (PNG) Limited | Board Member |
| | Rangeview Heights Limited | Chairman |
| Waigani Asset Limited | Chairman | |
| Edward Matane | PNG Air Ltd | Board Director |
| | Matsi Holdings Ltd | Director |
| | Pacific Helicopters Ltd | CEO |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | PNG Ground Services Limited (subsidiary of PNG Air) | Director |
| Simon Woolcott | PNG Air Ltd | Board Director |
| | TISA | Director and ARC Member |
| | TISA Bank | Director & Chairman of Audit Committee |
| | Capital Insurance Group | Director & Chairman of Audit Committee |
| | BKS Services | Managing Director |
| | MRDC | Chief Finance Officer |
| Valentina Kaman | PNG Air Limited | Board Director |
| | PNG Air RNC Committee | Chairperson |
| | Mineral Resource Development Company Limited | Manager Legal |
| | Mineral Resources Star Mountain Limited | Manager Legal & Company Secretary |
| | Mineral Resources CMCA Holdings Limited | Manager Legal & Company Secretary |
| | Mineral Resources OK Tedi Limited | Manager Legal & Company Secretary |
| | Business Professional Women's Club | Vice President |
| | Piku Conservation Network | Director |
| | Malma Holdings Limited | Shareholder & Director |

DIRECTORS REPORT

Directors' report (continued)

Directors' remuneration

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

| Director | 2022 K | 2021 K |
|---|-----------|-----------|
| Augustine Mano | 50,000 | 50,000 |
| Edward Matane | 50,000 | 50,000 |
| Watt Kiddie | 50,000 | 50,000 |
| Andrew Ogil | 50,000 | 50,000 |
| Andrew Crompton | 50,000 | 50,000 |
| Valentina Kaman (appointed in April 2023) | - | - |
| Simon Woolcott (reappointed in May 2024) | - | - |

Remuneration above K100,000 per annum

| Remuneration K'000 | 2021 Nos. | 2020 Nos. | Remuneration K'000 | 2021 Nos. | 2020 Nos. |
|-----------------------|--------------|--------------|-----------------------|--------------|--------------|
| 100 – 110 | 2 | 5 | 360 – 370 | 1 | 2 |
| 110 – 120 | 3 | 1 | 370 – 380 | 1 | - |
| 120 – 130 | 1 | 6 | 380 – 390 | - | - |
| 130 – 140 | 3 | 7 | 390 – 400 | 4 | 2 |
| 140 – 150 | 3 | 4 | 400 – 410 | 1 | 2 |
| 150 – 160 | 2 | 3 | 410 – 420 | 4 | 1 |
| 160 – 170 | - | 2 | 420 – 430 | 1 | 3 |
| 170 – 180 | 11 | 4 | 430 – 440 | 1 | 2 |
| 180 – 190 | 1 | 1 | 440 – 450 | 1 | 1 |
| 190 – 200 | 3 | 2 | 450 – 460 | 1 | 1 |
| 200 – 210 | 9 | 3 | 460 – 470 | 1 | - |
| 210 – 220 | 5 | 4 | 470 – 480 | - | - |
| 220 – 230 | - | 4 | 480 – 490 | 2 | - |
| 230 – 240 | 5 | 2 | 490 – 500 | 1 | 2 |
| 240 – 250 | 4 | 2 | 500 – 510 | 2 | - |
| 250 – 260 | - | 1 | 510 – 520 | 1 | - |
| 260 – 270 | - | 1 | 520 – 530 | - | 1 |
| 270 – 280 | 2 | 1 | 530 – 540 | - | - |
| 280 – 290 | 1 | 3 | 540 – 550 | - | 1 |
| 290 – 300 | 5 | 2 | 550 – 560 | 2 | - |
| 300 – 310 | 2 | 2 | 570 – 580 | - | - |
| 310 – 320 | 4 | 4 | 590 – 600 | - | - |
| 320 – 330 | 10 | 2 | 610 – 620 | - | - |
| 330 – 340 | 3 | 5 | 630 – 640 | 2 | - |
| 340 – 350 | 1 | 2 | 700 – 800 | - | 1 |
| 350 – 360 | 6 | 2 | 800 – 900 | 1 | - |

Corresponding last year's figure has been adjusted at 2022 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.

Dividends

There were no dividends declared during the year by the Group (2021: Nil).

DIRECTORS REPORT

Directors' report (continued)

Donations

There were no donations made during the year by the Group (2021: 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 pages 120-123. Audit fees and non-audit fees are disclosed at Note 27.

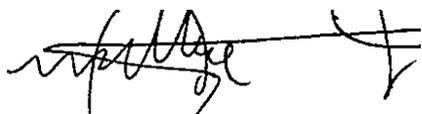
Registered office and principal place of business

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, 20 June 2025



Watt Kiddie
Director
Port Moresby, 20 June 2025

FINANCIALS

Consolidated statement of profit or loss for the year ended 31 December 2022

| | Notes | Consolidated | | Company | |
|---|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2022 K'000 | 2021 K'000 | 2022 K'000 | 2021 K'000 |
| Revenue | 5.1 | 228,490 | 210,595 | 227,652 | 209,722 |
| Cost of sales | 5.3 | (136,762) | (126,842) | (136,884) | (127,169) |
| Gross profit | | 91,728 | 83,753 | 90,768 | 82,553 |
| Other (expense)/income, net | 5.2 | (553) | 3,969 | (553) | 3,969 |
| Operational expenses | 5.4 | (99,050) | (52,365) | (98,388) | (51,636) |
| Occupancy expenses | 5.6 | (4,746) | (4,843) | (4,822) | (4,872) |
| Administration expenses | 5.5 | (26,991) | (25,243) | (26,927) | (25,176) |
| Finance costs | 7 | (37,798) | (41,986) | (37,679) | (41,853) |
| Loss before tax | | (77,410) | (36,715) | (77,601) | (37,015) |
| Income tax benefit | 8.1 | 13,006 | 809 | 13,084 | 912 |
| LOSS FOR THE YEAR | | (64,404) | (35,906) | (64,517) | (36,103) |
| Basic and diluted loss per share (toea) | 18 | (20.89) | (11.65) | (20.93) | (11.71) |

The attached notes from pages 82 to 119 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of comprehensive income for the year ended 31 December 2022

| | | <u>Consolidated</u> | | <u>Company</u> | |
|--|-------|------------------------|------------------------|------------------------|------------------------|
| | Notes | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| | | K'000 | K'000 | K'000 | K'000 |
| LOSS FOR THE YEAR | | <u>(64,404)</u> | <u>(35,906)</u> | <u>(64,517)</u> | <u>(36,103)</u> |
| Other comprehensive income | | | | | |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> | | | | | |
| Gain on revaluation of non-current assets, net of tax | 19 | 435 | - | 435 | - |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Exchange difference on translation of foreign operation | 20 | <u>(19)</u> | <u>1</u> | <u>-</u> | <u>-</u> |
| Other comprehensive income for the year net of tax | | <u>416</u> | <u>1</u> | <u>435</u> | <u>-</u> |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | <u>(63,988)</u> | <u>(35,905)</u> | <u>(64,082)</u> | <u>(36,103)</u> |

The attached notes from pages 82 to 119 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of financial position at 31 December 2022

| | Notes | Consolidated | | Company | |
|--------------------------------------|-------|------------------|-----------------|------------------|-----------------|
| | | 2022 K'000 | 2021 K'000 | 2022 K'000 | 2021 K'000 |
| Assets | | | | | |
| <i>Non-current assets</i> | | | | | |
| Property, plant and equipment | 11 | 106,389 | 138,623 | 104,494 | 137,003 |
| Right of use assets | 23.1 | 196,953 | 242,493 | 195,780 | 241,086 |
| Other financial assets | 12 | 11,971 | 10,956 | 11,991 | 10,976 |
| Deferred tax assets, net | 8.2 | 17,198 | 4,379 | 17,374 | 4,476 |
| Other assets | 13 | 83,819 | 73,469 | 83,819 | 73,469 |
| Total non-current assets | | 416,330 | 469,920 | 413,458 | 467,010 |
| <i>Current assets</i> | | | | | |
| Inventories | 15 | 9,413 | 10,680 | 8,565 | 10,077 |
| Trade and other receivables | 16 | 30,979 | 24,101 | 30,858 | 23,993 |
| Cash and bank balances | 10 | 739 | 3,114 | 666 | 2,760 |
| Other assets | 13 | 4,757 | 12,379 | 7,119 | 14,186 |
| Asset held for sale | 14 | 796 | - | 796 | - |
| Total current assets | | 46,684 | 50,274 | 48,004 | 51,016 |
| Total assets | | 463,014 | 520,194 | 461,462 | 518,026 |
| <i>Non-current liabilities</i> | | | | | |
| Provisions | 24 | 15,162 | 21,205 | 15,151 | 21,172 |
| Lease liabilities | 23.2 | 226,279 | 260,447 | 225,095 | 258,868 |
| Borrowings | 21 | - | 2,587 | - | 2,587 |
| Other liabilities | 22 | - | 3,178 | - | 3,178 |
| Total non-current liabilities | | 241,441 | 287,147 | 240,246 | 285,805 |
| <i>Current liabilities</i> | | | | | |
| Provisions | 24 | 2,362 | 2,610 | 2,335 | 2,587 |
| Lease liabilities | 23.2 | 89,817 | 78,697 | 89,587 | 78,484 |
| Borrowings | 21 | 40,907 | 46,055 | 40,907 | 46,055 |
| Trade and other payables | 25.1 | 179,947 | 141,024 | 180,608 | 141,371 |
| Revenue received in advance | 25.2 | 14,904 | 12,071 | 14,904 | 12,071 |
| Other liabilities | 22 | 8,699 | 8,395 | 8,699 | 8,395 |
| Total current liabilities | | 336,636 | 288,852 | 337,040 | 288,963 |
| Total liabilities | | 578,077 | 576,269 | 577,286 | 574,768 |
| Net Liabilities | | (115,063) | (56,075) | (115,824) | (56,742) |
| Equity | | | | | |
| Issued capital | 17.1 | 77,271 | 77,271 | 77,271 | 77,271 |
| Other contributed equity | 17.2 | 75,563 | 70,563 | 75,563 | 70,563 |
| Revaluation reserve | 19 | 925 | 490 | 925 | 490 |
| Accumulated losses | 20 | (268,822) | (204,399) | (269,583) | (205,066) |
| Total equity | | (115,063) | (56,075) | (115,824) | (56,742) |

The attached notes from pages 82 to 119 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of changes in equity for the year ended 31 December 2022

| Consolidated | Issued capital K'000 | Other contributed equity K'000 | Revaluation reserve K'000 | Accumulated losses K'000 | Total K'000 |
|--|----------------------------|---|---------------------------------|--------------------------------|------------------|
| At 1 January 2021 | 77,271 | 70,563 | 490 | (168,494) | (20,170) |
| Loss for the year | - | - | - | (35,906) | (35,906) |
| Other comprehensive income | - | - | - | 1 | 1 |
| Total comprehensive income | - | - | - | (35,905) | (35,905) |
| At 31 December 2021 | 77,271 | 70,563 | 490 | (204,399) | (56,075) |
| Loss for the year | - | - | - | (64,404) | (64,404) |
| Other comprehensive income | - | - | 435 | (19) | 416 |
| Total comprehensive income | - | - | 435 | (64,423) | (63,988) |
| Issuance of convertible note (Note 17.2) | - | 5,000 | - | - | 5,000 |
| At 31 December 2022 | 77,271 | 75,563 | 925 | (268,822) | (115,063) |
| | | | | | |
| Company | Issued capital K'000 | Other contributed equity K'000 | Revaluation reserve K'000 | Accumulated losses K'000 | Total K'000 |
| At 1 January 2021 | 77,271 | 70,563 | 490 | (168,963) | (20,639) |
| Loss for the year | - | - | - | (36,103) | (36,103) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | (36,103) | (36,103) |
| At 31 December 2021 | 77,271 | 70,563 | 490 | (205,066) | (56,742) |
| Loss for the year | - | - | - | (64,517) | (64,517) |
| Other comprehensive income | - | - | 435 | - | 435 |
| Total comprehensive income | - | - | 435 | (64,517) | (64,082) |
| Issuance of convertible note (Note 17.2) | - | 5,000 | - | - | 5,000 |
| At 31 December 2022 | 77,271 | 75,563 | 925 | (269,583) | (115,824) |

The attached notes from pages 82 to 119 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of cash flows for the year ended 31 December 2022

| Notes | Consolidated | | Company | |
|---|--------------------|-----------------|-----------------|-----------------|
| | 2022 K'000 | 2021 K'000 | 2022 K'000 | 2021 K'000 |
| Cash flows from operating activities | | | | |
| Receipts from customers | 223,263 | 205,320 | 222,421 | 204,376 |
| Payments to suppliers and employees | (145,840) | (113,696) | (143,837) | (114,097) |
| Cash generated from operations | 77,423 | 91,624 | 78,584 | 90,279 |
| Income tax paid | - | (18) | - | - |
| Interest paid | (34,912) | (37,836) | (34,793) | (37,740) |
| Net cash generated from operating activities | 42,511 | 53,770 | 43,791 | 52,539 |
| Cash flows from investing activities | | | | |
| Payments for purchase of property, plant and equipment | (13,045) | (13,223) | (12,696) | (12,376) |
| Proceeds from disposal of property, plant and equipment | 30 | 1,289 | 30 | 1,289 |
| Net cash used in investing activities | (13,015) | (11,934) | (12,667) | (11,087) |
| Cash flows from financing activities | | | | |
| Net repayments of borrowings | | | | |
| - Financial institutions and noteholders | (11,190) | (11,351) | (11,190) | (11,351) |
| - Other | (2,915) | (1,866) | (2,915) | (1,866) |
| (Repayments of)/ Proceeds from related parties | - | - | (1,725) | 22 |
| Proceeds from issuance of convertible notes | 5,000 | - | 5,000 | - |
| Principal payment of lease liabilities | (26,221) | (29,560) | (25,843) | (29,493) |
| Net cash used in financing activities | (35,326) | (42,777) | (36,673) | (42,688) |
| Net change in cash and cash equivalents | (5,830) | (941) | (5,549) | (1,236) |
| Cash and cash equivalents at the beginning of the year | (7,530) | (6,589) | (7,884) | (6,648) |
| Cash and cash equivalents at the end of the year | 10 (13,360) | (7,530) | (13,433) | (7,884) |

The attached notes from pages 82 to 119 form part of these consolidated financial statements

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2022

1. General information

PNG Air Limited (the 'Parent' or 'Parent Company') is incorporated in Papua New Guinea (PNG). 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 Notes 6 and 9.

Coronavirus (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 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 in March 2020 due to a State of Emergency lockdown in an effort to contain the spread of coronavirus pandemic. Even though the Group partially resumed its operations on 7 April 2020, it was not operating at normal capacity until mid-2022 due to restrictions imposed by the government in an effort to contain the spread of the pandemic.

The Group's domestic operations were restricted, and its international charter services for a major client were suspended in compliance with the National Pandemic Act.

In 2022, Papua New Guinea gradually lifted its domestic COVID-19 restrictions, eventually removing all air travel-related measures. This included eliminating the requirement to wear masks inside airport terminals and on aircraft, as well as the need for inbound passengers to provide proof of COVID-19 vaccination. As a result, the Group resumed its international charter flights in May 2022.

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

2.1 New and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amended IFRS Accounting Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2022.

- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IFRS 3 *Reference to conceptual Framework*
- Amendments to IAS 16 *Property, Plant and Equipment—Proceeds before Intended Use*
- Amendments to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract*
- Annual Improvements to IFRS Standards 2018-2021 Cycle *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture*

The adoption of these new and amended IFRS Standards and Interpretations has not had any material impact on the disclosures or on the amounts reported in these financial statements.

2.2 New, amendments, and revised accounting standards in issue but not yet effective for the year ended 31 December 2022 and not early adopted

At the date of authorisation of these financial statements, the Group and the Company have not applied the following revised IFRS Accounting Standards that have been issued but are not yet effective:

| Standards | Description | Effective for annual reporting periods beginning on or after |
|---|---|--|
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| IFRS 17 (including the June 2021 amendments to IFRS 17) | Insurance Contracts | 1 January 2023 |
| Amendments to IAS 8 | Definition of Accounting Estimates | 1 January 2023 |
| Amendments to IAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |
| Amendment to IFRS 16 | Leases on sale and leaseback | 1 January 2024 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current. The IASB has aligned the effective date with the 2022 amendments to IAS. | 1 January 2024 |
| Amendments to IAS 1 | Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7 | Supplier Finance Arrangements | 1 January 2024 |

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2022

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

2.2 New, amendments, and revised accounting standards in issue but not yet effective for the year ended 31 December 2022 and not early adopted (continued)

| Standards | Description | Effective for annual reporting periods beginning on or after |
|---|---|--|
| Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2025 |
| Amendments to IAS 21 | Lack of Exchangeability | 1 January 2025 |
| Amendments to IFRS 9 and IFRS 7 | Amendments to the Classification and Measurement of Financial Instruments | 1 January 2026 |
| IFRS 18 | Presentation and Disclosures in Financial Statements | 1 January 2027 |
| IFRS 19 | Subsidiaries without Public Accountability: Disclosures | 1 January 2027 |

The directors anticipate that the application of the above Standards and amendments to them may have an impact on the financial statements of the Group and the Company in future periods.

3. Material accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS Accounting Standards) and the requirements of the Papua New Guinea *Companies (Amended) Act 2022*.

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 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 (K'000) 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.

Going concern

The consolidated financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Financial metrics

For the year ended 31 December 2022, the Group and the Company reported a net loss of K64.4 million and K64.5 million, respectively (2021: net loss of K35.9 million and K36.1 million) and generated net cash inflows from operating activities of K42.5 million and K43.8 million (2021: net cash inflows of K53.8 million and K52.5 million).

As at 31 December 2022, the Group and the Company had negative cash and cash equivalents of K13.4 million and K13.4 million (31 December 2021: K7.5 million and K7.9 million) and net current liabilities of K289.9 million and K289.0 million (31 December 2021: of K238.6 million and K237.9 million).

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.2 Basis of preparation (continued)

Impact of COVID 19 on operations and financial position

The COVID-19 pandemic started in early 2020 which led to unprecedented disruptions in global air travel, resulting in a sharp decline in passenger demand, widespread flight cancellations, and prolonged travel restrictions. In Papua New Guinea, these factors have significantly reduced the Group's revenue-generating capacity. Despite implementing cost-reduction measures, including workforce reductions, renegotiation of supplier contracts, and deferral of non-essential expenditures, the Group experienced substantial operating losses and liquidity constraints.

As a consequence of the sustained reduction in revenue and liquidity pressures, the Group was unable to meet certain payment obligations to its creditors, including lease payments for aircraft, interest payments on borrowings, and other trade payables.

The Directors and management took the following steps to mitigate the impact of the pandemic, improve the Group's liquidity position and ensure the Group has sufficient funding to meet its operating and capital expenditures as they fall due:

Cost Reduction Initiatives

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

The Group has established a cost committee and implemented several cost-cutting measures, including workforce reductions, salary cuts, deferral of non-essential capital expenditures and re-structuring the Group's organisational structure to eliminate duplication and increase productivity.

Creditors Scheme

On 15 December 2023, the National Court approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Details of the scheme are contained in Note 32.

Three-year Strategic Plan

On 10 December 2024, the Directors endorsed a three-year Strategic plan for 2025 to 2027 aimed to grow the Group and leverage the improved operational capabilities to drive earnings and performance. Outlined below are the key aspects of this strategic plan:

- The Group continuing to focus on improving its performance, including:
 - Retire and dispose of the Dash 8 fleet and reinvest the net realisable value to fund turnaround initiatives.
 - Source additional aircrafts at competitive rates to replace the Dash 8 fleet and increase the fleet capacity.
 - Growing the passenger 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
- Re-negotiating current lease rental payments as part of cash flow relief;
- Pursue the raising of additional capital to fund any shortfall in working capital;
- Re-structuring the Group's organisational structure to eliminate duplication and increase productivity with an aim to reduce costs;
- Continuing support from financial lenders. This includes the extension of the financing facilities with BSP; and
- Continuing 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

Letter of Support

The Company's directors have obtained a letter of financial support from the Company's largest shareholder, MRDC, which confirms that it will provide sufficient financial assistance as needed to enable the Company and the Group to continue as a going concern and to satisfy their debts and commitments as they become due and payable for a period of at least 12 months from the date of signing these consolidated financial statements.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.2 Basis of preparation (continued)

MRDC has also confirmed that:

- It has no plans or intentions to liquidate the Company or the Group or to cease its trading within the next 12 months from the date of signing of the consolidated financial statements;
- It has no plans that may materially affect the carrying value or classification of the Group's assets and liabilities; and
- It is financially sustainable and will not demand payment of any amounts due to it or any of its controlled entities until such time when the Company and the Group have sufficient cash to settle such amounts due to it or to any of its controlled entities.

In addition, in April 2025 MRDC agreed to provide guarantees in favour of DAE, as aircraft lessor, and BSP, as lead financier, to support the Group's plans to re-negotiate lease rental payments and to extend the financing facilities, respectively.

As a result of the above actions taken by Directors and management, the Group's forecast cash flows indicate that the Group will have a surplus of liquidity throughout the twelve-month period from the date of signing these consolidated financial statements. The achievement of the Group's forecast is primarily dependent, amongst other matters, upon:

- the successful implementation of the strategic plan, including sourcing additional aircraft by the end of 2025;
- the Group's ability to obtain the necessary funding to maintain the Group's liquidity position;
- continued implementation of the Group's cost reduction initiatives; and
- the continued support of the Group's major shareholder, financial lenders and scheme creditors.

Notwithstanding that the respective outcomes of the matters referred to above are not entirely within the control of the Group, the Directors are confident, based on achievement of previous milestones, that the Group can achieve successful outcomes. Accordingly, the Directors have determined that it is appropriate for the Company and the Group to continue to adopt the going concern basis in preparing these consolidated financial statements.

Should the Group not be able to achieve successful outcomes in respect of the above matters, a material uncertainty would exist which may cast significant doubt regarding the Company and the Group's ability to continue as a going concern and therefore whether they will be able to realise their assets and discharge their liabilities in the normal course of business. The consolidated 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 Company and the Group be unable to continue as a going concern.

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. 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.

3.3 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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.3 Basis of consolidation (continued)

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.

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.

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.

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.

3.4 Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.4.1 Revenue from carriage of passenger and freight

Revenue from carriage of passengers and freight is recognised at the time the passenger or cargo 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.

3.4.2 Revenue from charters

Revenue from charters is recognised at the time the passenger or cargo is uplifted for carriage and includes other handling and fuel re-charges.

3.4.3 Revenue from sale of fuel

Revenue from fuel sale is recognised when fuel is supplied to aircraft operators, which are final customers of the Group.

Interest income

3.4.4 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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.5 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease, that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and a corresponding lease liability is recognised with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.5.1 Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

| | |
|---------------|--------------|
| Aircraft | 3 - 12 years |
| Office leases | 3 - 8 years |

The right-of-use assets are also subject to impairment. Refer to the accounting policy in Note 3.9.3.

3.5.2 Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3.5.3 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3.5.4 Lease provisions

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.

3.6 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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.6 Foreign currencies (continued)

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 profit or loss 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.

3.7 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.

3.8 Taxation

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

3.8.1 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.

3.8.2 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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.8 Taxation (continued)

3.8.2 Deferred tax (continued)

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.

3.8.3 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.

3.8.4 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.

3.9 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.

Owned 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.

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 accumulated impairment losses. Revaluations for rotables 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.

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

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.9 Property, plant and equipment (continued)

Freehold land is not depreciated.

Other 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.

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 |
| Other plant and equipment | 11.25% straight line |
| Motor vehicles | 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.

3.9.1 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.

3.9.2 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.

3.9.3 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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.10 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.

3.11 Provisions

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

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

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

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.

3.12 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.

3.12.1 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.

Financial assets at amortised cost

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

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

Cash and cash equivalents

For statement of cash flows purposes, cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.12 Financial instruments (continued)

3.12.1 Financial assets (continued)

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.

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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.12. Financial instruments (continued)

3.12.1 Financial assets (continued)

(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.

3.12.2 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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.12 Financial instruments (continued)

3.12.2 Financial liabilities and equity (continued)

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 5(b)) 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.

3.13 Maintenance reserve deposits

Maintenance reserve deposits 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 reserve deposits 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.

3.14 Pre-delivery payments

Pre-delivery payments are capitalised and represent deposits made with aircraft manufacturers for future delivery of aircraft. Upon delivery of aircraft, these are transferred to leased or owned aircraft and subsequently depreciated.

3.15 Security deposits

Security deposits are deposits made with aircraft financiers or operating lessors to provide security for future maintenance work or lease payments. These security deposits for leased aircraft are recorded at their present value when payment terms extend beyond one year discounted using the incremental borrowing rate at the inception of the lease and amortised over the lease term.

3.16 Revaluation reserve

The revaluation reserve primarily arises on the revaluation of aircraft and rotables. Any revaluation increase arising on the revaluation of owned aircraft and rotatable parts are recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously expensed. At the date of the revaluation, the accumulated depreciation is eliminated against the gross carrying amount of owned aircraft and rotatable parts and net carrying amount is adjusted to reflect the fair values at the date of the revaluation.

3.17 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and depreciation on such assets ceases at the date of classification.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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Notes to the consolidated financial statements For the year ended 31 December 2022

3.17 Non-current assets held for sale (continued)

Any gains or losses arising on remeasurement, as a result of subsequent increase or decrease in fair value less costs to sell of the non-current assets held for sale, and subsequent disposal are recognised in statement of profit or loss.

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 Leased Aircraft

For aircraft held under lease agreements, the Group is contractually committed to return the leased aircraft in a certain condition which includes completion of certain maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts. The provision for lease return costs for these leased aircraft is determined based on the best estimate of the costs that will be incurred to fulfil the stipulated lease return conditions.

At the inception of the lease, management estimates 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 right-of-use 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 at each reporting period and, when warranted, adjusts its assumptions.

Useful Lives, Depreciation Method and Residual Values of Property, Aircraft and Equipment, including Right-of-use assets

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. Depreciation method is based on management's judgment of the most appropriate method an asset's future economic benefit expected to be consumed. Among other factors, management considered industry standards, manufacturers' guidelines and company-specific history and experience. Useful lives are estimated based on internal technical evaluation and experience with similar assets.

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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

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

The Group's owned aircraft are measured at fair value for financial reporting purposes. The 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. During periods where no external valuation is performed, Directors assess the fair value of aircraft with reference to any significant change in current market conditions from the last external valuation performed.

Information about the valuation techniques and inputs used in determining the fair value of owned aircraft are disclosed in Note 11.

Allowance for expected 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, in general, 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. The Group also reviews its inventories at year period end and recognise a specific allowance as necessary.

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Notes to the consolidated financial statements For the year ended 31 December 2022

5. Revenue and costs

An analysis of revenue and costs for the year is as follows:

| | Consolidated | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| 5.1 Revenue from contracts with customers | | | | |
| Revenue from carriage of passenger and freight | 147,127 | 126,448 | 147,127 | 126,448 |
| Revenue from charters | 80,525 | 83,274 | 80,525 | 83,274 |
| Revenue from sale of fuel | 838 | 873 | - | - |
| | 228,490 | 210,595 | 227,652 | 209,722 |
| 5.2 Other (expense)/ income, net | | | | |
| Interest income | 973 | 1,096 | 973 | 1,096 |
| Aircraft operator lease income | 1,692 | 1,686 | 1,692 | 1,686 |
| Rent received | 54 | 93 | 54 | 93 |
| Realised foreign currency gain/ (loss) | 64 | (129) | 64 | (129) |
| Unrealised foreign currency (loss)/ gain | (2,387) | 404 | (2,387) | 404 |
| Loss on disposal of plant and equipment | (2,759) | (1,013) | (2,759) | (1,013) |
| Aircraft handling income | 811 | 627 | 811 | 627 |
| Engineering sales | 294 | 111 | 294 | 111 |
| Other revenue | 705 | 1,094 | 705 | 1,094 |
| | (553) | 3,969 | (553) | 3,969 |
| 5.3 Cost of sales | | | | |
| Direct activity costs | (7,285) | (4,592) | (6,396) | (4,093) |
| Short term leases | (2,010) | (575) | (976) | - |
| Fuel, air navigation and landing costs | (47,751) | (35,378) | (49,796) | (36,779) |
| Engineering costs | (25,575) | (31,241) | (25,575) | (31,241) |
| Depreciation of aircraft and rotables | (7,336) | (6,875) | (7,336) | (6,875) |
| Amortisation of right of use assets – aircraft | (36,754) | (38,080) | (36,754) | (38,080) |
| Aircraft insurance costs | (7,492) | (7,837) | (7,492) | (7,837) |
| Commission and agent fees | (2,559) | (2,264) | (2,559) | (2,264) |
| | (136,762) | (126,842) | (136,884) | (127,169) |
| 5.4 Operational expenses | | | | |
| Crew and engineering staff costs | (45,948) | (33,268) | (45,948) | (33,268) |
| Other operational staff costs | (12,130) | (11,727) | (11,779) | (11,392) |
| Amortisation of right of use assets – offices | (2,655) | (2,704) | (2,420) | (2,469) |
| Loss on revaluation of property, plant and equipment (Note 11) | (30,668) | - | (30,668) | - |
| Impairment loss on asset held for sale (Note 14) | (2,808) | - | (2,808) | - |
| Other operational costs | (4,841) | (4,666) | (4,765) | (4,507) |
| | (99,050) | (52,365) | (98,388) | (51,636) |
| 5.5 Administration expenses | | | | |
| Management and other administrative staff costs | (10,144) | (10,635) | (10,144) | (10,635) |
| Bank charges | (882) | (1,071) | (882) | (1,071) |
| Fines and penalties | (9,780) | (6,696) | (9,780) | (6,696) |
| Depreciation of property, plant and equipment | (1,543) | (1,772) | (1,488) | (1,717) |
| Subscription and publication costs | (747) | (1,227) | (747) | (1,227) |
| Legal fees | (2,471) | (1,056) | (2,471) | (1,056) |
| Expected credit loss and bad debts written off | (1,151) | - | (1,151) | - |
| Other administration costs | (273) | (2,785) | (264) | (2,773) |
| | (26,991) | (25,243) | (26,927) | (25,176) |

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Notes to the consolidated financial statements For the year ended 31 December 2022

5. Revenue and costs (continued)

| | Consolidated | | Company | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| 5.6 Occupancy expenses | | | | |
| Electricity and other utilities | (894) | (1,351) | (883) | (1,323) |
| Security expenses | (2,889) | (2,671) | (2,556) | (2,354) |
| Insurance expenses | (280) | (302) | (280) | (302) |
| Short term leases | (137) | (45) | (578) | (450) |
| Property maintenance expenses | (546) | (474) | (525) | (443) |
| | (4,746) | (4,843) | (4,822) | (4,872) |

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 – Papua New Guinea.

7. Finance costs

| | Consolidated | | Company | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Interest on loans | (634) | (1,892) | (634) | (1,892) |
| Interest on bank overdraft | (2,246) | (2,403) | (2,246) | (2,403) |
| Interest on leases | (33,836) | (37,511) | (33,717) | (37,378) |
| Other interests | (1,082) | (180) | (1,082) | (180) |
| | (37,798) | (41,986) | (37,679) | (41,853) |

8. Income taxes

8.1 Income tax recognised in consolidated statement of profit or loss

| | Consolidated | | Company | |
|--------------------------|---------------|------------|---------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Current tax expense | - | (144) | - | - |
| Deferred tax expense | 13,006 | 953 | 13,084 | 912 |
| Total tax benefit | 13,006 | 809 | 13,084 | 912 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

8. Income taxes (continued)

8.1 Income tax recognised in consolidated statement of profit or loss (continued)

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

| | Consolidated | | Company | |
|--|-----------------|--------------|-----------------|--------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Loss before tax | (77,410) | (36,715) | (77,601) | (37,015) |
| Income tax benefit calculated at 30% | (23,220) | (11,015) | (23,280) | (11,105) |
| Effect of expenses that are not deductible in determining taxable profit | 2,952 | 2,022 | 2,934 | 2,009 |
| Effect of prior year adjustments | (171) | - | (171) | - |
| Effect of tax losses not recognised as deferred tax | 7,433 | 8,184 | 7,433 | 8,184 |
| Income tax benefit | (13,006) | (809) | (13,084) | (912) |

The tax rate used for the 2022 and 2021 reconciliations above is the corporate tax rate of 30% payable by corporate entities under tax law that have been enacted or substantively enacted by reporting date.

8.2 Deferred taxes

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

| | Consolidated | | Company | |
|------------------------------------|---------------|--------------|---------------|--------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Expected credit loss | 373 | 60 | 356 | 43 |
| Leave entitlements | 1,623 | 2,154 | 1,612 | 2,137 |
| Return conditions | 3,579 | 4,991 | 3,579 | 4,991 |
| Stock obsolescence | 2,732 | 2,290 | 2,732 | 2,290 |
| Leases | 19,542 | 21,248 | 19,469 | 21,133 |
| Unrealised foreign exchange losses | 416 | (121) | 416 | (121) |
| Tax losses | 6,284 | 6,292 | 6,226 | 6,226 |
| Others | - | 3 | - | - |
| Inventory | (5,302) | (5,313) | (5,302) | (5,313) |
| Property, plant and equipment | (11,799) | (26,768) | (11,464) | (26,453) |
| Prepayments | (250) | (457) | (250) | (456) |
| Deferred tax assets, net | 17,198 | 4,379 | 17,374 | 4,476 |

The table below summarises the amount and expiry date of carry forward tax losses and amount of tax losses for which no deferred tax asset is recognised in the statement of financial position;

| Year of expiry | Carry forward tax losses | Tax losses where deferred tax are not recognised |
|----------------|--------------------------|--|
| | K'000 | K'000 |
| 2025 | 200,465 | 179,711 |
| 2026 | 35,247 | 35,247 |
| 2027 | 27,276 | 27,276 |
| 2028 | 24,778 | 24,778 |
| Total | 287,766 | 267,011 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

8. Income taxes (continued)

8.2 Deferred taxes (continued)

Movements in deferred taxes are as follows:

| | Consolidated | | Company | |
|--|---------------|--------------|---------------|--------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of year | 4,379 | 3,426 | 4,476 | 3,564 |
| Consolidated statement of profit or loss credits/ (charges) | 13,005 | 953 | 13,084 | 912 |
| Consolidated statement of OCI credits/ (charges) | (186) | - | (186) | - |
| Balance at end of year | 17,198 | 4,379 | 17,374 | 4,476 |

9. Subsidiaries

Details of the Company's subsidiaries at 31 December 2022 are as follows:

| Subsidiary | Principal activities | Place of Incorporation | Ownership Interest | |
|-------------------------|---------------------------------|------------------------|--------------------|------|
| | | | 2022 | 2021 |
| Galatoire Ltd | Investment property management | Papua New Guinea | 100% | 100% |
| PNG Ground Services Ltd | Supply of aviation fuel | Papua New Guinea | 100% | 100% |
| APNG Services Pty Ltd | Supply of international aircrew | Australia | 100% | 100% |

10. Cash and cash equivalents

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 | |
|------------------------|-----------------|----------------|-----------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Cash and bank balances | 739 | 3,114 | 666 | 2,760 |
| Bank overdraft | (14,099) | (10,644) | (14,099) | (10,664) |
| | (13,360) | (7,530) | (13,433) | (7,904) |

11. Property, plant and equipment

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Cost or valuation | 129,512 | 167,059 | 125,323 | 163,219 |
| Accumulated depreciation and impairment losses | (23,123) | (28,436) | (20,829) | (26,216) |
| | 106,389 | 138,623 | 104,494 | 137,003 |
| Land and buildings- at cost | 5,213 | 5,070 | 3,340 | 3,480 |
| Owned aircraft- at fair value | 57,484 | 88,918 | 57,484 | 88,918 |
| Plant and equipment- at cost | 3,054 | 3,777 | 3,032 | 3,747 |
| Rotable parts- at fair value | 40,583 | 40,705 | 40,583 | 40,705 |
| Motor vehicles- at cost | 55 | 153 | 55 | 153 |
| | 106,389 | 138,623 | 104,494 | 137,003 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

11. Property, plant and equipment (continued)

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

| Consolidated | <u>Land and Buildings</u> K'000 | <u>Owned aircraft</u> K'000 | <u>Plant and equipment</u> K'000 | <u>Rotable parts</u> K'000 | <u>Motor vehicles</u> K'000 | <u>Total</u> K'000 |
|---|--|------------------------------------|---|-----------------------------------|------------------------------------|-----------------------|
| Cost or valuation | | | | | | |
| At 1 January 2021 | 6,655 | 85,285 | 19,905 | 41,666 | 2,667 | 156,178 |
| Additions | 848 | 10,508 | 526 | 1,341 | - | 13,223 |
| Disposals | - | - | - | (2,302) | (40) | (2,342) |
| At 31 December 2021 | 7,503 | 95,793 | 20,431 | 40,705 | 2,627 | 167,059 |
| Additions | 343 | 10,174 | 541 | 1,987 | - | 13,045 |
| Revaluation (decrease)/ increase | - | (30,668) | - | 620 | - | (30,048) |
| Eliminated on revaluation | - | (14,211) | - | - | - | (14,211) |
| Disposals | - | - | - | (2,729) | - | (2,729) |
| Reclass to asset held for sale (Note 14) | - | (3,604) | - | - | - | (3,604) |
| At 31 December 2022 | 7,846 | 57,484 | 20,972 | 40,583 | 2,627 | 129,512 |
| Accumulated depreciation | | | | | | |
| At 1 January 2021 | 2,233 | - | 15,197 | - | 2,362 | 19,792 |
| Depreciation charge | 200 | 6,875 | 1,457 | - | 152 | 8,684 |
| Disposal | - | - | - | - | (40) | (40) |
| At 31 December 2021 | 2,433 | 6,875 | 16,654 | - | 2,474 | 28,436 |
| Depreciation charge | 200 | 7,336 | 1,264 | - | 98 | 8,898 |
| Eliminated on revaluation | - | (14,211) | - | - | - | (14,211) |
| At 31 December 2022 | 2,633 | - | 17,918 | - | 2,572 | 23,123 |
| Net book value at 31 December 2022 | 5,213 | 57,484 | 3,054 | 40,583 | 55 | 106,389 |
| At 31 December 2021 | 5,070 | 88,918 | 3,777 | 40,705 | 153 | 138,623 |
| Company | | | | | | |
| | <u>Land & Buildings</u> K'000 | <u>Owned aircraft</u> K'000 | <u>Plant and Equipment</u> K'000 | <u>Rotable Parts</u> K'000 | <u>Motor vehicles</u> K'000 | <u>Total</u> K'000 |
| Cost or valuation | | | | | | |
| At 1 January 2021 | 4,676 | 85,285 | 19,408 | 41,666 | 2,150 | 153,185 |
| Additions | 4 | 10,508 | 523 | 1,341 | - | 12,376 |
| Disposals | - | - | - | (2,302) | (40) | (2,342) |
| At 31 December 2021 | 4,680 | 95,793 | 19,931 | 40,705 | 2,110 | 163,219 |
| Additions | - | 10,174 | 535 | 1,987 | - | 12,696 |
| Revaluation (decrease) / increase | - | (30,668) | - | 620 | - | (30,048) |
| Eliminated on revaluation | - | (14,211) | - | - | - | (14,211) |
| Disposals | - | - | - | (2,729) | - | (2,729) |
| Reclass to asset held for sale (Note 14) | - | (3,604) | - | - | - | (3,604) |
| At 31 December 2022 | 4,680 | 57,484 | 20,466 | 40,583 | 2,110 | 125,323 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

11. Property, plant and equipment (continued)

| Company | Land and Buildings | Owned aircraft | Plant and equipment | Rotable parts | Motor vehicles | Total |
|---------------------------------|-----------------------|-------------------|------------------------|------------------|-------------------|----------------|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| Accumulated depreciation | | | | | | |
| At 1 January 2021 | 1,060 | - | 14,759 | - | 1,845 | 17,664 |
| Depreciation charge | 140 | 6,875 | 1,425 | - | 152 | 8,592 |
| Disposal | - | - | - | - | (40) | (40) |
| At 31 December 2021 | 1,200 | 6,875 | 16,184 | - | 1,957 | 26,216 |
| Depreciation charge | 140 | 7,336 | 1,250 | - | 98 | 8,824 |
| Eliminated on revaluation | - | (14,211) | - | - | - | (14,211) |
| At 31 December 2022 | 1,340 | - | 17,434 | - | 2,055 | 20,829 |
| Net book value | | | | | | |
| at 31 December 2022 | 3,340 | 57,484 | 3,032 | 40,583 | 55 | 104,494 |
| at 31 December 2021 | 3,480 | 88,918 | 3,747 | 40,705 | 153 | 137,003 |

Included in the Group's land and buildings are costs related to building renovation which are still in progress as at 31 December 2022 and 2021.

11.1.1 Impairment losses recognised in the period

During the year ended 31 December 2022, the Group has not recognised any impairment loss on property, plant and equipment other than the amount disclosed in Note 14.

11.1.2 Loss on revaluation recognised in the period

During the year ended 31 December 2022, the Group recognized loss on revaluation of K30.7 in the statement of profit or loss (2021: Nil) and revaluation gain of K0.6 million (2021: Nil) through the revaluation reserve.

11.2 Owned aircraft and rotables carried at fair value

During the year, the Group carried out a revaluation of all owned aircraft and rotables through an independent professional valuer, Mr. David Crick of DavAir Group, a registered independent aircraft valuer who possesses the relevant qualifications and recent experience in providing international aviation inspection, appraisal and advisory services, including fair value measurement of aircraft and rotables.

The owned aircraft valuations were conducted using the market approach which involves considering the listed prices of similar aircraft being offered for sale in the open market. Key variables include the age, condition, model, serial numbers (of the airframe, propellers, APUs, and engines where possible), locations and recent transaction prices of comparable aircraft. The valuer key techniques in determining the fair value includes direct communication with entity personnel and in the aircraft sales industry, review of order book history, delivery streams, operator and leasing demand, international availability, current and projected base and market values. The rotables valuations were conducted by considering the current market conditions. Key variable considerations include service tags or component status cards, turnover of rotatable parts, market appeal, and desirability where the valuer indicated that the dash 8 spare parts are quite buoyantly traded and landing gear parts and propeller parts are very sought after with strong trading prices

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Notes to the consolidated financial statements For the year ended 31 December 2022

11. Property, plant and equipment (continued)

11.2 Owned aircraft and rotables carried at fair value (continued)

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

| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2022 K'000 |
|---------------|------------------|------------------|------------------|---|
| Aircraft | - | 57,484 | - | 57,484 |
| Rotable parts | - | 40,583 | - | 40,583 |

| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2021 K'000 |
|---------------|------------------|------------------|------------------|---|
| Aircraft | - | 88,918 | - | 88,918 |
| Rotable parts | - | 40,705 | - | 40,705 |

11.3 Assets pledged as security

Aircraft with a carrying amount of K57.5 million (2021: K88.9 million) and land and buildings with carrying amount of K0.6 million (2021: K1.5 million) have been pledged to secure borrowings of the Group (see Note 21).

12. Other financial assets

| | Consolidated | | Company | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Security deposits on leased assets | 11,971 | 10,956 | 11,971 | 10,956 |
| Investments in subsidiaries | - | - | 20 | 20 |
| | 11,971 | 10,956 | 11,991 | 10,976 |

13. Other assets

| | Consolidated | | Company | |
|--------------------------------|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | | | | |
| Prepayments to suppliers | 2,863 | 5,615 | 2,863 | 5,573 |
| Maintenance reserve deposits | 1,894 | 6,764 | 1,894 | 6,764 |
| Related party receivables | - | - | 2,362 | 1,849 |
| | 4,757 | 12,379 | 7,119 | 14,186 |
| Non-current | | | | |
| Maintenance reserve deposits | 75,843 | 65,522 | 75,843 | 65,522 |
| Aircraft pre-delivery payments | 7,976 | 7,947 | 7,976 | 7,947 |
| | 83,819 | 73,469 | 83,819 | 73,469 |
| Current | 4,757 | 12,379 | 7,119 | 14,186 |
| Non-current | 83,819 | 73,469 | 83,819 | 73,469 |
| | 88,576 | 85,848 | 90,938 | 87,655 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

14. Asset held for sale

| | Consolidated | | Company | |
|--|--------------|----------|------------|----------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of the year | | | | |
| Reclass from property, plant and equipment (Note 11) | 3,604 | | 3,604 | - |
| Impairment loss | (2,808) | - | (2,808) | - |
| Balance at end of the year | 796 | - | 796 | - |

Non-current asset classified as held for sale as at 31 December 2022 include one Twin otter owned aircraft that was approved by the Board for disposal in August 2022. The sale of the twin otter owned aircraft was completed in February 2023 and was sold on as is condition. The Company recognised an impairment loss, being the difference between the carrying amounts and the fair value less costs to sell of the asset, of K2.8 million at the date of initial classification of the asset as held for sale and was included in the statement of profit or loss as operational expenses in Note 5.4.

A registered first mortgage was held by the note holders over the aircraft, and the full sale proceeds were distributed to the note holders as disclosed in Note 21.

15. Inventories

| | Consolidated | | Company | |
|-------------------------------------|--------------|---------------|--------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Consumables stock on hand – at cost | 18,520 | 18,313 | 17,672 | 17,710 |
| Allowance for stock obsolescence | (9,107) | (7,633) | (9,107) | (7,633) |
| | 9,413 | 10,680 | 8,565 | 10,077 |

16. Trade and other receivables

| | Consolidated | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Trade receivables | 28,418 | 19,360 | 28,410 | 19,345 |
| Allowance for expected credit losses | (1,245) | (203) | (1,187) | (145) |
| | 27,173 | 19,157 | 27,223 | 19,200 |
| Other receivables | 3,788 | 4,944 | 3,636 | 4,793 |
| Income tax receivable | 18 | - | - | - |
| | 30,979 | 24,101 | 30,859 | 23,993 |

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

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 | |
|---|----------------|--------------|----------------|--------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of the year | (203) | (203) | (145) | (145) |
| Impairment provision release/(charge) in the year | (1,042) | - | (1,042) | - |
| Balance at end of the year | (1,245) | (203) | (1,187) | (145) |

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Notes to the consolidated financial statements For the year ended 31 December 2022

16. Trade and other receivables (continued)

Ageing of past due but not impaired

| | Consolidated | | Company | |
|--------------------|--------------|------------|--------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| 61-90 days | 1,230 | 599 | 1,230 | 599 |
| Over 90 days | 1,722 | 361 | 1,717 | 361 |
| Total | 2,952 | 960 | 2,946 | 960 |
| Average age (days) | 29 | 34 | 29 | 34 |

17. Issued capital and other contributed equity

17.1 Issued capital

| | Consolidated | | Company | |
|--|--------------|--------|---------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Opening Issued capital 308,292,080 fully paid ordinary shares | 77,271 | 77,271 | 77,271 | 77,271 |
| Closing issued capital 308,292,080 fully paid ordinary shares | 77,271 | 77,271 | 77,271 | 77,271 |

17.2 Other contributed equity

| | Consolidated | | Company | |
|-------------------------------|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of year | 70,563 | 70,563 | 70,563 | 70,563 |
| Issuance of convertible note | 5,000 | - | 5,000 | - |
| Balance at end of year | 75,563 | 70,563 | 75,563 | 70,563 |

Other contributed equity refers to:

- i. Additional capital contribution received by the Company from its two major shareholders, National Superannuation Fund and Mineral Resource Development Company (MRDC). These additional capital contributions were received by the Company between 2015 to 2017.
- ii. In 2017, principal and accrued interest of 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.
- iii. In 2022, additional PGK5.0 million capital contribution were received from one of major shareholders, Mineral Resource Development Company (MRDC), through issuance of convertible loan notes. These additional capital contributions were part of the rescue capital.

In return for these capital contributions, a fixed number of shares were issued in 2023 and 2025, refer to Note 32.

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Notes to the consolidated financial statements For the year ended 31 December 2022

18. Loss per share

| | Consolidated | | Company | |
|----------------------------------|--------------|--------------|--------------|--------------|
| | 2022 Toea | 2021 Toea | 2022 Toea | 2021 Toea |
| Basic and diluted loss per share | (20.89) | (11.65) | (20.93) | (11.71) |

Basic and diluted loss is calculated by dividing the profit or loss for the year by the weighted average number of shares that were outstanding during the year.

Basic and diluted loss per share

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

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2022 K'000 | 2021 K'000 | 2022 K'000 | 2021 K'000 |
| Loss for the year | (64,404) | (35,906) | (64,517) | (36,103) |
| Loss used in the calculation of basic and diluted loss per share | (64,404) | (35,906) | (64,517) | (36,103) |

19. Revaluation reserve

| | Consolidated | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2022 K'000 | 2021 K'000 | 2022 K'000 | 2021 K'000 |
| Balance at beginning of year | 490 | 490 | 490 | 490 |
| Revaluation of aircraft (net of tax) | 435 | - | 435 | - |
| Balance at end of year | 925 | 490 | 925 | 490 |

20. Accumulated losses

| | Consolidated | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2022 K'000 | 2021 K'000 | 2022 K'000 | 2021 K'000 |
| Balance at beginning of year | (204,399) | (168,494) | (205,066) | (168,963) |
| Exchange gain/(loss) on translation of foreign operation | (19) | 1 | - | - |
| Loss for the year | (64,404) | (35,906) | (64,517) | (36,103) |
| Balance at end of year | (268,822) | (204,399) | (269,583) | (205,066) |

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Notes to the consolidated financial statements For the year ended 31 December 2022

21. Borrowings

| | | Consolidated | | Company | |
|--|-------|---------------|---------------|---------------|---------------|
| | | 2022 | 2021 | 2022 | 2021 |
| | | K'000 | K'000 | K'000 | K'000 |
| a) Current | | | | | |
| Bank loans and overdrafts | (i) | 15,255 | 16,961 | 15,255 | 16,961 |
| Secured notes | (ii) | 24,450 | 28,850 | 24,450 | 28,850 |
| Secured loan from other financial institutions | (iii) | 1,202 | 244 | 1,202 | 244 |
| | | 40,907 | 46,055 | 40,907 | 46,055 |
| b) Non-current | | | | | |
| Secured loan from other financial institution | (iii) | - | 2,587 | - | 2,587 |
| | | - | 2,587 | - | 2,587 |
| Total Borrowings | | 40,907 | 48,641 | 40,907 | 48,641 |

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) and (iii) below) 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.
- (ii) The Group's secured notes are held by two private companies, which matured in 2018 and 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 8.00% (2021: 7.75%) per annum.
- (iii) The Group has loans with other financial institutions with an effective interest rate on the bank loans is 11% (2021: 11%) 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 26.

The table below sets out an analysis of borrowings (excluding bank overdraft) movements during the year:

| | | Consolidated | | Company | |
|-----------------|--|---------------|---------------|---------------|---------------|
| | | 2022 | 2021 | 2022 | 2021 |
| | | K'000 | K'000 | K'000 | K'000 |
| Opening balance | | 37,999 | 49,348 | 37,999 | 49,348 |
| Cash proceeds | | - | - | - | - |
| Cash payments | | (11,169) | (11,351) | (11,169) | (11,351) |
| Closing balance | | 26,808 | 37,997 | 26,808 | 37,997 |

Bank overdraft balance amounted to K14.10 million and K10.6 million as at 31 December 2022 and 2021, respectively.

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Notes to the consolidated financial statements For the year ended 31 December 2022

21. Borrowings (continued)

Financing facilities

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>Secured loan from other financial institutions</i> | | | | |
| - amount used | 1,202 | 2,830 | 1,202 | 2,830 |
| - amount unused | - | - | - | - |
| | <u>1,202</u> | <u>2,830</u> | <u>1,202</u> | <u>2,830</u> |
| <i>Secured bank overdraft facility</i> | | | | |
| - amount used | 14,099 | 10,644 | 14,099 | 10,644 |
| - amount unused | 5,901 | 9,356 | 5,901 | 9,356 |
| | <u>20,000</u> | <u>20,000</u> | <u>20,000</u> | <u>20,000</u> |
| <i>Secured bank loans</i> | | | | |
| - amount used | 1,156 | 6,317 | 1,156 | 6,317 |
| - amount unused | - | - | - | - |
| | <u>1,156</u> | <u>6,317</u> | <u>1,156</u> | <u>6,317</u> |
| <i>Secured notes from non-financial institutions</i> | | | | |
| - amount used | 24,450 | 28,850 | 24,450 | 28,850 |
| - amount unused | - | - | - | - |
| | <u>24,450</u> | <u>28,850</u> | <u>24,450</u> | <u>28,850</u> |
| <i>Total</i> | | | | |
| - amount used | 40,907 | 48,641 | 40,907 | 48,641 |
| - amount unused | 5,901 | 9,356 | 5,901 | 9,356 |
| | <u>46,808</u> | <u>57,997</u> | <u>46,808</u> | <u>57,997</u> |

22. Other liabilities

| | Consolidated | | Company | |
|-------------|--------------|---------------|--------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | 8,699 | 8,395 | 8,699 | 8,395 |
| Non-current | - | 3,178 | - | 3,178 |
| | <u>8,699</u> | <u>11,573</u> | <u>8,699</u> | <u>11,573</u> |

Dash 8 early lease exit liability

Other liabilities refer to 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 was considered a financial liability (refer Note 25.8). These fees were required to be partially repaid by 31 July 2019 and by 31 December 2019 but remained unpaid as at 31 December 2019. The Group renegotiated a reduction of repayments of these fees from USD 4.5m (K15.2 million) to USD 2.7m (K9.4 million), subject to the Company not defaulting on any agreed monthly payments, and reduction of interest from 18% to 8% p.a. Should the Group meet these requirements, USD1.8 million (K2.1 million) will be forgiven. The renegotiated agreement was executed on 20 October 2020 and the agreed repayment period is from 1 November 2020 to 1 December 2023.

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Notes to the consolidated financial statements For the year ended 31 December 2022

23. Leases

23.1 Right-of-use assets

| | Consolidated | | Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Cost | 356,963 | 363,087 | 354,855 | 360,979 |
| Accumulated depreciation | (160,010) | (120,594) | (159,075) | (119,893) |
| | 196,953 | 242,493 | 195,780 | 241,086 |

The reconciliation of the written down values at the beginning and end of the current financial year are set out below:

| Consolidated | Aircraft K'000 | Office premises K'000 | Total K'000 |
|------------------------------------|-------------------|-----------------------------|------------------|
| <i>Cost</i> | | | |
| Balance at 1 January 2021 | 341,218 | 20,189 | 361,407 |
| Remeasurement | 423 | 426 | 849 |
| New leases | - | 2,288 | 2,288 |
| Derecognition | - | (1,457) | (1,457) |
| Balance at 31 December 2021 | 341,641 | 21,446 | 363,087 |
| Remeasurement | (5,826) | (298) | (6,124) |
| Balance at 31 December 2022 | 335,815 | 21,148 | 356,963 |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2021 | (76,267) | (5,290) | (81,557) |
| Charge during the year | (37,790) | (2,704) | (40,494) |
| Derecognition | - | 1,457 | 1,457 |
| Balance at 31 December 2021 | (114,057) | (6,537) | (120,594) |
| Charge during the year | (36,761) | (2,655) | (39,416) |
| Balance at 31 December 2022 | (150,818) | (9,192) | (160,010) |
| <i>Carrying amount</i> | | | |
| At 31 December 2021 | 227,584 | 14,909 | 242,493 |
| At 31 December 2022 | 184,997 | 11,956 | 196,953 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

23. Leases (continued)

23.1 Right-of-use assets (continued)

| Company | Aircraft | Office premises | Total |
|------------------------------------|------------------|-----------------|------------------|
| | K'000 | K'000 | K'000 |
| <i>Cost</i> | | | |
| Balance at 1 January 2021 | 341,218 | 18,091 | 359,308 |
| Remeasurement | 423 | 416 | 839 |
| New leases | - | 2,288 | 2,288 |
| Derecognition | - | (1,457) | (1,457) |
| Balance at 31 December 2021 | 341,641 | 19,338 | 360,979 |
| Remeasurement | (5,826) | (298) | (6,124) |
| Balance at 31 December 2022 | 335,815 | 19,040 | 354,855 |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2021 | (76,267) | (4,824) | (81,090) |
| Charge during the year | (37,790) | (2,469) | (40,259) |
| Derecognition | - | 1,457 | 1,457 |
| Balance at 31 December 2021 | (114,057) | (5,836) | (119,893) |
| Charge during the year | (36,762) | (2,420) | (39,182) |
| Balance at 31 December 2022 | (150,819) | (8,256) | (159,075) |
| <i>Carrying amount</i> | | | |
| At 31 December 2021 | 227,584 | 13,502 | 241,086 |
| At 31 December 2022 | 184,996 | 10,784 | 195,780 |

23.2 Lease liabilities

| | Consolidated | | Company | |
|-------------|----------------|----------------|----------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | 89,817 | 78,697 | 89,587 | 78,484 |
| Non-current | 226,280 | 260,447 | 225,095 | 258,868 |
| | 316,097 | 339,144 | 314,682 | 337,352 |

The maturity analysis of lease liabilities are as follows:

| | Consolidated | | Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Within 1 Year | 119,957 | 111,913 | 119,572 | 113,362 |
| 2 to 3 Years | 127,301 | 129,661 | 126,640 | 129,000 |
| 4 to 5 Years | 123,794 | 125,274 | 123,133 | 124,613 |
| More than 5 Years | 46,517 | 107,211 | 46,517 | 106,881 |
| Less: Discounting effect | (101,473) | (134,915) | (101,179) | (134,503) |
| | 316,097 | 339,144 | 314,682 | 337,352 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

23. Leases (continued)

23.2 Lease liabilities (continued)

The table below sets out an analysis of lease liabilities movements during the year:

| | Consolidated | | Company | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| At 1 January | 339,144 | 362,289 | 337,352 | 360,475 |
| Lease modification during the year | (298) | 426 | (298) | 416 |
| New leases | - | 2,288 | - | 2,288 |
| Lease payments | (57,585) | (63,384) | (57,089) | (63,217) |
| Interest | 33,838 | 37,525 | 33,720 | 37,390 |
| Effect of foreign exchange | 998 | - | 998 | - |
| At 31 December | 316,097 | 339,144 | 314,682 | 337,352 |

The weighted average incremental borrowing rate applied to the lease liabilities during the year were between 11.60% and 12.68% (2021: between 11.60% and 12.68%). The average lease term has been disclosed in Note 3.5.1.

23.3 Amounts recognised in the statement of profit or loss

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Depreciation charges included in: | | | | |
| - Cost of sales | 36,761 | 37,790 | 36,761 | 37,790 |
| - Administration expenses | 2,655 | 2,704 | 2,422 | 2,469 |
| | 39,416 | 40,494 | 39,183 | 40,259 |
| Interest expense included in finance costs | 33,838 | 37,525 | 33,720 | 37,390 |
| Short term and low value leases | 1,424 | 1,450 | 4 | 450 |

24. Provisions

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | | | | |
| Provision for annual leave (i) | 2,362 | 2,610 | 2,335 | 2,587 |
| | 2,362 | 2,610 | 2,335 | 2,587 |
| Non-current | | | | |
| Provision for long service leave (ii) | 3,232 | 4,568 | 3,221 | 4,535 |
| Provision for return conditions costs (iii) | 11,930 | 16,637 | 11,930 | 16,637 |
| | 15,162 | 21,205 | 15,151 | 21,172 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

24. Provisions (continued)

Movements in provisions are as follow:

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>(i) Movement in provision for annual leave</i> | | | | |
| Balance at the start of the year | 2,610 | 2,144 | 2,587 | 2,127 |
| Additional provision / (amount used) | (248) | 466 | (252) | 460 |
| Balance at the end of the year | 2,362 | 2,610 | 2,335 | 2,587 |
| <i>(ii) Movement in provision for long service leave</i> | | | | |
| Balance at the start of the year | 4,568 | 6,299 | 4,535 | 6,278 |
| Amount used | (3,351) | (2,623) | (3,351) | (2,623) |
| Additional provision recognised | 2,015 | 892 | 2,037 | 879 |
| Balance at the end of the year | 3,232 | 4,568 | 3,221 | 4,535 |
| <i>(iii) Movement in provision for return conditions costs</i> | | | | |
| Balance at the start of the year | 16,637 | 15,635 | 16,637 | 15,635 |
| Unwinding of discount | 1,083 | 1,969 | 1,083 | 1,969 |
| Change in estimates | (5,834) | (967) | (5,834) | (967) |
| Effect of foreign exchange | 44 | - | 44 | - |
| Balance at the end of the year | 11,930 | 16,637 | 11,930 | 16,637 |

25. Trade and other payables and revenue received in advance

25.1 Trade and other payables

| | Consolidated | | Company | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Trade payables | 144,788 | 98,244 | 142,475 | 96,715 |
| Accrued expenses | 19,015 | 32,773 | 20,758 | 32,139 |
| Related party payable (Note 29) | - | - | 1,447 | 2,659 |
| Salary and wages tax and GST payable | 2,452 | 2,538 | 2,364 | 2,509 |
| Income tax payable | 128 | 120 | - | - |
| Advance payments from customers | 7,933 | 3,614 | 7,933 | 3,614 |
| Other | 5,631 | 3,735 | 5,631 | 3,735 |
| | 179,947 | 141,024 | 180,608 | 141,371 |

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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

25 Trade and other payables and revenue received in advance (continued)

25.2 Revenue received in advance

| | Consolidated | | Company | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Revenue received in advance | 14,094 | 12,071 | 14,904 | 12,071 |

Revenue received in advance is made up of sales to passengers in advance of the date of passenger travel.

Revenue recognised related to unused tickets, which were included in the revenue received in advance balance at the beginning of the period, amounted to K7.9 million (2021: K5.7 million).

26. Financial instruments

26.1 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.

26.2 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.

26.3 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see Note 26.4 below) and interest rates (see Note 26.5 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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

26. Financial instruments (continued)

26.4 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 | |
|----------------------|-------------|---------|--------|-------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Australian Dollar | 2,149 | 698 | 154 | 165 |
| United States Dollar | 368,381 | 376,656 | 2,882 | 2,872 |

26.4.1 Foreign currency sensitivity analysis

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

| | Australian Dollar impact | | United States Dollar impact | |
|-------------------------------------|--------------------------|-------|-----------------------------|----------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Effect of 10% strengthening of Kina | 181 | 48 | 33,227 | 33,980 |
| Effect of 10% weakening of Kina | (199) | (53) | (36,550) | (37,378) |

26.5 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.

26.5.1 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:

- Loss for the year ended 31 December 2022 would increase/decrease by K1.1 million (2021: by increase/decrease K1.8 million). 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.

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Notes to the consolidated financial statements For the year ended 31 December 2022

26. Financial instruments (continued)

26.6 Commodity Risk

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

26.7 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. As at 31 December 2022 and 2021, the Group has not identified any significant concentration of credit risk.

26.8 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.

26.8.1 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.

Liquidity and interest risk tables

| | Weighted average effective interest rate | Variable interest rate | Within 1 year | 1-2 years | 2-3 years | 3+ Years | Total |
|--|--|------------------------------|------------------|----------------|----------------|---------------|----------------|
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Consolidated | | | | | | | |
| 31 December 2022 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 144,788 | - | - | - | 144,788 |
| Other payables | Non-interest bearing | | 32,579 | - | - | - | 32,579 |
| Bank loans and overdrafts | 9.75% | - | 15,255 | - | - | - | 15,255 |
| Secured loan from other financial institution | 11.00% | - | 1,202 | - | - | - | 1,202 |
| Secured notes | 7.90% | - | 24,450 | - | - | - | 24,450 |
| Lease liabilities | 12.14% | - | 119,957 | 127,301 | 123,794 | 46,517 | 417,569 |
| Other liabilities | 8.0% | - | 8,699 | - | - | - | 8,699 |
| | | | 346,930 | 127,301 | 123,794 | 46,517 | 644,542 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

26. Financial instruments (continued)

| | Weighted average effective interest rate | Variable interest rate | Within 1 | 1-2 | 2-3 | 3+ | Total |
|--|--|------------------------------|----------------|----------------|----------------|----------------|----------------|
| | | | year | years | years | Years | |
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Consolidated | | | | | | | |
| 31 December 2021 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 98,244 | - | - | - | 98,244 |
| Other payables | Non-interest bearing | | 40,122 | - | - | - | 40,122 |
| Bank loans and overdrafts | 9.75% | - | 16,961 | - | - | - | 16,961 |
| Secured loan from other financial institution | 11.00% | - | 1,475 | 1,355 | - | - | 2,830 |
| Secured notes | 7.90% | - | 34,000 | - | - | - | 34,000 |
| Lease liabilities | 12.30% | - | 111,913 | 129,661 | 125,274 | 107,211 | 474,059 |
| Other liabilities | 8.0% | - | 8,824 | 3,335 | - | - | 12,159 |
| | | | 311,561 | 134,351 | 125,274 | 107,211 | 678,375 |

| | Weighted average effective interest rate | Variable interest rate | Within 1 | 1-2years | 2-3 | 3+ | Total |
|--|--|------------------------------|----------------|----------------|----------------|---------------|----------------|
| | | | year | K'000 | years | Years | |
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Company | | | | | | | |
| 31 December 2022 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 142,475 | - | - | - | 142,475 |
| Related party payables | Non-interest bearing | | 1,447 | - | - | - | 1,447 |
| Other payables | Non-interest bearing | | 34,322 | - | - | - | 34,323 |
| Bank loans and overdrafts | 9.65% | - | 20,255 | - | - | - | 20,255 |
| Secured loan from other financial institution | 11.00% | - | 1,202 | - | - | - | 1,202 |
| Secured notes | 7.75% | - | 24,450 | - | - | - | 24,450 |
| Lease liabilities | 12.30% | - | 119,571 | 126,640 | 123,133 | 46,517 | 415,861 |
| Other liabilities | 8.0% | - | 8,699 | - | - | - | 8,699 |
| | | | 352,421 | 126,640 | 123,133 | 46,517 | 648,711 |

| | Weighted average effective interest rate | Variable interest rate | Within 1 | 1-2years | 2-3 | 3+ | Total |
|--|--|------------------------------|----------------|----------------|----------------|----------------|----------------|
| | | | year | K'000 | years | Years | |
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Company | | | | | | | |
| 31 December 2021 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 96,715 | - | - | - | 96,715 |
| Related party payables | Non-interest bearing | | 2,659 | - | - | - | 2,659 |
| Other payables | Non-interest bearing | | 39,488 | - | - | - | 39,488 |
| Bank loans and overdrafts | 9.65% | - | 16,691 | - | - | - | 16,961 |
| Secured loan from other financial institution | 11.00% | - | 1,475 | 1,535 | - | - | 3,010 |
| Secured notes | 7.75% | - | 34,000 | - | - | - | 34,000 |
| Lease liabilities | 12.30% | - | 111,362 | 129,000 | 124,613 | 106,881 | 471,856 |
| Other liabilities | 8.0% | - | 8,824 | 3,335 | - | - | 12,159 |
| | | | 311,484 | 133,870 | 124,613 | 106,881 | 676,848 |

At the end of the reporting period, there were no financial guarantee contracts (2021: Nil).

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Notes to the consolidated financial statements For the year ended 31 December 2022

27. Auditors Remuneration

| | Consolidated | | Company | |
|---------------------------|--------------|------------|------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| | K'000 | K'000 | K'000 | K'000 |
| Deloitte Touche Tohmatsu: | | | | |
| - Audit Fee | 660 | 660 | 660 | 660 |
| - Other services fees | 35 | 36 | 21 | 11 |
| | 695 | 696 | 681 | 671 |

28. Other company information

The total number of employees at the Group level at year end was:

| | Consolidated | | Company | |
|----------------------|--------------|------------|------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| National employees | 555 | 541 | 544 | 526 |
| Expatriate employees | 50 | 53 | 50 | 53 |
| | 605 | 594 | 594 | 579 |

29. Related parties

29.1 Transactions with subsidiaries and affiliated companies

The Group and the Company had the following transactions with related parties that occurred on normal trading terms during the year.

| Related Party | Relationship | Nature of transaction | 2022 | 2021 |
|---|--------------|-------------------------------------|---------------------------------|------------------------------|
| | | | K'000 | K'000 |
| APNG Services Pty Ltd | Subsidiary | Supply of Aircrew Settlement | (972) | (1,268) |
| Galatoire Limited | Subsidiary | Rental charges Maintenance costs | 1,471 (420) | 1,467 (420) |
| PNG Ground Services Limited | Subsidiary | Fuel Sales Settlement | 2,284 (29,111) | 2,069 (21,369) |
| Mineral Resources Development Corporation | Shareholder | Commercial Office rental | 27,665 269 | 18,709 262 |
| Outstanding balances | | | | |
| | | | Related party receivable | Related party payable |
| | | | 2022 | 2021 |
| | | | K'000 | K'000 |
| APNG Services Pty Ltd | | | 499 | 199 |
| Galatoire Limited | | | 1,864 | 1,649 |
| PNG Ground Services Limited | | | - | - |
| Mineral Resources Development Corporation | | | 480 | 1,025 |
| | | | 2,843 | 2,873 |
| | | | 1,447 | 2,659 |

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Notes to the consolidated financial statements For the year ended 31 December 2022

29. Related parties (continued)

29.2 Remuneration of key management personnel

The members of key management personnel during the year follow:

2022

| | | |
|------------------|-----------------|----------------------|
| Anthony Pereira | Glenn Dunstan | Sujeewa Samaranayake |
| Michael Fry | Emmanuel Kadiko | Richard Cadet |
| Richard Clifford | Elias Bade | William Kalipa |
| Adrian Smith | Stanley Stevens | |

2021

| | | |
|----------------------|-----------------|-----------------|
| Richard Cadet | Emmanuel Kadiko | Watson Siarit |
| David William Cooper | William Kalipa | Stanley Stevens |
| Nisaal Chandra Jai | Nancy Nakikus | |
| Bonnie Judas | Simon Pitt | |

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

| | <u>2022</u> | <u>2021</u> |
|---------------------|--------------|--------------|
| | K'000 | K'000 |
| Short-term benefits | <u>5,350</u> | <u>6,494</u> |

The remuneration of key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Key Management changes

- Anthony Pereira resigned as CEO in May 2021 and was replaced by Stanley Stevens in an acting capacity.
- Nisaal Jai was appointed as CFO in May 2021 in Acting Capacity and was confirmed in March 2022.
- Brian Fraser was appointed as CEO in June 2023 taking over from Stanley Stevens.

30. Contingent liabilities

- (i) The Group has provided a letter of credit for approximately K991,543 (A\$401,575) to National Australia Bank for merchant facility.
- (ii) The company has commitments as stated in Note 31.

31. Commitments

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

| | <u>2022</u> | <u>2021</u> |
|------------------|-------------|-------------|
| | K'000 | K'000 |
| 1 to 2 years | 93,068 | 79,354 |
| 3 to 4 years | 15,531 | 26,877 |
| 5 years & longer | - | 2,352 |

The commitments are in respect of (i) delivery of the three new ATR 72-600 aircraft fleet and three new ATR 42-600 aircraft fleet (the commitments were terminated in 2025 and subsequently new agreement for acquisition of three new ATR 42-600 was signed), and (ii) unpaid maintenance reserve.

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Notes to the consolidated financial statements For the year ended 31 December 2022

32. Events after the reporting period

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

Scheme of Creditors

On 15 December 2023, the National Court (Hartshorn J. presiding) approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Approval of the Scheme gave a legal effect to the restructuring of the Company's external debts with its major creditors which has been a focus of the Directors and management's attention for the 2 preceding years. The Company's major creditors entered into letters of intent with the Company detailing the terms on which the Company's indebtedness to those creditors will be materially reduced. Those letters of intent became binding on the Company and its major creditors as a consequence of the National Court approving the Scheme.

Outlined below are the key aspects of arrangements with major creditors:

Lessors

- Two of existing lease agreements were terminated early and the lease term for some other lease agreements were extended;
- Late penalty charges and default interest and lease payments in arrears amounting to USD1.5 million were waived; and
- Repayment terms were agreed for remaining lease payments in arrears.

Finance lenders (banks and note holders)

- Partial waiver of K12.0 million of existing debt; and
- Monthly repayment plan for the remaining outstanding balances to note holders was agreed and no interest will be charged provided that monthly payments are made in full and when due.

Other creditors

- Penalties and interest due amounting to K15.7 million were waived; and
- Monthly repayment plans for the remaining outstanding balances were agreed.

Also, as part of the restructuring, the Company's major shareholders, MRDC and Nasfund, agreed to:

- Convert K58.2 million of previously contributed K70.6 million (included in other contributed equity at 31 December 2019) into shares.
- The remaining amount of K12.4 million was converted into debt in December 2023, of which K10.3 million was forgiven at conversion and K2.1 million is to be repaid in 21 monthly installments commencing in January 2025.

MRDC also provided additional capital of K55 million to the Company during 2023 and 2024, for which additional shares were issued by the Company in 2023 and 2025.

Business Operations and Significant Commitments

- Three (3) new ATR 42-600 were ordered which are scheduled to begin delivery in 2026;
- Two major charter contracts were renewed for a further two years from December 2023;
- Maintenance Organisation Certificate (MOC) renewed for three years expiring 31 October 2027;
- The Group leased one (1) ATR 72-600 in April 2024 for six (6) years;
- In June 2024 the Group, after negotiations with certain lessors, concluded the purchase of all leased Dash 8 aircraft.

Other than the matters described above or elsewhere in the consolidated financial statements, no matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations or state of affairs of the Group in subsequent accounting periods.

33. Approval of financial statements

The financial statements were approved by the directors and authorized for issue on 20 June 2025.

Independent Auditor's Report



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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PNG Air Limited (the "Company") and its subsidiaries (the "Group") which comprise the Group and the Company's statements of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In our opinion, the accompanying financial statements of the Group and the Company, give a true and fair view of the Group's and the Company's financial position as at 31 December 2022 and of their financial performance and their cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of the Companies Act 1997 (amended 2022).

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 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 2022 the Group and the Company have an excess of current liabilities over current assets of K289.9 million and K289.0 million, respectively. 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 and the Company's ability to continue as going concerns. 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 financial statements of the Group for the current period. These matters were addressed in the context of our audit of the 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 matters described below to be the key audit matters to be communicated in our report.

Independent Auditor's Report



| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| <p>Valuation of the Group's owned aircrafts</p> <p>The carrying value of the Group's owned aircrafts as at 31 December 2022 was K57.48 million.</p> <p>The Group applies the revaluation model for its owned aircrafts and at the end of each reporting period estimates the fair value of its owned aircrafts taking into consideration factors such as changes in fleet composition, market values and technical factors.</p> <p>We have identified the carrying value of aircraft as a key audit matter because of its significance to the consolidated financial statements.</p> | <p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none">• Obtaining an understanding of the relevant controls associated with the preparation and review of the Group's owned aircraft valuations• Assessing the reasonableness of management's judgements, assumptions 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• Challenging and assessing the reasonableness of assumptions and judgements used by management, taking into account recent developments in the airline industry and future operating plans. <p>We also assessed the completeness and accuracy of the disclosures in the consolidated financial statements.</p> |

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Directors' Declaration for the year ended 31 December 2022, which we obtained prior to the date of this auditor's report, and the Group and Company's annual report, 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies Act 1997 (amended 2022) and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view of the financial position and performance of the Group and the Company and are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report



In preparing the financial statements, the directors are responsible for assessing the ability of the Group and the Company 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 and the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the 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 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 and the Company'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 and the Company'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 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 and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

Independent Auditor's Report

Deloitte.

We also provide the directors 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 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.

Report on Other Legal and Regulatory Requirements

In accordance with section 200 of the Companies Act 1997 (*amended 2022*), in our opinion:

- We obtained all information and explanations that were required; and
- Proper accounting records have been kept by the Group and the Company for the year ended 31 December 2022.

We also provided PNG Air Limited and its subsidiaries with tax compliance services.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Herbert Maguma

Partner

Registered under the Accountants Act 1996

Port Moresby, 20 June 2025

PNG Air Limited

Consolidated Financial Statements
for the year ended 31 December 2021

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 2021. In order to comply with the provisions of the Companies Act 1997 (amended 2022), the directors report as follows:

The Directors

The names and particulars of the directors during or since the end of the financial year are:

| | |
|--------------------|---------------------|
| Mr. Augustine Mano | Ms. Valentina Kaman |
| Mr. Simon Woolcott | Mr. Andrew Ogil |
| Mr. Edward Matane | Mr. Andrew Crompton |
| Mr. Watt Kiddie | |

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

- Mr. Andrew Crompton was appointed on 4 November 2020 and resigned from 1 December 2022.
- Mr. Andrew Ogil was appointed as an Independent Director on 10 December 2019 and appointed as the Chairman of Remuneration and Nomination Committee in August 2021 and resigned on 4 April 2023.
- Mr. Watt Kiddie was appointed the Chairman of the Audit and Risk Committee in April 2019 and was appointed as Deputy Chairman on 30 July 2021.
- Mr. Augustine Mano was appointed as Chairman on 30 July 2021.
- Ms. Valentina Kaman was appointed as a director in April 2023 is the current Chairlady of the Remuneration and Nomination Committee.
- Mr. Simon Woolcott resigned effective from 2 February 2019 and later re-appointed on 27 May 2024.

Company Secretary

The company secretary as at 31 December 2021 was Nisaal Jai. Deborah Poya replaced Nisaal Jai on 3 May 2022.

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. For the year ended 31 December 2021, the Group reported a pre-tax loss of K36.7 million (2020: pre-tax loss of K79.6 million).

The Company is listed on Papua New Guinea’s National Stock Exchange (“PNGX”). PNGX suspended the securities of PNG Air Limited from official quotation on the 15 January 2019 following the Company’s failure to lodge its periodic reports on a timely manner. The securities remain suspended at the date of approval of these financial statements.

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 which supplies 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 Notes 2.1 and 2.2, there has been no other changes in accounting policies during the current year.

DIRECTORS REPORT

Disclosure of interest and other directorship

The disclosure on Directors interest and other directorships is provide below:

| Name of Director | Organisation | Interest |
|--------------------------------------|---|---------------------------|
| Augustine Mano | PNG Air Ltd | Board Director & Chairman |
| | 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 |
| | Ok Tedi Mining Limited | Director |
| | GFS Limited | Director |
| | 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 |
| | CIVPAC Limited | Chairman |
| | Handy Group Limited | Chairman |
| | SMA Investments | Chairman |
| | Bogasi Investments Ltd | Director |
| | PNG Ground Services (subsidiary of PNG Air) | Director |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | Andrew Ogil | PNG Air Ltd |
| North QLD & Northern Territory | | PNG Consul in Cairns |
| Air Niugini | | CEO / Managing Director |
| Civil Aviation Authority | | CEO / Managing Director |
| Tropic Group | | Director |
| PNG Power | | Board Chairman |
| Missionary Aviation Fellowship (MAF) | | Board Member |

DIRECTORS REPORT

Directors' report (continued)

Disclosure of interest and other directorship (continued)

| Name of Director | Organisation | Interest |
|-----------------------|---|--|
| Watt Kiddie | PNG Air Ltd | Board Director & Deputy Chairman |
| | First National Insurance Brokers Ltd | Director |
| | Wooner Trading Limited | Director |
| | Diamond Finance Limited | Director |
| | Business Arm of the Lutheran Renewal Church of PNG | Director/Chairman |
| | WK Kiddie PNG Peace & Gutpela Sindaun Foundation Inc. | Principal Custodian and Founder |
| | Lutheran Renewal Investments Group Limited | Chairman |
| | Hanrick Curran Kiddie Limited | Director |
| | Statutory Committee of Board | Chairman |
| | PNG Air BARCC Committee | Chairman |
| Andrew Crompton | PNG Air Ltd | Board Member (resigned) |
| | Coastwatchers Court Ltd | Chairman |
| | Moki No 10 Limited | Chairman |
| | OPH Limited | Chairman |
| | Pacific Capital Partners (PNG) Limited | Board Member |
| | Rangeview Heights Limited | Chairman |
| Waigani Asset Limited | Chairman | |
| Edward Matane | PNG Air Ltd | Board Director |
| | Matsi Holdings Ltd | Director |
| | Pacific Helicopters Ltd | CEO |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | PNG Ground Services Limited (subsidiary of PNG Air) | Director |
| Simon Woolcott | PNG Air Ltd | Board Director |
| | TISA | Director and ARC Member |
| | TISA Bank | Director & Chairman of Audit Committee |
| | Capital Insurance Group | Director & Chairman of Audit Committee |
| | BKS Services | Managing Director |
| | MRDC | Chief Finance Officer |
| Valentina Kaman | PNG Air Limited | Board Director |
| | PNG Air RNC Committee | Chairperson |
| | Mineral Resource Development Company Limited | Manager Legal |
| | Mineral Resources Star Mountain Limited | Manager Legal & Company Secretary |
| | Mineral Resources CMCA Holdings Limited | Manager Legal & Company Secretary |
| | Mineral Resources OK Tedi Limited | Manager Legal & Company Secretary |
| | Business Professional Women's Club | Vice President |
| | Piku Conservation Network | Director |
| | Malma Holdings Limited | Shareholder & Director |

DIRECTORS REPORT

Directors' report (continued)

Directors' remuneration

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

| Director | 2021 K | 2020 K |
|--|-----------|-----------|
| Augustine Mano | 50,000 | 55,496 |
| Edward Matane | 50,000 | 56,496 |
| Watt Kiddie | 50,000 | 56,496 |
| William Lamur (resigned in September 2020) | - | 38,668 |
| Andrew Ogil | 50,000 | 54,808 |
| Andrew Crompton | 50,000 | - |
| Simon Woolcott (resigned in February 2020 and reappointed in May 2024) | - | - |
| Valentina Kaman (appointed in April 2023) | - | - |

Remuneration above K100,000 per annum

| Remuneration K'000 | 2021 Nos. | 2020 Nos. | Remuneration K'000 | 2021 Nos. | 2020 Nos. |
|-----------------------|--------------|--------------|-----------------------|--------------|--------------|
| 100 – 110 | 5 | 11 | 360 – 370 | 2 | 3 |
| 110 – 120 | 1 | 11 | 370 – 380 | - | - |
| 120 – 130 | 6 | 11 | 380 – 390 | - | - |
| 130 – 140 | 7 | 9 | 390 – 400 | 2 | 2 |
| 140 – 150 | 4 | 9 | 400 – 410 | 2 | 2 |
| 150 – 160 | 3 | 5 | 410 – 420 | 1 | - |
| 160 – 170 | 2 | 2 | 420 – 430 | 3 | 3 |
| 170 – 180 | 4 | 4 | 430 – 440 | 2 | - |
| 180 – 190 | 1 | 1 | 440 – 450 | 1 | - |
| 190 – 200 | 2 | 6 | 450 – 460 | 1 | 2 |
| 200 – 210 | 3 | - | 460 – 470 | - | - |
| 210 – 220 | 4 | 6 | 470 – 480 | - | 2 |
| 220 – 230 | 4 | 9 | 480 – 490 | - | - |
| 230 – 240 | 2 | 1 | 490 – 500 | 2 | - |
| 240 – 250 | 2 | 5 | 500 – 510 | - | - |
| 250 – 260 | 1 | 2 | 510 – 520 | - | 1 |
| 260 – 270 | 1 | 2 | 520 – 530 | 1 | - |
| 270 – 280 | 1 | 3 | 530 – 540 | - | - |
| 280 – 290 | 3 | 5 | 540 – 550 | 1 | - |
| 290 – 300 | 2 | 2 | 550 – 560 | - | - |
| 300 – 310 | 2 | - | 570 – 580 | - | - |
| 310 – 320 | 4 | 6 | 590 – 600 | - | - |
| 320 – 330 | 2 | 5 | 610 – 620 | - | - |
| 330 – 340 | 5 | 3 | 700 – 800 | 1 | 1 |
| 340 – 350 | 2 | 1 | 800 – 900 | - | - |
| 350 – 360 | 2 | - | 1,100 – 1,600 | - | 1 |

Corresponding last year's figure has been adjusted at 2021 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.

Dividends

There were no dividends declared during the year by the Group (2020: Nil).

DIRECTORS REPORT

Directors' report (continued)

Donations

There were no donations made during the year by the Group (2020: 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 pages 174-177. Audit fees and non-audit fees are disclosed at Note 26.

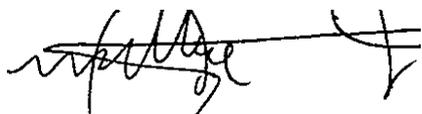
Registered office and principal place of business

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, 20 June 2025



Watt Kiddie
Director
Port Moresby, 20 June 2025

FINANCIALS

Consolidated statement of profit or loss for the year ended 31 December 2021

| | Notes | Consolidated | | Company | |
|---|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Revenue | 5.1 | 210,595 | 192,732 | 209,722 | 191,668 |
| Cost of sales | 5.3 | (126,842) | (107,282) | (127,169) | (107,153) |
| Gross profit | | 83,753 | 85,450 | 82,553 | 84,515 |
| Other income/ (expense), net | 5.2 | 3,969 | (3,921) | 3,969 | (3,921) |
| Operational expenses | 5.4 | (52,365) | (81,085) | (51,636) | (80,381) |
| Occupancy expenses | 5.6 | (4,843) | (4,576) | (4,872) | (4,584) |
| Administration expenses | 5.5 | (25,243) | (29,533) | (25,176) | (29,467) |
| Finance costs | 7 | (41,986) | (45,901) | (41,853) | (45,746) |
| Loss before tax | | (36,715) | (79,566) | (37,015) | (79,584) |
| Income tax benefit | 8.1 | 809 | 12,246 | 912 | 12,359 |
| LOSS FOR THE YEAR | | (35,906) | (67,320) | (36,103) | (67,225) |
| Loss Per Share | | | | | |
| Basic and diluted loss per share (toea) | 17 | (11.65) | (21.84) | (11.71) | (21.81) |

The attached notes from pages 135 to 173 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of comprehensive income for the year ended 31 December 2021

| | Notes | Consolidated | | Company | |
|--|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| LOSS FOR THE YEAR | | (35,906) | (67,320) | (36,103) | (67,225) |
| Other comprehensive income/(loss) <i>Items that will not be reclassified subsequently to profit or loss:</i> | | | | | |
| Loss on revaluation of non-current assets, net of tax | 18 | - | (3,882) | - | (3,882) |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Exchange difference on translation of foreign operation | 19 | 1 | (8) | - | - |
| Other comprehensive income/(loss) for the year net of tax | | 1 | (3,890) | - | (3,882) |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | (35,905) | (71,210) | (36,103) | (71,107) |

The attached notes from pages 135 to 173 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of financial position at 31 December 2021

| | Notes | Consolidated | | Company | |
|--------------------------------------|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Assets | | | | | |
| <i>Non-current assets</i> | | | | | |
| Property, plant and equipment | 11 | 138,623 | 136,386 | 137,003 | 135,521 |
| Right of use assets | 22.1 | 242,493 | 279,850 | 241,086 | 278,218 |
| Other financial assets | 12 | 10,956 | 9,877 | 10,976 | 9,897 |
| Deferred tax assets, net | 8.2 | 4,379 | 3,426 | 4,476 | 3,564 |
| Other assets | 13 | 73,469 | 68,621 | 73,469 | 68,621 |
| Total non-current assets | | 469,920 | 498,160 | 467,010 | 495,821 |
| <i>Current assets</i> | | | | | |
| Inventories | 14 | 10,680 | 10,657 | 10,077 | 10,135 |
| Trade and other receivables | 15 | 24,101 | 16,533 | 23,993 | 16,348 |
| Cash and bank balances | 10 | 3,114 | 4,253 | 2,760 | 4,194 |
| Other assets | 13 | 12,379 | 9,980 | 14,186 | 10,844 |
| Total current assets | | 50,274 | 41,423 | 51,016 | 41,521 |
| Total assets | | 520,194 | 539,583 | 518,026 | 537,342 |
| <i>Non-current liabilities</i> | | | | | |
| Provisions | 23 | 21,205 | 21,934 | 21,172 | 21,913 |
| Lease liabilities | 22.2 | 260,447 | 292,478 | 258,868 | 290,861 |
| Borrowings | 20 | 2,587 | 27,831 | 2,587 | 27,831 |
| Other liabilities | 21 | 3,178 | 6,083 | 3,178 | 6,083 |
| Total non-current liabilities | | 287,147 | 348,326 | 285,805 | 346,688 |
| <i>Current liabilities</i> | | | | | |
| Provisions | 23 | 2,610 | 2,144 | 2,587 | 2,127 |
| Lease liabilities | 22.2 | 78,697 | 69,810 | 78,484 | 69,614 |
| Borrowings | 20 | 46,055 | 32,357 | 46,055 | 32,357 |
| Trade and other payables | 24.1 | 141,024 | 84,064 | 141,371 | 84,143 |
| Revenue received in advance | 24.2 | 12,071 | 14,906 | 12,071 | 14,906 |
| Other liabilities | 21 | 8,395 | 8,146 | 8,395 | 8,146 |
| Total current liabilities | | 288,852 | 211,427 | 288,963 | 211,293 |
| Total liabilities | | 576,269 | 559,753 | 574,768 | 557,981 |
| Net liabilities | | (56,075) | (20,170) | (56,742) | (20,639) |
| Equity | | | | | |
| Issued capital | 16.1 | 77,271 | 77,271 | 77,271 | 77,271 |
| Other contributed equity | 16.2 | 70,563 | 70,563 | 70,563 | 70,563 |
| Revaluation reserve | 18 | 490 | 490 | 490 | 490 |
| Accumulated losses | 19 | (204,399) | (168,494) | (205,066) | (168,963) |
| Total equity | | (56,075) | (20,170) | (56,742) | (20,639) |

The attached notes from pages 135 to 173 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of changes in equity for the year ended 31 December 2021

| Consolidated | Issued capital K'000 | Other contributed equity K'000 | Revaluation reserve K'000 | Accumulated losses K'000 | Total K'000 |
|---------------------------------|----------------------------|---|---------------------------------|--------------------------------|-----------------|
| At 1 January 2020 | 77,271 | 70,563 | 4,372 | (101,166) | 51,040 |
| Loss for the year | - | - | - | (67,320) | (67,320) |
| Other comprehensive loss | - | - | (3,882) | (8) | (3,890) |
| Total comprehensive loss | - | - | (3,882) | (67,328) | (71,120) |
| At 31 December 2020 | 77,271 | 70,563 | 490 | (168,494) | (20,170) |
| Loss for the year | - | - | - | (35,906) | (35,906) |
| Other comprehensive income | - | - | - | 1 | 1 |
| Total comprehensive loss | - | - | - | (35,905) | (35,905) |
| At 31 December 2021 | 77,271 | 70,563 | 490 | (204,399) | (56,075) |

| Company | Issued capital K'000 | Other contributed equity K'000 | Revaluation reserve K'000 | Accumulated losses K'000 | Total K'000 |
|---------------------------------|----------------------------|---|---------------------------------|--------------------------------|-----------------|
| At 1 January 2020 | 77,271 | 70,563 | 4,372 | (101,738) | 50,468 |
| Loss for the year | - | - | - | (67,225) | (67,225) |
| Other comprehensive loss | - | - | (3,882) | - | (3,882) |
| Total comprehensive loss | - | - | (3,882) | (67,225) | (71,107) |
| At 31 December 2020 | 77,271 | 70,563 | 490 | (168,963) | (20,639) |
| Loss for the year | - | - | - | (36,103) | (36,103) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive loss | - | - | - | (36,103) | (36,103) |
| At 31 December 2021 | 77,271 | 70,563 | 490 | (205,066) | (56,742) |

The attached notes from pages 135 to 173 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of cash flows for the year ended 31 December 2021

| Notes | Consolidated | | Company | |
|---|-------------------|-----------------|-----------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Cash flows from operating activities | | | | |
| Receipts from customers | 205,320 | 199,924 | 204,376 | 198,819 |
| Payments to suppliers and employees | (113,696) | (123,782) | (114,097) | (122,100) |
| Cash generated from operations | 91,624 | 76,142 | 90,279 | 76,719 |
| Income tax paid | (18) | (12) | - | - |
| Interest paid | (37,836) | (22,047) | (37,740) | (21,892) |
| Net cash generated from operating activities | 53,770 | 54,083 | 52,539 | 54,827 |
| Cash flows from investing activities | | | | |
| Payments for property, plant and equipment | (13,223) | (28,341) | (12,376) | (28,292) |
| Proceeds from disposal of property, plant and equipment | 1,289 | 83 | 1,289 | 83 |
| Net cash used in investing activities | (11,934) | (28,258) | (11,087) | (28,209) |
| Cash flows from financing activities | | | | |
| Net repayments of borrowings | | | | |
| - Financial institutions and noteholders | (11,351) | (3,178) | (11,351) | (3,178) |
| - Other | (1,866) | (1,757) | (1,866) | (1,757) |
| Receipts from/ (payments to) related parties | - | - | 22 | (767) |
| Principal payment of lease liabilities | (29,560) | (17,249) | (29,493) | (17,127) |
| Net cash used in financing activities | (42,777) | (22,184) | (42,688) | (22,829) |
| Net change in cash and cash equivalents | (941) | 3,641 | (1,236) | 3,789 |
| Cash and cash equivalents at the beginning of the year | (6,589) | (10,230) | (6,648) | (10,437) |
| Cash and cash equivalents at the end of the year | 10 (7,530) | (6,589) | (7,884) | (6,648) |

The attached notes from pages 135 to 173 form part of these consolidated financial statements

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Notes to the consolidated financial statements For the year ended 31 December 2021

1. General information

PNG Air Limited (the 'Parent' or 'Parent Company') is incorporated in Papua New Guinea (PNG). 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 Notes 6 and 9.

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 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 in March 2020 due to a State of Emergency lockdown in an effort to contain the spread of coronavirus pandemic. The Group partially resumed its operations on 7 April 2020.

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

2.1 New and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amended IFRS Accounting Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2021.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2*

The adoption of these amended IFRS Standards and Interpretations has not had any material impact on the disclosures or on the amounts reported in these financial statements.

2.2 New, amendments, and revised accounting standards in issue but not yet effective for the year ended 31 December 2021 and not early adopted

At the date of authorisation of these financial statements, the Group and the Company have not applied the following revised IFRS Accounting Standards that have been issued but are not yet effective:

| Standards | Description | Effective for annual reporting periods beginning on or after |
|---|---|--|
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2022 |
| Amendments to IFRS 3 | Reference to conceptual Framework | 1 January 2022 |
| Amendments to IAS 16 | Property, Plant and Equipment—Proceeds before Intended Use | 1 January 2022 |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract | 1 January 2022 |
| Annual Improvements to IFRS Standards 2018-2021 Cycle | Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture | 1 January 2022 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| IFRS 17 (including the June 2021 amendments to IFRS 17) | Insurance Contracts | 1 January 2023 |
| Amendments to IAS 8 | Definition of Accounting Estimates | 1 January 2023 |
| Amendments to IAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |
| Amendment to IFRS 16 | Leases on sale and leaseback | 1 January 2024 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current. The IASB has aligned the effective date with the 2022 amendments to IAS. | 1 January 2024 |
| Amendments to IAS 1 | Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7 | Supplier Finance Arrangements | 1 January 2024 |
| Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2025 |

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2021

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

2.2 New, amendments, and revised accounting standards in issue but not yet effective for the year ended 31 December 2021 and not early adopted (continued)

| Standards | Description | Effective for annual reporting periods beginning on or after |
|---------------------------------|---|--|
| Amendments to IAS 21 | Lack of Exchangeability | 1 January 2025 |
| Amendments to IFRS 9 and IFRS 7 | Amendments to the Classification and Measurement of Financial Instruments | 1 January 2026 |
| IFRS 18 | Presentation and Disclosures in Financial Statements | 1 January 2027 |
| IFRS 19 | Subsidiaries without Public Accountability: Disclosures | 1 January 2027 |

The directors anticipate that the application of the above Standards and amendments to them may have an impact on the financial statements of the Group and the Company in future periods.

3. Material accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS Accounting Standards) and the requirements of the Papua New Guinea *Companies (Amended) Act 2022*.

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 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 (K'000) 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.

Going concern

The consolidated financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Financial metrics

For the year ended 31 December 2021, the Group and the Company reported a net loss of K35.9 million and K36.1 million, respectively (2020: net loss of K67.3 million and K67.2 million) and generated net cash inflows from operating activities of K53.8 million and K52.5 million (2020: net cash inflows of K54.1 million and K54.8 million).

As at 31 December 2021, the Group and the Company had negative cash and cash equivalents of K7.5 million and K7.9 million, respectively (31 December 2020: K6.6 million and K6.6 million) and net current liabilities of K238.6 million and K237.9 million (31 December 2020: K170.0 million and K169.8 million).

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2021

3.2 Basis of preparation (continued)

Impact of COVID 19 on operations and financial position

The COVID-19 pandemic started in early 2020 which led to unprecedented disruptions in global air travel, resulting in a sharp decline in passenger demand, widespread flight cancellations, and prolonged travel restrictions. In Papua New Guinea, these factors have significantly reduced the Group's revenue-generating capacity. Despite implementing cost-reduction measures, including workforce reductions, renegotiation of supplier contracts, and deferral of non-essential expenditures, the Group experienced substantial operating losses and liquidity constraints.

As a consequence of the sustained reduction in revenue and liquidity pressures, the Group was unable to meet certain payment obligations to its creditors, including lease payments for aircraft, interest payments on borrowings, and other trade payables.

The Directors and management took the following steps to mitigate the impact of the pandemic, improve the Group's liquidity position and ensure the Group has sufficient funding to meet its operating and capital expenditures as they fall due:

Cost Reduction Initiatives

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

The Group has established a cost committee and implemented several cost-cutting measures, including workforce reductions, salary cuts, deferral of non-essential capital expenditures and re-structuring the Group's organisational structure to eliminate duplication and increase productivity.

Creditors Scheme

On 15 December 2023, the National Court approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Details of the scheme are contained in Note 31.

Three-year Strategic Plan

On 10 December 2024, the Directors endorsed a three-year Strategic plan for 2025 to 2027 aimed to grow the Group and leverage the improved operational capabilities to drive earnings and performance. Outlined below are the key aspects of this strategic plan:

- The Group continuing to focus on improving its performance, including:
 - Retire and dispose the Dash 8 fleet and reinvest the net realisable value to fund turnaround initiatives.
 - Source additional aircrafts at competitive rates to replace the Dash 8 fleet and increase the fleet capacity.
 - Growing the passenger 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
- Re-negotiating current lease rental payments as part of cash flow relief;
- Pursue the raising of additional capital to fund any shortfall in working capital;
- Re-structuring the Group's organisational structure to eliminate duplication and increase productivity with an aim to reduce costs;
- Continuing support from financial lenders. This includes the extension of the financing facilities with BSP; and
- Continuing 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.

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2021

3.2 Basis of preparation (continued)

Letter of Support

The Company's directors have obtained a letter of financial support from the Company's largest shareholder, MRDC, which confirms that it will provide sufficient financial assistance as needed to enable the Company and the Group to continue as a going concern and to satisfy their debts and commitments as they become due and payable for a period of at least 12 months from the date of signing these consolidated financial statements.

MRDC has also confirmed that:

- It has no plans or intentions to liquidate the Company or the Group or to cease its trading within the next 12 months from the date of signing of the consolidated financial statements;
- It has no plans that may materially affect the carrying value or classification of the Group's assets and liabilities; and
- It is financially sustainable and will not demand payment of any amounts due to it or any of its controlled entities until such time when the Company and the Group have sufficient cash to settle such amounts due to it or to any of its controlled entities.

In addition, in April 2025 MRDC agreed to provide guarantees in favour of DAE, as aircraft lessor, and BSP, as lead financier, to support the Group's plans to re-negotiate lease rental payments and to extend the financing facilities, respectively.

As a result of the above actions taken by Directors and management, the Group's forecast cash flows indicate that the Group will have a surplus of liquidity throughout the twelve-month period from the date of signing these consolidated financial statements. The achievement of the Group's forecast is primarily dependent, amongst other matters, upon:

- the successful implementation of the strategic plan, including sourcing additional aircraft by the end of 2025;
- the Group's ability to obtain the necessary funding to maintain the Group's liquidity position;
- continued implementation of the Group's cost reduction initiatives; and
- the continued support of the Group's major shareholder, financial lenders and scheme creditors.

Notwithstanding that the respective outcomes of the matters referred to above are not entirely within the control of the Group, the Directors are confident, based on achievement of previous milestones, that the Group can achieve successful outcomes. Accordingly, the Directors have determined that it is appropriate for the Company and the Group to continue to adopt the going concern basis in preparing these consolidated financial statements.

Should the Group not be able to achieve successful outcomes in respect of the above matters, a material uncertainty would exist which may cast significant doubt regarding the Company and the Group's ability to continue as a going concern and therefore whether they will be able to realise their assets and discharge their liabilities in the normal course of business. The consolidated 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 Company and the Group be unable to continue as a going concern.

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. 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:

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.2 Basis of preparation (continued)

- 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.

3.3 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.

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.

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.

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.

3.4 Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.4.1 Revenue from carriage of passenger and freight

Revenue from carriage of passengers and freight is recognised at the time the passenger or cargo 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.

3.4.2 Revenue from charters

Revenue from charters is recognised at the time the passenger or cargo is uplifted for carriage and includes other handling and fuel re-charges.

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.4 Revenue recognition (continued)

3.4.3 Revenue from sale of fuel

Revenue from fuel sale is recognised when fuel is supplied to aircraft operators, which are final customers of the Group.

Interest income

3.4.4 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.

3.5 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease, that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and a corresponding lease liability is recognised with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.5.1 Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

| | |
|---------------|--------------|
| Aircraft | 3 - 12 years |
| Office leases | 3 - 8 years |

The right-of-use assets are also subject to impairment. Refer to the accounting policy in Note 3.9.3.

3.5.2 Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.5 Leases (continued)

3.5.3 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3.5.4 Lease provisions

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.

3.6 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 profit or loss 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.

3.7 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.

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.8 Taxation

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

3.8.1 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.

3.8.2 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.

3.8.3 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.

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.8 Taxation (continued)

3.8.4 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.

3.9 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.

Owned 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

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 accumulated impairment losses. Revaluations for 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 owned aircraft and rotatable parts are recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously expensed.

Freehold land is not depreciated.

Other 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.

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 vehicles | 30.00% straight line |

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.9 Property, plant and equipment (continued)

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.

3.9.1 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.

3.9.2 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.

3.9.3 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.

3.10 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.

3.11 Provisions

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

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

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

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.12 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.

3.12.1 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.

Financial assets at amortised cost

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

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

Cash and cash equivalents

For statement of cash flows purposes, cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts.

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..

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.12 Financial instruments (continued)

3.12.1 Financial assets (continued)

(i) Significant increase in credit risk

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.

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. Notes to the consolidated financial statements.

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.12 Financial instruments (continued)

3.12.1 Financial assets (continued)

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.

3.12.2 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 5.2) 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.

3.13 Maintenance reserve deposits

Maintenance reserve deposits 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 reserve deposits 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.

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Notes to the consolidated financial statements For the year ended 31 December 2021

3.14 Pre-delivery payments

Pre-delivery payments are capitalised and represent deposits made with aircraft manufacturers for future delivery of aircraft. Upon delivery of aircraft, these are transferred to leased or owned aircrafts and subsequently depreciated.

3.15 Security deposits

Security deposits are deposits made with aircraft financiers or operating lessors to provide security for future maintenance work or lease payments. These security deposits for leased aircraft are recorded at their present value when payment terms extend beyond one year discounted using the incremental borrowing rate at the inception of the lease and amortised over the lease term.

3.16 Revaluation reserve

The revaluation reserve primarily arises on the revaluation of aircraft and rotables. Any revaluation increase arising on the revaluation of owned aircraft and rotatable parts are recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously expensed. At the date of the revaluation, the accumulated depreciation is eliminated against the gross carrying amount of owned aircraft and rotatable parts and net carrying amount is adjusted to reflect the fair values at the date of the revaluation.

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 Leased Aircrafts

For aircraft held under lease agreements, the Group is contractually committed to return the leased aircraft in a certain condition which includes completion of certain maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts. The provision for lease return costs for these leased aircraft is determined based on the best estimate of the costs that will be incurred to fulfil the stipulated lease return conditions.

At the inception of the lease, management estimates 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 right-of-use 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 at each reporting period and, when warranted, adjusts its assumptions.

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Notes to the consolidated financial statements For the year ended 31 December 2021

4. Critical judgements in applying accounting estimates (continued)

4.1 Critical judgements in applying accounting policies (continued)

Useful Lives, Depreciation Method and Residual Values of Property, Aircraft and Equipment, including Right-of-use assets

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. Depreciation method is based on management's judgment of the most appropriate method an asset's future economic benefit expected to be consumed. Among other factors, management considered industry standards, manufacturers' guidelines and company-specific history and experience. Useful lives are estimated based on internal technical evaluation and experience with similar assets.

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

The Group's owned aircraft are measured at fair value for financial reporting purposes. The 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. During periods where no external valuation is performed, Directors assess the fair value of aircraft with reference to any significant change in current market conditions from the last external valuation performed.

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 expected 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.

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Notes to the consolidated financial statements For the year ended 31 December 2021

4. Critical judgements in applying accounting estimates (continued)

4.2 Key sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete inventories

Inventory obsolescence is recognised on the basis of inventory ageing, therefore, in general, 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. The Group also reviews its inventories at year period end and recognise a specific allowance as necessary.

5. Revenue and costs

An analysis of revenue and costs for the year is as follows:

| | Consolidated | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| 5.1 Revenue from contracts with customers | | | | |
| Revenue from carriage of passenger and freight | 126,448 | 153,766 | 126,448 | 153,766 |
| Revenue from charters | 83,274 | 37,902 | 83,274 | 37,902 |
| Revenue from sale of fuel | 873 | 1,064 | - | - |
| | 210,595 | 192,732 | 209,722 | 191,668 |
| 5.2 Other income/ (expense), net | | | | |
| Interest income | 1,096 | 1,295 | 1,096 | 1,295 |
| Aircraft operator lease income | 1,686 | 2,574 | 1,686 | 2,574 |
| Rent received | 93 | 62 | 93 | 62 |
| Realised foreign currency gain | (129) | (15) | (129) | (15) |
| Unrealised foreign currency gain/ (loss) | 404 | (10,239) | 404 | (10,239) |
| Loss on the sale of plant and equipment | (1,013) | (783) | (1,013) | (783) |
| Aircraft handling income | 627 | 1,898 | 627 | 1,898 |
| Engineering sales | 111 | 59 | 111 | 59 |
| Other revenue | 1,094 | 1,229 | 1,094 | 1,229 |
| | 3,969 | (3,921) | 3,969 | (3,921) |
| 5.3 Cost of sales | | | | |
| Direct activity costs | (4,592) | (6,521) | (4,093) | (5,960) |
| Short term leases | (575) | (562) | - | - |
| Fuel, air navigation and landing costs | (35,378) | (27,861) | (36,779) | (28,855) |
| Engineering costs | (31,241) | (18,350) | (31,241) | (18,350) |
| Depreciation of aircraft and rotables | (6,875) | (5,943) | (6,875) | (5,943) |
| Amortisation of right of use assets – aircraft | (38,080) | (37,501) | (38,080) | (37,501) |
| Aircraft insurance costs | (7,837) | (7,370) | (7,837) | (7,370) |
| Commission and agent fees | (2,264) | (3,174) | (2,264) | (3,174) |
| | (126,842) | (107,282) | (127,169) | (107,153) |
| 5.4 Operational expenses | | | | |
| Crew and engineering staff costs | (33,268) | (36,785) | (33,268) | (36,785) |
| Other operational staff costs | (11,727) | (12,010) | (11,392) | (11,713) |
| Amortisation of right of use assets – offices | (2,704) | (2,645) | (2,469) | (2,412) |
| Loss on aircraft and rotables revaluation (Note 11) | - | (25,432) | - | (25,432) |
| Other operational costs | (4,666) | (4,213) | (4,597) | (4,039) |
| | (52,365) | (81,085) | (51,636) | (80,381) |
| 5.5 Administration expenses | | | | |
| Management and other administrative staff costs | (10,635) | (13,119) | (10,635) | (13,119) |
| Bank charges | (1,071) | (1,404) | (1,071) | (1,404) |
| Fines and penalties | (6,696) | (7,484) | (6,696) | (7,484) |
| Depreciation of property, plant and equipment | (1,772) | (1,566) | (1,717) | (1,511) |
| Subscription and publication costs | (1,227) | (1,273) | (1,227) | (1,273) |
| Other administration costs | (3,842) | (4,687) | (3,830) | (4,676) |
| | (25,243) | (29,533) | (25,176) | (29,467) |

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Notes to the consolidated financial statements For the year ended 31 December 2021

5. Revenue and costs (continued)6.1 Operating segments

| | Consolidated | | Company | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| 5.6 Occupancy expenses | | | | |
| Electricity and other utilities | (1,351) | (1,249) | (1,323) | (1,218) |
| Security expenses | (2,671) | (2,455) | (2,354) | (2,120) |
| Insurance expenses | (302) | (237) | (302) | (237) |
| Short term leases | (45) | (93) | (450) | (506) |
| Property maintenance expenses | (474) | (542) | (443) | (503) |
| | (4,843) | (4,576) | (4,872) | (4,584) |

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 | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Interest on loans | (1,892) | (1,952) | (1,892) | (1,952) |
| Interest on bank overdraft | (2,403) | (1,982) | (2,403) | (1,982) |
| Interest on leases | (37,511) | (40,427) | (37,387) | (40,272) |
| Other interests | (180) | (1,540) | (180) | (1,540) |
| | (41,986) | (45,901) | (41,853) | (45,746) |

8. Income taxes

8.1 Income tax recognised in consolidated statement of profit or loss

| | Consolidated | | Company | |
|--------------------------|--------------|-----------------|--------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Current tax expense | 144 | 12 | - | - |
| Deferred tax benefit | (953) | (12,258) | (912) | (12,359) |
| Total tax benefit | (809) | (12,246) | (912) | (12,359) |

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Notes to the consolidated financial statements For the year ended 31 December 2021

8. Income taxes (continued)

8.1 Income tax recognised in consolidated statement of profit or loss (continued)

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

| | Consolidated | | Company | |
|--|--------------|-----------------|--------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Loss before tax | (36,715) | (79,566) | (37,015) | (79,584) |
| Income tax expense calculated at 30% | (11,015) | (23,984) | (11,105) | (23,989) |
| Effect of expenses that are not deductible in determining taxable profit | 2,022 | 1,164 | 2,009 | 1,056 |
| Effect of tax losses not recognised as deferred tax asset | 8,184 | 10,574 | 8,184 | 10,574 |
| Income tax benefit | (809) | (12,246) | (912) | (12,359) |

The tax rate used for the 2021 and 2020 reconciliations above is the corporate tax rate of 30% payable by corporate entities under tax law that have been enacted or substantively enacted by reporting date.

8.2 Deferred taxes

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

| | Consolidated | | Company | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Expected credit loss | 60 | 60 | 43 | 43 |
| Leave entitlements | 2,154 | 2,533 | 2,137 | 2,522 |
| Return conditions | 4,991 | 4,690 | 4,991 | 4,690 |
| Stock obsolescence | 2,290 | 2,013 | 2,290 | 2,013 |
| Leases | 21,248 | 13,221 | 21,133 | 13,167 |
| Unrealised foreign exchange losses | (121) | 1,376 | (121) | 1,376 |
| Tax losses | 6,292 | 6,309 | 6,226 | 6,226 |
| Others | 3 | 3 | - | - |
| Inventory | (5,313) | (5,054) | (5,313) | (5,054) |
| Property, plant and equipment | (26,768) | (21,145) | (26,453) | (20,840) |
| Prepayments | (457) | (580) | (456) | (579) |
| Deferred tax assets, net | 4,379 | 3,426 | 4,476 | 3,564 |

The table below summarises the amount and expiry date of carry forward tax losses and amount of tax losses for which no deferred tax asset is recognised in the statement of financial position;

| Year of expiry | Carry forward tax losses | Tax losses where deferred tax are not recognised |
|----------------|--------------------------|--|
| | K'000 | K'000 |
| 2025 | 200,465 | 179,711 |
| 2026 | 35,247 | 35,247 |
| 2027 | 27,276 | 27,276 |
| Total | 262,988 | 242,234 |

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Notes to the consolidated financial statements For the year ended 31 December 2021

8. Income taxes (continued)

8.2 Deferred taxes (continued)

Movements in deferred taxes are as follows:

| | Consolidated | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of year | 3,426 | (10,334) | 3,564 | (10,297) |
| Consolidated statement of profit or loss credits/ charges | 953 | 12,258 | 912 | 12,359 |
| Consolidated statement of OCI credits/ charges | - | 1,502 | - | 1,502 |
| Balance at end of year | 4,379 | 3,426 | 4,476 | 3,564 |

9. Subsidiaries

Details of the Company's subsidiaries at 31 December 2021 are as follows:

| Subsidiary | Principal activities | Place of Incorporation | Ownership Interest | |
|-------------------------|---------------------------------|------------------------|--------------------|------|
| | | | 2021 | 2020 |
| Galatoire Ltd | Investment property management | Papua New Guinea | 100% | 100% |
| PNG Ground Services Ltd | Supply of aviation fuel | Papua New Guinea | 100% | 100% |
| APNG Services Pty Ltd | Supply of international aircrew | Australia | 100% | 100% |

10. Cash and cash equivalents

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 | |
|------------------------|----------------|----------------|----------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Cash and bank balances | 3,114 | 4,253 | 2,760 | 4,194 |
| Bank overdraft | (10,644) | (10,842) | (10,644) | (10,842) |
| | (7,530) | (6,589) | (7,884) | (6,648) |

11. Property, plant and equipment

| | Consolidated | | Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Cost or valuation | 167,059 | 156,178 | 163,219 | 153,185 |
| Accumulated depreciation | (28,436) | (19,792) | (26,216) | (17,664) |
| | 138,623 | 136,386 | 137,003 | 135,521 |

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Notes to the consolidated financial statements For the year ended 31 December 2021

11. Property, plant and equipment (continued)

| | Consolidated | | Company | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Land and buildings- at cost | 5,070 | 4,423 | 3,480 | 3,616 |
| Owned aircraft - at fair value | 88,918 | 85,285 | 88,918 | 85,285 |
| Plant and equipment- at cost | 3,777 | 4,707 | 3,747 | 4,649 |
| Rotable parts- at fair value | 40,705 | 41,666 | 40,705 | 41,666 |
| Motor vehicles- at cost | 153 | 305 | 153 | 304 |
| | 138,623 | 136,386 | 137,003 | 135,521 |

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

| Consolidated | Land and Buildings | Owned aircraft | Plant and equipment | Rotable parts | Motor vehicles | Total |
|-------------------------------------|--------------------|----------------|---------------------|---------------|----------------|----------------|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| Cost or valuation | | | | | | |
| Balance at 1 January 2020 | 6,437 | 162,804 | 19,524 | 44,820 | 3,310 | 236,895 |
| Additions | 218 | 25,871 | 557 | 1,601 | 94 | 28,341 |
| Revaluation (decrease)/ increase | - | (31,679) | - | 701 | - | (30,978) |
| Eliminated on revaluation | - | (71,711) | - | (4,462) | - | (76,173) |
| Disposals | - | - | (176) | (994) | (737) | (1,907) |
| Balance at 31 December 2020 | 6,655 | 85,285 | 19,905 | 41,666 | 2,667 | 156,178 |
| Balance at 1 January 2021 | 6,655 | 85,285 | 19,905 | 41,666 | 2,667 | 156,178 |
| Additions | 848 | 10,508 | 526 | 1,341 | - | 13,223 |
| Disposals | - | - | - | (2,302) | (40) | (2,342) |
| Balance at 31 December 2021 | 7,503 | 95,793 | 20,431 | 40,705 | 2,627 | 167,059 |
| Accumulated depreciation | | | | | | |
| Balance at 1 January 2020 | 2,035 | 65,768 | 14,126 | 4,603 | 2,927 | 89,459 |
| Depreciation charge | 198 | 5,943 | 1,234 | - | 172 | 7,547 |
| Eliminated on revaluation | - | (71,711) | - | (4,462) | - | (76,173) |
| Disposals | - | - | (163) | (141) | (737) | (1,041) |
| Balance at 31 December 2020 | 2,233 | - | 15,197 | - | 2,362 | 19,792 |
| Balance at 1 January 2021 | 2,233 | - | 15,197 | - | 2,362 | 19,792 |
| Depreciation charge | 200 | 6,875 | 1,457 | - | 152 | 8,684 |
| Disposals | - | - | - | - | (40) | (40) |
| Balance at 31 December 2021 | 2,433 | 6,875 | 16,654 | - | 2,474 | 28,436 |
| Net book value | | | | | | |
| at 31 December 2020 | 4,423 | 85,285 | 4,707 | 41,666 | 305 | 136,386 |
| at 31 December 2021 | 5,070 | 88,918 | 3,777 | 40,705 | 153 | 138,623 |

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Notes to the consolidated financial statements For the year ended 31 December 2021

11. Property, plant and equipment (continued)

| Company | Land & Buildings K'000 | Owned aircraft K'000 | Plant & Equipment K'000 | Rotable Parts K'000 | Motor vehicles K'000 | Total K'000 |
|---------------------------------------|---------------------------|-------------------------|----------------------------|------------------------|-------------------------|----------------|
| Cost or valuation | | | | | | |
| Balance at 1 January 2020 | 4,507 | 162,804 | 19,026 | 44,820 | 2,793 | 233,950 |
| Additions | 169 | 25,871 | 557 | 1,601 | 94 | 28,292 |
| Revaluation (decrease)/ increase | - | (31,679) | - | 701 | - | (30,978) |
| Eliminated on revaluation | - | (71,711) | - | (4,462) | - | (76,173) |
| Disposals | - | - | (175) | (994) | (737) | (1,906) |
| Balance at 31 December 2020 | 4,676 | 85,285 | 19,408 | 41,666 | 2,150 | 153,185 |
| Balance at 1 January 2021 | 4,676 | 85,285 | 19,408 | 41,666 | 2,150 | 153,185 |
| Additions | 4 | 10,508 | 523 | 1,341 | - | 12,376 |
| Disposals | - | - | - | (2,302) | (40) | (2,342) |
| Balance at 31 December 2021 | 4,680 | 95,793 | 19,931 | 40,705 | 2,110 | 163,219 |
| Accumulated depreciation | | | | | | |
| Balance at 1 January 2020 | 921 | 65,768 | 13,721 | 4,603 | 2,410 | 87,423 |
| Depreciation charge | 139 | 5,943 | 1,201 | - | 172 | 7,455 |
| Eliminated on revaluation | - | (71,711) | - | (4,462) | - | (76,173) |
| Disposal | - | - | (163) | (141) | (737) | (1,041) |
| Balance at 31 December 2020 | 1,060 | - | 14,759 | - | 1,845 | 17,664 |
| Balance at 1 January 2021 | 1,060 | - | 14,759 | - | 1,845 | 17,664 |
| Depreciation charge | 140 | 6,875 | 1,425 | - | 152 | 8,592 |
| Disposal | - | - | - | - | (40) | (40) |
| Balance at 31 December 2021 | 1,200 | 6,875 | 16,184 | - | 1,957 | 26,216 |
| Net book value at 31 December 2020 | 3,616 | 85,285 | 4,649 | 41,666 | 305 | 135,521 |
| at 31 December 2021 | 3,480 | 88,918 | 3,747 | 40,705 | 153 | 137,003 |

Included in the Group and the Company's land and buildings are costs related to building renovation which are still in progress as at 31 December 2021.

11.1.1 Impairment losses recognised in the period

During the year ended 31 December 2021, the Group recognized Knil (2020: Knil) impairment loss in the statement of profit or loss.

11.1.2 Loss on revaluation recognised in the period

The amount of devaluation recognised in the statement of profit or loss was Knil (2020: K25.9 million) and Knil (2020: K5.0 million) through the revaluation reserve.

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Notes to the consolidated financial statements For the year ended 31 December 2021

11. Property, plant and equipment (continued)

11.2 Owned aircraft and rotables carried at fair value

Owned aircraft and rotables were last revalued by an independent valuer at 31 December 2020. The owned aircraft valuations were conducted using the market approach which involves considering the listed prices of similar aircraft being offered for sale in the open market. Key variables include the age, condition, model, serial numbers (of the airframe, propellers, APUs, and engines where possible), locations and recent transaction prices of comparable aircraft. The valuer key techniques in determining the fair value includes direct communication with entity personnel and in the aircraft sales industry, review of order book history, delivery streams, operator and leasing demand, international availability, current and projected base and market values. The rotables valuations were conducted by considering the current market conditions. Key variable considerations include service tags or component status cards, turnover of rotatable parts, market appeal, and desirability where the valuer indicated that the dash 8 spare parts are quite buoyantly traded and landing gear parts and propeller parts are very sought after with strong trading prices.

As at 31 December 2021, Directors' assessment was carried out to assess the reasonableness of the fair values of aircraft and rotables and determined that the carrying amounts of aircraft and rotables are not materially different from their fair value.

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

| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2021 K'000 |
|---------------|------------------|------------------|------------------|---|
| Aircraft | - | 88,918 | - | 88,918 |
| Rotable parts | - | 40,705 | - | 40,705 |

| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2020 K'000 |
|---------------|------------------|------------------|------------------|---|
| Aircraft | - | 85,285 | - | 85,285 |
| Rotable parts | - | 41,666 | - | 41,666 |

11.3 Assets pledged as security

Aircraft with a carrying amount of K88.9 million (2020: K85.3 million) and land and buildings with carrying amount of K1.5 million (2020: K0.7 million) have been pledged to secure borrowings of the Group (see Note 20).

12. Other financial assets

| | Consolidated | | Company | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Security deposits on leased assets | 10,956 | 9,877 | 10,956 | 9,877 |
| Investments in subsidiaries | - | - | 20 | 20 |
| | 10,956 | 9,877 | 10,976 | 9,897 |

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Notes to the consolidated financial statements For the year ended 31 December 2021

13. Other assets

| | Consolidated | | Company | |
|--------------------------------|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>Current</i> | | | | |
| Prepayments to suppliers | 5,615 | 4,362 | 5,573 | 4,350 |
| Maintenance reserve deposits | 6,764 | 5,618 | 6,764 | 5,618 |
| Related party receivables | - | - | 1,849 | 876 |
| | 12,379 | 9,980 | 14,186 | 10,844 |
| <i>Non-current</i> | | | | |
| Maintenance reserve deposits | 65,522 | 60,674 | 65,522 | 60,674 |
| Aircraft pre-delivery payments | 7,947 | 7,947 | 7,947 | 7,947 |
| | 73,469 | 68,621 | 73,469 | 68,621 |
| Current asset | 12,379 | 9,980 | 14,186 | 10,844 |
| Non-current asset | 73,469 | 68,621 | 73,469 | 68,621 |
| | 85,848 | 78,601 | 87,655 | 79,465 |

14. Inventories

| | Consolidated | | Company | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Consumables stock on hand – at cost | 18,313 | 17,368 | 17,710 | 16,846 |
| Allowance for stock obsolescence | (7,633) | (6,711) | (7,633) | (6,711) |
| | 10,680 | 10,657 | 10,077 | 10,135 |

15. Trade and other receivables

| | Consolidated | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Trade receivables | 19,360 | 12,262 | 19,345 | 12,202 |
| Allowance for expected credit losses | (203) | (203) | (145) | (145) |
| | 19,157 | 12,059 | 19,200 | 12,057 |
| Other receivables | 4,944 | 4,468 | 4,793 | 4,291 |
| Income tax receivable | - | 6 | - | - |
| | 24,101 | 16,533 | 23,993 | 16,348 |

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

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Notes to the consolidated financial statements For the year ended 31 December 2021

15. Trade and other receivables (continued)

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 | |
|---|---------------|---------------|---------------|---------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Balance at beginning of the year | (203) | (203) | (145) | (145) |
| Impairment provision release/(charge) in the year | - | - | - | - |
| Balance at end of the year | (203) | (203) | (145) | (145) |

Ageing of past due but not impaired

| | Consolidated | | Company | |
|--------------------|---------------|---------------|---------------|---------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| 61-90 days | 599 | 408 | 599 | 387 |
| Over 90 days | 361 | 345 | 361 | 335 |
| Total | 960 | 753 | 960 | 723 |
| Average age (days) | 34 | 63 | 34 | 63 |

16. Issued capital and other contributed equity

16.1 Issued capital

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 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 |

16.2 Other contributed equity

| | Consolidated | | Company | |
|-------------------------------|---------------|---------------|---------------|---------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Balance at beginning of year | 70,563 | 70,563 | 70,563 | 70,563 |
| Balance at end of year | 70,563 | 70,563 | 70,563 | 70,563 |

Other contributed equity refers to:

- i. Additional capital contribution received by the Company from its two major shareholders, National Superannuation Fund and Mineral Resource Development Company (MRDC). These additional capital contributions were received by the Company between 2015 to 2017.
- ii. In 2017, Principal and accrued interest of 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 were issued in in 2023 and 2025, refer to Note 31.

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Notes to the consolidated financial statements For the year ended 31 December 2021

17. (Loss)/ earnings per share

| | Consolidated | | Company | |
|----------------------------------|--------------|--------------|--------------|--------------|
| | 2021 Toea | 2020 Toea | 2021 Toea | 2020 Toea |
| Basic and diluted loss per share | (11.65) | (21.84) | (11.71) | (21.81) |

Basic and diluted earnings is calculated by dividing the profit or loss for the year by the weighted average number of shares that were outstanding during the year.

Basic and diluted earnings per share

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

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Loss for the year | (35,906) | (67,320) | (36,103) | (67,225) |
| Loss used in the calculation of basic and diluted LPS from continuing operations | (35,906) | (67,320) | (36,103) | (67,225) |
| Weighted average number of ordinary shares | 308,292,080 | 308,292,080 | 308,292,080 | 308,292,080 |

18. Revaluation reserve

| | Consolidated | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Balance at beginning of year | 490 | 4,372 | 490 | 4,372 |
| Devaluation of aircraft (net of tax) | - | (3,882) | - | (3,882) |
| Balance at end of year | 490 | 490 | 490 | 490 |

19. Accumulated losses

| | Consolidated | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Balance at beginning of year | (168,494) | (101,166) | (168,963) | (101,738) |
| Exchange gain/(loss) on translation of foreign operation | 1 | (8) | - | - |
| Loss for the year | (35,906) | (67,320) | (36,103) | (67,225) |
| Balance at end of year | (204,399) | (168,494) | (205,066) | (168,963) |

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Notes to the consolidated financial statements For the year ended 31 December 2021

20. Borrowings

| | | Consolidated | | Company | |
|--|-------|---------------|---------------|---------------|---------------|
| | | 2021 | 2020 | 2021 | 2020 |
| | | K'000 | K'000 | K'000 | K'000 |
| a) Current | | | | | |
| Bank loans and overdrafts | (i) | 16,961 | 21,896 | 16,961 | 21,896 |
| Secured notes | (ii) | 28,850 | 9,000 | 28,850 | 9,000 |
| Secured loan from other financial institutions | (iii) | 244 | 1,461 | 244 | 1,461 |
| | | 46,055 | 32,357 | 46,055 | 32,357 |
| b) Non-current | | | | | |
| Secured notes | (ii) | - | 25,000 | - | 25,000 |
| Secured loan from other financial institutions | (iii) | 2,587 | 2,831 | 2,587 | 2,831 |
| | | 2,587 | 27,831 | 2,587 | 27,831 |
| Total Borrowings | | 48,641 | 60,188 | 48,641 | 60,188 |

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) and (iii) below) 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.

- (ii) The Group's secured notes are held by two private companies, one of which matured in 2018 (rollover option exercised) and the other matured during the year. The Trustee for the note holders holds a registered mortgage over four of the aircraft owned by the Group. The effective interest rate on the bank loans is 7.75% (2020: 7.75%) per annum.
- (iii) The Group has loans with other financial institutions with an effective interest rate on the bank loans is 11% (2020: 11%) per annum. Other financial institutions hold a registered mortgage over the property at Matoro 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 25.

The table below sets out an analysis of borrowings (excluding bank overdraft) movements during the year:

| | Consolidated | | Company | |
|-----------------|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Opening balance | 49,348 | 52,526 | 49,348 | 52,526 |
| Cash proceeds | - | - | - | - |
| Cash payments | (11,351) | (3,178) | (11,351) | (3,178) |
| Closing balance | 37,997 | 49,348 | 37,997 | 49,348 |

Bank overdraft balance amounted to K10.64 million and K10.84 million as at 31 December 2021 and 2020, respectively.

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Notes to the consolidated financial statements For the year ended 31 December 2021

20. Borrowings (continued)

Financing facilities

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>Secured loan from other financial institutions</i> | | | | |
| - amount used | 2,830 | 4,292 | 2,830 | 4,292 |
| - amount unused | - | - | - | - |
| | <u>2,830</u> | <u>4,292</u> | <u>2,830</u> | <u>4,292</u> |
| <i>Secured bank overdraft facility</i> | | | | |
| - amount used | 10,644 | 10,842 | 10,644 | 10,842 |
| - amount unused | 9,356 | 9,158 | 9,356 | 9,158 |
| | <u>20,000</u> | <u>20,000</u> | <u>20,000</u> | <u>20,000</u> |
| <i>Secured bank loans</i> | | | | |
| - amount used | 6,317 | 11,054 | 6,317 | 11,054 |
| - amount unused | - | - | - | - |
| | <u>6,317</u> | <u>11,054</u> | <u>6,317</u> | <u>11,054</u> |
| <i>Secured notes from non-financial institutions</i> | | | | |
| - amount used | 28,850 | 34,000 | 28,850 | 34,000 |
| - amount unused | - | - | - | - |
| | <u>28,850</u> | <u>34,000</u> | <u>28,850</u> | <u>34,000</u> |
| <i>Total</i> | | | | |
| - amount used | 48,641 | 60,188 | 48,641 | 60,188 |
| - amount unused | 9,356 | 9,158 | 9,356 | 9,158 |
| | <u>57,997</u> | <u>69,346</u> | <u>57,997</u> | <u>69,346</u> |

21. Other liabilities

| | Consolidated | | Company | |
|-----------------------------------|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Dash 8 early lease exit liability | | | | |
| Current | 8,395 | 8,146 | 8,395 | 8,146 |
| Non-current | 3,178 | 6,083 | 3,178 | 6,083 |
| | <u>11,573</u> | <u>14,229</u> | <u>11,573</u> | <u>14,229</u> |

Other liabilities refer to 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 was considered a financial liability (refer Note 25.8). These fees were required to be partially repaid by 31 July 2019 and by 31 December 2019 but remained unpaid as at 31 December 2019. The Group renegotiated a reduction of repayments of these fees from USD 4.5m (K15.2 million) to USD 2.7m (K9.4 million), subject to the Company not defaulting on any agreed monthly payments, and reduction of interest from 18% to 8% p.a. Should the Group meet these requirements, USD1.8 million (K2.1 million) will be forgiven. The renegotiated agreement was executed on 20 October 2020 and the agreed repayment period is from 1 November 2020 to 1 December 2023.

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Notes to the consolidated financial statements For the year ended 31 December 2021

22. Leases

22.1 Right-of-use assets

| | Consolidated | | Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Cost | 363,087 | 361,407 | 360,979 | 359,308 |
| Accumulated depreciation | (120,594) | (81,557) | (119,893) | (81,090) |
| | 242,493 | 279,850 | 241,086 | 278,218 |

The reconciliation of the written down values at the beginning and end of the current financial year are set out below:

| Consolidated | Aircraft | Office premises | Total |
|---------------------------------|------------------|-----------------|------------------|
| | K'000 | K'000 | K'000 |
| <i>Cost</i> | | | |
| Balance at 1 January 2020 | 340,116 | 20,189 | 360,305 |
| Remeasurement | 1,102 | - | 1,102 |
| Balance at 31 December 2020 | <u>341,218</u> | <u>20,189</u> | <u>361,407</u> |
| Remeasurement | 423 | 426 | 849 |
| New leases | - | 2,288 | 2,288 |
| Derecognition | - | (1,457) | (1,457) |
| Balance at 31 December 2021 | <u>341,641</u> | <u>21,446</u> | <u>363,087</u> |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2020 | (38,766) | (2,645) | (41,411) |
| Charge during the year | (37,501) | (2,645) | (40,146) |
| Balance at 31 December 2020 | <u>(76,267)</u> | <u>(5,290)</u> | <u>(81,557)</u> |
| Charge during the year | (37,790) | (2,704) | (40,494) |
| Derecognition | - | 1,457 | 1,457 |
| Balance at 31 December 2021 | <u>(114,057)</u> | <u>(6,537)</u> | <u>(120,594)</u> |
| Carrying amount | | | |
| At 31 December 2021 | 227,584 | 14,909 | 242,493 |
| At 31 December 2020 | <u>264,951</u> | <u>14,899</u> | <u>279,850</u> |

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Notes to the consolidated financial statements For the year ended 31 December 2021

22. Leases (continued)

22.1 Right-of-use assets (continued)

| Company | Aircraft K'000 | Office premises K'000 | Total K'000 |
|------------------------------------|-------------------------|-----------------------------|-------------------------|
| <i>Cost</i> | | | |
| Balance at 1 January 2020 | 340,116 | 18,091 | 358,206 |
| Remeasurement | 1,102 | - | 1,102 |
| Balance at 31 December 2020 | <u>341,218</u> | <u>18,091</u> | <u>359,308</u> |
| Remeasurement | 423 | 416 | 839 |
| New leases | - | 2,288 | 2,288 |
| Derecognition | - | (1,457) | (1,457) |
| Balance at 31 December 2021 | <u>341,460</u> | <u>19,338</u> | <u>360,979</u> |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2020 | (38,766) | (2,412) | (41,178) |
| Charge during the year | (37,501) | (2,412) | (39,912) |
| Balance at 31 December 2020 | <u>(76,267)</u> | <u>(4,824)</u> | <u>(81,090)</u> |
| Charge during the year | (37,790) | (2,469) | (40,259) |
| Derecognition | - | 1,457 | 1,457 |
| Balance at 31 December 2021 | <u>(114,057)</u> | <u>(5,836)</u> | <u>(119,893)</u> |
| <i>Carrying amount</i> | | | |
| At 31 December 2021 | <u>227,584</u> | <u>13,502</u> | <u>241,086</u> |
| At 31 December 2020 | <u>264,951</u> | <u>13,267</u> | <u>278,218</u> |

22.2 Lease liabilities

| | Consolidated | | Company | |
|-------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Current | 78,697 | 69,810 | 78,484 | 69,614 |
| Non-current | 260,447 | 292,478 | 258,868 | 290,861 |
| | <u>339,144</u> | <u>362,288</u> | <u>337,352</u> | <u>360,475</u> |

The maturity analysis of lease liabilities are as follows:

| | Consolidated | | Company | |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2021 K'000 | 2020 K'000 | 2021 K'000 | 2020 K'000 |
| Within 1 Year | 111,913 | 107,286 | 111,362 | 106,898 |
| 1 to 2 Year | 129,661 | 131,706 | 129,000 | 131,040 |
| 2 to 3 Years | 125,274 | 126,031 | 124,613 | 125,365 |
| More than 3 Years | 107,211 | 169,373 | 106,881 | 168,707 |
| Less: Discounting effect | (134,915) | (172,108) | (134,504) | (171,535) |
| | <u>339,144</u> | <u>362,288</u> | <u>337,352</u> | <u>360,475</u> |

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Notes to the consolidated financial statements For the year ended 31 December 2021

22. Leases (continued)

22.2 Lease liabilities (continued)

The table below sets out an analysis of lease liabilities movements during the year:

| | Consolidated | | Company | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| At 1 January | 362,289 | 346,023 | 360,475 | 344,087 |
| Lease modifications | 426 | - | 416 | - |
| New leases | 2,288 | - | 2,288 | - |
| Lease payments | (63,384) | (33,708) | (63,217) | (33,430) |
| Interest | 37,525 | 40,431 | 37,390 | 40,275 |
| Effect of foreign exchange rates | - | 9,542 | - | 9,543 |
| At 31 December | 339,144 | 362,288 | 337,352 | 360,475 |

The weighted average incremental borrowing rate applied to the lease liabilities during the year were between 11.60% and 12.68% (2020: between 11.60% and 12.68%). The average lease term has been disclosed in Note 3.5.1.

22.3 Amounts recognised in the statement of profit or loss

| | Consolidated | | Company | |
|--|--------------|--------|---------|--------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Depreciation charges included in: | | | | - |
| - Cost of sales | 37,790 | 37,501 | 37,790 | 37,501 |
| - Administration expenses | 2,704 | 2,645 | 2,469 | 2,412 |
| | 40,494 | 40,146 | 40,259 | 39,913 |
| Interest expense included in finance costs | 37,525 | 40,431 | 37,390 | 40,275 |
| Short term and low value leases | 1,450 | 1,493 | 450 | 506 |

23. Provisions

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | | | | |
| Provision for annual leave (i) | 2,610 | 2,144 | 2,587 | 2,127 |
| | 2,610 | 2,144 | 2,587 | 2,127 |
| Non-current | | | | |
| Provision for long service leave (ii) | 4,568 | 6,299 | 4,535 | 6,278 |
| Provision for return conditions costs (iii) | 16,637 | 15,635 | 16,637 | 15,635 |
| | 21,205 | 21,934 | 21,172 | 21,913 |

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Notes to the consolidated financial statements For the year ended 31 December 2021

23. Provisions (continued)

Movements in provisions are as follow:

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>(i) Movement in provision for annual leave</i> | | | | |
| Balance at the start of the year | 2,144 | 2,200 | 2,127 | 2,186 |
| Additional provision / (amount used) | 466 | (56) | 460 | (59) |
| Balance at the end of the year | 2,610 | 2,144 | 2,587 | 2,127 |
| <i>(ii) Movement in provision for long service leave</i> | | | | |
| Balance at the start of the year | 6,299 | 7,821 | 6,278 | 7,792 |
| Amount used | (2,623) | (2,780) | (2,622) | (2,780) |
| Additional provision recognised | 892 | 1,258 | 879 | 1,266 |
| Balance at the end of the year | 4,568 | 6,299 | 4,535 | 6,278 |
| <i>(iii) Movement in provision for return conditions costs</i> | | | | |
| Balance at the start of the year | 15,635 | 12,585 | 15,635 | 12,585 |
| Unwinding of discount | 1,969 | 1,541 | 1,969 | 1,541 |
| Change in estimates | (967) | 1,102 | (967) | 1,102 |
| Effect of foreign exchange | - | 407 | - | 407 |
| Balance at the end of the year | 16,637 | 15,635 | 16,637 | 15,635 |

24. Trade and other payables and revenue received in advance

24.1 Trade and other payables

| | Consolidated | | Company | |
|--------------------------------------|----------------|---------------|----------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Trade payables | 98,244 | 42,438 | 96,715 | 41,360 |
| Accrued expenses | 32,773 | 31,635 | 32,139 | 31,014 |
| Related party payable (Note 28) | - | - | 2,659 | 1,664 |
| Salary and wages tax and GST payable | 2,538 | 983 | 2,509 | 1,097 |
| Advance payment from customers | 3,614 | 6,781 | 3,614 | 6,781 |
| Income tax payable | 120 | - | - | - |
| Other payables | 3,735 | 2,226 | 3,735 | 2,226 |
| Total trade and other payables | 141,024 | 84,064 | 141,371 | 84,143 |

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.

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Notes to the consolidated financial statements For the year ended 31 December 2021

24 Trade and other payables and revenue received in advance (continued)

24.2 Revenue received in advance

| | Consolidated | | Company | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Revenue received in advance | 12,071 | 14,906 | 12,071 | 14,906 |

Revenue received in advance is made up of sales to passengers in advance of the date of passenger travel. Revenue recognised related to unused tickets, which were included in the revenue received in advance balance at the beginning of the period, amounted to K5.7 million (2020: K3.0 million).

25. Financial instruments

25.1 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.

25.2 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.

25.3 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see Note 25.4 below) and interest rates (see Note 25.5 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.

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Notes to the consolidated financial statements For the year ended 31 December 2021

25. Financial instruments (continued)

25.4 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 | |
|----------------------|-------------|---------|--------|-------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Australian Dollar | 698 | 1,430 | 165 | 174 |
| United States Dollar | 376,656 | 362,998 | 2,872 | 1,676 |

25.4.1 Foreign currency sensitivity analysis

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

| | Australian Dollar impact | | United States Dollar impact | |
|-------------------------------------|--------------------------|-------|-----------------------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Effect of 10% strengthening of Kina | 48 | 114 | 33,980 | 32,847 |
| Effect of 10% weakening of Kina | (53) | (126) | (37,378) | (36,132) |

25.5 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.

25.5.1 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 2021 would increase/decrease by K1.8 million (2020: by increase/decrease K2.2 million). 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.

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Notes to the consolidated financial statements For the year ended 31 December 2021

25. Financial instruments (continued)

25.6 Commodity Risk

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

25.7 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. As at 31 December 2021 and 2020, the Group has not identified any significant concentration of credit risk.

25.8 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.

25.8.1 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.

Liquidity and interest risk tables

| | Weighted average effective interest rate | Variable interest rate | Within 1 year | 1-2 years | 2-3 years | 3+ years | Total |
|--|--|------------------------------|------------------|----------------|----------------|----------------|----------------|
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Consolidated | | | | | | | |
| 31 December 2021 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 98,244 | - | - | - | 98,244 |
| Other payables | Non-interest bearing | | 40,122 | - | - | - | 40,122 |
| Bank loans and overdrafts | 9.65% | - | 16,961 | - | - | - | 16,961 |
| Secured loan from other financial institution | 11.00% | - | 1,475 | 1,355 | - | - | 2,830 |
| Secured notes | 7.75% | - | 34,000 | - | - | - | 34,000 |
| Lease liabilities | 12.14% | - | 111,913 | 129,661 | 125,274 | 107,211 | 474,059 |
| Other liabilities | 9.25% | - | 8,824 | 3,335 | - | - | 12,159 |
| | | | 311,559 | 134,351 | 125,274 | 107,211 | 678,395 |

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Notes to the consolidated financial statements For the year ended 31 December 2021

25.8 Liquidity risk management (continued)

25.8.1 Liquidity and risk tables (continued)

| Consolidated | Weighted average effective interest rate | Variable interest rate | Within 1 year | 1-2 years | 2-3 years | 3+ years | Total |
|--|--|------------------------------|------------------|----------------|----------------|----------------|----------------|
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| 31 December 2020 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 42,438 | - | - | - | 42,438 |
| Other payables | Non-interest bearing | | 40,642 | - | - | - | 40,642 |
| Bank loans and overdrafts | 9.75% | - | 21,896 | - | - | - | 21,896 |
| Secured loan from other financial institution | 11.00% | - | 1,461 | 1,475 | 1,356 | - | 4,292 |
| Secured notes | 7.90% | - | 34,000 | - | - | - | 34,000 |
| Lease liabilities | 12.14% | - | 107,286 | 131,706 | 126,031 | 169,373 | 534,396 |
| Other liabilities | 9.25% | - | 8,824 | 3,335 | 3,335 | - | 15,494 |
| | | | 256,547 | 136,516 | 130,722 | 169,373 | 693,158 |

| | Weighted average effective interest rate | Variable interest rate | Within 1 year | 2-3 years | 4-5 years | 5+ years | Total |
|--|--|------------------------------|------------------|--------------|--------------|-------------|-------|
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |

Company

31 December 2021

Financial liabilities

| | | | | | | | |
|--|----------------------|---|----------------|----------------|----------------|----------------|----------------|
| Trade payables | Non-interest bearing | | 96,715 | - | - | - | 96,715 |
| Related party payables | Non-interest bearing | | 2,659 | - | - | - | 2,659 |
| Other payables | Non-interest bearing | | 39,488 | - | - | - | 39,488 |
| Bank loans and overdrafts | 9.65% | - | 16,961 | - | - | - | 16,961 |
| Secured loan from other financial institution | 11.00% | - | 1,475 | 1,535 | - | - | 3,010 |
| Secured notes | 7.75% | - | 34,000 | - | - | - | 34,000 |
| Lease liabilities | 12.30% | - | 111,362 | 129,000 | 124,613 | 106,881 | 471,856 |
| Other liabilities | 8.00% | - | 8,824 | 3,335 | - | - | 12,159 |
| | | | 311,484 | 133,870 | 124,613 | 106,881 | 676,848 |

Company

31 December 2020

Financial liabilities

| | | | | | | | |
|--|----------------------|---|----------------|----------------|----------------|----------------|----------------|
| Trade payables | Non-interest bearing | | 41,361 | - | - | - | 41,361 |
| Related party payables | Non-interest bearing | | 1,664 | - | - | - | 1,664 |
| Other payables | Non-interest bearing | | 40,021 | - | - | - | 40,021 |
| Bank loans and overdrafts | 9.65% | - | 21,896 | - | - | - | 21,896 |
| Secured loan from other financial institution | 11.00% | - | 1,461 | 1,475 | 1,475 | - | 4,292 |
| Secured notes | 7.75% | - | 34,000 | - | - | - | 34,000 |
| Lease liabilities | 12.30% | - | 106,989 | 131,040 | 125,365 | 168,707 | 532,010 |
| Other liabilities | 8.00% | - | 8,824 | 3,335 | 3,335 | - | 15,494 |
| | | | 256,216 | 135,850 | 130,175 | 168,707 | 690,738 |

At the end of the reporting period, there were no financial guarantee contracts (2020: Nil)

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2021

26. Auditors Remuneration

| | Consolidated | | Company | |
|---------------------------|--------------|------------|------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| | K'000 | K'000 | K'000 | K'000 |
| Deloitte Touche Tohmatsu: | | | | |
| - Audit Fee | 660 | 660 | 660 | 660 |
| - Other services fees | 36 | 41 | 11 | 16 |
| | 696 | 701 | 671 | 676 |

27. Other company information

The total number of employees at the Group level at year end was:

| | Consolidated | | Company | |
|----------------------|--------------|------------|------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| National employees | 541 | 593 | 526 | 585 |
| Expatriate employees | 53 | 94 | 53 | 74 |
| | 594 | 687 | 579 | 659 |

28. Related parties

28.1 Transactions with subsidiaries and affiliated companies

The Company had the following transactions with related parties that occurred on normal trading terms during the year.

| Related party | Relationship | Nature of transaction | 2021 | 2020 |
|---|--------------|-------------------------------------|---------------------------------|------------------------------|
| | | | K'000 | K'000 |
| APNG Services Pty Ltd | Subsidiary | Supply of Aircrew Settlement | (1,268) 1,467 | (2,884) 2,807 |
| Galatoire Limited | Subsidiary | Rental charges Maintenance costs | (420) 2,069 | (420) 1,373 |
| PNG Ground Services Limited | Subsidiary | Fuel Sales Settlement | (21,369) 18,709 | (16,130) 14,466 |
| Mineral Resources Development Corporation | Shareholder | Commercial office space rental | 262 | 264 |
| Outstanding balances | | | | |
| | | | Related party receivable | Related party payable |
| | | | 2021 | 2020 |
| | | | K'000 | K'000 |
| APNG Services Pty Ltd | | | 199 | - |
| Galatoire Limited | | | 1,649 | 953 |
| PNG Ground Services Limited | | | - | - |
| Mineral Resources Development Ltd (MRDC) | | | 1,025 | 674 |
| | | | 2,873 | 1,627 |
| | | | | |
| | | | 2,659 | 1,741 |

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2021

28. Related parties (continued)

28.2 Remuneration of key management personnel

The members of key management personnel during the year follow:

2021

| | | |
|----------------------|-----------------|-----------------|
| Richard Cadet | Emmanuel Kadiko | Watson Siarit |
| David William Cooper | William Kalipa | Stanley Stevens |
| Nisaal Chandra Jai | Nancy Nakikus | |
| Bonnie Judas | Simon Pitt | |

2020

| | | |
|----------------------|-----------------|-----------------|
| Richard Cadet | Bonnie Judas | Watson Siarit |
| David William Cooper | Emmanuel Kadiko | Stanley Stevens |
| Glenn Dunstan | William Kalipa | |
| Linda Griffin | Nancy Nakikus | |
| Nisaal Chandra JAI | Anthony Pereira | |

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

| | <u>2021</u> | <u>2020</u> |
|---------------------|--------------|--------------|
| | K'000 | K'000 |
| Short-term benefits | <u>6,494</u> | <u>6,676</u> |

The remuneration of key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Key Management changes

- Anthony Pereira resigned as CEO in May 2021 and was replaced by Stanley Stevens in an acting capacity.
- Nisaal Jai was appointed as CFO in May 2021 in acting capacity and was confirmed in March 2022.
- Brian Fraser was appointed as CEO in June 2023 taking over from Stanley Stevens.

29. Contingent liabilities

- (i) The Group has provided a letter of credit for approx. K1,126,754 (A\$401,575) to National Australia Bank for merchant facility.
- (ii) The Company has commitments as stated in Note 30.

30. Commitments

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

| | <u>2021</u> | <u>2020</u> |
|------------------|-------------|-------------|
| | K'000 | K'000 |
| 1 to 2 years | 79,354 | 23,811 |
| 3 to 4 years | 26,877 | 22,894 |
| 5 years & longer | 2,352 | 15,557 |

The commitments are in respect of (i) delivery of the three new ATR 72-600 aircraft fleet and three new ATR 42-600 aircraft fleet (the commitments were terminated in 2025 and subsequently new agreement for acquisition of three new ATR 42-600 was signed), and (ii) unpaid maintenance reserve.

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2021

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

As disclosed in Note 1, the Group partially resumed its operations on 7 April 2020, however it was not operating at normal capacity until mid-2022 due to restrictions imposed by the government in an effort to contain the spread of the pandemic.

The Group's domestic operations were restricted, and its international charter services for a major client were suspended in compliance with the National Pandemic Act.

In 2022, Papua New Guinea gradually lifted its domestic COVID-19 restrictions, eventually removing all air travel-related measures. This included eliminating the requirement to wear masks inside airport terminals and on aircraft, as well as the need for inbound passengers to provide proof of COVID-19 vaccination. As a result, the Group resumed its international charter flights in May 2022.

Scheme of Creditors

On 15 December 2023, the National Court (Hartshorn J. presiding) approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Approval of the Scheme gave a legal effect to the restructuring of the Company's external debts with its major creditors which has been a focus of the Directors and management's attention for the 2 preceding years. The Company's major creditors entered into letters of intent with the Company detailing the terms on which the Company's indebtedness to those creditors will be materially reduced. Those letters of intent became binding on the Company and its major creditors as a consequence of the National Court approving the Scheme.

Outlined below are the key aspects of arrangements with major creditors:

Lessors

- Two of existing lease agreements were terminated early and the lease term for some other lease agreements were extended;
- Late penalty charges and default interest and lease payments in arrears amounting to USD1.5 million were waived; and
- Repayment terms were agreed for remaining lease payments in arrears.

Finance lenders (banks and note holders)

- Partial waiver of K12.0 million of existing debt; and
- Monthly repayment plan for the remaining outstanding balances to note holders was agreed and no interest will be charged provided that monthly payments are made in full and when due.

Other creditors

- Penalties and interest due amounting to K15.7 million were waived; and
- Monthly repayment plans for the remaining outstanding balances were agreed.

Also, as part of the restructuring, the Company's major shareholders, MRDC and Nasfund, agreed to:

- Convert K58.2 million of previously contributed K70.6 million (included in other contributed equity at 31 December 2019) into shares.
- The remaining amount of K12.4 million was converted into debt in December 2023, of which K10.3 million was forgiven at conversion and K2.1 million is to be repaid in 21 monthly installments commencing in January 2025.

MRDC also provided additional capital of K55 million to the Company during 2023 and 2024, for which additional shares were issued by the Company in 2023 and 2025.

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2021

31. Events after the reporting period (continued)

Business Operations and Significant Commitments

- Three (3) new ATR 42-600 were ordered which are scheduled to begin delivery in 2026;
- Two major charter contracts were renewed for a further two years from December 2023;
- Maintenance Organisation Certificate (MOC) renewed for three years expiring 31 October 2027;
- The Group leased one (1) ATR 72-600 in April 2024 for six (6) years;
- In June 2024 the Group, after negotiations with certain lessors, concluded the purchase of all leased Dash 8 aircraft.

Other than the matters described above or elsewhere in the consolidated financial statements, no matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations or state of affairs of the Group in subsequent accounting periods.

32. Approval of financial statements

The financial statements were approved by the directors and authorized for issue on 16 June 2025

Independent Auditor's Report



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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PNG Air Limited (the "Company") and its subsidiaries (the "Group") which comprise the Group and the Company's statements of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In our opinion, the accompanying financial statements of the Group and the Company, give a true and fair view of the Group's and the Company's financial position as at 31 December 2021 and of their financial performance and their cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of the Companies Act 1997 (amended 2022).

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 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 2021 the Group and the Company have an excess of current liabilities over current assets of K238.6 million and K237.9 million, respectively. 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 and the Company's ability to continue as going concerns. 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 financial statements of the Group for the current period. These matters were addressed in the context of our audit of the 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 matters described below to be the key audit matters to be communicated in our report.

Independent Auditor's Report



| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| <p>Valuation of the Group's owned aircrafts</p> <p>The carrying value of the Group's owned aircrafts as at 31 December 2021 was K88.92 million.</p> <p>The Group applies the revaluation model for its owned aircrafts and at the end of each reporting period estimates the fair value of its owned aircrafts taking into consideration factors such as changes in fleet composition, market values and technical factors.</p> <p>We have identified the carrying value of aircraft as a key audit matter because of its significance to the consolidated financial statements.</p> | <p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none">• Obtaining an understanding of the relevant controls associated with the preparation and review of the Group's owned aircraft valuations• Assessing the reasonableness of management's judgements, assumptions 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• Challenging and assessing the reasonableness of assumptions and judgements used by management, taking into account recent developments in the airline industry and future operating plans. <p>We also assessed the completeness and accuracy of the disclosures in the consolidated financial statements.</p> |

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Directors' Declaration for the year ended 31 December 2021, which we obtained prior to the date of this auditor's report, and the Group and Company's annual report, 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies Act 1997 (amended 2022) and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view of the financial position and performance of the Group and the Company and are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report



In preparing the financial statements, the directors are responsible for assessing the ability of the Group and the Company 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 and the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the 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 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 and the Company'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 and the Company'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 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 and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

Independent Auditor's Report



We also provide the directors 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 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.

Report on Other Legal and Regulatory Requirements

In accordance with section 200 of the Companies Act 1997 (amended 2022), in our opinion:

- We obtained all information and explanations that were required; and
- Proper accounting records have been kept by the Group and the Company for the year ended 31 December 2021.

We also provided PNG Air Limited and its subsidiaries with tax compliance services.

A handwritten signature in blue ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in blue ink, appearing to be "Herbert Maguma".

Herbert Maguma

Partner

Registered under the Accountants Act 1996

Port Moresby, 20 June 2025

PNG Air Limited

Consolidated Financial Statements
for the year ended 31 December 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 2020. In order to comply with the provisions of the Companies Act 1997 (amended 2022), the directors report as follows:

The Directors

The names and particulars of the directors during or since the end of the financial year are:

| | |
|--------------------|---------------------|
| Mr. Augustine Mano | Ms. Valentina Kaman |
| Mr. Simon Woolcott | Mr. William Lamur |
| Mr. Edward Matane | Mr. Andrew Ogil |
| Mr. Watt Kiddie | Mr. Andrew Crompton |

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

- Mr William Lamur was appointed as a director and the Chairman from 19 June 2018 and he stepped down on 25 September 2020.
- Andrew Crompton was appointed on 04 November 2020 and resigned from 01 December 2022.
- Mr. Andrew Ogil was appointed as an Independent Director on 10 December 2019 and appointed as the Chairman of Remuneration and Nomination Committee in August 2020 and resigned on 04 April 2023.
- Mr. Watt Kiddie was appointed the Chairman of the Audit and Risk Committee in April 2019 and was appointed as Deputy Chairman on 30 July 2021.
- Mr. Augustine Mano was appointed as Chairman on 30 July 2021.
- Ms. Valentina Kaman was appointed as director in April 2023 and is the current Chairlady of the Remuneration and Nomination Committee.
- Mr. Simon Woolcott resigned effective from 02 February 2019 and later re-appointed on 27 May 2024.

Company Secretary

The company secretary as at 31 December 2020 was Nisaal Jai. Nisaal Jai took the position of Company Secretary on 02 July 2020. Deborah Poya replaced Nisaal Jai on 03 May 2022.

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. For the year ended 31 December 2020, the Group reported a pre-tax loss of K79.6 million (2019: pre-tax profit of K10.5 million).

The Company is listed on Papua New Guinea’s National Stock Exchange (“PNGX”). PNGX suspended the securities of PNG Air Limited from official quotation on the 15 January 2019 following the Company’s failure to lodge its periodic reports on a timely manner. The securities remain suspended at the date of approval of these financial statements.

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 which supplies 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 Notes 2.1 and 2.2, there has been no other changes in accounting policies during the current year.

DIRECTORS REPORT

Disclosure of interest and other directorship

The disclosure on Directors interests and other directorships is provided below:

| Name of Director | Organisation | Interest |
|--------------------------------------|---|---------------------------|
| Augustine Mano | PNG Air Ltd | Board Director & Chairman |
| | 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 |
| | Ok Tedi Mining Limited | Director |
| | GFS Limited | Director |
| | 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 |
| | CIVPAC Limited | Chairman |
| | Handy Group Limited | Chairman |
| | SMA Investments | Chairman |
| | Bogasi Investments Ltd | Director |
| | PNG Ground Services (subsidiary of PNG Air) | Director |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | Andrew Ogil | PNG Air Ltd |
| North QLD & Northern Territory | | PNG Consul in Cairns |
| Air Niugini | | CEO / Managing Director |
| Civil Aviation Authority | | CEO / Managing Director |
| Tropic Group | | Director |
| PNG Power | | Board Chairman |
| Missionary Aviation Fellowship (MAF) | | Board Member |

DIRECTORS REPORT

Directors' report (continued)

Disclosure of interest and other directorship (continued)

| Name of Director | Organisation | Interest |
|------------------|---|--|
| Watt Kiddie | PNG Air Ltd | Board Director & Deputy Chairman |
| | First National Insurance Brokers Ltd | Director |
| | Wooner Trading Limited | Director |
| | Diamond Finance Limited | Director |
| | Business Arm of the Lutheran Renewal Church of PNG | Director/Chairman |
| | WK Kiddie PNG Peace & Gutpela Sindaun Foundation Inc. | Principal Custodian and Founder |
| | Lutheran Renewal Investments Group Limited | Chairman |
| | Hanrick Curran Kiddie Limited | Director |
| | Statutory Committee of Board | Chairman |
| | PNG Air BARCC Committee | Chairman |
| Andrew Crompton | PNG Air Ltd | Board Member (resigned) |
| | Coastwatchers Court Ltd | Chairman |
| | Moki No 10 Limited | Chairman |
| | OPH Limited | Chairman |
| | Pacific Capital Partners (PNG) Limited | Board Member |
| | Rangeview Heights Limited | Chairman |
| | Waigani Asset Limited | Chairman |
| Edward Matane | PNG Air Ltd | Board Director |
| | Matsi Holdings Ltd | Director |
| | Pacific Helicopters Ltd | CEO |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | PNG Ground Services Limited (subsidiary of PNG Air) | Director |
| Simon Woolcott | PNG Air Ltd | Board Director |
| | TISA | Director and ARC Member |
| | TISA Bank | Director & Chairman of Audit Committee |
| | Capital Insurance Group | Director & Chairman of Audit Committee |
| | BKS Services | Managing Director |
| | MRDC | Chief Finance Officer |
| Valentina Kaman | PNG Air Limited | Board Director |
| | PNG Air RNC Committee | Chairperson |
| | Mineral Resource Development Company Limited | Manager Legal |
| | Mineral Resources Star Mountain Limited | Manager Legal & Company Secretary |
| | Mineral Resources CMCA Holdings Limited | Manager Legal & Company Secretary |
| | Mineral Resources OK Tedi Limited | Manager Legal & Company Secretary |
| | Business Professional Women's Club | Vice President |
| | Piku Conservation Network | Director |
| | Malma Holdings Limited | Shareholder & Director |

DIRECTORS REPORT

Directors' report (continued)

Directors' remuneration

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

| Director | 2020 K | 2019 K |
|---|-----------|-----------|
| Augustine Mano | 55,496 | 47,252 |
| Simon Woolcott (resigned in February 2019 and re-appointed in May 2024) | - | 4,530 |
| Edward Matane | 56,496 | 46,752 |
| Watt Kiddie | 56,496 | 46,752 |
| William Lamur (stepped down in September 2020) | 38,668 | 36,939 |
| Andrew Ogil (appointed in December 2019) | 54,808 | - |
| Andrew Crompton (appointed in November 2020) | - | - |

Remuneration above K100,000 per annum

| Remuneration K'000 | 2020 Nos. | 2019 Nos. | Remuneration K'000 | 2020 Nos. | 2019 Nos. |
|-----------------------|--------------|--------------|-----------------------|--------------|--------------|
| 100 – 110 | 11 | 8 | 360 – 370 | 3 | 3 |
| 110 – 120 | 11 | 9 | 370 – 380 | - | - |
| 120 – 130 | 11 | 6 | 380 – 390 | - | - |
| 130 – 140 | 9 | 7 | 390 – 400 | 2 | 2 |
| 140 – 150 | 9 | 10 | 400 – 410 | 2 | - |
| 150 – 160 | 5 | 5 | 410 – 420 | - | - |
| 160 – 170 | 2 | 5 | 420 – 430 | 3 | - |
| 170 – 180 | 4 | 5 | 430 – 440 | - | 1 |
| 180 – 190 | 1 | 3 | 440 – 450 | - | - |
| 190 – 200 | 6 | 6 | 450 – 460 | 2 | 3 |
| 200 – 210 | - | 2 | 460 – 470 | - | - |
| 210 – 220 | 6 | 9 | 470 – 480 | 2 | 2 |
| 220 – 230 | 9 | 13 | 480 – 490 | - | - |
| 230 – 240 | 1 | 2 | 490 – 500 | - | 2 |
| 240 – 250 | 5 | 6 | 500 – 510 | - | 1 |
| 250 – 260 | 2 | 1 | 510 – 520 | 1 | - |
| 260 – 270 | 2 | 3 | 520 – 530 | - | 1 |
| 270 – 280 | 3 | 3 | 530 – 540 | - | - |
| 280 – 290 | 5 | 4 | 540 – 550 | - | 1 |
| 290 – 300 | 2 | 7 | 550 – 560 | - | - |
| 300 – 310 | - | 1 | 570 – 580 | - | 1 |
| 310 – 320 | 6 | 6 | 590 – 600 | - | - |
| 320 – 330 | 5 | 5 | 660 – 700 | - | 1 |
| 330 – 340 | 3 | 5 | 700 – 800 | 1 | - |
| 340 – 350 | 1 | 2 | 800 – 900 | - | - |
| 350 – 360 | - | 2 | 1,100 – 1,600 | 1 | 1 |

Corresponding last year's figure has been adjusted at 2020 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.

Dividends

There were no dividends declared during the year by the Group (2019: Nil).

DIRECTORS REPORT

Directors' report (continued)

Donations

There were no donations made during the year by the Group (2019: Nil).

Independent audit report

The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent auditor's report on pages 227-230. Audit fees and non-audit fees are disclosed at Note 26.

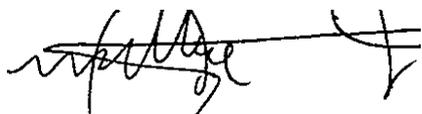
Registered office and principal place of business

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, 20 June 2025



Watt Kiddie
Director
Port Moresby, 20 June 2025

FINANCIALS

Consolidated statement of profit or loss for the year ended 31 December 2020

| | Notes | Consolidated | | Company | |
|---|-------|------------------------|-------------------|------------------------|-------------------|
| | | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| Revenue | 5.1 | 192,732 | 319,283 | 191,668 | 316,658 |
| Cost of sales | 5.3 | <u>(107,282)</u> | <u>(149,322)</u> | <u>(107,153)</u> | <u>(147,806)</u> |
| Gross profit | | 85,450 | 169,961 | 84,515 | 168,852 |
| Other (expense)/ income, net | 5.2 | (3,921) | 6,831 | (3,921) | 6,831 |
| Operational expenses | 5.4 | (81,085) | (87,087) | (80,381) | (86,224) |
| Occupancy expenses | 5.5 | (4,576) | (5,093) | (4,584) | (5,126) |
| Administration expenses | 5.6 | (29,533) | (24,137) | (29,467) | (24,064) |
| Finance costs | 7 | <u>(45,901)</u> | <u>(49,936)</u> | <u>(45,746)</u> | <u>(49,766)</u> |
| (Loss)/profit before tax | | <u>(79,566)</u> | <u>10,539</u> | <u>(79,584)</u> | <u>10,503</u> |
| Income tax benefit/ (expense) | 8.1 | <u>12,246</u> | <u>(9,779)</u> | <u>12,359</u> | <u>(9,702)</u> |
| (LOSS)/PROFIT FOR THE YEAR | | <u>(67,320)</u> | <u>760</u> | <u>(67,225)</u> | <u>801</u> |
| (Loss)/ Earnings Per Share | | | | | |
| Basic and diluted (loss)/ earnings per share (toea) | 17 | (21.84) | 0.25 | (21.81) | 0.26 |

The attached notes from pages 189 to 226 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of comprehensive income for the year ended 31 December 2020

| | Notes | Consolidated | | Company | |
|--|-------|-----------------|---------------|-----------------|---------------|
| | | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| (LOSS)/ PROFIT FOR THE YEAR | | (67,320) | 760 | (67,225) | 801 |
| Other comprehensive (loss)/income <i>Items that will not be reclassified subsequently to profit or loss:</i> | | | | | |
| Loss on revaluation of non-current assets, net of tax | 18 | (3,882) | - | (3,882) | - |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Exchange difference on translation of foreign operation | 19 | (8) | 3 | - | - |
| Other comprehensive (loss)/income for the year net of tax | | (3,890) | 3 | (3,882) | - |
| TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR | | (71,210) | 763 | (71,107) | 801 |

The attached notes from pages 189 to 226 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of financial position at 31 December 2020

| | Notes | Consolidated | | Company | |
|--------------------------------------|-------|-----------------|----------------|-----------------|----------------|
| | | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| Assets | | | | | |
| <i>Non-current assets</i> | | | | | |
| Property, plant and equipment | 11 | 136,386 | 147,436 | 135,521 | 146,527 |
| Right of use assets | 22.1 | 279,850 | 318,894 | 278,218 | 317,028 |
| Other financial assets | 12 | 9,877 | 8,094 | 9,897 | 8,114 |
| Deferred tax assets, net | 8.2 | 3,426 | - | 3,564 | - |
| Other assets | 13 | 68,621 | 56,843 | 68,621 | 56,843 |
| Total non-current assets | | 498,160 | 531,267 | 495,821 | 528,512 |
| <i>Current assets</i> | | | | | |
| Inventories | 14 | 10,657 | 12,177 | 10,135 | 11,389 |
| Trade and other receivables | 15 | 16,533 | 24,541 | 16,348 | 24,303 |
| Cash and bank balances | 10 | 4,253 | 790 | 4,194 | 583 |
| Other assets | 13 | 9,980 | 11,992 | 10,844 | 13,718 |
| Total current assets | | 41,423 | 49,500 | 41,521 | 49,993 |
| Total assets | | 539,583 | 580,767 | 537,342 | 578,505 |
| <i>Non-current liabilities</i> | | | | | |
| Deferred tax liabilities, net | 8.2 | - | 10,334 | - | 10,297 |
| Provisions | 23 | 21,934 | 20,406 | 21,913 | 20,377 |
| Lease liabilities | 22.2 | 292,478 | 314,296 | 290,861 | 312,537 |
| Borrowings | 20 | 27,831 | 28,420 | 27,831 | 28,420 |
| Other liabilities | 21 | 6,083 | - | 6,083 | - |
| Total non-current liabilities | | 348,326 | 373,456 | 346,688 | 371,631 |
| <i>Current liabilities</i> | | | | | |
| Provisions | 23 | 2,144 | 2,200 | 2,127 | 2,186 |
| Lease liabilities | 22.2 | 69,810 | 31,727 | 69,614 | 31,550 |
| Borrowings | 20 | 32,357 | 35,125 | 32,357 | 35,125 |
| Trade and other payables | 24.1 | 84,064 | 51,076 | 84,143 | 51,402 |
| Revenue received in advance | 24.2 | 14,906 | 20,898 | 14,906 | 20,898 |
| Other liabilities | 21 | 8,146 | 15,245 | 8,146 | 15,245 |
| Total current liabilities | | 211,427 | 156,271 | 211,293 | 156,406 |
| Total liabilities | | 559,753 | 529,727 | 557,981 | 528,037 |
| Net (Liabilities)/Assets | | (20,170) | 51,040 | (20,639) | 50,468 |
| Equity | | | | | |
| Issued capital | 16.1 | 77,271 | 77,271 | 77,271 | 77,271 |
| Other contributed equity | 16.2 | 70,563 | 70,563 | 70,563 | 70,563 |
| Revaluation reserve | 18 | 490 | 4,372 | 490 | 4,372 |
| Accumulated losses | 19 | (168,494) | (101,166) | (168,963) | (101,738) |
| Total equity | | (20,170) | 51,040 | (20,639) | 50,468 |

The attached notes from pages 189 to 226 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of changes in equity for the year ended 31 December 2020

| Consolidated | Issued capital | Other contributed equity | Revaluation reserve | Accumulated losses | Total |
|-----------------------------------|----------------|--------------------------|---------------------|--------------------|-----------------|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| At 1 January 2019 | 77,271 | 70,563 | 4,372 | (116,304) | 35,902 |
| Effect of adoption of IFRS 16 | - | - | - | 14,375 | 14,375 |
| Profit for the year | - | - | - | 760 | 760 |
| Other comprehensive income | - | - | - | 3 | 3 |
| Total comprehensive income | - | - | - | 763 | 763 |
| At 31 December 2019 | 77,271 | 70,563 | 4,372 | (101,166) | 51,040 |
| Loss for the year | - | - | - | (67,320) | (67,320) |
| Other comprehensive loss | - | - | (3,882) | (8) | (3,890) |
| Total comprehensive loss | - | - | (3,882) | (67,328) | (71,210) |
| At 31 December 2020 | 77,271 | 70,563 | 490 | (168,494) | (20,170) |

| Company | Issued capital | Other contributed equity | Revaluation reserve | Accumulated losses | Total |
|-----------------------------------|----------------|--------------------------|---------------------|--------------------|-----------------|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| At 1 January 2019 | 77,271 | 70,563 | 4,372 | (116,914) | 35,292 |
| Effect of adoption of IFRS 16 | - | - | - | 14,375 | 14,375 |
| Profit for the year | - | - | - | 801 | 801 |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | 801 | 801 |
| At 31 December 2019 | 77,271 | 70,563 | 4,372 | (101,738) | 50,468 |
| Loss for the year | - | - | - | (67,225) | (67,225) |
| Other comprehensive loss | - | - | (3,882) | - | (3,882) |
| Total comprehensive loss | - | - | (3,882) | (67,225) | (71,107) |
| At 31 December 2020 | 77,271 | 70,563 | 490 | (168,963) | (20,639) |

The attached notes from pages 189 to 226 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of cash flows for the year ended 31 December 2020

| Notes | Consolidated | | Company | |
|---|-------------------|-----------------|-----------------|-----------------|
| | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| Cash flows from operating activities | | | | |
| Receipts from customers | 199,924 | 321,350 | 198,819 | 318,830 |
| Payments to suppliers and employees | (123,782) | (236,410) | (122,100) | (234,416) |
| Cash generated from operations | 76,142 | 84,940 | 76,719 | 84,414 |
| Income tax paid | (12) | - | - | - |
| Interest paid | (22,047) | (47,435) | (21,892) | (47,265) |
| Net cash generated from operating activities | 54,083 | 37,505 | 54,827 | 37,149 |
| Cash flows from investing activities | | | | |
| Payments for property, plant and equipment | (28,341) | (18,609) | (28,292) | (18,608) |
| Proceeds from disposal of property, plant and equipment | 83 | 1,022 | 83 | 1,022 |
| Net cash used in investing activities | (28,258) | (17,587) | (28,209) | (17,586) |
| Cash flows from financing activities | | | | |
| Net repayments of borrowings | | | | |
| - Financial institutions | (3,178) | (4,908) | (3,178) | (4,908) |
| - Other | (1,757) | - | (1,757) | - |
| (Payments to)/ receipts from related parties | - | - | (767) | 107 |
| Principal payment of lease liabilities | (17,249) | (19,788) | (17,127) | (19,625) |
| Net cash generated used in financing activities | (22,184) | (24,696) | (22,829) | (24,426) |
| Net change in cash and cash equivalents | 3,641 | (4,778) | 3,789 | (4,863) |
| Cash and cash equivalents at the beginning of the year | (10,230) | (5,452) | (10,437) | (5,574) |
| Cash and cash equivalents at the end of the year | 10 (6,589) | (10,230) | (6,648) | (10,437) |

The attached notes from pages 189 to 226 form part of these consolidated financial statements

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Notes to the consolidated financial statements For the year ended 31 December 2020

1. General information

PNG Air Limited (the 'Parent' or 'Parent Company') is incorporated in Papua New Guinea (PNG). 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 Notes 6 and 9.

Coronavirus (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 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 in March 2020 due to a State of Emergency lockdown in an effort to contain the spread of coronavirus pandemic. The Group partially resumed its operations on 07 April 2020.

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

2.1 New and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group and the Company have applied the following amendments to IFRS Accounting Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 01 January 2020.

- Amendments to Conceptual Framework *Amendments to References to the Conceptual Framework in IFRS Standards*
- Amendments to IAS 1 and IAS 8 *Definition of material*
- Amendments to IFRS 3 *Definition of a business*
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest rate benchmark*

The adoption of these new and amended IFRS Accounting Standards and Interpretations has not had any material impact on the disclosures or on the amounts reported in these financial statements.

2.2 New, amendments, and revised accounting standards in issue but not yet effective for the year ended 31 December 2020 and not early adopted

At the date of authorisation of these financial statements, the Group and the Company have not applied the following revised IFRS Accounting Standards that have been issued but are not yet effective:

| Standards | Description | Effective for annual reporting periods beginning on or after |
|--|---|--|
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 | 1 January 2021 |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2022 |
| Amendments to IFRS 3 | Reference to conceptual Framework | 1 January 2022 |
| Amendments to IAS 16 | Property, Plant and Equipment—Proceeds before Intended Use | 1 January 2022 |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract | 1 January 2022 |
| Annual Improvements to IFRS Standards 2018-2020 Cycle | Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture | 1 January 2022 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| IFRS 17 (including the June 2020 amendments to IFRS 17) | Insurance Contracts | 1 January 2023 |
| Amendments to IAS 8 | Definition of Accounting Estimates | 1 January 2023 |
| Amendments to IAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |

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Notes to the consolidated financial statements For the year ended 31 December 2020

2. Adoption of new and revised IFRSs (continued)

2.2 New, amendments, and revised accounting standards in issue but not yet effective for the year ended 31 December 2020 and not early adopted (continued)

| Standards | Description | Effective for annual reporting periods beginning on or after |
|--|---|--|
| Amendment to IFRS 16 | Leases on sale and leaseback | 1 January 2024 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current. The IASB has aligned the effective date with the 2022 amendments to IAS. | 1 January 2024 |
| Amendments to IAS 1 | Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7 | Supplier Finance Arrangements | 1 January 2024 |
| Amendments to IFRS 10 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2025 |
| Consolidated Financial Statements and IAS 28 | Investments in Associates and Joint Ventures | |
| Amendments to IAS 21 | Lack of Exchangeability | 1 January 2025 |
| Amendments to IFRS 9 and IFRS 7 | Amendments to the Classification and Measurement of Financial Instruments | 1 January 2026 |
| IFRS 18 | Presentation and Disclosures in Financial Statements | 1 January 2027 |
| IFRS 19 | Subsidiaries without Public Accountability: Disclosures | 1 January 2027 |

The directors anticipate that the application of above Standards and amendments to them may have an impact on the financial statements of the Group and the Company in future periods.

3. Material accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS Accounting Standards) and the requirements of the Papua New Guinea *Companies (Amended) Act 2022*.

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 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 (K'000) 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.

Going concern

The financial statements of the Group and the Company have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.2 Basis of preparation (continued)

Financial metrics

For the year ended 31 December 2020, the Group and the Company reported a net loss of K67.3 million and K67.2 million, respectively (2019: net profit of K0.7 million and K0.8 million) and generated net cash inflows from operating activities of K54.1 million and K54.8 million (2019: net cash inflows of K37.5 million and K37.1 million).

As at 31 December 2020, the Group and the Company had negative cash and cash equivalents of K6.6 million and K6.6 million, respectively (31 December 2019: K10.2 million and K10.4 million) and net current liabilities of K170.0 million and K169.8 million (31 December 2019: K106.8 million and K106.4 million).

Impact of COVID 19 on operations and financial position

The COVID-19 pandemic started in early 2020 which led to unprecedented disruptions in global air travel, resulting in a sharp decline in passenger demand, widespread flight cancellations, and prolonged travel restrictions. In Papua New Guinea, these factors have significantly reduced the Group's revenue-generating capacity. Despite implementing cost-reduction measures, including workforce reductions, renegotiation of supplier contracts, and deferral of non-essential expenditures, the Group experienced substantial operating losses and liquidity constraints.

As a consequence of the sustained reduction in revenue and liquidity pressures, the Group was unable to meet certain payment obligations to its creditors, including lease payments for aircraft, interest payments on borrowings, and other trade payables.

The Directors and management took the following steps to mitigate the impact of the pandemic, improve the Group's liquidity position and ensure the Group has sufficient funding to meet its operating and capital expenditures as they fall due:

Cost Reduction Initiatives

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

The Group has established a cost committee and implemented several cost-cutting measures, including workforce reductions, salary cuts, deferral of non-essential capital expenditures and re-structuring the Group's organisational structure to eliminate duplication and increase productivity.

Creditors Scheme

On 15 December 2023, the National Court approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Details of the scheme are contained in Note 31.

Three-year Strategic Plan

On 10 December 2024, the Directors endorsed a three-year Strategic plan for 2025 to 2027 aimed to grow the Group and leverage the improved operational capabilities to drive earnings and performance. Outlined below are the key aspects of this strategic plan:

- The Group continuing to focus on improving its performance, including:
 - Retire and dispose the Dash 8 fleet and reinvest the net realisable value to fund turnaround initiatives.
 - Source additional aircraft at competitive rates to replace the Dash 8 fleet and increase the fleet capacity.
 - Growing the passenger 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
- Re-negotiating current lease rental payments as part of cash flow relief;
- Pursue the raising of additional capital to fund any shortfall in working capital;
- Re-structuring the Group's organisational structure to eliminate duplication and increase productivity with an aim to reduce costs;

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.2 Basis of preparation (continued)

- Continuing support from financial lenders. This includes the extension of the financing facilities with BSP; and
- Continuing 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.

Letter of Support

The Company's directors have obtained a letter of financial support from the Company's largest shareholder, MRDC, which confirms that it will provide sufficient financial assistance as needed to enable the Company and the Group to continue as a going concern and to satisfy their debts and commitments as they become due and payable for a period of at least 12 months from the date of signing these consolidated financial statements.

MRDC has also confirmed that:

- It has no plans or intentions to liquidate the Company or the Group or to cease its trading within the next 12 months from the date of signing of the consolidated financial statements;
- It has no plans that may materially affect the carrying value or classification of the Group's assets and liabilities; and
- It is financially sustainable and will not demand payment of any amounts due to it or any of its controlled entities until such time when the Company and the Group have sufficient cash to settle such amounts due to it or to any of its controlled entities.

In addition, in April 2025 MRDC agreed to provide guarantees in favour of DAE, as aircraft lessor, and BSP, as lead financier, to support the Group's plans to re-negotiate lease rental payments and to extend the financing facilities, respectively.

As a result of the above actions taken by Directors and management, the Group's forecast cash flows indicate that the Group will have a surplus of liquidity throughout the twelve-month period from the date of signing these consolidated financial statements. The achievement of the Group's forecast is primarily dependent, amongst other matters, upon:

- the successful implementation of the strategic plan, including sourcing additional aircraft by the end of 2025;
- the Group's ability to obtain the necessary funding to maintain the Group's liquidity position;
- continued implementation of the Group's cost reduction initiatives; and
- the continued support of the Group's major shareholder, financial lenders and scheme creditors.

Notwithstanding that the respective outcomes of the matters referred to above are not entirely within the control of the Group, the Directors are confident, based on achievement of previous milestones, that the Group can achieve successful outcomes. Accordingly, the Directors have determined that it is appropriate for the Company and the Group to continue to adopt the going concern basis in preparing these consolidated financial statements.

Should the Group not be able to achieve successful outcomes in respect of the above matters, a material uncertainty would exist which may cast significant doubt regarding the Company and the Group's ability to continue as a going concern and therefore whether they will be able to realise their assets and discharge their liabilities in the normal course of business. The consolidated 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 Company and the Group be unable to continue as a going concern.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.2 Basis of preparation (continued)

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. 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

3.3 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.

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.

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.

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.

3.4 Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.4 Revenue recognition (continued)

3.4.1 Revenue from carriage of passenger and freight

Revenue from carriage of passengers and freight is recognised at the time the passenger or cargo 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.

3.4.2 Revenue from charters

Revenue from charters is recognised at the time the passenger or cargo is uplifted for carriage and includes other handling and fuel re-charges.

3.4.3 Revenue from sale of fuel

Revenue from fuel sale is recognised when fuel is supplied to aircraft operators, which are final customers of the Group.

Interest income

3.4.4 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.

3.5 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease, that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and a corresponding lease liability is recognised with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.5.1 Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

| | |
|---------------|--------------|
| Aircraft | 3 - 12 years |
| Office leases | 3 - 8 years |

The right-of-use assets are also subject to impairment. Refer to the accounting policy in Note 3.9.3.

3.5.2 Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.5.2 Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3.5.3 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3.6 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 profit or loss 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.

3.7 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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.8 Taxation

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

3.8.1 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.

3.8.2 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.

3.8.3 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.

3.8.4 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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.9 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.

Owned 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.

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 accumulated impairment losses. Revaluations of 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 owned aircraft and rotatable parts are recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously expensed.

Freehold land is not depreciated.

Other 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.

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 |
| Other plant and equipment | 11.25% straight line |
| Motor vehicles | 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.

3.9.1 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.

3.9.2 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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.9 Property, plant and equipment (continued)

3.9.3 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.

3.10 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.

3.11 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).

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.

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

3.12 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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.12 Financial instruments (continued)

3.12.1 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.

Financial assets at amortised cost

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

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

Cash and cash equivalents

For statement of cash flows purposes, cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts.

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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.12 Financial instruments (continued)

3.12.1 Financial assets (continued)

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.

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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.12 Financial instruments (continued)

3.12.2 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 5.2) 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.

3.13 Maintenance reserve deposits

Maintenance reserve deposits 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 reserve deposits 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.

3.14 Pre-delivery payments

Pre-delivery payments are capitalised and represent deposits made with aircraft manufacturers for future delivery of aircraft. Upon delivery of aircraft, these are transferred to leased or owned aircraft and subsequently depreciated.

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Notes to the consolidated financial statements For the year ended 31 December 2020

3.15 Security deposits

Security deposits are deposits made with aircraft financiers or operating lessors to provide security for future maintenance work or lease payments. These security deposits for leased aircraft are recorded at their present value when payment terms extend beyond one year discounted using the incremental borrowing rate at the inception of the lease and amortised over the lease term.

3.16 Revaluation reserve

The revaluation reserve primarily arises on the revaluation of aircraft and rotables. Any revaluation increase arising on the revaluation of owned aircraft and rotatable parts are recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously expensed. At the date of the revaluation, the accumulated depreciation is eliminated against the gross carrying amount of owned aircraft and rotatable parts and net carrying amount is adjusted to reflect the fair values at the date of the revaluation.

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 Leased Aircraft

For aircraft held under lease agreements, the Group is contractually committed to return the leased aircraft in a certain condition which includes completion of certain maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts. The provision for lease return costs for these leased aircraft is determined based on the best estimate of the costs that will be incurred to fulfil the stipulated lease return conditions.

At the inception of the lease, management estimates 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 right-of-use 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 at each reporting period and, when warranted, adjusts its assumptions.

Useful Lives, Depreciation Method and Residual Values of Property, Aircraft and Equipment, including Right-of-use assets

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. Depreciation method is based on management's judgment of the most appropriate method an asset's future economic benefit expected to be consumed. Among other factors, management considered industry standards, manufacturers' guidelines and company-specific history and experience. Useful lives are estimated based on internal technical evaluation and experience with similar assets.

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Notes to the consolidated financial statements For the year ended 31 December 2020

4 Critical judgements in applying accounting estimates (continued)

4.1 Critical judgements in applying accounting policies (continued)

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

The Group's owned aircraft are measured at fair value for financial reporting purposes. The 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. During periods where no external valuation is performed, Directors assess the fair value of aircraft with reference to any significant change in current market conditions from the last external valuation performed.

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 expected 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, in general, 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. The Group also reviews its inventories at year period end and recognise a specific allowance as necessary.

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Notes to the consolidated financial statements For the year ended 31 December 2020

5. Revenue and costs

An analysis of revenue and costs for the year is as follows:

| | Consolidated | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| 5.1 Revenue from contracts with customers | | | | |
| Revenue from carriage of passenger and freight | 153,766 | 261,442 | 153,766 | 261,442 |
| Revenue from charters | 37,902 | 55,216 | 37,902 | 55,216 |
| Revenue from sale of fuel | 1,064 | 2,625 | - | - |
| | 192,732 | 319,283 | 191,668 | 316,658 |
| 5.2 Other (expense)/ income, net | | | | |
| Interest income | 1,295 | 1,241 | 1,295 | 1,241 |
| Aircraft operator lease income | 2,574 | 2,945 | 2,574 | 2,945 |
| Rent received | 62 | 41 | 62 | 41 |
| Realised foreign currency gain | (15) | 1,615 | (15) | 1,615 |
| Unrealised foreign currency (loss)/ gain | (10,239) | (4,066) | (10,239) | (4,066) |
| Profit on the sale of plant and equipment | (783) | (5,288) | (783) | (5,288) |
| Aircraft handling income | 1,898 | 3,372 | 1,898 | 3,372 |
| Engineering sales | 59 | 1,392 | 59 | 1,392 |
| Other revenue | 1,228 | 5,579 | 1,229 | 5,579 |
| | (3,921) | 6,831 | (3,921) | 6,831 |
| 5.3 Cost of sales | | | | |
| Direct activity costs | (6,521) | (11,864) | (5,960) | (11,019) |
| Short term leases | (562) | (539) | - | - |
| Fuel, air navigation and landing costs | (27,861) | (54,854) | (28,855) | (54,722) |
| Engineering costs | (18,350) | (27,393) | (18,350) | (27,393) |
| Depreciation of aircraft and aircraft improvements | (5,943) | (4,650) | (5,943) | (4,650) |
| Amortisation of right of use assets – aircraft | (37,501) | (38,766) | (37,501) | (38,766) |
| Aircraft insurance costs | (7,370) | (6,809) | (7,370) | (6,809) |
| Commission and agent fees | (3,174) | (4,435) | (3,174) | (4,435) |
| Lease hire costs | - | (12) | - | (12) |
| | (107,282) | (149,322) | (107,153) | (147,806) |
| 5.4 Operational expenses | | | | |
| Crew and engineering staff costs | (36,785) | (63,956) | (36,785) | (63,956) |
| Other operational staff costs | (12,010) | (16,568) | (11,713) | (16,142) |
| Amortisation of right of use assets – offices | (2,645) | (2,645) | (2,412) | (2,412) |
| Loss on revaluation of aircraft and rotables (Note 11) | (25,432) | - | (25,432) | - |
| Other operational costs | (4,213) | (3,918) | (4,039) | (3,714) |
| | (81,085) | (87,087) | (80,381) | (86,224) |
| 5.5 Occupancy expenses | | | | |
| Electricity and other utilities | (1,249) | (1,575) | (1,218) | (1,552) |
| Security expenses | (2,455) | (2,242) | (2,120) | (1,919) |
| Insurance expenses | (237) | (223) | (237) | (223) |
| Short term leases | (93) | (118) | (506) | (527) |
| Property maintenance expenses | (542) | (935) | (503) | (905) |
| | (4,576) | (5,093) | (4,584) | (5,126) |
| 5.6 Administration expenses | | | | |
| Management and other administrative staff costs | (13,119) | (12,796) | (13,119) | (12,796) |
| Bank charges | (1,404) | (2,394) | (1,404) | (2,394) |
| Fines and penalties | (7,484) | (2,040) | (7,484) | (2,040) |
| Depreciation of property, plant and equipment | (1,566) | (1,489) | (1,511) | (1,434) |
| Subscription and publication costs | (1,273) | (1,678) | (1,273) | (1,678) |
| Other administration costs | (4,687) | (3,740) | (4,676) | (3,722) |
| | (29,533) | (24,137) | (29,467) | (24,064) |

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Notes to the consolidated financial statements For the year ended 31 December 2020

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 – Papua New Guinea.

7. Finance costs

| | Consolidated | | Company | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Interest on loans | (1,952) | (3,494) | (1,952) | (3,494) |
| Interest on bank overdraft | (1,982) | (3,268) | (1,982) | (3,268) |
| Interest on leases | (40,427) | (41,762) | (40,272) | (41,592) |
| Other interests | (1,540) | (1,412) | (1,540) | (1,412) |
| | (45,901) | (49,936) | (45,746) | (49,766) |

8. Income taxes

8.1 Income tax recognised in consolidated statement of profit or loss

| | Consolidated | | Company | |
|-------------------------------------|-----------------|--------------|-----------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Current tax expense | 12 | - | - | - |
| Deferred tax expense | (12,258) | 9,779 | (12,359) | 9,702 |
| Total tax (benefit)/ expense | (12,246) | 9,779 | (12,359) | 9,702 |

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

| | Consolidated | | Company | |
|--|-----------------|--------------|-----------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| (Loss)/ Profit before tax | (79,566) | 10,539 | (79,584) | 10,503 |
| Income tax (benefit)/ expense calculated at 30% | (23,984) | 3,162 | (23,989) | 3,151 |
| Effect of expenses that are not deductible in determining taxable profit | 1,164 | 679 | 1,056 | 613 |
| Effect of tax losses not recognised as deferred tax | 10,574 | 5,938 | 10,574 | 5,938 |
| Income tax (benefit)/ expense | (12,246) | 9,779 | (12,359) | 9,702 |

The tax rate used for the 2020 and 2019 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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

8. Income taxes (continued)

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 | |
|---|--------------|-----------------|--------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Expected credit loss | 60 | 60 | 43 | 43 |
| Leave entitlements | 2,533 | 3,007 | 2,522 | 2,994 |
| Return conditions | 4,690 | 3,775 | 4,690 | 3,775 |
| Stock obsolescence | 2,013 | 1,786 | 2,013 | 1,786 |
| Leases | 13,221 | 8,139 | 13,167 | 8,118 |
| Unrealised foreign exchange losses | 1,376 | 1,220 | 1,376 | 1,220 |
| Tax losses | 6,309 | 6,324 | 6,226 | 6,226 |
| Others | 3 | 5 | - | - |
| Capitalised expenses | - | 1,106 | - | 1,106 |
| Inventory | (5,054) | (5,203) | (5,054) | (5,203) |
| Property, plant and equipment | (21,145) | (30,071) | (20,840) | (29,878) |
| Prepayments | (580) | (482) | (579) | (484) |
| Deferred tax assets / (liabilities), net | 3,426 | (10,334) | 3,564 | (10,297) |

The table below summarises the amount and expiry date of carry forward tax losses and amount of tax losses for which no deferred tax asset is recognised in the statement of financial position;

| Year of expiry | Carry forward tax losses | Tax losses where deferred taxes are not recognised |
|----------------|--------------------------|--|
| | K'000 | K'000 |
| 2025 | 200,465 | 179,711 |
| 2026 | 35,247 | 35,247 |
| Total | 235,712 | 214,957 |

Movements in deferred taxes are as follows:

| | Consolidated | | Company | |
|---|--------------|-----------------|--------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of year | (10,334) | (3,444) | (10,297) | (3,484) |
| Effect of adoption of IFRS 16 | - | 2,889 | - | 2,889 |
| Consolidated statement of profit or loss credits/ (charges) | 12,258 | (9,779) | 12,359 | (9,702) |
| Consolidated statement of OCI charges | 1,502 | - | 1,502 | - |
| Balance at end of year | 3,426 | (10,334) | 3,564 | (10,297) |

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Notes to the consolidated financial statements For the year ended 31 December 2020

9. Subsidiaries

Details of the Company's subsidiaries at 31 December 2020 are as follows:

| Subsidiary | Principal activities | Place of Incorporation | Ownership Interest | |
|-------------------------|---------------------------------|------------------------|--------------------|------|
| | | | 2020 | 2019 |
| Galatoire Ltd | Investment property management | Papua New Guinea | 100% | 100% |
| PNG Ground Services Ltd | Supply of aviation fuel | Papua New Guinea | 100% | 100% |
| APNG Services Pty Ltd | Supply of international aircrew | Australia | 100% | 100% |

10. Cash and cash equivalents

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 | |
|------------------------|----------------|-----------------|----------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Cash and bank balances | 4,253 | 790 | 4,194 | 583 |
| Bank overdraft | (10,842) | (11,020) | (10,842) | (11,020) |
| | (6,589) | (10,230) | (6,648) | (10,437) |

11. Property, plant and equipment

| | Consolidated | | Company | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Cost or valuation | 156,178 | 236,895 | 153,185 | 233,950 |
| Accumulated depreciation | (19,792) | (89,459) | (17,664) | (87,423) |
| | 136,386 | 147,436 | 135,521 | 146,527 |
| Land and buildings- at cost | 4,423 | 4,402 | 3,616 | 3,586 |
| Owned aircraft - at fair value | 85,285 | 97,036 | 85,285 | 97,036 |
| Plant and equipment- at cost | 4,707 | 5,398 | 4,649 | 5,305 |
| Rotable parts- at fair value | 41,666 | 40,217 | 41,666 | 40,217 |
| Motor vehicles- at cost | 305 | 383 | 304 | 383 |
| | 136,386 | 147,436 | 135,521 | 146,527 |

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Notes to the consolidated financial statements For the year ended 31 December 2020

11. Property, plant and equipment (continued)

The movements in property, plant and equipment are as follows: The expense for the year can be reconciled to the accounting loss as follows:

| Consolidated | <u>Land and Buildings</u> K'000 | <u>Owned Aircraft</u> K'000 | <u>Plant and equipment</u> K'000 | <u>Rotable parts</u> K'000 | <u>Motor vehicles</u> K'000 | <u>Total</u> K'000 |
|-------------------------------------|--|------------------------------------|---|-----------------------------------|------------------------------------|-----------------------|
| Cost or valuation | | | | | | |
| Balance at 1 January 2019 | 6,356 | 148,264 | 18,959 | 49,742 | 3,190 | 226,511 |
| Additions | 81 | 14,540 | 565 | 3,143 | 279 | 18,608 |
| Disposals | - | - | - | (8,065) | (159) | (8,224) |
| Balance at 31 December 2019 | 6,437 | 162,804 | 19,524 | 44,820 | 3,310 | 236,895 |
| Balance at 1 January 2020 | 6,437 | 162,804 | 19,524 | 44,820 | 3,310 | 236,895 |
| Additions | 218 | 25,871 | 557 | 1,601 | 94 | 28,341 |
| Revaluation (decrease)/ increase | - | (31,679) | - | 701 | - | (30,978) |
| Eliminated on revaluation | - | (71,711) | - | (4,462) | - | (76,173) |
| Disposals | - | - | (176) | (994) | (737) | (1,907) |
| Balance at 31 December 2020 | 6,655 | 85,285 | 19,905 | 41,666 | 2,667 | 156,178 |
| Accumulated depreciation | | | | | | |
| Balance at 1 January 2019 | 1,844 | 61,118 | 12,741 | 6,358 | 2,932 | 84,993 |
| Depreciation charge | 191 | 4,650 | 1,385 | - | 154 | 6,380 |
| Disposals | - | - | - | (1,755) | (159) | (1,914) |
| Balance at 31 December 2019 | 2,035 | 65,768 | 14,126 | 4,603 | 2,927 | 89,459 |
| Balance at 1 January 2020 | 2,035 | 65,768 | 14,126 | 4,603 | 2,927 | 89,459 |
| Depreciation charge | 198 | 5,943 | 1,234 | - | 172 | 7,547 |
| Eliminated on revaluation | - | (71,711) | - | (4,462) | - | (76,173) |
| Disposals | - | - | (163) | (141) | (737) | (1,041) |
| Balance at 31 December 2020 | 2,233 | - | 15,197 | - | 2,362 | 19,792 |
| Net book value | | | | | | |
| At 31 December 2019 | 4,402 | 97,036 | 5,398 | 40,217 | 383 | 147,436 |
| At 31 December 2020 | 4,423 | 85,285 | 4,707 | 41,666 | 305 | 136,386 |

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Notes to the consolidated financial statements For the year ended 31 December 2020

11. Property, plant and equipment (continued)

| Company | Land & Buildings K'000 | Owned Aircraft K'000 | Plant & Equipment K'000 | Rotable Parts K'000 | Motor vehicles K'000 | Total K'000 |
|-------------------------------------|---------------------------|-------------------------|----------------------------|------------------------|-------------------------|----------------|
| Cost or valuation | | | | | | |
| Balance at 1 January 2019 | 4,426 | 148,264 | 18,462 | 49,742 | 2,673 | 223,567 |
| Additions | 81 | 14,540 | 564 | 3,143 | 279 | 18,607 |
| Disposals | - | - | - | (8,065) | (159) | (8,224) |
| Balance at 31 December 2019 | 4,507 | 162,804 | 19,026 | 44,820 | 2,793 | 233,950 |
| Balance at 1 January 2020 | 4,507 | 162,804 | 19,026 | 44,820 | 2,793 | 233,950 |
| Additions | 169 | 25,871 | 557 | 1,601 | 94 | 28,292 |
| Revaluation (decrease)/ increase | - | (31,679) | - | 701 | - | (30,978) |
| Eliminated on revaluation | - | (71,711) | - | (4,462) | - | (76,173) |
| Disposals | - | - | (175) | (994) | (737) | (1,906) |
| Balance at 31 December 2020 | 4,676 | 85,285 | 19,408 | 41,666 | 2,150 | 153,185 |
| Accumulated depreciation | | | | | | |
| Balance at 1 January 2019 | 789 | 61,118 | 12,434 | 6,358 | 2,422 | 83,121 |
| Depreciation charge | 132 | 4,650 | 1,287 | - | 147 | 6,216 |
| Disposal | - | - | - | (1,755) | (159) | (1,914) |
| Balance at 31 December 2019 | 921 | 65,768 | 13,721 | 4,603 | 2,410 | 87,423 |
| Balance at 1 January 2020 | 921 | 65,768 | 13,721 | 4,603 | 2,410 | 87,423 |
| Depreciation charge | 139 | 5,943 | 1,201 | - | 172 | 7,455 |
| Eliminated on revaluation | - | (71,711) | - | (4,462) | - | (76,173) |
| Disposals | - | - | (163) | (141) | (737) | (1,041) |
| Balance at 31 December 2020 | 1,060 | - | 14,759 | - | 1,845 | 17,664 |
| Net book value | | | | | | |
| at 31 December 2019 | 3,586 | 97,036 | 5,305 | 40,217 | 383 | 146,527 |
| at 31 December 2020 | 3,616 | 85,285 | 4,649 | 41,666 | 305 | 135,521 |

11.1.1 Impairment losses recognised in the period

There were no impairment loss recognised for the year ended 31 December 2020 (2019: Nil).

11.1.2 Loss on revaluation recognised in the period

During the year ended 31 December 2020, the Group recognised K25.9 million loss on revaluation in the statement of profit or loss (2019: Nil) and K5.0 million (2019: Nil) through the revaluation reserve.

11.2 Owned aircraft and rotables carried at fair value

During the year, the Group carried out a revaluation of all owned aircraft through an independent professional valuer, Mr. David Crick of DavAir Group, a registered independent aircraft valuer who possesses the relevant qualifications and recent experience in providing international aviation inspection, appraisal and advisory services, including fair value measurement of aircraft.

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Notes to the consolidated financial statements For the year ended 31 December 2020

11. Property, plant and equipment (continued)

11.2 Aircraft carried at fair value (continued)

The owned aircraft valuations were conducted using the market approach which involves considering the listed prices of similar aircraft being offered for sale in the open market. Key variables include the age, condition, model, serial numbers (of the airframe, propellers, APUs, and engines where possible), locations and recent transaction prices of comparable aircraft. The valuer key techniques in determining the fair value includes direct communication with entity personnel and in the aircraft sales industry, review of order book history, delivery streams, operator and leasing demand, international availability, current and projected base and market values. The valuer has noted the limited availability of comparable sales data in the financial year pertaining to 31 December 2020 valuation and also an anticipated decrease in the value of the aircraft due to recent COVID-19 restrictions and an increase in supply of available aircraft. These were factored into the valuation of the owned aircraft. The rotables valuations were conducted by considering the current market conditions. Key variable considerations include service tags or component status cards, turnover of rotatable parts, market appeal, and desirability where the valuer indicated that the dash 8 spare parts are quite buoyantly traded and landing gear parts and propeller parts are very sought after with strong trading prices.

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

| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2020 K'000 |
|---------------|------------------|------------------|------------------|---|
| Aircraft | - | 85,285 | - | 85,285 |
| Rotable parts | - | 41,666 | - | 41,666 |

| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2019 K'000 |
|---------------|------------------|------------------|------------------|---|
| Aircraft | - | 97,036 | - | 97,036 |
| Rotable parts | - | 40,217 | - | 40,217 |

11.3 Assets pledged as security

Aircraft with a carrying amount of K85.3 million (2019: K97.0 million) and land and buildings with carrying amount of K0.7 million (2019: K0.8 million) have been pledged to secure borrowings of the Group (see Note 20).

12. Other financial assets

| | Consolidated | | Company | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| Security deposits on leased assets | 9,877 | 8,094 | 9,877 | 8,094 |
| Investments in subsidiaries | - | - | 20 | 20 |
| | 9,877 | 8,094 | 9,897 | 8,114 |

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Notes to the consolidated financial statements For the year ended 31 December 2020

13. Other assets

| | Consolidated | | Company | |
|--------------------------------|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>Current</i> | | | | |
| Prepayments to suppliers | 4,362 | 4,683 | 4,350 | 4,647 |
| Maintenance reserve deposits | 5,618 | 7,309 | 5,618 | 7,309 |
| Related party receivables | - | - | 876 | 1,762 |
| | 9,980 | 11,992 | 10,844 | 13,718 |
| <i>Non-current</i> | | | | |
| Maintenance reserve deposits | 60,674 | 49,936 | 60,674 | 49,936 |
| Aircraft pre-delivery payments | 7,947 | 6,907 | 7,947 | 6,907 |
| | 68,621 | 56,843 | 68,621 | 56,843 |
| Current asset | 9,980 | 11,992 | 10,844 | 13,718 |
| Non-current asset | 68,621 | 56,843 | 68,621 | 56,843 |
| | 78,601 | 68,835 | 79,465 | 70,561 |

14. Inventories

| | Consolidated | | Company | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Consumables stock on hand – at cost | 17,368 | 18,131 | 16,846 | 17,343 |
| Allowance for stock obsolescence | (6,711) | (5,954) | (6,711) | (5,954) |
| | 10,657 | 12,177 | 10,135 | 11,389 |

15. Trade and other receivables

| | Consolidated | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Trade receivables | 12,262 | 18,580 | 12,202 | 18,418 |
| Allowance for expected credit losses | (203) | (203) | (145) | (145) |
| | 12,059 | 18,377 | 12,057 | 18,273 |
| Other receivables | 4,468 | 6,146 | 4,291 | 6,030 |
| Income tax receivable | 6 | 18 | - | - |
| | 16,533 | 24,541 | 16,348 | 24,303 |

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

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Notes to the consolidated financial statements For the year ended 31 December 2020

15. Trade and other receivables (continued)

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 | |
|---|---------------|---------------|---------------|---------------|
| | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| Balance at beginning of the year | (203) | (435) | (145) | (356) |
| Impairment provision release/(charge) in the year | - | 232 | - | 211 |
| Balance at end of the year | (203) | (203) | (145) | (145) |
| <u>Ageing of past due but not impaired</u> | | | | |
| | Consolidated | | Company | |
| | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| 61-90 days | 408 | 362 | 387 | 346 |
| Over 90 days | 345 | 177 | 335 | 172 |
| Total | 753 | 539 | 723 | 518 |
| Average age (days) | 63 | 44 | 63 | 44 |

16. Issued capital and other contributed equity

16.1 Issued capital

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 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 |

16.2 Other contributed equity

| | Consolidated | | Company | |
|-------------------------------|---------------|---------------|---------------|---------------|
| | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| Balance at beginning of year | 70,563 | 70,563 | 70,563 | 70,563 |
| Balance at end of year | 70,563 | 70,563 | 70,563 | 70,563 |

Other contributed equity refers to:

- i. Additional capital contribution received by the Company from its two major shareholders, National Superannuation Fund and Mineral Resource Development Company (MRDC). These additional capital contributions were received by the Company between 2015 to 2017.
- ii. In 2017, Principal and accrued interest of 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 were issued in 2023 and 2025, refer to Note 31.

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Notes to the consolidated financial statements For the year ended 31 December 2020

17. (Loss)/ earnings per share

| | Consolidated | | Company | |
|--|--------------|------|---------|------|
| | 2020 | 2019 | 2020 | 2019 |
| | Toea | Toea | Toea | Toea |
| Basic and diluted (loss)/ earnings per share | (21.84) | 0.25 | (21.81) | 0.26 |

Basic and diluted earnings is calculated by dividing the profit or loss for the year by the weighted average number of shares that were outstanding during the year.

Basic and diluted earnings per share

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

| | Consolidated | | Company | |
|--|--------------|-------------|-------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| (Loss)/Profit for the year | (67,320) | 760 | (67,225) | 801 |
| Earnings used in the calculation of basic and diluted EPS from continuing operations | (67,320) | 760 | (67,225) | 801 |
| Weighted average number of ordinary shares | 308,292,080 | 308,292,080 | 308,292,080 | 308,292,080 |

18. Revaluation reserve

| | Consolidated | | Company | |
|---|--------------|--------------|------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of year | 4,372 | 4,372 | 4,372 | 4,372 |
| Devaluation of aircraft and rotables (net of tax) | (3,882) | - | (3,882) | - |
| Balance at end of year | 490 | 4,372 | 490 | 4,372 |

19. Accumulated losses

| | Consolidated | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of year | (101,166) | (116,304) | (101,738) | (116,914) |
| Effect of adoption of IFRS 16 | - | 14,375 | - | 14,375 |
| Exchange (loss)/gain on translation of foreign operation | (8) | 3 | - | - |
| (Loss)/ profit for the year | (67,320) | 760 | (67,225) | 801 |
| Balance at end of year | (168,494) | (101,166) | (168,963) | (101,738) |

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Notes to the consolidated financial statements For the year ended 31 December 2020

20. Borrowings

| | | Consolidated | | Company | |
|--|-------|---------------|---------------|---------------|---------------|
| | | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| a) Current | | | | | |
| Bank loans and overdrafts | (i) | 21,896 | 24,264 | 21,896 | 24,264 |
| Secured notes | (ii) | 9,000 | 9,000 | 9,000 | 9,000 |
| Secured loan from other financial institutions | (iii) | 1,461 | 1,861 | 1,461 | 1,861 |
| | | 32,357 | 35,125 | 32,357 | 35,125 |
| b) Non-current | | | | | |
| Secured notes | (ii) | 25,000 | 25,000 | 25,000 | 25,000 |
| Secured loan from other financial institutions | (iii) | 2,831 | 3,420 | 2,831 | 3,420 |
| | | 27,831 | 28,420 | 27,831 | 28,420 |
| Total Borrowings | | 60,188 | 63,545 | 60,188 | 63,545 |

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) and (iii) below) 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.

- (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 notes is 7.75% (2019: 7.75%) per annum.
- (iii) The Group has loans with other financial institutions with an effective interest rate on the bank loans is 11% (2019: 11%) 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 25.

The table below sets out an analysis of borrowings (excluding bank overdraft) movements during the year:

| | Consolidated | | Company | |
|-----------------|---------------|---------------|---------------|---------------|
| | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| Opening balance | 52,526 | 57,433 | 52,526 | 57,433 |
| Cash proceeds | - | - | - | - |
| Cash payments | (3,178) | (4,908) | (3,178) | (4,908) |
| Closing balance | 49,348 | 52,525 | 49,348 | 52,525 |

Bank overdraft balance amounted to K10.8 million and K11.0 million as at 31 December 2020 and 2019, respectively.

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Notes to the consolidated financial statements For the year ended 31 December 2020

20. Borrowings (continued)

Financing facilities

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>Secured loan from other financial institutions</i> | | | | |
| - amount used | 4,292 | 5,281 | 4,292 | 5,281 |
| - amount unused | - | - | - | - |
| | <u>4,292</u> | <u>5,281</u> | <u>4,292</u> | <u>5,281</u> |
| <i>Secured bank overdraft facility</i> | | | | |
| - amount used | 10,842 | 11,020 | 10,842 | 11,020 |
| - amount unused | 9,158 | 8,980 | 9,158 | 8,980 |
| | <u>20,000</u> | <u>20,000</u> | <u>20,000</u> | <u>20,000</u> |
| <i>Secured bank loans</i> | | | | |
| - amount used | 11,054 | 13,244 | 11,054 | 13,244 |
| - amount unused | - | - | - | - |
| | <u>11,054</u> | <u>13,244</u> | <u>11,054</u> | <u>13,244</u> |
| <i>Secured notes from non-financial institutions</i> | | | | |
| - amount used | 34,000 | 34,000 | 34,000 | 34,000 |
| - amount unused | - | - | - | - |
| | <u>34,000</u> | <u>34,000</u> | <u>34,000</u> | <u>34,000</u> |
| <i>Total</i> | | | | |
| - amount used | 60,188 | 63,545 | 60,188 | 63,545 |
| - amount unused | 9,158 | 8,980 | 9,158 | 8,980 |
| | <u>69,346</u> | <u>72,525</u> | <u>69,346</u> | <u>72,525</u> |

21. Other liabilities

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>Dash 8 early lease exit liability</i> | | | | |
| Current | 8,146 | 15,245 | 8,146 | 15,245 |
| Non-current | 6,083 | - | 6,083 | - |
| | <u>14,229</u> | <u>15,245</u> | <u>14,229</u> | <u>15,245</u> |

Other liabilities refer to 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 was considered a financial liability (refer Note 25.8). These fees were required to be partially repaid by 31 July 2019 and by 31 December 2019 but remained unpaid as at 31 December 2019. The Group renegotiated a reduction of repayments of these fees from USD 4.5m (K15.2 million) to USD 2.7m (K9.4 million), subject to the Company not defaulting on any agreed monthly payments, and reduction of interest from 18% to 8% p.a. Should the Group meet these requirements, USD1.8 million (K2.1 million) will be forgiven. The renegotiated agreement was executed on 20 October 2020 and the agreed repayment period is from 1 November 2020 to 1 December 2023.

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Notes to the consolidated financial statements For the year ended 31 December 2020

22. Leases

22.1 Right-of-use assets

| | Consolidated | | Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Cost | 361,407 | 360,305 | 359,308 | 358,206 |
| Accumulated depreciation | (81,557) | (41,411) | (81,090) | (41,178) |
| | <u>279,850</u> | <u>318,894</u> | <u>278,218</u> | <u>317,028</u> |

The reconciliation of the written down values at the beginning and end of the current financial year are set out below:

| Consolidated | Aircraft | Office premises | Total |
|--|-----------------|------------------------|-----------------|
| | K'000 | K'000 | K'000 |
| <i>Cost</i> | | | |
| Balance at 1 January 2019 | - | - | - |
| Initial recognition on adoption of IFRS 16 | 340,574 | 20,189 | 360,763 |
| Remeasurement | (458) | - | (458) |
| Balance at 31 December 2019 | <u>340,116</u> | <u>20,189</u> | <u>360,305</u> |
| Remeasurement | 1,102 | - | 1,102 |
| Balance at 31 December 2020 | <u>341,218</u> | <u>20,189</u> | <u>361,407</u> |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2019 | - | - | - |
| Charge during the year | (38,766) | (2,645) | (41,411) |
| Balance at 31 December 2019 | <u>(38,766)</u> | <u>(2,645)</u> | <u>(41,411)</u> |
| Charge during the year | (37,501) | (2,645) | (40,146) |
| Balance at 31 December 2020 | <u>(76,267)</u> | <u>(5,290)</u> | <u>(81,557)</u> |
| <i>Carrying amount</i> | | | |
| At 31 December 2019 | <u>301,350</u> | <u>17,544</u> | <u>318,894</u> |
| At 31 December 2020 | <u>264,951</u> | <u>14,899</u> | <u>279,850</u> |
| Company | Aircraft | Office premises | Total |
| | K'000 | K'000 | K'000 |
| <i>Cost</i> | | | |
| Balance at 1 January 2019 | - | - | - |
| Initial recognition on adoption of IFRS 16 | 340,574 | 18,091 | 358,664 |
| Remeasurement | (458) | - | (458) |
| Balance at 31 December 2019 | <u>340,116</u> | <u>18,091</u> | <u>358,206</u> |
| Remeasurement | 1,102 | - | 1,102 |
| Balance at 31 December 2020 | <u>341,218</u> | <u>18,091</u> | <u>359,308</u> |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2019 | - | - | - |
| Charge during the year | (38,766) | (2,412) | (41,178) |
| Balance at 31 December 2019 | <u>(38,766)</u> | <u>(2,412)</u> | <u>(41,178)</u> |
| Charge during the year | (37,501) | (2,412) | (39,912) |
| Balance at 31 December 2020 | <u>(76,267)</u> | <u>(4,824)</u> | <u>(81,090)</u> |
| <i>Carrying amount</i> | | | |
| At 31 December 2019 | <u>301,350</u> | <u>15,678</u> | <u>317,028</u> |
| At 31 December 2020 | <u>264,951</u> | <u>13,267</u> | <u>278,218</u> |

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Notes to the consolidated financial statements For the year ended 31 December 2020

22. Leases (continued)

22.2 Lease liabilities

| | Consolidated | | Company | |
|-------------|----------------|----------------|----------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | 69,810 | 31,727 | 69,614 | 31,550 |
| Non-current | 292,478 | 314,296 | 290,861 | 312,537 |
| | 362,288 | 346,023 | 360,475 | 344,087 |

The maturity analysis of lease liabilities are as follows:

| | Consolidated | | Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Within 1 Year | 107,286 | 71,533 | 106,898 | 71,200 |
| 1 to 2 Years | 131,706 | 131,662 | 131,040 | 130,996 |
| 2 to 3 Years | 126,031 | 124,820 | 125,365 | 124,154 |
| More than 3 Years | 169,373 | 224,957 | 168,707 | 223,957 |
| Less: Discounting effect | (172,108) | (206,949) | (171,535) | (206,220) |
| | 362,288 | 346,023 | 360,475 | 344,087 |

The table below sets out an analysis of lease liabilities movements during the year:

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| At 1 January | 346,023 | - | 344,087 | - |
| Initial recognition of first time adoption of IFRS 16 | - | 351,206 | - | 349,107 |
| Lease modification during the year | - | 10,669 | - | 10,669 |
| Lease payments | (33,707) | (61,550) | (33,430) | (61,217) |
| Interest | 40,431 | 41,762 | 40,275 | 41,592 |
| Effect of foreign exchange rates | 9,543 | 3,936 | 9,543 | 3,936 |
| At 31 December | 362,288 | 346,023 | 360,475 | 344,087 |

The weighted average incremental borrowing rate applied to the lease liabilities during the year were between 11.60% and 12.68% (2019: between 11.60% and 12.68%). The average lease term has been disclosed in Note 3.5.1.

22.3 Amounts recognised in the statement of profit or loss

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Depreciation charges included in: | | | | |
| - Cost of sales | 37,501 | 38,766 | 37,501 | 38,766 |
| - Operational expenses | 2,645 | 2,645 | 2,412 | 2,412 |
| | 40,146 | 41,411 | 39,912 | 41,178 |
| Interest expense included in finance costs | 40,431 | 41,762 | 40,275 | 41,592 |
| Short term and low value leases | 1,493 | 657 | 506 | 527 |

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Notes to the consolidated financial statements For the year ended 31 December 2020

23. Provisions

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | | | | |
| Provision for annual leave (i) | 2,144 | 2,200 | 2,127 | 2,186 |
| | 2,144 | 2,200 | 2,127 | 2,186 |
| Non-current | | | | |
| Provision for long service leave (ii) | 6,299 | 7,821 | 6,278 | 7,792 |
| Provision for return conditions costs (iii) | 15,635 | 12,585 | 15,635 | 12,585 |
| | 21,934 | 20,406 | 21,913 | 20,377 |

Movements in provisions are as follow:

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>(i) Movement in provision for annual leave</i> | | | | |
| Balance at the start of the year | 2,200 | 3,451 | 2,186 | 3,440 |
| Additional provision / (amount used) | (56) | (1,251) | (59) | (1,254) |
| Balance at the end of the year | 2,144 | 2,200 | 2,127 | 2,186 |
| <i>(ii) Movement in provision for long service leave</i> | | | | |
| Balance at the start of the year | 7,821 | 5,760 | 7,792 | 5,692 |
| Amount used | (2,780) | (1,945) | (2,780) | (1,945) |
| Additional provision recognised | 1,258 | 4,007 | 1,266 | 4,045 |
| Balance at the end of the year | 6,299 | 7,821 | 6,278 | 7,792 |
| <i>(iii) Movement in provision for return conditions costs</i> | | | | |
| Balance at the start of the year | 12,585 | 11,486 | 12,585 | 11,486 |
| Unwinding of discount | 1,541 | 1,409 | 1,541 | 1,409 |
| Change in estimates | 1,102 | (458) | 1,102 | (458) |
| Effect of foreign exchange | 407 | 148 | 407 | 148 |
| Balance at the end of the year | 15,635 | 12,585 | 15,635 | 12,585 |

24. Trade and other payables and revenue received in advance

24.1 Trade and other payables

| | Consolidated | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Trade payables | 42,438 | 21,097 | 41,360 | 17,849 |
| Accrued expenses | 31,635 | 24,203 | 31,014 | 24,258 |
| Advance payment from customers | 6,781 | 1,970 | 6,781 | 1,970 |
| Related party payable (Note 28) | - | - | 1,664 | 3,317 |
| Salary and wages tax and GST payable | 983 | 3,061 | 1,097 | 3,263 |
| Other payables | 2,227 | 745 | 2,227 | 745 |
| Total trade and other payables | 84,064 | 51,076 | 84,143 | 51,402 |

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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

24.2 Revenue received in advance

| | Consolidated | | Company | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Revenue received in advance | 14,906 | 20,898 | 14,906 | 20,898 |

Revenue received in advance is made up of sales to passengers in advance of the date of passenger travel.

Revenue recognised related to unused tickets, which were included in the revenue received in advance balance at the beginning of the period, amounted to K3.0 million (2019: K8.3 million).

The Group's customers have the ability to change travel dates or request refunds, depending on fare types. In 2020, due to the impact of COVID-19 travel restrictions, the Group had experienced increase in volume of changes to customer travel dates and requests for fare refunds.

25. Financial instruments

25.1 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.

25.2 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.

25.3 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see Note 25.4 below) and interest rates (see Note 25.5 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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

25. Financial instruments (continued)

25.4 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 | |
|----------------------|---------------|---------------|---------------|---------------|
| | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| Australian Dollar | 1,430 | 999 | 174 | 428 |
| United States Dollar | 362,998 | 348,775 | 1,676 | 2,731 |

25.4.1 Foreign currency sensitivity analysis

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

| | Australian Dollar impact | | United States Dollar impact | |
|-------------------------------------|--------------------------|---------------|-----------------------------|---------------|
| | 2020 K'000 | 2019 K'000 | 2020 K'000 | 2019 K'000 |
| Effect of 10% strengthening of Kina | 114 | 52 | 32,847 | 31,459 |
| Effect of 10% weakening of Kina | (126) | (57) | (36,132) | (34,604) |

25.5 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.

25.5.1 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 2020 would increase/decrease by K2.2 million (2019: by increase/decrease K2.3 million). 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.

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Notes to the consolidated financial statements For the year ended 31 December 2020

25. Financial instruments (continued)

25.6 Commodity Risk

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

25.7 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. As at 31 December 2020 and 2019, the Group has not identified any significant concentration of credit risk.

25.8 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.

25.8.1 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.

Liquidity and interest risk tables

| | Weighted average effective interest rate | Variable interest rate | Within 1 year | 1-2 years | 2-3 years | 3+ years | Total |
|--|--|------------------------------|------------------|----------------|----------------|----------------|----------------|
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Consolidated | | | | | | | |
| 31 December 2020 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 42,438 | - | - | - | 42,438 |
| Other payables | Non-interest bearing | | 40,642 | - | - | - | 40,642 |
| Bank loans and overdrafts | 9.75% | - | 21,896 | - | - | - | 21,896 |
| Secured loan from other financial institution | 11.00% | - | 1,461 | 1,475 | 1,356 | - | 4,292 |
| Secured notes | 7.90% | - | 34,000 | - | - | - | 34,000 |
| Lease liabilities | 12.14% | - | 107,286 | 131,706 | 126,031 | 169,373 | 534,396 |
| Other liabilities | 9.25% | - | 8,824 | 3,335 | 3,335 | - | 15,494 |
| | | | 256,547 | 136,516 | 130,722 | 169,373 | 693,158 |

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Notes to the consolidated financial statements For the year ended 31 December 2020

25. Financial instruments (continued)

| | Weighted average effective interest rate | Variable interest rate | Within 1 | 1-2 | 2-3 | 3+ | Total |
|--|--|------------------------------|----------------|----------------|----------------|----------------|----------------|
| | | | year | years | years | years | |
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Consolidated | | | | | | | |
| 31 December 2019 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 21,097 | - | - | - | 21,097 |
| Other payables | Non-interest bearing | | 21,488 | - | - | - | 21,488 |
| Bank loans and overdrafts | 9.75% | - | 24,264 | - | - | - | 24,264 |
| Secured loan from other financial institution | 11.00% | - | 1,861 | 1,861 | 1,559 | - | 5,281 |
| Secured notes | 7.90% | - | 9,000 | 25,000 | - | - | 34,000 |
| Lease liabilities | 12.14% | - | 71,533 | 131,662 | 124,820 | 224,957 | 552,972 |
| Other liabilities | 9.25% | - | 15,245 | - | - | - | 15,245 |
| | | | 164,488 | 158,523 | 126,379 | 224,957 | 674,347 |

| | Weighted average effective interest rate | Variable interest rate | Within 1 | 1-2 | 2-3 | 3+ | Total |
|--|--|------------------------------|----------------|----------------|----------------|----------------|----------------|
| | | | year | years | years | years | |
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Company | | | | | | | |
| 31 December 2020 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 41,361 | - | - | - | 41,361 |
| Related party payables | Non-interest bearing | | 1,664 | - | - | - | 1,664 |
| Other payables | Non-interest bearing | | 40,021 | - | - | - | 40,021 |
| Bank loans and overdrafts | 9.75% | - | 21,896 | - | - | - | 21,896 |
| Secured loan from other financial institution | 11.00% | - | 1,461 | 1,475 | 1,356 | - | 4,292 |
| Secured notes | 7.90% | - | 34,000 | - | - | - | 34,000 |
| Lease liabilities | 12.14% | - | 106,898 | 131,040 | 125,365 | 168,707 | 532,010 |
| Other liabilities | 9.25% | - | 8,824 | 3,335 | 3,335 | - | 15,494 |
| | | | 256,125 | 135,850 | 130,176 | 168,707 | 690,738 |

| | | | | | | | |
|--|----------------------|---|----------------|----------------|----------------|----------------|----------------|
| Company | | | | | | | |
| 31 December 2019 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 17,849 | - | - | - | 17,849 |
| Related party payables | Non-interest bearing | | 3,317 | - | - | - | 3,317 |
| Other payables | Non-interest bearing | | 26,973 | - | - | - | 26,973 |
| Bank loans and overdrafts | 9.75% | - | 24,264 | - | - | - | 24,264 |
| Secured loan from other financial institution | 11.00% | - | 1,861 | 1,861 | 1,559 | - | 5,281 |
| Secured notes | 7.90% | - | 9,000 | 25,000 | - | - | 34,000 |
| Lease liabilities | 12.14% | - | 71,200 | 130,996 | 124,154 | 223,957 | 550,307 |
| Other liabilities | 9.25% | - | 15,245 | - | - | - | 15,245 |
| | | | 169,709 | 157,857 | 125,713 | 223,957 | 677,236 |

At the end of the reporting period, there were no financial guarantee contracts (2019: Nil).

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Notes to the consolidated financial statements For the year ended 31 December 2020

26. Auditors Remuneration

| | Consolidated | | Company | |
|---------------------------|--------------|--------------|------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| Deloitte Touche Tohmatsu: | | | | |
| - Audit Fee | 660 | 1,766 | 660 | 1,766 |
| - Other services fees | 41 | 65 | 16 | 24 |
| | 701 | 1,831 | 676 | 1,790 |

27. Other company information

The total number of employees at the Group level at year end was:

| | Consolidated | | Company | |
|----------------------|--------------|------------|------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| National employees | 593 | 669 | 585 | 661 |
| Expatriate employees | 94 | 134 | 74 | 98 |
| | 687 | 803 | 659 | 759 |

28. Related parties

28.1 Transactions with subsidiaries and affiliated companies

The Company had the following transactions with related parties that occurred on normal trading terms during the year.

| Related Party | Relationship | Nature of transaction | 2020 | 2019 |
|---|--------------|-------------------------------------|--------------------|--------------------|
| | | | K'000 | K'000 |
| APNG Services Pty Ltd | Subsidiary | Supply of Aircrew Settlement | (2,884) 2,807 | (5,589) 4,885 |
| Galatoire Limited | Subsidiary | Rental charges Maintenance costs | (420) 1,373 | (420) 1,478 |
| PNG Ground Services Limited | Subsidiary | Fuel Sales Settlement | (16,130) 14,466 | (29,278) 25,961 |
| Mineral Resources Development Corporation | Shareholder | Commercial Office rental | (264) | (267) |

| Outstanding balances | Related party receivable | | Related party payable | |
|--|--------------------------|--------------|-----------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | K'000 | K'000 | K'000 | K'000 |
| APNG Services Pty Ltd | - | 704 | 77 | - |
| Galatoire Limited | 953 | 1,058 | - | - |
| PNG Ground Services Limited | - | - | 1,664 | 3,317 |
| Mineral Resources Development Ltd (MRDC) | 674 | 243 | | |
| | 1,627 | 2,005 | 1,741 | 3,317 |

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Notes to the consolidated financial statements For the year ended 31 December 2020

28. Related parties (continued)

28.2 Remuneration of key management personnel

The members of key management personnel during the year follow:

2020

| | | |
|----------------------|-----------------|----------------|
| Anthony Pereira | Glenn Dunstan | Richard Cadet |
| Nisaal Chandra Jai | Emmanuel Kadiko | William Kalipa |
| David William Cooper | Bonnie Judas | |
| Linda Griffin | Stanley Stevens | |
| Nancy Nakikus | Watson Siarit | |

2019

| | | |
|------------------|-----------------|----------------------|
| Anthony Pereira | Glenn Dunstan | Sujeewa Samaranayake |
| Michael Fry | Emmanuel Kadiko | Richard Cadet |
| Richard Clifford | Elias Bade | William Kalipa |
| Adrian Smith | Stanley Stevens | |

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

| | 2020 | 2019 |
|---------------------|-------|-------|
| | K'000 | K'000 |
| Short-term benefits | 6,676 | 6,651 |

The remuneration of key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Key Management changes

- Anthony Pereira was appointed as CFO on 10 December 2019 and subsequently as Acting CEO on 8 May 2020 replacing Paul Abbot. Paul Abbot employment ceased in May 2020. Mr. Pereira was confirmed as CEO on 29 September 2020.
- Anthony Pereira resigned as CEO in May 2021 and was replaced by Stanley Stevens in an acting capacity.
- Nisaal Jai was appointed as CFO in May 2021 in Acting Capacity and was confirmed in March 2022.
- Brian Fraser was appointed as CEO in June 2023 taking over from Stanley Stevens.

29. Contingent liabilities

- (i) The Group has provided a letter of credit for approx. K1,126,754 (A\$401,575) to National Australia Bank for merchant facility.
- (ii) The company has commitments as stated in Note 30.

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2020

30. Commitments

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

| | 2020 | 2019 |
|------------------|--------|--------|
| | K'000 | K'000 |
| 1 to 2 years | 23,811 | 9,766 |
| 3 to 4 years | 22,894 | 15,423 |
| 5 years & longer | 15,557 | 28,413 |

The commitments are in respect of (i) delivery of the three new ATR 72-600 aircraft and three new ATR 42-600 aircraft (the commitments were terminated in 2025 and subsequently new agreement for acquisition of three new ATR 42-600 was signed), and (ii) unpaid maintenance reserve.

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

As disclosed in Note 1, the Group partially resumed its operations on 7 April 2020, however it was not operating at normal capacity until mid-2022 due to restrictions imposed by the government in an effort to contain the spread of the pandemic.

The Group's domestic operations were restricted, and its international charter services for a major client were suspended in compliance with the National Pandemic Act.

In 2022, Papua New Guinea gradually lifted its domestic COVID-19 restrictions, eventually removing all air travel-related measures. This included eliminating the requirement to wear masks inside airport terminals and on aircraft, as well as the need for inbound passengers to provide proof of COVID-19 vaccination. As a result, the Group resumed its international charter flights in May 2022.

Scheme of Creditors

On 15 December 2023, the National Court (Hartshorn J. presiding) approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Approval of the Scheme gave a legal effect to the restructuring of the Company's external debts with its major creditors which has been a focus of the Directors and management's attention for the 2 preceding years. The Company's major creditors entered into letters of intent with the Company detailing the terms on which the Company's indebtedness to those creditors will be materially reduced. Those letters of intent became binding on the Company and its major creditors as a consequence of the National Court approving the Scheme.

Outlined below are the key aspects of arrangements with major creditors:

Lessors

- Two of existing lease agreements were terminated early and the lease term for some other lease agreements were extended;
- Late penalty charges and default interest and lease payments in arrears amounting to USD1.5 million were waived; and
- Repayment terms were agreed for remaining lease payments in arrears.

Finance lenders (banks and note holders)

- Partial waiver of K12.0 million of existing debt; and
- Monthly repayment plan for the remaining outstanding balances to note holders was agreed and no interest will be charged provided that monthly payments are made in full and when due.

FINANCIALS

Notes to the consolidated financial statements For the year ended 31 December 2020

31. Events after the reporting period (continued)

Other creditors

- Penalties and interest due amounting to K15.7 million were waived; and
- Monthly repayment plans for the remaining outstanding balances were agreed.

Also, as part of the restructuring, the Company's major shareholders, MRDC and Nasfund, have agreed to:

- Convert K58.2 million of previously contributed K70.6 million (included in other contributed equity at 31 December 2020) into shares.
- The remaining amount of K12.4 million was converted to debt, of which K10.3 million was forgiven and K2.1 million is to be repaid in 21 monthly installments.

MRDC also provided additional capital of K55 million to the Company during 2023 and 2024, for which additional shares were issued by the Company in 2023 and 2025.

Business Operations and Significant Commitments

- Three (3) new ATR 42-600 were ordered which are scheduled to begin delivery in 2026;
- Two major charter contracts were renewed for a further two years from December 2023;
- Maintenance Organisation Certificate (MOC) renewed for three years expiring 31 October 2027;
- The Group leased one (1) ATR 72-600 in April 2024 for six (6) years;
- In June 2024 the Group, after negotiations with certain lessors, concluded the purchase of all leased Dash 8 aircraft.

Other than the matters described above or elsewhere in the consolidated financial statements, no matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations or state of affairs of the Group in subsequent accounting periods.

32. Approval of financial statements

The financial statements were approved by the directors and authorized for issue on 20 June 2025.

Independent Auditor's Report



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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PNG Air Limited (the "Company") and its subsidiaries (the "Group") which comprise the Group and the Company's statements of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In our opinion, the accompanying financial statements of the Group and the Company, give a true and fair view of the Group's and the Company's financial position as at 31 December 2020 and of their financial performance and their cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of *the Companies Act 1997 (amended 2022)*.

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 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 2020 the Group and the Company have an excess of current liabilities over current assets of K170.0 million and K169.8 million, respectively. 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 and the Company's ability to continue as going concerns. 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 financial statements of the Group for the current period. These matters were addressed in the context of our audit of the 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 matters described below to be the key audit matters to be communicated in our report.

Independent Auditor's Report



| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| <p>Valuation of the Group's owned aircrafts</p> <p>The carrying value of the Group's owned aircrafts as at 31 December 2020 was K85.28 million.</p> <p>The Group applies the revaluation model for its owned aircrafts and at the end of each reporting period estimates the fair value of its owned aircrafts taking into consideration factors such as changes in fleet composition, market values and technical factors.</p> <p>We have identified the carrying value of aircraft as a key audit matter because of its significance to the consolidated financial statements.</p> | <p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none">• Obtaining an understanding of the relevant controls associated with the preparation and review of the Group's owned aircraft valuations• Assessing the reasonableness of management's judgements, assumptions 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• Challenging and assessing the reasonableness of assumptions and judgements used by management, taking into account recent developments in the airline industry and future operating plans. <p>We also assessed the completeness and accuracy of the disclosures in the consolidated financial statements.</p> |

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Directors' Declaration for the year ended 31 December 2020, which we obtained prior to the date of this auditor's report, and the Group and Company's annual report, 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies Act 1997 (amended 2022) and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view of the financial position and performance of the Group and the Company and are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report



In preparing the financial statements, the directors are responsible for assessing the ability of the Group and the Company 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 and the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the financial statements.

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

- Identify and assess the risks of material misstatement of the 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 and the Company'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 and the Company'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 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 and the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 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.

Independent Auditor's Report

Deloitte.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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.

Report on Other Legal and Regulatory Requirements

In accordance with section 200 of the Companies Act 1997 (*amended 2022*), in our opinion:

- We obtained all information and explanations that were required; and
- Proper accounting records have been kept by the Group and the Company for the year ended 31 December 2020.

We also provided PNG Air Limited and its subsidiaries with tax compliance services.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Herbert Maguma

Partner

Registered under the Accountants Act 1996

Port Moresby, 20 June 2025

PNG Air Limited

**Consolidated Financial Statements
for the year ended 31 December 2019**

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 2019. In order to comply with the provisions of the Companies Act 1997 (amended 2022), the directors report as follows:

The Directors

The names and particulars of the directors during or since the end of the financial year are:

| | |
|--------------------|---------------------|
| Mr. Augustine Mano | Ms. Valentina Kaman |
| Mr. Simon Woolcott | Mr. William Lamur |
| Mr. Edward Matane | Mr. Andrew Ogil |
| Mr. Watt Kiddie | Mr. Andrew Crompton |

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

- Mr William Lamur was appointed as a director and the Chairman from 19 June 2018 and he stepped down on 25 September 2020.
- Andrew Crompton was appointed on 04 November 2020 and resigned from 01 December 2022.
- Mr. Andrew Ogil was appointed as an Independent Director on 10 December 2019 and appointed the Chairman of Remuneration and Nomination Committee in August 2020 and resigned on 04 April 2023.
- Mr. Watt Kiddie was appointed the Chairman of the Audit and Risk Committee in April 2019 and was appointed as Deputy Chairman on 30 July 2021.
- Mr. Augustine Mano was appointed as Chairman on 30 July 2021.
- Ms. Valentina Kaman was appointed as a director in April 2023 is the current Chairlady of the Remuneration and Nomination Committee.
- Mr. Simon Woolcott resigned effective from 02 February 2019 and later re-appointed on 27 May 2024.

Company Secretary

The Company Secretary as at 31 December 2019 was Diana Penrose. Dianna Penrose took the position of Company Secretary on 8 March 2019. Nisaal Jai replaced Diana Penrose on 02 July 2020. Deborah Poya replaced Nisaal Jai on 03 May 2022.

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. For the year ended 31 December 2019, the Group reported a pre-tax profit of K10.5 million (2018: pre-tax profit of K9.7 million).

The Company is listed on Papua New Guinea’s National Stock Exchange (“PNGX”). PNGX suspended the securities of PNG Air Limited from official quotation on 15 January 2019 following the Company’s failure to lodge its periodic reports on a timely manner. The securities remain suspended at the date of approval of these financial statements.

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 which supplies 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 Notes 2.1 and 2.2, there has been no other changes in accounting policies during the current year.

DIRECTORS REPORT

Disclosure of interest and other directorship

The disclosure on Directors interests and other directorships is provided below:

| Name of Director | Organisation | Interest |
|--------------------------------------|---|---------------------------|
| Augustine Mano | PNG Air Ltd | Board Director & Chairman |
| | 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 |
| | Ok Tedi Mining Limited | Director |
| | GFS Limited | Director |
| | 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 |
| | CIVPAC Limited | Chairman |
| | Handy Group Limited | Chairman |
| | SMA Investments | Chairman |
| | Bogasi Investments Ltd | Director |
| | PNG Ground Services (subsidiary of PNG Air) | Director |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | Andrew Ogil | PNG Air Ltd |
| North QLD & Northern Territory | | PNG Consul in Cairns |
| Air Niugini | | CEO / Managing Director |
| Civil Aviation Authority | | CEO / Managing Director |
| Tropic Group | | Director |
| PNG Power | | Board Chairman |
| Missionary Aviation Fellowship (MAF) | | Board Member |

DIRECTORS REPORT

Directors' report (continued)

Disclosure of interest and other directorship (continued)

| Name of Director | Organisation | Interest |
|------------------|---|--|
| Watt Kiddie | PNG Air Ltd | Board Director & Deputy Chairman |
| | First National Insurance Brokers Ltd | Director |
| | Wooner Trading Limited | Director |
| | Diamond Finance Limited | Director |
| | Business Arm of the Lutheran Renewal Church of PNG | Director/Chairman |
| | WK Kiddie PNG Peace & Gutpela Sindaun Foundation Inc. | Principal Custodian and Founder |
| | Lutheran Renewal Investments Group Limited | Chairman |
| | Hanrick Curran Kiddie Limited | Director |
| | Statutory Committee of Board | Chairman |
| | PNG Air BARCC Committee | Chairman |
| Andrew Crompton | PNG Air Ltd | Board Member (resigned) |
| | Coastwatchers Court Ltd | Chairman |
| | Moki No 10 Limited | Chairman |
| | OPH Limited | Chairman |
| | Pacific Capital Partners (PNG) Limited | Board Member |
| | Rangeview Heights Limited | Chairman |
| | Waigani Asset Limited | Chairman |
| Edward Matane | PNG Air Ltd | Board Director |
| | Matsi Holdings Ltd | Director |
| | Pacific Helicopters Ltd | CEO |
| | Galatoire Limited (subsidiary of PNG Air) | Director |
| | PNG Ground Services Limited (subsidiary of PNG Air) | Director |
| Simon Woolcott | PNG Air Ltd | Board Director |
| | TISA | Director and ARC Member |
| | TISA Bank | Director & Chairman of Audit Committee |
| | Capital Insurance Group | Director & Chairman of Audit Committee |
| | BKS Services | Managing Director |
| | MRDC | Chief Finance Officer |
| Valentina Kaman | PNG Air Limited | Board Director |
| | PNG Air RNC Committee | Chairperson |
| | Mineral Resource Development Company Limited | Manager Legal |
| | Mineral Resources Star Mountain Limited | Manager Legal & Company Secretary |
| | Mineral Resources CMCA Holdings Limited | Manager Legal & Company Secretary |
| | Mineral Resources OK Tedi Limited | Manager Legal & Company Secretary |
| | Business Professional Women's Club | Vice President |
| | Piku Conservation Network | Director |
| | Malma Holdings Limited | Shareholder & Director |

DIRECTORS REPORT

Directors' report (continued)

Directors' remuneration

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

| Director | 2019 | 2018 |
|--|--------|--------|
| | K | K |
| Augustine Mano | 47,252 | 47,252 |
| Murray Woo (resigned in May 2018) | - | 16,783 |
| Simon Woolcott | 4,530 | 47,252 |
| Edward Matane | 46,752 | 46,752 |
| Watt Kiddie | 46,752 | 46,752 |
| William Lamur | 36,939 | 26,245 |
| Andrew Ogil (appointed in December 2019) | - | - |

Remuneration above K100,000 per annum

| Remuneration K'000 | 2019 Nos. | 2018 Nos. | Remuneration K'000 | 2019 Nos. | 2018 Nos. |
|-----------------------|--------------|--------------|-----------------------|--------------|--------------|
| 100 – 110 | 8 | 5 | 360 – 370 | 3 | 4 |
| 110 – 120 | 9 | 8 | 370 – 380 | - | 1 |
| 120 – 130 | 6 | 3 | 380 – 390 | - | 3 |
| 130 – 140 | 7 | 2 | 390 – 400 | 2 | 2 |
| 140 – 150 | 10 | 5 | 400 – 410 | - | 3 |
| 150 – 160 | 5 | 3 | 410 – 420 | - | 1 |
| 160 – 170 | 5 | 0 | 420 – 430 | - | 1 |
| 170 – 180 | 5 | 5 | 430 – 440 | 1 | 2 |
| 180 – 190 | 3 | 2 | 440 – 450 | - | - |
| 190 – 200 | 6 | 9 | 450 – 460 | 3 | 1 |
| 200 – 210 | 2 | 10 | 460 – 470 | - | 1 |
| 210 – 220 | 9 | 7 | 470 – 480 | 2 | 5 |
| 220 – 230 | 13 | 3 | 480 – 490 | - | 1 |
| 230 – 240 | 2 | - | 490 – 500 | 2 | 2 |
| 240 – 250 | 6 | 7 | 500 – 510 | 1 | - |
| 250 – 260 | 1 | 1 | 510 – 520 | - | 1 |
| 260 – 270 | 3 | 3 | 520 – 530 | 1 | 3 |
| 270 – 280 | 3 | 14 | 530 – 540 | - | 3 |
| 280 – 290 | 4 | 2 | 540 – 550 | 1 | 4 |
| 290 – 300 | 7 | 6 | 550 – 560 | - | 2 |
| 300 – 310 | 1 | 4 | 570 – 580 | 1 | 1 |
| 310 – 320 | 6 | 12 | 580 – 590 | - | - |
| 320 – 330 | 5 | 9 | 590 – 600 | - | 2 |
| 330 – 340 | 5 | 8 | 610 – 620 | - | 2 |
| 340 – 350 | 2 | - | 650 – 660 | - | 1 |
| 350 – 360 | 2 | 3 | 660 – 670 | 1 | - |
| | | | 1,100 – 1,200 | 1 | 1 |

Corresponding last year's figure has been adjusted at 2019 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.

Dividends

There were no dividends declared during the year by the Group (2018: Nil).

DIRECTORS REPORT

Directors' report (continued)

Donations

There were no donations made during the year by the Group (2018: Nil).

Independent audit report

The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent auditor's report on pages 287-290. Audit fees and non-audit fees are disclosed at Note 26.

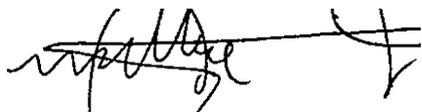
Registered office and principal place of business

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, 20 June 2025



Watt Kiddie
Director
Port Moresby, 20 June 2025

FINANCIALS

Consolidated statement of profit or loss for the year ended 31 December 2019

| | Notes | Consolidated | | Company | |
|---|-------|--------------|---------------------|------------|---------------------|
| | | 2019 | 2018 | 2019 | 2018 |
| | | K'000 | (Restated) K'000 | K'000 | (Restated) K'000 |
| Revenue | 5.1 | 319,283 | 308,076 | 316,658 | 305,419 |
| Cost of sales | 5.3 | (149,322) | (171,074) | (147,806) | (169,550) |
| Gross profit | | 169,961 | 137,002 | 168,852 | 135,869 |
| Other income, net | 5.2 | 6,831 | 8,101 | 6,831 | 8,101 |
| Operational expenses | 5.4 | (87,087) | (94,896) | (86,224) | (94,255) |
| Occupancy expenses | 5.6 | (5,093) | (8,532) | (5,126) | (8,170) |
| Administration expenses | 5.5 | (24,137) | (22,859) | (24,064) | (22,764) |
| Finance costs | 7 | (49,936) | (9,135) | (49,766) | (9,135) |
| Profit before tax | | 10,539 | 9,681 | 10,503 | 9,646 |
| Income tax expense | 8.1 | (9,779) | (3,027) | (9,702) | (2,990) |
| PROFIT FOR THE YEAR | | 760 | 6,654 | 801 | 6,656 |
| Earnings Per Share | | | | | |
| Basic and diluted earnings per share (toea) | 17 | 0.25 | 2.16 | 0.26 | 2.17 |

The attached notes from pages 242 to 286 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of comprehensive income for the year ended 31 December 2019

| | Notes | Consolidated | | Company | |
|--|-------|---------------|-----------------------------|---------------|-----------------------------|
| | | 2019 K'000 | 2018 (Restated) K'000 | 2019 K'000 | 2018 (Restated) K'000 |
| PROFIT FOR THE YEAR | | 760 | 6,654 | 801 | 6,656 |
| Other comprehensive income | | | | | |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> | | | | | |
| Gain on revaluation of non-current assets, net of tax | 18 | - | 3,131 | - | 3,131 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Exchange difference on translation of foreign operation | 19 | 3 | (18) | - | - |
| Other comprehensive income for the year net of tax | | 3 | 3,113 | - | 3,131 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 763 | 9,767 | 801 | 9,787 |

The attached notes from pages 242 to 286 form part of these consolidated financial statements

FINANCIALS

Consolidated statement of financial position at 31 December 2019

| | Notes | Consolidated | | | Company | | |
|--------------------------------------|-------|----------------|---------------------|---------------------|----------------|---------------------|---------------------|
| | | 2019 | 2018 | 1 January | 2019 | 2018 | 1 January |
| | | K'000 | (Restated) K'000 | (Restated) K'000 | K'000 | (Restated) K'000 | (Restated) K'000 |
| Assets | | | | | | | |
| <i>Non-current assets</i> | | | | | | | |
| Property, plant and equipment | 11 | 147,436 | 141,453 | 138,240 | 146,527 | 140,446 | 137,074 |
| Right of use assets | 22.1 | 318,894 | - | - | 317,028 | - | - |
| Other financial assets | 12 | 8,094 | 9,852 | 21,720 | 8,114 | 9,872 | 21,740 |
| Deferred tax assets, net | 8.2 | - | - | 907 | - | - | 811 |
| Other assets | 13 | 56,843 | 51,574 | 22,944 | 56,843 | 51,574 | 22,944 |
| Total non-current assets | | 531,267 | 202,879 | 183,811 | 528,512 | 201,892 | 182,569 |
| <i>Current assets</i> | | | | | | | |
| Inventories | 14 | 12,177 | 14,042 | 14,047 | 11,389 | 13,256 | 13,487 |
| Trade and other receivables | 15 | 24,541 | 21,037 | 28,752 | 24,303 | 20,906 | 28,562 |
| Cash and bank balances | 10 | 790 | 702 | 557 | 583 | 580 | 534 |
| Other assets | 13 | 11,992 | 14,537 | 13,090 | 13,718 | 16,183 | 14,205 |
| Total current assets | | 49,500 | 50,318 | 56,446 | 49,993 | 50,925 | 56,788 |
| Total assets | | 580,767 | 253,197 | 240,257 | 578,505 | 252,817 | 239,357 |
| <i>Non-current liabilities</i> | | | | | | | |
| Deferred tax liabilities, net | 8.2 | 10,334 | 3,444 | - | 10,297 | 3,484 | - |
| Provisions | 23 | 20,406 | 15,709 | 15,254 | 20,377 | 15,642 | 15,176 |
| Lease liabilities | 22.2 | 314,296 | - | - | 312,537 | - | - |
| Borrowings | 20 | 28,420 | 30,034 | 25,280 | 28,420 | 30,034 | 25,280 |
| Other liabilities | 21 | - | 19,267 | 32,032 | - | 19,267 | 32,032 |
| Total non-current liabilities | | 373,456 | 68,454 | 72,566 | 371,631 | 68,427 | 72,488 |
| <i>Current liabilities</i> | | | | | | | |
| Provisions | 23 | 2,200 | 4,987 | 3,273 | 2,186 | 4,975 | 3,266 |
| Lease liabilities | 22.2 | 31,727 | - | - | 31,550 | - | - |
| Borrowings | 20 | 35,125 | 33,553 | 38,763 | 35,125 | 33,553 | 38,763 |
| Trade and other payables | 24.1 | 51,076 | 67,717 | 66,532 | 51,402 | 67,986 | 66,347 |
| Revenue received in advance | 24.2 | 20,898 | 28,832 | 22,868 | 20,898 | 28,832 | 22,868 |
| Other liabilities | 21 | 15,245 | 13,752 | 9,951 | 15,245 | 13,752 | 9,951 |
| Total current liabilities | | 156,271 | 148,841 | 141,387 | 156,406 | 149,098 | 141,195 |
| Total liabilities | | 529,727 | 217,295 | 213,953 | 528,037 | 217,525 | 213,683 |
| Net Assets | | 51,040 | 35,902 | 26,304 | 50,468 | 35,292 | 25,674 |
| Equity | | | | | | | |
| Issued capital | 16.1 | 77,271 | 77,271 | 77,271 | 77,271 | 77,271 | 77,271 |
| Other contributed equity | 16.2 | 70,563 | 70,563 | 70,563 | 70,563 | 70,563 | 70,563 |
| Revaluation reserve | 18 | 4,372 | 4,372 | 1,241 | 4,372 | 4,372 | 1,241 |
| Accumulated losses | 19 | (101,166) | (116,304) | (122,771) | (101,738) | (116,914) | (123,401) |
| Total equity | | 51,040 | 35,902 | 26,304 | 50,468 | 35,292 | 25,674 |

The attached notes from pages 242 to 286 form part of these consolidated financial statements

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Consolidated statement of changes in equity for the year ended 31 December 2019

| Consolidated | Issued capital | Other contributed equity | Revaluation reserve | Accumulated losses | Total |
|---|----------------|--------------------------|---------------------|--------------------|---------------|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| At 1 January 2018, as previously reported | 77,271 | 70,563 | 1,241 | (127,572) | 21,503 |
| Restatement (Note 32) | - | - | - | 4,801 | 4,801 |
| At 1 January 2018, as restated | 77,271 | 70,563 | 1,241 | (122,771) | 26,304 |
| Effect of adoption of IFRS 9 (net of tax) | - | - | - | (169) | (169) |
| Profit for the year (restated) | - | - | - | 6,654 | 6,654 |
| Other comprehensive income | - | - | 3,131 | (18) | 3,113 |
| Total comprehensive income | - | - | 3,131 | 6,636 | 9,797 |
| At 31 December 2018 | 77,271 | 70,563 | 4,372 | (116,304) | 35,902 |
| Effect of adoption of IFRS 16 (refer to note 2.1) | - | - | - | 14,375 | 14,375 |
| Profit for the year | - | - | - | 760 | 760 |
| Other comprehensive income | - | - | - | 3 | 3 |
| Total comprehensive income | - | - | - | 763 | 763 |
| At 31 December 2019 | 77,271 | 70,563 | 4,372 | (101,166) | 51,040 |

| Company | Issued capital | Other contributed equity | Revaluation reserve | Accumulated losses | Total |
|---|----------------|--------------------------|---------------------|--------------------|---------------|
| | K'000 | K'000 | K'000 | K'000 | K'000 |
| At 1 January 2018, as previously reported | 77,271 | 70,563 | 1,241 | (128,202) | 20,873 |
| Restatement (Note 32) | - | - | - | 4,801 | 4,801 |
| At 1 January 2018, as restated | 77,271 | 70,563 | 1,241 | (123,401) | 25,674 |
| Effect of adoption of IFRS 9 (net of tax) | - | - | - | (169) | (169) |
| Profit for the year | - | - | - | 6,656 | 6,656 |
| Other comprehensive income | - | - | 3,131 | - | 3,131 |
| Total comprehensive income | - | - | 3,131 | 6,656 | 9,787 |
| At 31 December 2018 | 77,271 | 70,563 | 4,372 | (116,914) | 35,292 |
| Effect of adoption of IFRS 16 (refer to Note 2.1) | - | - | - | 14,375 | 14,375 |
| Profit for the year | - | - | - | 801 | 801 |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | 801 | 801 |
| At 31 December 2019 | 77,271 | 70,563 | 4,372 | (101,738) | 50,468 |

The attached notes from pages 242 to 286 form part of these consolidated financial statements

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Consolidated statement of cash flows for the year ended 31 December 2019

| | Consolidated | | Company | | |
|--|--------------|-----------------|----------------|-----------------|----------------|
| | Notes | 2019 | 2018 | 2019 | 2018 |
| | | K'000 | K'000 | K'000 | K'000 |
| Cash flows from operating activities | | | | | |
| Receipts from customers | | 321,350 | 329,018 | 318,830 | 326,370 |
| Payments to suppliers and employees | | (236,410) | (310,593) | (234,416) | (306,787) |
| Cash generated from operations | | 84,940 | 18,425 | 84,414 | 19,583 |
| Interest paid | | (47,435) | (7,916) | (47,265) | (7,916) |
| Net cash generated from operating activities | | 37,505 | 10,509 | 37,149 | 11,667 |
| Cash flows from investing activities | | | | | |
| Payments for purchase of property, plant and equipment | | (18,609) | (10,405) | (18,608) | (10,369) |
| Proceeds from disposal of property, plant and equipment | | 1,022 | 499 | 1,022 | 498 |
| Net cash used in investing activities | | (17,587) | (9,906) | (17,586) | (9,871) |
| Cash flows from financing activities | | | | | |
| Proceeds from/ (repayments of) borrowings | | | | | |
| - Financial institutions | | (4,908) | (2,750) | (4,908) | (2,750) |
| - Other | | - | 4,600 | - | 4,600 |
| - Affiliated/Related parties | | - | - | 107 | (1,292) |
| Principal payment of lease liabilities | | (19,788) | - | (19,625) | - |
| Net cash (used in) /generated from financing activities | | (24,696) | 1,850 | (24,426) | 558 |
| Net change in cash and cash equivalents | | (4,778) | 2,452 | (4,863) | 2,354 |
| Cash and cash equivalents at the beginning of the year | | (5,452) | (7,905) | (5,574) | (7,928) |
| Cash and cash equivalents at the end of the year | 10 | (10,230) | (5,452) | (10,437) | (5,574) |

The attached notes from pages 242 to 286 form part of these consolidated financial statements

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Notes to the consolidated financial statements For the year ended 31 December 2019

1. General information

PNG Air Limited (the 'Parent' or 'Parent Company') is incorporated in Papua New Guinea (PNG). 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 Notes 6 and 9.

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

2.1 New an Amendment to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amended IFRS Accounting Standards and Interpretations issued by the Board that are relevant to its operations and effective for an annual period that begins on or after 1 January 2019:

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*
- Annual Improvements to IFRS Standards 2015–2017 Cycle *Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*
- International Financial Reporting Interpretations Committee (IFRIC) 23 *Uncertainty over Income Tax Treatments*
- IFRS 16 *Leases*

Other than the impact of IFRS 16 *Leases* application, the adoption of these new and amended IFRS Standards and Interpretations has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Initial application of IFRS 16 Leases

IFRS 16 and its consequential amendments were applied from 01 January 2019. IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 superseded IAS 17 *Leases* and the related Interpretations when it became 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 was also affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments are split into a principal and an interest portion which are presented as financing and operating cash flows, respectively.

The Group transitioned to IFRS 16 using the modified retrospective approach, where the right-of-use asset is recognised at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments relating to the lease recognised in the Statement of Financial Position immediately before the date of initial application, using the Group's incremental borrowing rate at the date of initial application. Comparative figures have not been restated.

On transition to IFRS 16, the Group elected to apply the following practical expedients:

- Assessment of whether a contract is, or contains, a lease at 01 January 2019. The Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* at the date of initial application.
- The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease. As permitted by IFRS 16, this expedient was applied on a lease-by-lease basis.

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Notes to the consolidated financial statements For the year ended 31 December 2019

2.1 New and amendments to IFRSs that are mandatorily effective for the current year (continued)

Impact on financial statements

Reconciliation of operating lease commitments disclosed as at 31 December 2018 to initial measurement of lease liabilities at 1 January 2019 follows:

| | 2019 |
|--|----------------|
| | K'000 |
| Operating lease commitments disclosed as at 31 December 2018 | 385,012 |
| Adjustments as a result of a different treatment of extension and termination options | 224,277 |
| Short-term leases recognised on a straight-line basis as expense | (1,244) |
| Discounting effect using the lessee's incremental borrowing rate of at the date of initial application | (256,840) |
| Lease liabilities recognised as at 1 January 2019 | 351,205 |
| Of which are: | |
| Current lease liabilities | 27,551 |
| Non-current lease liabilities | 323,654 |
| | 351,205 |

At 01 January 2019, the Group recorded a lease liability and right-of-use asset amounting to K351.2 million and K360.8 million, respectively. The weighted average incremental borrowing rate applied to the lease liabilities on 01 January 2019 were between 11.60% and 12.68%. The change in accounting policy also affected some other account balances in the consolidated statement of financial position on 01 January 2019, refer for details to relevant notes.

The impact of adoption of IFRS 16 to the Company is materially the same as to the Group.

2.2. Amendments in issue and not yet effective for the year ended 31 December 2019 but early adopted

- Amendments to IAS 1 *Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements— Disclosure of Accounting Policies*

The amendments to IAS 1 are effective for annual periods beginning on or after 01 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. The Company has elected to early adopt the amendments to IAS 1 for the first time in the current year.

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

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Notes to the consolidated financial statements For the year ended 31 December 2019

2.3. New, amendments, and revised accounting standards in issue but not yet effective for the year ended 31 December 2019 and not early adopted

At the date of authorisation of these financial statements, the Group and the Company have not applied the following revised IFRS Accounting Standards that have been issued but are not yet effective:

| Standards | Description | Effective for annual reporting periods beginning on or after |
|--|---|--|
| Conceptual Framework | Amendments to References to the Conceptual Framework in IFRS Standards | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 | Definition of material | 1 January 2020 |
| Amendments to IFRS 3 | Definition of a business | 1 January 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest rate benchmark | 1 January 2020 |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 | 1 January 2021 |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2022 |
| Amendments to IFRS 3 | Reference to conceptual Framework | 1 January 2022 |
| Amendments to IAS 16 | Property, Plant and Equipment—Proceeds before Intended Use | 1 January 2022 |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract | 1 January 2022 |
| Annual Improvements to IFRS Standards 2018-2020 Cycle | Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture | 1 January 2022 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| IFRS 17 (including the June 2020 amendments to IFRS 17) | Insurance Contracts | 1 January 2023 |
| Amendments to IAS 8 | Definition of Accounting Estimates | 1 January 2023 |
| Amendments to IAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |
| Amendment to IFRS 16 | Leases on sale and leaseback | 1 January 2024 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current. The IASB has aligned the effective date with the 2022 amendments to IAS. | 1 January 2024 |
| Amendments to IAS 1 | Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7 | Supplier Finance Arrangements | 1 January 2024 |
| Amendments to IFRS 10 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2025 |
| Consolidated Financial Statements and IAS 28 | Investments in Associates and Joint Ventures | |
| Amendments to IAS 21 | Lack of Exchangeability | 1 January 2025 |
| Amendments to IFRS 9 and IFRS 7 | Amendments to the Classification and Measurement of Financial Instruments | 1 January 2026 |
| IFRS 18 | Presentation and Disclosures in Financial Statements | 1 January 2027 |
| IFRS 19 | Subsidiaries without Public Accountability: Disclosures | 1 January 2027 |

The directors anticipate that the application of above Standards and amendments to them may have an impact on the financial statements of the Group and the Company in future periods

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Notes to the consolidated financial statements For the year ended 31 December 2019

3. Material accounting policies

3.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS Accounting Standards) and the requirements of the Papua New Guinea *Companies (Amended) Act 2022*.

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 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 (K'000) 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.

Going concern

The financial statements of the Group and the Company have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Financial metrics

For the year ended 31 December 2019, the Group and the Company reported a net profit of K0.8 million and K0.8 million, respectively (2018: net profit of K6.7 million and K6.7 million) and generated net cash inflows from operating activities of K37.5 million and K37.1 million (2018: net cash inflows of K10.5 million and K11.7 million).

As at 31 December 2019, the Group and the Company had negative cash and cash equivalents of K10.2 million and K10.4 million, respectively (31 December 2018: negative K5.5 million and K5.6 million) and net current liabilities of K106.8 million and K106.4 million (31 December 2018: K98.5 million and K98.2 million).

Impact of COVID 19 on operations and financial position

The COVID-19 pandemic started in early 2020 which led to unprecedented disruptions in global air travel, resulting in a sharp decline in passenger demand, widespread flight cancellations, and prolonged travel restrictions. In Papua New Guinea, these factors have significantly reduced the Group's revenue-generating capacity. Despite implementing cost-reduction measures, including workforce reductions, renegotiation of supplier contracts, and deferral of non-essential expenditures, the Group experienced substantial operating losses and liquidity constraints.

The Directors and management took the following steps to mitigate the impact of the pandemic, improve the Group's liquidity position and ensure the Group has sufficient funding to meet its operating and capital expenditures as they fall due:

Cost Reduction Initiatives

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

The Group has established a cost committee and implemented several cost-cutting measures, including workforce reductions, salary cuts, deferral of non-essential capital expenditures and re-structuring the Group's organisational structure to eliminate duplication and increase productivity.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.2 Basis of preparation (continued)

Creditors Scheme

On 15 December 2023, the National Court approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Details of the scheme are contained in Note 31.

Three-year Strategic Plan

On 10 December 2024, the Directors endorsed a three-year Strategic plan for 2025 to 2027 aimed to grow the Group and leverage the improved operational capabilities to drive earnings and performance. Outlined below are the key aspects of this strategic plan:

- The Group continuing to focus on improving its performance, including:
 - Retire and dispose of the Dash 8 fleet and reinvest the net realisable value to fund turnaround initiatives.
 - Source additional aircrafts at competitive rates to replace the Dash 8 fleet and increase the fleet capacity.
 - Growing the passenger 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
- Re-negotiating current lease rental payments as part of cash flow relief;
- Pursue the raising of additional capital to fund any shortfall in working capital;
- Re-structuring the Group's organisational structure to eliminate duplication and increase productivity with an aim to reduce costs;
- Continuing support from financial lenders. This includes the extension of the financing facilities with BSP; and
- Continuing 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.

Letter of Support

The Company's directors have obtained a letter of financial support from the Company's largest shareholder, MRDC, which confirms that it will provide sufficient financial assistance as needed to enable the Company and the Group to continue as a going concern and to satisfy their debts and commitments as they become due and payable for a period of at least 12 months from the date of signing these consolidated financial statements.

MRDC has also confirmed that:

- It has no plans or intentions to liquidate the Company or the Group or to cease its trading within the next 12 months from the date of signing of the consolidated financial statements;
- It has no plans that may materially affect the carrying value or classification of the Group's assets and liabilities; and
- It is financially sustainable and will not demand payment of any amounts due to it or any of its controlled entities until such time when the Company and the Group have sufficient cash to settle such amounts due to it or to any of its controlled entities.

In addition, in April 2025 MRDC agreed to provide guarantees in favour of DAE, as aircraft lessor, and BSP, as lead financier, to support the Group's plans to re-negotiate lease rental payments and to extend the financing facilities, respectively.

As a result of the above actions taken by Directors and management, the Group's forecast cash flows indicate that the Group will have a surplus of liquidity throughout the twelve-month period from the date of signing these consolidated financial statements. The achievement of the Group's forecast is primarily dependent, amongst other matters, upon:

- the successful implementation of the strategic plan, including sourcing additional aircraft by the end of 2025;
- the Group's ability to obtain the necessary funding to maintain the Group's liquidity position;
- continued implementation of the Group's cost reduction initiatives; and
- the continued support of the Group's major shareholder, financial lenders and scheme creditors.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.2 Basis of preparation (continued)

Notwithstanding that the respective outcomes of the matters referred to above are not entirely within the control of the Group, the Directors are confident, based on achievement of previous milestones, that the Group can achieve successful outcomes. Accordingly, the Directors have determined that it is appropriate for the Company and the Group to continue to adopt the going concern basis in preparing these consolidated financial statements.

Should the Group not be able to achieve successful outcomes in respect of the above matters, a material uncertainty would exist which may cast significant doubt regarding the Company and the Group's ability to continue as a going concern and therefore whether they will be able to realise their assets and discharge their liabilities in the normal course of business. The consolidated 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 Company and the Group be unable to continue as a going concern.

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. 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.

3.3. 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.

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.

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.

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.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.4. Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.4.1. Revenue from carriage of passenger and freight

Revenue from carriage of passengers and freight is recognised at the time the passenger or cargo 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.

3.4.2. Revenue from charters

Revenue from charters is recognised at the time the passenger or cargo is uplifted for carriage and includes other handling and fuel re-charges.

3.4.3. Revenue from sale of fuel

Revenue from fuel sale is recognised when fuel is supplied to aircraft operators, which are final customers of the Group.

Interest income

3.4.4. 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.

3.5. Leases

Accounting policy from 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease, that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and a corresponding lease liability is recognised with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.5.1. Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

| | |
|---------------|--------------|
| Aircraft | 3 - 12 years |
| Office leases | 3 - 8 years |

The right-of-use assets are also subject to impairment. Refer to the accounting policy in Note 3.9.3.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.5 Leases (continued)

3.5.2 Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3.5.2. Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Accounting policy prior to 1 January 2019

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.

3.6. 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 profit or loss in the period in which they arise.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.6 Foreign currencies (continued)

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.

3.7. 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.

3.8. Taxation

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

3.8.1. 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.

3.8.2. 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.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.8 Taxation (continued)

3.8.2. Deferred tax (continued)

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.

3.8.3. 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.

3.8.4. 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.

3.9 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.

Owned 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.

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 accumulated impairment losses. Revaluations for 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 owned aircraft and rotatable parts are recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously expensed.

Freehold land is not depreciated.

Other 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.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.9 Property, plant and equipment (continued)

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 |
| Other plant and equipment | 11.25% straight line |
| Motor vehicles | 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.

3.9.1. 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.

3.9.2. 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.

3.9.3. 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.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.10 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.

3.11 Provisions

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

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

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

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.

3.12 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.

3.12.1. 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.

Financial assets at amortised cost

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

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

Cash and cash equivalents

For statement of cash flows purposes, cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.12 Financial instruments (continued)

3.12.1 Financial assets (continued)

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.

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.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.12 Financial instruments (continued)

3.12.1 Financial assets (continued)

(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.

3.12.2. 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.

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Notes to the consolidated financial statements For the year ended 31 December 2019

3.12 Financial instruments (continued)

3.12.2. Financial liabilities and equity (continued)

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 5.2) 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.

3.13 Maintenance reserve deposits

Maintenance reserve deposits 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 reserve deposits 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.

3.14 Pre-delivery payments

Pre-delivery payments are capitalised and represent deposits made with aircraft manufacturers for future delivery of aircraft. Upon delivery of aircraft, these are transferred to leased or owned aircrafts and subsequently depreciated.

3.15 Security deposits

Security deposits are deposits made with aircraft financiers or operating lessors to provide security for future maintenance work or lease payments. These security deposits for leased aircraft are recorded at their present value when payment terms extend beyond one year discounted using the incremental borrowing rate at the inception of the lease and amortised over the lease term.

3.16 Revaluation reserve

The revaluation reserve primarily arises on the revaluation of aircraft and rotables. Any revaluation increase arising on the revaluation of owned aircraft and rotatable parts are recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously expensed. At the date of the revaluation, the accumulated depreciation is eliminated against the gross carrying amount of owned aircraft and rotatable parts and net carrying amount is adjusted to reflect the fair values at the date of the revaluation.

3.17 Comparative information

Where applicable, comparative amounts have been reclassified to be consistent with current year classifications.

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Notes to the consolidated financial statements For the year ended 31 December 2019

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.

4.1.1. 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 Leased Aircrafts

For aircraft held under lease agreements, the Group is contractually committed to return the leased aircraft in a certain condition which includes completion of certain maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts. The provision for lease return costs for these leased aircraft is determined based on the best estimate of the costs that will be incurred to fulfil the stipulated lease return conditions.

At the inception of the lease, management estimates 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 right-of-use 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 at each reporting period and, when warranted, adjusts its assumptions.

Useful Lives, Depreciation Method and Residual Values of Property, Aircraft and Equipment, including Right-of-use assets

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. Depreciation method is based on management's judgment of the most appropriate method an asset's future economic benefit expected to be consumed. Among other factors, management considered industry standards, manufacturers' guidelines and company-specific history and experience. Useful lives are estimated based on internal technical evaluation and experience with similar assets.

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 amount of assets and liabilities within the next financial year.

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Notes to the consolidated financial statements For the year ended 31 December 2019

4.2 Key sources of estimation uncertainty (continued)

Fair value measurements and valuation processes

The Group's owned aircraft are measured at fair value for financial reporting purposes. The 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. During periods where no external valuation is performed, Directors assess the fair value of aircraft with reference to any significant change in current market conditions from the last external valuation performed.

Information about the valuation techniques and inputs used in determining the fair value of owned aircraft are disclosed in Note 11.

Allowance for expected 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, in general, 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. The Group also reviews its inventories at year period end and recognise a specific allowance as necessary.

5. Revenue and costs

An analysis of revenue and costs for the year is as follows:

| | Consolidated | | Company | |
|--|----------------|--------------------|----------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| 5.1 Revenue from contracts with customers | | | | |
| Revenue from carriage of passenger and freight | 261,442 | 255,667 | 261,442 | 255,667 |
| Revenue from charters | 55,216 | 49,752 | 55,216 | 49,752 |
| Revenue from sale of fuel | 2,625 | 2,657 | - | - |
| | 319,283 | 308,076 | 316,658 | 305,419 |
| 5.2 Other income | | | | |
| Interest received | 1,241 | 2 | 1,241 | 2 |
| Aircraft operator lease income | 2,945 | 1,229 | 2,945 | 1,229 |
| Rent received | 41 | 77 | 41 | 77 |
| Realised foreign currency gain | 1,615 | (103) | 1,615 | (103) |
| Unrealised foreign currency (loss)/ gain | (4,066) | 818 | (4,066) | 818 |
| Loss on the sale and disposal of plant and equipment | (5,288) | (1,206) | (5,288) | (1,206) |
| Aircraft handling income | 3,372 | 3,538 | 3,372 | 3,538 |
| Engineering sales | 1,392 | 828 | 1,392 | 828 |
| Other revenue | 5,579 | 2,918 | 5,579 | 2,918 |
| | 6,831 | 8,101 | 6,831 | 8,101 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

5. Revenue and costs (continued)

An analysis of revenue and costs for the year is as follows:

| | Consolidated | | Company | |
|---|------------------|--------------------|------------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| 5.3 Cost of sales | | | | |
| Direct activity costs | (11,864) | (6,117) | (11,019) | (5,528) |
| Short term leases | (539) | (473) | - | - |
| Fuel, air navigation and landing costs | (54,854) | (58,869) | (54,722) | (58,407) |
| Engineering and maintenance costs | (27,393) | (31,728) | (27,393) | (31,728) |
| Depreciation of aircrafts and rotables | (4,650) | (4,319) | (4,650) | (4,319) |
| Amortisation of right of use assets – aircraft | (38,766) | - | (38,766) | - |
| Aircraft insurance costs | (6,809) | (6,097) | (6,809) | (6,097) |
| Commission and agent fees | (4,435) | (4,228) | (4,435) | (4,228) |
| Lease hire costs | (12) | (59,243) | (12) | (59,243) |
| | (149,322) | (171,074) | (147,806) | (169,550) |
| 5.4 Operational expenses | | | | |
| Crew and engineering staff costs | (63,956) | (73,933) | (63,956) | (73,933) |
| Other operational staff costs | (16,568) | (16,582) | (16,142) | (16,194) |
| Amortisation of right of use assets – offices | (2,645) | - | (2,412) | - |
| Other operational costs | (3,918) | (4,381) | (3,714) | (4,128) |
| | (87,087) | (94,896) | (86,224) | (94,255) |
| 5.5 Administration expenses | | | | |
| Management and other administrative staff costs | (12,796) | (13,956) | (12,796) | (13,956) |
| Bank charges | (2,394) | (2,956) | (2,394) | (2,956) |
| Fines and penalties | (2,040) | (312) | (2,040) | (312) |
| Depreciation of property, plant and equipment | (1,489) | (1,629) | (1,434) | (1,574) |
| Subscription and publication costs | (1,678) | (1,215) | (1,678) | (1,215) |
| Other administration costs | (3,740) | (2,791) | (3,722) | (2,751) |
| | (24,137) | (22,859) | (24,064) | (22,764) |
| 5.6 Occupancy expenses | | | | |
| Electricity and other utilities | (1,575) | (1,679) | (1,552) | (1,645) |
| Security expenses | (2,242) | (2,220) | (1,919) | (1,902) |
| Insurance expenses | (223) | (221) | (223) | (221) |
| Short term leases | (118) | (3,599) | (527) | (3,673) |
| Property maintenance expenses | (935) | (813) | (905) | (729) |
| | (5,093) | (8,532) | (5,126) | (8,170) |

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Notes to the consolidated financial statements For the year ended 31 December 2019

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 – Papua New Guinea.

7. Finance costs

| | Consolidated | | Company | |
|----------------------------|-----------------|--------------------|-----------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| Interest on loans | (3,494) | (2,856) | (3,494) | (2,856) |
| Interest on bank overdraft | (3,268) | (5,060) | (3,268) | (5,060) |
| Interest on leases | (41,762) | - | (41,592) | - |
| Other interests | (1,412) | (1,219) | (1,412) | (1,219) |
| | (49,936) | (9,135) | (49,766) | (9,135) |

8. Income taxes

8.1 Income tax recognised in consolidated statement of profit or loss

| | Consolidated | | Company | |
|----------------------|--------------|--------------------|--------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| Current tax expense | - | 292 | - | 311 |
| Deferred tax expense | 9,779 | 2,735 | 9,702 | 2,679 |
| | 9,779 | 3,027 | 9,702 | 2,990 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

8. Income taxes (continued)

8.1 Income tax recognised in consolidated statement of profit or loss (continued)

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

| | Consolidated | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Profit before tax | 10,539 | 9,681 | 10,503 | 9,646 |
| Income tax expense calculated at 30% | 3,162 | 2,904 | 3,151 | 2,894 |
| Effect of expenses that are not deductible in determining taxable profit | 679 | 113 | 613 | 96 |
| Effect of deferred tax on tax losses derecognised | 5,938 | - | 5,938 | - |
| Income tax expense | 9,779 | 3,027 | 9,702 | 2,990 |

The tax rate used for the 2019 and 2018 reconciliations above is the corporate tax rate of 30% payable by corporate entities under tax law that have been enacted or substantively enacted by reporting date.

8.2 Deferred taxes

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

| | Consolidated | | Company | |
|---|-----------------|--------------------|-----------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| Expected credit loss | 60 | 131 | 43 | 107 |
| Leave entitlements | 3,007 | 2,763 | 2,994 | 2,739 |
| Return conditions | 3,775 | 3,481 | 3,775 | 3,481 |
| Stock obsolescence | 1,786 | 782 | 1,786 | 782 |
| Leases | 8,139 | - | 8,118 | - |
| Unrealised foreign exchange losses (gain) | 1,220 | (381) | 1,220 | (381) |
| Tax losses | 6,324 | 31,028 | 6,226 | 30,982 |
| Others | 5 | - | - | - |
| Capitalised expenses | 1,106 | 1,281 | 1,106 | 1,301 |
| Inventory | (5,203) | (3,977) | (5,203) | (3,977) |
| Property, plant and equipment | (30,071) | (31,218) | (29,878) | (31,104) |
| Prepayments | (482) | (446) | (484) | (446) |
| Deferred tax liabilities, net | (10,334) | (3,444) | (10,297) | (3,484) |

At year-end, the Company had carry-forward tax losses available for utilisation against future taxable income of K200.45 million (2018: K247.99 million) which will expire in 2025. The amount of carry-forward tax losses where deferred tax assets were not recognised is K179.71 million as at 31 December 2019 (2018: K159.91 million).

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Notes to the consolidated financial statements For the year ended 31 December 2019

8. Income taxes (continued)

8.2 Deferred taxes (continued)

Movements in deferred taxes are as follows:

| | Consolidated | | Company | |
|--|-----------------|--------------------|-----------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of year | (3,444) | 907 | (3,484) | 811 |
| Effect of adoption of IFRS 16 | 2,889 | - | 2,889 | - |
| Consolidated statement of profit or loss credits/ (charges) | (9,779) | (2,735) | (9,702) | (2,679) |
| Consolidated statement of OCI credits/ (charges) | - | (1,616) | - | (1,616) |
| Deferred tax liabilities, net | (10,334) | (3,444) | (10,297) | (3,484) |

9. Subsidiaries

Details of the Company's subsidiaries at 31 December 2019 are as follows:

| Subsidiary | Principal activities | Place of Incorporation | Ownership Interest | |
|-------------------------|---------------------------------|------------------------|--------------------|------|
| | | | 2019 | 2018 |
| Galatoire Ltd | Investment property management | Papua New Guinea | 100% | 100% |
| PNG Ground Services Ltd | Supply of aviation fuel | Papua New Guinea | 100% | 100% |
| APNG Services Pty Ltd | Supply of international aircrew | Australia | 100% | 100% |

10. Cash and cash equivalents

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 | |
|------------------------|-----------------|----------------|-----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Cash and bank balances | 790 | 702 | 583 | 580 |
| Bank overdraft | (11,020) | (6,154) | (11,020) | (6,154) |
| | (10,230) | (5,452) | (10,437) | (5,574) |

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Notes to the consolidated financial statements For the year ended 31 December 2019

11. Property, plant and equipment

| | Consolidated | | Company | |
|--------------------------|----------------|--------------------|----------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| Cost or valuation | 236,895 | 226,511 | 233,950 | 223,567 |
| Accumulated depreciation | (89,459) | (85,058) | (87,423) | (83,121) |
| | 147,436 | 141,453 | 146,527 | 140,446 |

| | Consolidated | | Company | |
|-------------------------------|----------------|--------------------|----------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| Land and buildings- at cost | 4,402 | 4,512 | 3,586 | 3,637 |
| Owned aircraft- at fair value | 97,036 | 87,146 | 97,036 | 87,146 |
| Plant and equipment- at cost | 5,398 | 6,153 | 5,305 | 6,028 |
| Rotable parts- at fair value | 40,217 | 43,384 | 40,217 | 43,384 |
| Motor vehicles- at cost | 383 | 258 | 383 | 251 |
| | 147,436 | 141,453 | 146,527 | 140,446 |

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

| Consolidated | Land and Buildings K'000 | Owned aircraft K'000 | Plant and equipment K'000 | Rotable parts K'000 | Motor vehicles K'000 | Total K'000 |
|--|-----------------------------|-------------------------|------------------------------|------------------------|-------------------------|----------------|
| Cost or valuation | | | | | | |
| At 1 January 2018 | 4,763 | 158,195 | 17,782 | 49,165 | 3,318 | 233,223 |
| Additions | 956 | 1,644 | 1,353 | 2,641 | 172 | 6,766 |
| Impairment | - | (1,039) | - | - | - | (1,039) |
| Revaluation increase (as restated) | - | 5,387 | - | - | - | 5,387 |
| Eliminated on revaluation (as restated) | - | (14,803) | - | - | - | (14,803) |
| Disposals | - | - | (28) | (2,064) | (251) | (2,343) |
| Reclass | 637 | (1,120) | (148) | - | (49) | (680) |
| At 31 December 2018 (as restated) | 6,356 | 148,264 | 18,959 | 49,742 | 3,190 | 226,511 |
| Additions | 81 | 14,540 | 565 | 3,143 | 279 | 18,608 |
| Disposals | - | - | - | (8,065) | (159) | (8,224) |
| At 31 December 2019 | 6,437 | 162,804 | 19,524 | 44,820 | 3,310 | 236,895 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

11. Property, plant and equipment (continued)

| Consolidated | Land and Buildings K'000 | Owned aircraft K'000 | Plant and equipment K'000 | Rotable parts K'000 | Motor vehicles K'000 | Total K'000 |
|--|--------------------------------|----------------------------|---------------------------------|---------------------------|----------------------------|-----------------------|
| Accumulated depreciation | | | | | | |
| At 1 January 2018 | 1,063 | 72,279 | 11,474 | 7,166 | 3,001 | 94,983 |
| Depreciation charge | 188 | 4,319 | 1,359 | - | 183 | 6,049 |
| Eliminated on revaluation (as restated) | - | (14,803) | - | - | - | (14,803) |
| Disposals | - | - | (24) | (361) | (250) | (635) |
| Reclass | 593 | (677) | (3) | (447) | (2) | (536) |
| At 31 December 2018 (as restated) | <u>1,844</u> | <u>61,118</u> | <u>12,806</u> | <u>6,358</u> | <u>2,932</u> | <u>85,058</u> |
| Depreciation charge | 191 | 4,650 | 1,320 | - | 154 | 6,315 |
| Disposals | - | - | - | (1,755) | (159) | (1,914) |
| At 31 December 2019 | <u>2,035</u> | <u>65,768</u> | <u>14,126</u> | <u>4,603</u> | <u>2,927</u> | <u>89,459</u> |
| Net book value | | | | | | |
| At 31 December 2019 | <u>4,402</u> | <u>97,036</u> | <u>5,398</u> | <u>40,217</u> | <u>383</u> | <u>147,436</u> |
| At 31 December 2018 (as restated) | <u>4,512</u> | <u>87,146</u> | <u>6,153</u> | <u>43,384</u> | <u>258</u> | <u>141,453</u> |
| Company | Land & Buildings K'000 | Owned aircraft K'000 | Plant and Equipment K'000 | Rotable Parts K'000 | Motor vehicles K'000 | Total K'000 |
| Cost or valuation | | | | | | |
| At 1 January 2018 | 3,578 | 158,195 | 17,175 | 49,165 | 2,751 | 230,864 |
| Additions | 849 | 1,644 | 1,317 | 2,641 | 172 | 6,623 |
| Revaluation increase (as restated) | - | 5,387 | - | - | - | 5,387 |
| Eliminated on revaluation (as restated) | - | (14,803) | - | - | - | (14,803) |
| Revaluation (as restated) | - | (9,416) | - | - | - | (9,416) |
| Impairment | - | (1,039) | - | - | - | (1,039) |
| Disposals | - | - | (28) | (2,064) | (251) | (2,343) |
| Reclass | (1) | (1,120) | (2) | - | 1 | (1,122) |
| At 31 December 2018 (as restated) | <u>4,426</u> | <u>148,264</u> | <u>18,462</u> | <u>49,742</u> | <u>2,673</u> | <u>223,567</u> |
| Additions | 81 | 14,540 | 564 | 3,143 | 279 | 18,607 |
| Disposals | - | - | - | (8,065) | (159) | (8,224) |
| At 31 December 2019 | <u>4,507</u> | <u>162,804</u> | <u>19,026</u> | <u>44,820</u> | <u>2,793</u> | <u>233,950</u> |

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Notes to the consolidated financial statements For the year ended 31 December 2019

11. Property, plant and equipment (continued)

| Company | Land and Buildings K'000 | Owned aircraft K'000 | Plant and equipment K'000 | Rotable parts K'000 | Motor vehicles K'000 | Total K'000 |
|--|--------------------------------|----------------------------|---------------------------------|---------------------------|----------------------------|-----------------------|
| Accumulated depreciation | | | | | | |
| At 1 January 2018 | 658 | 72,279 | 11,157 | 7,166 | 2,529 | 93,789 |
| Depreciation charge | 130 | 4,319 | 1,301 | - | 142 | 5,892 |
| Eliminated on revaluation (as restated) | - | (14,803) | - | - | - | (14,803) |
| Disposal | - | - | (24) | (361) | (251) | (636) |
| Reclass | 1 | (677) | - | (447) | 2 | (1,121) |
| At 31 December 2018 (as restated) | <u>789</u> | <u>61,118</u> | <u>12,434</u> | <u>6,358</u> | <u>2,422</u> | <u>83,121</u> |
| Depreciation charge | 132 | 4,650 | 1,287 | - | 147 | 6,216 |
| Disposal | - | - | - | (1,755) | (159) | (1,914) |
| At 31 December 2019 | <u>921</u> | <u>65,768</u> | <u>13,721</u> | <u>4,603</u> | <u>2,410</u> | <u>87,423</u> |
| Net book value at 31 December 2019 | <u>3,586</u> | <u>97,036</u> | <u>5,305</u> | <u>40,217</u> | <u>383</u> | <u>146,527</u> |
| Net book value at 31 December 2018 (as restated) | <u>3,637</u> | <u>87,146</u> | <u>6,028</u> | <u>43,384</u> | <u>251</u> | <u>140,446</u> |

11.1. Impairment losses recognised in the period

During the year ended 31 December 2019, the Group recognized K1.04 million impairment in respect of the Twin Otter aircraft related non-current assets through the revaluation reserve and profit or loss.

11.2. Owned aircraft and rotables carried at fair value

Dash 8 aircraft and rotables were last revalued by an independent valuer at 31 December 2019. The owned aircraft valuations were conducted using the market approach which involves considering the listed prices of similar aircraft being offered for sale in the open market. Key variables include the age, condition, model, serial numbers (of the airframe, propellers, APUs, and engines where possible), locations and recent transaction prices of comparable aircraft. The valuer key techniques in determining the fair value includes direct communication with entity personnel and in the aircraft sales industry, review of order book history, delivery streams, operator and leasing demand, international availability, current and projected base and market values. The rotables valuations were conducted by considering the current market conditions. Key variable considerations include service tags or component status cards, turnover of rotatable parts, market appeal, and desirability where the valuer indicated that the dash 8 spare parts are quite buoyantly traded and landing gear parts and propeller parts are very sought after with strong trading prices.

As at 31 December 2019, Directors assessed the reasonableness of the carrying values of aircraft and rotables and determined that the carrying amounts of aircraft and rotables are not materially different from their fair value.

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Notes to the consolidated financial statements For the year ended 31 December 2019

11. Property, plant and equipment (continued)

11.2. Owned aircraft and rotables carried at fair value (continued)

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

| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2019 K'000 |
|---------------|------------------|------------------|------------------|---|
| Aircraft | - | 97,036 | - | 97,036 |
| Rotable parts | - | 40,217 | - | 40,217 |

| | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Fair value as at 31/12/2018 K'000 |
|---------------|------------------|------------------|------------------|---|
| Aircraft | - | 87,146 | - | 87,146 |
| Rotable parts | - | 43,384 | - | 43,384 |

11.1. Assets pledged as security

Aircraft with a carrying amount of K97.0 million (2018: K87.1 million) and land and buildings with carrying amount of K0.8 million (2018: K0.8 million) have been pledged to secure borrowings of the Group (see Note 20).

12. Other financial assets

| | Consolidated | | Company | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | 2019 K'000 | 2018 K'000 | 2019 K'000 | 2018 K'000 |
| Security deposits on leased assets | 8,094 | 9,629 | 8,094 | 9,629 |
| Investments in subsidiaries | - | - | 20 | 20 |
| Other | - | 223 | - | 223 |
| | 8,094 | 9,852 | 8,114 | 9,872 |

13. Other assets

| | Consolidated | | Company | |
|--------------------------------|---------------|-----------------------------|---------------|-----------------------------|
| | 2019 K'000 | 2018 (Restated) K'000 | 2019 K'000 | 2018 (Restated) K'000 |
| <i>Current</i> | | | | |
| Prepayments to suppliers | 4,683 | 8,219 | 4,647 | 8,021 |
| Maintenance reserve deposits | 7,309 | 5,108 | 7,309 | 5,108 |
| Prepaid lease payments | - | 1,210 | - | 1,210 |
| Related party receivables | - | - | 1,762 | 1,844 |
| | 11,992 | 14,537 | 13,718 | 16,183 |
| <i>Non-current</i> | | | | |
| Maintenance reserve deposits | 49,936 | 39,049 | 49,936 | 39,049 |
| Aircraft pre-delivery payments | 6,907 | 6,823 | 6,907 | 6,823 |
| Prepaid lease payments | - | 5,702 | - | 5,702 |
| | 56,843 | 51,574 | 56,843 | 51,574 |
| Current asset | 11,992 | 14,537 | 13,718 | 16,183 |
| Non-current asset | 56,843 | 51,574 | 56,843 | 51,574 |
| | 68,835 | 66,111 | 70,561 | 67,757 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

14. Inventories

| | Consolidated | | Company | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Consumables stock on hand – at cost | 18,131 | 16,648 | 17,343 | 15,862 |
| Allowance for stock obsolescence | (5,954) | (2,606) | (5,954) | (2,606) |
| | 12,177 | 14,042 | 11,389 | 13,256 |

15. Trade and other receivables

| | Consolidated | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Trade receivables | 18,580 | 16,904 | 18,418 | 16,794 |
| Allowance for expected credit losses | (203) | (435) | (145) | (356) |
| | 18,377 | 16,469 | 18,273 | 16,438 |
| Other receivables | 6,146 | 4,550 | 6,030 | 4,468 |
| Income tax receivable | 18 | 18 | - | - |
| | 24,541 | 21,037 | 24,303 | 20,906 |

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

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 | |
|---|--------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of the year | (435) | (730) | (356) | (651) |
| Impairment provision release/(charge) in the year | 232 | 295 | 211 | 295 |
| Balance at end of the year | (203) | (435) | (145) | (356) |

| | Consolidated | | Company | |
|--------------------|--------------|-------|---------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| 61-90 days | 362 | 760 | 346 | 760 |
| Over 90 days | 177 | 224 | 172 | 224 |
| Total | 539 | 984 | 518 | 984 |
| Average age (days) | 44 | 20 | 44 | 20 |

16. Issued capital and other contributed equity

16.1. Issued capital

| | Consolidated | | Company | |
|--|--------------|--------|---------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Opening Issued capital | | | | |
| 308,292,080 fully paid ordinary shares | 77,271 | 77,271 | 77,271 | 77,271 |
| Closing issued capital | | | | |
| 308,292,080 fully paid ordinary shares | 77,271 | 77,271 | 77,271 | 77,271 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

16.2. Other contributed equity

| | Consolidated | | Company | |
|-------------------------------|---------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of year | 70,563 | 70,563 | 70,563 | 70,563 |
| Balance at end of year | 70,563 | 70,563 | 70,563 | 70,563 |

Other contributed equity refers to:

- i. Additional capital contribution received by the Company from its two major shareholders, National Superannuation Fund and Mineral Resource Development Company (MRDC). These additional capital contributions were received by the Company between 2015 to 2017.
- ii. In 2017, principal and accrued interest of 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 were issued in 2023 and 2025, refer to Note 31.

17. Earnings per share

| | Consolidated | | Company | |
|--------------------------------------|--------------|--------------------|---------|--------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | Toea | (Restated) Toea | Toea | (Restated) Toea |
| Basic and diluted earnings per share | 0.25 | 2.16 | 0.26 | 2.17 |

Basic and diluted earnings is calculated by dividing the profit or loss for the year by the weighted average number of shares that were outstanding during the year.

Basic and diluted earnings 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 | |
|--|--------------|---------------------|-------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | (Restated) K'000 | K'000 | (Restated) K'000 |
| Profit for the year | 760 | 6,654 | 801 | 6,656 |
| Earnings used in the calculation of basic and diluted earnings per share | 760 | 6,654 | 801 | 6,656 |
| Weighted average number of ordinary shares | 308,292,080 | 308,292,080 | 308,292,080 | 308,292,080 |

18. Revaluation reserve

| | Consolidated | | Company | |
|--------------------------------------|--------------|---------------------|--------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | (Restated) K'000 | K'000 | (Restated) K'000 |
| Balance at beginning of year | 4,372 | 1,241 | 4,372 | 1,241 |
| Revaluation of aircraft (net of tax) | - | 3,131 | - | 3,131 |
| Balance at end of year | 4,372 | 4,372 | 4,372 | 4,372 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

19. Accumulated losses

| | Consolidated | | Company | |
|--|------------------|--------------------|------------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at beginning of year | (116,304) | (122,771) | (116,914) | (123,401) |
| Effect of adoption of IFRS 16 | 14,375 | - | 14,375 | - |
| Effect of adoption of IFRS 9 | - | (169) | - | (169) |
| Exchange gain/(loss) on translation of foreign operation | 3 | (18) | - | - |
| Profit for the year | 760 | 6,654 | 801 | 6,656 |
| Balance at end of year | (101,166) | (116,304) | (101,738) | (116,914) |

20. Borrowings

| | | Consolidated | | Company | |
|--|-------|---------------|---------------|---------------|---------------|
| | | 2019 | 2018 | 2019 | 2018 |
| | | K'000 | K'000 | K'000 | K'000 |
| a) Current | | | | | |
| Bank loans and overdrafts | (i) | 24,264 | 23,404 | 24,264 | 23,404 |
| Secured notes | (ii) | 9,000 | 9,000 | 9,000 | 9,000 |
| Secured loan from other financial institutions | (iii) | 1,861 | 1,149 | 1,861 | 1,149 |
| | | 35,125 | 33,553 | 35,125 | 33,553 |
| b) Non-current | | | | | |
| Secured notes | (ii) | 25,000 | 25,000 | 25,000 | 25,000 |
| Secured loan from other financial institution | (iii) | 3,420 | 5,034 | 3,420 | 5,034 |
| | | 28,420 | 30,034 | 28,420 | 30,034 |
| Total Borrowings | | 63,545 | 63,587 | 63,545 | 63,587 |

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) and (iii) below) 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.
- (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 8% (2018: 7.90%) per annum.
- (iii) The Group has loans with other financial institutions with an effective interest rate on the bank loans is 11% (2018: 11%) per annum. Other financial institutions hold a registered mortgage over the property at Matorogo owned by the Group, which is not otherwise secured to the banks and/or note holders.

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Notes to the consolidated financial statements For the year ended 31 December 2019

20. Borrowings (continued)

Further details concerning interest rates and repayments are included in Note 25.

The table below sets out an analysis of borrowings (excluding bank overdraft) movements during the year:

| | Consolidated | | Company | |
|-----------------|---------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Opening balance | 57,433 | 55,583 | 57,433 | 55,583 |
| Cash proceeds | - | 4,600 | - | 4,600 |
| Cash payments | (4,908) | (2,750) | (4,908) | (2,750) |
| Closing balance | 52,525 | 57,433 | 52,525 | 57,433 |

Bank overdraft balance amounted to K11.020 million and K6.154 million as at 31 December 2019 and 2018, respectively.

Financing facilities

| | Consolidated | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| <i>Secured loan from other financial institutions</i> | | | | |
| - amount used | 5,281 | 6,183 | 5,281 | 6,183 |
| - amount unused | - | - | - | - |
| | 5,281 | 6,183 | 5,281 | 6,183 |
| <i>Secured bank overdraft facility</i> | | | | |
| - amount used | 11,020 | 6,154 | 11,020 | 6,154 |
| - amount unused | 8,980 | 13,846 | 8,980 | 13,846 |
| | 20,000 | 20,000 | 20,000 | 20,000 |
| <i>Secured bank loans</i> | | | | |
| - amount used | 13,244 | 17,250 | 13,244 | 17,250 |
| - amount unused | - | - | - | - |
| | 13,244 | 17,250 | 13,244 | 17,250 |
| <i>Secured notes from non-financial institutions</i> | | | | |
| - amount used | 34,000 | 34,000 | 34,000 | 34,000 |
| - amount unused | - | - | - | - |
| | 34,000 | 34,000 | 34,000 | 34,000 |
| <i>Total</i> | | | | |
| - amount used | 63,545 | 63,587 | 63,545 | 63,587 |
| - amount unused | 8,980 | 13,846 | 8,980 | 13,846 |
| | 72,525 | 77,433 | 72,525 | 77,433 |

21. Other liabilities

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| (a) Current | | | | |
| Lease incentive liability on ATR (i), (ii) | - | 2,174 | - | 2,174 |
| Dash 8 early lease exit liability (iii) | 15,245 | 11,578 | 15,245 | 11,578 |
| | 15,245 | 13,752 | 15,245 | 13,752 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

21. Other liabilities (continued)

| | Consolidated | | Company | |
|---|--------------|---------------|---------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| (b) Non-current | | | | |
| Lease Incentive liability on ATR (i) | - | 18,676 | - | 18,676 |
| Aircraft lease rental waiver/incentive (ii) | - | 591 | - | 591 |
| | - | 19,267 | - | 19,267 |

(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 Group with the induction expenses. Prior to adoption of IFRS 16 "Leases", the IAS 17 "Leases" required these lease incentives to be treated as a reduction of the lease expenses over the lease term of 12 years. Accordingly, the applicable incentives related to each ATR aircraft were initially recorded as an asset and a liability as and when the respective aircraft were delivered. The asset has then been reduced by the funds/parts received from ATR manufacturer. At transition to IFRS 16, the remaining lease incentive liability was included as an adjustment to right-of-use assets.

(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. Prior to adoption of IFRS 16, the benefit of the waiver was 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. At transition to IFRS 16, the remaining balance of aircraft lease rental waiver and incentive were included as an adjustment to right-of-use assets.

(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 was considered a financial liability (refer note 25.8). These fees were required to be partially repaid by 31 July 2019 and by 31 December 2019 but remained unpaid as at 31 December 2019. The Group renegotiated a reduction of repayments of these fees from USD 4.5m (K15.7 million) to USD 2.7m (K9.4 million) and reduction of interest from 18% to 8% p.a. The renegotiated agreement was executed on 20 October 2020.

22. Leases

22.1. Right-of-use assets

| | Consolidated | | Company | |
|--------------------------|----------------|-------|----------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Cost | 360,305 | - | 358,206 | - |
| Accumulated depreciation | (41,411) | - | (41,178) | - |
| | 318,894 | - | 317,028 | - |

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Notes to the consolidated financial statements For the year ended 31 December 2019

22. Leases (continued)

22.1. Right-of-use assets (continued)

The reconciliation of the written down values at the beginning and end of the current financial year are set out below:

| Consolidated | Aircraft | Office premises | Total |
|--|-----------------|-----------------|-----------------|
| | K'000 | K'000 | K'000 |
| <i>Cost</i> | | | |
| Balance at 1 January 2019 | - | - | - |
| Initial recognition on adoption of IFRS 16 | 340,574 | 20,189 | 360,763 |
| Remeasurement | (458) | - | (458) |
| Balance at 31 December 2019 | <u>340,116</u> | <u>20,189</u> | <u>360,305</u> |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2019 | - | - | - |
| Charge during the year | (38,766) | (2,645) | (41,411) |
| Balance at 31 December 2019 | <u>(38,766)</u> | <u>(2,645)</u> | <u>(41,411)</u> |
| | 301,349 | 17,544 | 318,894 |

| Company | Aircraft | Office premises | Total |
|--|-----------------|-----------------|-----------------|
| | K'000 | K'000 | K'000 |
| <i>Cost</i> | | | |
| Balance at 1 January 2019 | - | - | - |
| Initial recognition on adoption of IFRS 16 | 340,574 | 18,090 | 358,664 |
| Remeasurement | (458) | - | (458) |
| Balance at 31 December 2019 | <u>340,116</u> | <u>18,090</u> | <u>358,206</u> |
| <i>Accumulated depreciation</i> | | | |
| Balance at 1 January 2019 | - | - | - |
| Charge during the year | (38,766) | (2,412) | (41,178) |
| Balance at 31 December 2019 | <u>(38,766)</u> | <u>(2,412)</u> | <u>(41,178)</u> |
| | 301,350 | 15,678 | 317,028 |

22.2. Lease liabilities

| | Consolidated | | Company | |
|-------------|----------------|-------|----------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Current | 31,727 | - | 31,550 | - |
| Non-current | 314,296 | - | 312,537 | - |
| | <u>346,023</u> | - | <u>344,087</u> | - |

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Notes to the consolidated financial statements For the year ended 31 December 2019

22. Leases (continued)

22.2. Lease liabilities (continued)

The maturity analysis of lease liabilities are as follows:

| | Consolidated | | Company | |
|--------------------------|----------------|-------|----------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Within 1 Year | 71,533 | - | 71,200 | - |
| 1 to 2 Years | 131,662 | - | 130,996 | - |
| 2 to 3 Years | 124,820 | - | 124,154 | - |
| More than 3 Years | 224,957 | - | 223,957 | - |
| Less: Discounting effect | (206,949) | - | (206,220) | - |
| | 346,023 | - | 344,087 | - |

The table below sets out an analysis of lease liabilities movements during the year:

| | Consolidated | | Company | |
|---|----------------|-------|----------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| At 1 January | - | - | - | - |
| Initial recognition of first time adoption of IFRS 16 | 351,206 | - | 349,107 | - |
| Lease modification during the year | 10,669 | - | 10,669 | - |
| Lease payments | (61,550) | - | (61,217) | - |
| Interest | 41,762 | - | 41,592 | - |
| Effect of foreign exchange | 3,936 | - | 3,936 | - |
| At 31 December | 346,023 | - | 344,087 | - |

22.3. Amounts recognised in the statement of profit or loss

| | Consolidated | | Company | |
|--|---------------|-------|---------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Depreciation charges included in: | | | | - |
| - Cost of sales | 38,766 | - | 38,766 | - |
| - Operational expenses | 2,645 | - | 2,412 | - |
| | 41,411 | - | 41,178 | - |
| Interest expense included in finance costs | 41,762 | - | 41,592 | - |
| Short term and low value leases | 657 | 4,072 | 527 | 3,673 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

23. Provisions

| | Consolidated | | Company | |
|---|---------------|--------------------|---------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| Current | | | | |
| Provision for annual leave (i) | 2,200 | 3,451 | 2,186 | 3,440 |
| Provision for long service leave (ii) | - | 1,536 | - | 1,535 |
| | 2,200 | 4,987 | 2,186 | 4,975 |
| Non-current | | | | |
| Provision for long service leave (ii) | 7,821 | 4,223 | 7,792 | 4,156 |
| Provision for return conditions costs (iii) | 12,585 | 11,486 | 12,585 | 11,486 |
| | 20,406 | 15,709 | 20,377 | 15,642 |

Movements in provisions are as follow:

| | Consolidated | | Company | |
|--|---------------|--------------------|---------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| <i>(i) Movement in provision for annual leave</i> | | | | |
| Balance at the start of the year | 3,451 | 3,272 | 3,440 | 3,266 |
| Additional provision / (amount used) | (1,251) | 179 | (1,254) | 174 |
| Balance at the end of the year | 2,200 | 3,451 | 2,186 | 3,440 |
| <i>(ii) Movement in provision for long service leave</i> | | | | |
| Balance at the start of the year | 5,760 | 5,440 | 5,692 | 5,361 |
| Amount used | (1,946) | (1,945) | (1,945) | (1,945) |
| Additional provision recognised | 4,007 | 2,265 | 4,045 | 2,276 |
| Balance at the end of the year | 7,821 | 5,760 | 7,792 | 5,692 |
| <i>(iii) Movement in provision for return conditions costs</i> | | | | |
| Balance at the start of the year | 11,486 | 9,815 | 11,486 | 9,815 |
| Unwinding of discount | 1,409 | 1,219 | 1,409 | 1,219 |
| Change in estimates | (458) | - | (458) | - |
| Effect of foreign exchange | 148 | 452 | 148 | 452 |
| Balance at the end of the year | 12,585 | 11,486 | 12,585 | 11,486 |

24. Trade and other payables and revenue received in advance

24.1. Trade and other payables

| | Consolidated | | Company | |
|--------------------------------------|---------------|--------------------|---------------|--------------------|
| | 2019 | 2018 (Restated) | 2019 | 2018 (Restated) |
| | K'000 | K'000 | K'000 | K'000 |
| Trade payables | 21,097 | 45,099 | 17,849 | 41,766 |
| Accrued expenses | 24,203 | 19,951 | 24,258 | 20,062 |
| Related party payable (Note 28) | - | - | 3,317 | 3,292 |
| Salary and wages tax and GST payable | 3,061 | 2,667 | 3,263 | 2,866 |
| Advance payment from customers | 1,970 | - | 1,970 | - |
| Other | 745 | - | 745 | - |
| | 51,076 | 67,717 | 51,402 | 67,986 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

24 Trade and other payables and revenue received in advance (continued)

24.1 Trade and other payables (continued)

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.

24.2. Revenue received in advance

| | Consolidated | | Company | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Revenue received in advance | <u>20,898</u> | <u>28,832</u> | <u>20,898</u> | <u>28,832</u> |

Revenue received in advance is made up of sales to passengers in advance of the date of passenger travel.

Revenue recognised related to unused tickets, which were included in the revenue received in advance balance at the beginning of the period, amounted to K8.3 million (2018: K12.7 million).

25. Financial instruments

25.1. 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.

25.2. 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.

25.3. Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see Note 25.4 below) and interest rates (see Note 25.5 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.

25.4. 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.

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Notes to the consolidated financial statements For the year ended 31 December 2019

25. Financial instruments (continued)

25.4 Foreign currency risk management (continued)

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 | |
|----------------------|-------------|--------|--------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Australian Dollar | 999 | 1,435 | 428 | 511 |
| United States Dollar | 348,775 | 18,793 | 2,731 | 2,607 |

25.4.1. Foreign currency sensitivity analysis

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

| | Australian Dollar impact | | United States Dollar impact | |
|-------------------------------------|--------------------------|-------|-----------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Effect of 10% strengthening of Kina | 52 | 177 | 31,459 | 1,945 |
| Effect of 10% weakening of Kina | (57) | (92) | (34,604) | (1,618) |

25.5. 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.

25.5.1. 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 2019 would increase/decrease by K2.3 million (2018: by increase/decrease K0.3 million). 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.

25.6. Commodity Risk

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

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Notes to the consolidated financial statements For the year ended 31 December 2019

25. Financial instruments (continued)

25.7. 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. As at 31 December 2019 and 2018, the Group has not identified any significant concentration of credit risk.

25.8. 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.

25.8.1. 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.

Liquidity and interest risk tables

| | Weighted average effective interest rate | Variable interest rate | Within 1 year | 1-2 years | 2-3 years | 3+ years | Total |
|--|--|------------------------------|------------------|----------------|----------------|----------------|----------------|
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Consolidated | | | | | | | |
| 31 December 2019 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | | Non-interest bearing | 21,097 | - | - | - | 21,097 |
| Other payables | | Non-interest bearing | 21,488 | - | - | - | 21,488 |
| Bank loans and overdrafts | 9.75% | - | 24,264 | - | - | - | 24,264 |
| Secured loan from other financial institution | 11.00% | - | 1,861 | 1,861 | 1,559 | - | 5,281 |
| Secured notes | 7.90% | - | 9,000 | 25,000 | - | - | 34,000 |
| Lease liabilities | 12.14% | - | 71,533 | 131,662 | 124,820 | 224,957 | 552,972 |
| Other liabilities | 9.25% | - | 15,245 | - | - | - | 15,245 |
| | | | 164,488 | 158,523 | 126,379 | 224,957 | 674,347 |
| Consolidated | | | | | | | |
| 31 December 2018 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | | Non-interest bearing | 45,099 | - | - | - | 45,099 |
| Other payables | | Non-interest bearing | 22,617 | - | - | - | 22,617 |
| Bank loans and overdrafts | 9.75% | - | 23,404 | - | - | - | 23,404 |
| Secured loan from other financial institution | 11.00% | - | 1,149 | 1,924 | 1,917 | 1,193 | 6,183 |
| Secured notes | 7.90% | - | 9,000 | - | 25,000 | - | 34,000 |
| Other liabilities | 9.75% | - | 33,019 | - | - | - | 33,019 |
| | | | 134,288 | 1,924 | 26,917 | 1,193 | 164,322 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

25. Financial instruments (continued)

25.8 Liquidity risk management (continued)

25.8.1 Liquidity risk tables (continued)

| | Weighted average effective interest rate | Variable interest rate | Within 1 year | 1-2 years | 2-3 years | 3+ years | Total |
|--|--|------------------------------|------------------|----------------|----------------|----------------|----------------|
| | % | % | K'000 | K'000 | K'000 | K'000 | K'000 |
| Company | | | | | | | |
| 31 December 2019 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 17,849 | - | - | - | 17,849 |
| Related party payables | Non-interest bearing | | 3,317 | - | - | - | 3,317 |
| Other payables | Non-interest bearing | | 26,973 | - | - | - | 26,973 |
| Bank loans and overdrafts | 9.75% | - | 24,264 | - | - | - | 24,264 |
| Secured loan from other financial institution | 11.00% | - | 1,861 | 1,861 | 1,559 | - | 5,281 |
| Secured notes | 7.90% | - | 9,000 | 25,000 | - | - | 34,000 |
| Lease liabilities | 12.14% | - | 71,200 | 130,996 | 124,154 | 223,957 | 550,307 |
| Other liabilities | 9.25% | - | 15,245 | - | - | - | 15,245 |
| | | | 169,709 | 157,857 | 125,713 | 223,957 | 677,236 |

| | | | | | | | |
|--|----------------------|---|----------------|--------------|---------------|--------------|----------------|
| Company | | | | | | | |
| 31 December 2018 | | | | | | | |
| Financial liabilities | | | | | | | |
| Trade payables | Non-interest bearing | | 41,766 | - | - | - | 41,766 |
| Related party payables | Non-interest bearing | | 3,292 | - | - | - | 3,292 |
| Other payables | Non-interest bearing | | 20,061 | - | - | - | 20,061 |
| Bank loans and overdrafts | 9.75% | - | 23,404 | - | - | - | 23,404 |
| Secured loan from other financial institution | 11.00% | - | 1,149 | 1,924 | 1,917 | 1,193 | 6,183 |
| Secured notes | 7.90% | - | 9,000 | - | 25,000 | - | 34,000 |
| Other liabilities | 9.75% | - | 33,019 | - | - | - | 33,019 |
| | | | 131,691 | 1,924 | 26,917 | 1,193 | 161,725 |

At the end of the reporting period, there were no financial guarantee contracts (2018: Nil).

26. Auditors Remuneration

| | Consolidated | | Company | |
|---------------------------|--------------|------------|--------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Deloitte Touche Tohmatsu: | | | | |
| - Audit Fee | 1,766 | 360 | 1,766 | 360 |
| - Other services fees | 65 | 39 | 24 | 26 |
| | 1,831 | 399 | 1,790 | 386 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

27. Other company information

The total number of employees at the Group level at year end was:

| | Consolidated | | Company | |
|----------------------|--------------|------------|------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| National employees | 669 | 676 | 661 | 667 |
| Expatriate employees | 134 | 106 | 98 | 100 |
| | 803 | 782 | 759 | 767 |

28. Related parties

28.1. Transactions with subsidiaries and affiliated companies

The Group and the Company had the following transactions with related parties that occurred on normal trading terms during the year. Refer below for the amounts recoverable. For the amounts payable, refer to note 24.1.

| Related Party | Relationship | Nature of transaction | 2019 | 2018 |
|---|--------------|-------------------------------------|---------------------------------|------------------------------|
| | | | K'000 | K'000 |
| APNG Services Pty Ltd | Subsidiary | Supply of Aircrew Settlement | (5,589) | (9,649) |
| Galatoire Limited | Subsidiary | Rental charges Maintenance costs | 4,885 (420) | 8,987 (420) |
| PNG Ground Services Limited | Subsidiary | Fuel Sales Settlement | 1,478 (29,278) 25,961 | 1,602 (30,740) 27,448 |
| Mineral Resources Development Corporation | Shareholder | Commercial Office rental | 267 | 264 |
| Outstanding balances | | | | |
| | | | <u>Related party receivable</u> | <u>Related party payable</u> |
| | | | 2019 | 2018 |
| | | | K'000 | K'000 |
| APNG Services Pty Ltd | | | 704 | 662 |
| Galatoire Limited | | | 1,058 | 1,182 |
| PNG Ground Services Limited | | | - | - |
| Mineral Resources Development Corporation | | | 243 | 350 |
| | | | 2,005 | 2,194 |
| | | | 3,317 | 3,292 |

28.2. Remuneration of key management personnel

The members of key management personnel during the year follow:

2019

| | | |
|------------------|-----------------|----------------------|
| Anthony Pereira | Glenn Dunstan | Sujeewa Samaranayake |
| Michael Fry | Emmanuel Kadiko | Richard Cadet |
| Richard Clifford | Elias Bade | William Kalipa |
| Adrian Smith | Stanley Stevens | |

2018

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

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Notes to the consolidated financial statements For the year ended 31 December 2019

28.2 Remuneration of key management personnel (continued)

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

| | 2019 | 2018 |
|---------------------|-------|-------|
| | K'000 | K'000 |
| Short-term benefits | 6,651 | 5,908 |

The remuneration of key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Key Management changes

- Paul Abbot, Chief Commercial Officer was appointed as the Acting CEO in April 2018 and in 2019 as the CEO. Paul Abbot employment ceased in May 2020.
- 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 29 September 2020.
- Anthony Pereira resigned as CEO in May 2021 and was replaced by Stanley Stevens in an acting capacity.
- Nisaal Jai was appointed as CFO in May 2021 in Acting Capacity and was confirmed in March 2022.
- Brian Fraser was appointed as CEO in June 2023 taking over from Stanley Stevens.

29. Contingent liabilities

- (i) The Group has provided a letter of credit for approximately K991,788 (A\$401,575) to National Australia Bank for merchant facility.
- (ii) The company has commitments as stated in Note 30.

30. Commitments

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

| | 2019 | 2018 |
|------------------|--------|--------|
| | K'000 | K'000 |
| 1 to 2 years | 9,766 | 75,146 |
| 3 to 4 years | 15,423 | 15,613 |
| 5 years & longer | 28,413 | - |

The commitments are in respect of (i) delivery of the three new ATR 72-600 aircraft and three new ATR 42-600 aircraft (the commitments were terminated in 2025 and subsequently new agreement for acquisition of three new ATR 42-600 was signed), and (ii) unpaid maintenance reserve.

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 2019.

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 in March 2020 due to a State of Emergency lockdown in an effort to contain the spread of coronavirus pandemic. Even though the Group partially resumed its operations on 7 April 2020, it was not operating at normal capacity until mid-2022 due to restrictions imposed by the government in an effort to contain the spread of the pandemic.

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Notes to the consolidated financial statements For the year ended 31 December 2019

31. Events after the reporting period (continued)

The Group's domestic operations were restricted, and its international charter services for a major client were suspended in compliance with the National Pandemic Act.

In 2022, Papua New Guinea gradually lifted its domestic COVID-19 restrictions, eventually removing all air travel-related measures. This included eliminating the requirement to wear masks inside airport terminals and on aircraft, as well as the need for inbound passengers to provide proof of COVID-19 vaccination. As a result, the Group resumed its international charter flights in May 2022.

Scheme of Creditors

On 15 December 2023, the National Court (Hartshorn J. presiding) approved PNG Air's scheme of arrangement under Part XVI of the Companies Act 1997 (amended 2022). Approval of the Scheme gave a legal effect to the restructuring of the Company's external debts with its major creditors which has been a focus of the Directors and management's attention for the 2 preceding years. The Company's major creditors entered into letters of intent with the Company detailing the terms on which the Company's indebtedness to those creditors will be materially reduced. Those letters of intent became binding on the Company and its major creditors as a consequence of the National Court approving the Scheme.

Outlined below are the key aspects of arrangements with major creditors:

Lessors

- Two of existing lease agreements were terminated early and the lease term for some other lease agreements were extended;
- Late penalty charges and default interest and lease payments in arrears amounting to USD1.5 million were waived; and
- Repayment terms were agreed for remaining lease payments in arrears.

Finance lenders (banks and note holders)

- Partial waiver of K12.0 million of existing debt; and
- Monthly repayment plan for the remaining outstanding balances to note holders was agreed and no interest will be charged provided that monthly payments are made in full and when due.

Other creditors

- Penalties and interest due amounting to K15.7 million were waived; and
- Monthly repayment plans for the remaining outstanding balances were agreed.

Also, as part of the restructuring, the Company's major shareholders, MRDC and Nasfund, have agreed to:

- Convert K58.2 million of previously contributed K70.6 million (included in other contributed equity at 31 December 2019) into shares.
- The remaining amount of K12.4 million was converted to debt, of which K10.3 million was forgiven and K2.1 million is to be repaid in 21 monthly installments.

MRDC also provided additional capital of K55 million to the Company during 2023 and 2024, for which additional shares were issued by the Company in 2023 and 2025.

Business Operations and Significant Commitments

- Three (3) new ATR 42-600 were ordered which are scheduled to begin delivery in 2026;
- Two major charter contracts were renewed for a further two years from December 2023;
- Maintenance Organisation Certificate (MOC) renewed for three years expiring 31 October 2027;
- The Group leased one (1) ATR 72-600 in April 2024 for six (6) years;
- In June 2024 the Group, after negotiations with certain lessors, concluded the purchase of all leased Dash 8 aircraft.

Other than the matters described above or elsewhere in the consolidated financial statements, no matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations or state of affairs of the Group in subsequent accounting periods.

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Notes to the consolidated financial statements For the year ended 31 December 2019

32. Restatement

The Group is restating the comparative amounts as at 1 January 2018 and 31 December 2018 and for the year ended 31 December 2018 to correct errors identified in various account balances as summarized below.

Fair valuation of aircrafts

Per the Group's accounting policy (as disclosed in Note 3.9), the owned aircrafts are stated at revalued amounts. When the aircrafts are revalued, any capitalised costs associated with the overhaul of aircraft engines and major components ('aircraft improvements') are considered to arrive at the revaluation increase or decrease. As at 31 December 2018, the amount of aircraft improvements was not considered in the calculation of revaluation gain on aircrafts. This resulted in overstatement of property, plant, and equipment and the revaluation reserve in prior period.

Certain expenses capitalised as maintenance reserve deposits

Certain over and above standard charges related to maintenance checks that are not subject to claims through actual future maintenance events or refund were capitalised as maintenance reserve deposits instead of being expensed as incurred. This resulted in an overstatement of other current assets and understatement of cost of sales in prior periods.

Provisions for maintenance and return conditions

The Group's maintenance and return conditions provisions for leased aircrafts were erroneously recognised in previous periods. Future avoidable costs which do not meet the definition of a provision were incorrectly included in the estimate of future unavoidable costs. This resulted in an overstatement of provisions overstatement of cost of sales in prior periods. In addition, the finance costs line item was understated due to unwinding and other income was overstated due to effect of foreign exchange.

Trade and other payables

Trade and other payables was overstated due to over accrual of employee costs prior to 1 January 2018. This resulted in overstatement of trade and other payables and accumulated loss in prior periods.

Taxation

Deferred taxes and income tax expense were erroneously stated as at 1 January 2018 and 31 December 2018. The error occurred due to (1) incorrectly capturing the tax base of certain capitalised expenses in the prior year tax calculations; and (2) the tax effect of the above prior period errors.

Reclassifications

The Group has identified a number of assets, liabilities, revenue and expense items that were incorrectly classified in the prior period financial statements. The main financial statement line items impacted are deferred tax assets, other assets, deferred tax liabilities, revenue, other income, cost of sales and finance costs.

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Notes to the consolidated financial statements For the year ended 31 December 2019

32. Restatement (continued)

The table below shows adjustments recognised for each individual line item as at 31 December 2018 and 1 January 2018. Line items that were not affected by the changes have not been included (this includes the statement of cash flows which was not impacted by the changes).

Consolidated

| | As previously reported | | Effect of restatement | | Effect of reclassification | | As restated | |
|--|------------------------|------------------|-----------------------|----------------|----------------------------|-----------------|------------------|------------------|
| | 2018 | 1 January 2018 | 2018 | 1 January 2018 | 2018 | 1 January 2018 | 2018 | 1 January 2018 |
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| Statement of financial position | | | | | | | | |
| Property, plant and equipment | 145,790 | 138,240 | (4,337) | - | - | - | 141,453 | 138,240 |
| Other financial assets | 23,587 | 22,611 | - | - | (13,735) | (891) | 9,852 | 21,720 |
| Deferred tax assets, net | 33,751 | 34,042 | - | 811 | (33,751) | (33,946) | - | 907 |
| Other assets | 40,644 | 23,597 | (1,595) | (568) | 12,525 | (85) | 51,574 | 22,944 |
| Total non-current assets | 243,772 | 218,490 | (5,932) | 243 | (34,961) | (34,922) | 202,879 | 183,811 |
| Other assets | 13,327 | 12,114 | - | 0 | 1,210 | 976 | 14,537 | 13,090 |
| Total current assets | 49,108 | 55,470 | - | - | 1,210 | 976 | 50,318 | 56,446 |
| Total assets | 292,879 | 240,014 | (5,932) | 243 | (33,751) | (33,946) | 253,197 | 240,257 |
| Provisions | (15,186) | (11,311) | (523) | (3,943) | - | - | (15,709) | (15,254) |
| Deferred tax liabilities, net | (37,398) | (33,946) | 204 | - | 33,751 | 33,946 | (3,444) | - |
| Total non-current liabilities | (101,885) | (102,569) | (319) | (3,943) | 33,751 | 33,946 | (68,454) | (72,566) |
| Trade and other payables | (67,937) | (66,752) | 220 | 220 | - | - | (67,717) | (66,532) |
| Provisions | (17,234) | (11,554) | 12,247 | 8,281 | - | - | (4,987) | (3,273) |
| Total current liabilities | (161,308) | (149,888) | 12,467 | 8,501 | - | - | (148,841) | (141,387) |
| Total liabilities | (263,193) | (218,511) | 12,148 | 4,558 | 33,751 | 33,804 | (217,295) | (213,953) |
| Net Assets | 29,686 | 21,503 | 6,216 | 4,801 | - | - | 35,902 | 26,304 |
| Revaluation reserve | (7,408) | (1,241) | 3,036 | - | - | - | (4,372) | (1,241) |
| Accumulated losses | 125,556 | 127,572 | (9,252) | (4,801) | - | - | 116,304 | 122,771 |
| Total equity | (29,686) | (21,503) | (6,216) | (4,801) | - | - | (35,902) | (26,304) |

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Notes to the consolidated financial statements For the year ended 31 December 2019

32. Restatement (continued)

Company

| | As previously reported | | Effect of restatement | | Effect of reclassification | | As restated | |
|--|------------------------|------------------|-----------------------|----------------|----------------------------|-----------------|------------------|------------------|
| | 1 January | | 1 January | | 1 January | | 1 January | |
| | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 |
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| Statement of financial position | | | | | | | | |
| Property, plant and equipment | 144,783 | 137,074 | (4,337) | - | - | - | 140,446 | 137,074 |
| Other financial assets | 23,607 | 22,631 | - | - | (13,735) | (891) | 9,872 | 21,740 |
| Deferred tax assets, net | 33,533 | 33,804 | - | 811 | (33,533) | (33,804) | - | 811 |
| Other assets | 40,644 | 23,597 | (1,595) | (568) | 12,525 | (85) | 51,574 | 22,944 |
| Total non-current assets | 242,567 | 217,106 | (5,932) | 243 | (34,743) | (34,780) | 201,892 | 182,569 |
| Other assets | 14,973 | 13,229 | - | - | 1,210 | 976 | 16,183 | 14,205 |
| Total current assets | 49,715 | 55,812 | - | - | 1,210 | 976 | 50,925 | 56,788 |
| Total assets | 292,282 | 272,918 | (5,932) | 243 | (33,533) | (33,804) | 252,817 | 239,357 |
| Provisions | (15,119) | (11,233) | (523) | (3,943) | - | - | (15,642) | (15,176) |
| Deferred tax liabilities, net | (37,221) | (33,804) | 204 | - | 33,533 | 33,804 | (3,484) | - |
| Total non-current liabilities | (101,641) | (102,349) | (319) | (3,943) | 33,533 | 33,804 | (68,427) | (72,488) |
| Trade and other payables | (68,206) | (66,567) | 220 | 220 | - | - | (67,986) | (66,347) |
| Provisions | (17,222) | (11,547) | 12,247 | 8,281 | - | - | (4,975) | (3,266) |
| Total current liabilities | (161,565) | (149,696) | 12,467 | 8,501 | - | - | (149,098) | (141,195) |
| Total liabilities | (263,206) | (252,045) | 12,148 | 4,558 | 33,533 | 33,804 | (217,525) | (213,683) |
| Net Assets | 29,076 | 20,873 | 6,216 | 4,801 | - | - | 35,292 | 25,674 |
| Revaluation reserve | (7,408) | (1,241) | 3,036 | - | - | - | (4,372) | (1,241) |
| Accumulated losses | 126,166 | 128,202 | (9,252) | (4,801) | - | - | 116,914 | 123,401 |
| Total equity | (29,076) | (20,873) | (6,216) | (4,801) | - | - | (35,292) | (25,674) |

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Notes to the consolidated financial statements For the year ended 31 December 2019

32. Restatement (continued)

| Consolidated | As previously reported | Effect of restatement | Reclassification | As restated |
|--|---------------------------|--------------------------|------------------|----------------|
| | K'000 | K'000 | K'000 | K'000 |
| Statement of comprehensive income | | | | |
| Revenue | 311,133 | - | (3,057) | 308,076 |
| Cost of sales | (176,255) | 7,254 | (2,073) | (171,074) |
| Gross profit | 134,878 | 7,254 | (5,130) | 137,002 |
| Other income | 2,647 | (452) | 5,906 | 8,101 |
| Finance costs | (7,916) | (443) | (776) | (9,135) |
| Profit/(loss) before tax | 3,322 | 6,359 | - | 9,681 |
| Income tax expense | (1,119) | (1,908) | - | (3,027) |
| PROFIT FOR THE YEAR | 2,203 | 4,451 | - | 6,654 |
| Gain/(Loss) on revaluation of non-current assets, net of tax | 6,167 | (3,036) | - | 3,131 |
| Other comprehensive income/(loss) for the year net of tax | 6,149 | (3,036) | - | 3,113 |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | 8,352 | 1,415 | - | 9,767 |
| Earnings pe share | | | | |
| Basic and diluted earnings per share (toea) | 0.71 | 1.45 | - | 2.16 |

| Company | As previously reported | Effect of restatement | Reclassification | As restated |
|--|---------------------------|--------------------------|------------------|----------------|
| | K'000 | K'000 | K'000 | K'000 |
| Statement of comprehensive income | | | | |
| Revenue | 308,476 | - | (3,057) | 305,419 |
| Cost of sales | (174,731) | 7,254 | (2,073) | (169,550) |
| Gross profit | 133,745 | 7,254 | (5,130) | 135,869 |
| Other income | 2,647 | (452) | 5,906 | 8,101 |
| Finance costs | (7,916) | (443) | (776) | (9,135) |
| Profit/(loss) before tax | 3,287 | 6,359 | - | 9,646 |
| Income tax expense | (1,082) | (1,908) | - | (2,990) |
| PROFIT FOR THE YEAR | 2,205 | 4,451 | - | 6,656 |
| Gain/(Loss) on revaluation of non-current assets, net of tax | 6,167 | (3,036) | - | 3,131 |
| Other comprehensive income/(loss) for the year net of tax | 6,149 | (3,036) | - | 3,113 |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | 8,352 | 1,415 | - | 9,787 |
| Earnings pe share | | | | |
| Basic and diluted earnings per share (toea) | 0.72 | 1.44 | - | 2.17 |

| Consolidated | Revaluation reserve | Accumulated losses | Total equity |
|--|------------------------|-----------------------|---------------|
| | K'000 | K'000 | K'000 |
| Statement of changes in equity | | | |
| At 1 January 2018, as previously reported | 1,241 | (127,572) | 21,503 |
| Restatement | - | 4,801 | 4,801 |
| At 1 January 2018, as restated | 12,41 | (122,771) | 26,304 |
| Effect of IFRS 9 (net of tax) | - | (169) | (169) |
| Profit for the year (restated) | - | 6,654 | 6,654 |
| Other comprehensive income for the year (restated) | 3,131 | 18 | 3,113 |
| Total comprehensive income (restated) | 3,131 | 6,636 | 9,767 |
| At 31 December 2018, as restated | 4,372 | (116,304) | 35,902 |

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Notes to the consolidated financial statements For the year ended 31 December 2019

32. Restatement (continued)

Company

| | Revaluation reserve | Accumulated losses | Total equity |
|--|------------------------|-----------------------|---------------|
| | K'000 | K'000 | K'000 |
| Statement of changes in equity | | | |
| At 1 January 2018, as previously reported | 1,241 | (128,202) | 20,873 |
| Restatement | - | 4,801 | 4,801 |
| At 1 January 2018, as restated | 1,241 | (123,401) | 25,674 |
| Effect of IFRS 9 (net of tax) | - | (169) | (169) |
| Profit for the year (restated) | - | 6,656 | 6,656 |
| Other comprehensive income for the year (restated) | 3,131 | - | 3,131 |
| Total comprehensive income (restated) | 3,131 | 6,656 | 9,787 |
| At 31 December 2018, as restated | 4,372 | (123,654) | 35,292 |

33. Approval of financial statements

The financial statements were approved by the directors and authorized for issue on 20 June 2025.

Independent Auditor's Report

Deloitte.

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PNG Air Limited (the "Company") and its subsidiaries (the "Group") which comprise the Group and the Company's statements of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In our opinion, the accompanying financial statements of the Group and the Company, give a true and fair view of the Group's and the Company's financial position as at 31 December 2019 and of their financial performance and their cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of *the Companies Act 1997 (amended 2022)*.

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 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 2019 the Group and the Company have an excess of current liabilities over current assets of K106.8 million and K106.4 million, respectively. 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 and the Company's ability to continue as going concerns. 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 financial statements of the Group for the current period. These matters were addressed in the context of our audit of the 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 matters described below to be the key audit matters to be communicated in our report.

Independent Auditor's Report



| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|--|--|
| <p>Implementation of IFRS 16 for leased aircrafts</p> <p>In 2019 the Group adopted the new IFRS 16 <i>Leases</i> standard which was effective for the Group for the first time for the annual reporting period ending 31 December 2019. The accounting of leased aircrafts is considered a key audit matter due to the first-time adoption of IFRS 16 which involves key judgements, and it has a significant impact on the financial position as at 31 December 2019 and the statement of profit or loss and other comprehensive income for the year then ended.</p> <p>We considered the recognition and measurement of the leases liabilities and right-of-use assets including the determination of the lease terms and the discount rates, and the related disclosures to be a key audit matter due to the high degree of judgement and the material impact on the statement of financial position and statement of profit or loss and other comprehensive income.</p> | <p>Our procedures included, among others:</p> <ul style="list-style-type: none"> • Evaluating the Group's transition to IFRS 16 (as lessee for leased aircrafts) using the modified retrospective approach. This includes an assessment of the key judgements made by management regarding the discount rates used and the lease terms, including the treatment of extension and termination options • Validating the measurement of the lease liabilities and the related right-of-use assets based on the review of contractual obligations, assessment of extension and termination options, the initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee for restoring the aircrafts at the end of the leases • Challenging management's assumptions and judgements regarding the lease terms and discount rates used by the lessees in determining the lease liabilities and related right-of-use assets, by inspecting the enforceable period in the lease contracts, including, amongst others, the evaluation of extension and termination options, and by assessing the discount rate determined by management with reference to entity-specific borrowing rates and external market data with the assistance of our valuation specialists. <p>We also assessed the completeness and accuracy of the disclosures in notes of the consolidated financial statements, including the impact from the transition.</p> |
| <p>Valuation of the Group's owned aircrafts</p> <p>The carrying value of the Group's owned aircrafts as at 31 December 2019 was K97.04 million.</p> <p>The Group applies the revaluation model for its owned aircrafts and at the end of each reporting period estimates the fair value of its owned aircrafts taking into consideration factors such as changes in fleet composition, market values and technical factors.</p> <p>We have identified the carrying value of aircraft as a key audit matter because of its significance to the consolidated financial statements.</p> | <p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the relevant controls associated with the preparation and review of the Group's owned aircraft valuations • Assessing the reasonableness of management's judgements, assumptions 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 • Challenging and assessing the reasonableness of assumptions and judgements used by management, taking into account recent developments in the airline industry and future operating plans. <p>We also assessed the completeness and accuracy of the disclosures in the consolidated financial statements.</p> |

Independent Auditor's Report



Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Directors' Declaration for the year ended 31 December 2019, which we obtained prior to the date of this auditor's report, and the Group and Company's annual report, 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies Act 1997 (amended 2022) and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view of the financial position and performance of the Group and the Company and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability of the Group and the Company 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 and the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the financial statements.

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

- Identify and assess the risks of material misstatement of the 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 and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report



- 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 and the Company'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 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 and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 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 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.

Report on Other Legal and Regulatory Requirements

In accordance with section 200 of the Companies Act 1997 (*amended 2022*), in our opinion:

- We obtained all information and explanations that were required; and
- Proper accounting records have been kept by the Group and the Company for the year ended 31 December 2019.

We also provided PNG Air Limited and its subsidiaries with tax compliance services.

DELOITTE TOUCHE TOHMATSU

Herbert Maguma

Partner

Registered under the Accountants Act 1996

Port Moresby, 20 June 2025

CORPORATE DIRECTORY

The following information provided and the circumstances prevailing as at 20 June 2025 are as follows;

PNG Air Limited

Incorporated in Papua New Guinea

Current Directors

Augustine Mano
Edward Matane
Watt Kiddie
Simon Woolcott
Valentina Kaman

Company Secretary

Deborah Poya

Registered Office, address for service and principal administrative office

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

Principal place of business

Jackson's International Airport
Port Moresby
Papua New Guinea

Postal address

PO Box 170
Boroko NCD 111
Papua New Guinea

Subsidiaries

Galatoire Limited
PNG Ground Services Limited
APNG Services Pty Ltd

Auditors

Deloitte Touche Tohmatsu
Level 9, Deloitte Haus
MacGregor Street
PO Box 1275
Port Moresby NCD 121
Papua New Guinea

Registry

PNG Registries Limited
Level 2, AON House
McGregor Street

PO Box 1265
Port Moresby, NCD
Papua New Guinea
Telephone 321 6377

Stock Exchanges

The company maintains a listing only on PNGX Market.

SHAREHOLDERS INFORMATION

Distribution of Shareholders

a. The distribution of ordinary shares ranked to size at 20 June 2025 is as follows

| Range PGK | Shareholders | Shares | % Issued Capital |
|-------------------|--------------|----------------------|------------------|
| 1-1000 | 113 | 94,832 | 0.001 |
| 1,001-5,000 | 1,782 | 4,465,659 | 0.05 |
| 5,001-10,000 | 319 | 2,966,424 | 0.04 |
| 10,001-100,000 | 336 | 9,372,841 | 0.11 |
| 100,0001 and Over | 32 | 8,270,644,992 | 99.80 |
| Total | 2,582 | 8,287,544,748 | 100.00 |

b. The twenty largest Shareholders representing 99.77% of the ordinary shares as at 20 June 2025 were as follows:

| | Shareholder | Number of shares | % of issued capital |
|--------------|---|----------------------|---------------------|
| 1 | Mineral Resources Development Company Ltd | 4,878,896,797 | 58.87 |
| 2 | National Superannuation Fund Limited Mineral | 1,305,039,146 | 15.75 |
| 3 | Mineral Resources OK TEDI No 2 Limited | 1,028,658,363 | 12.41 |
| 4 | Mineral Resources Star Mountains Ltd | 1,012,158,362 | 12.21 |
| 5 | John Ralston Wild (Deceased) | 15,750,000 | 0.19 |
| 6 | Paul McLaren | 8,987,100 | 0.11 |
| 7 | Teachers Savings & Loans Society Ltd | 7,000,000 | 0.08 |
| 8 | Credit Corporation (PNG) Ltd | 2,000,000 | 0.02 |
| 9 | Steffen Wirth <Skills Development A/C> | 2,000,000 | 0.02 |
| 10 | BSP Capital Limited | 1,411,566 | 0.02 |
| 11 | Paul Anthony Povey | 1,100,000 | 0.01 |
| 12 | Evangelical Lutheran Church of PNG | 1,000,000 | 0.01 |
| 13 | Star Mountain Properties & Investment Ltd | 750,000 | 0.01 |
| 14 | Dan Corporation Limited | 700,000 | 0.01 |
| 15 | George Mannga Tagobe | 600,000 | 0.01 |
| 16 | Philip Depis | 500,000 | 0.01 |
| 17 | Nasfund Contributors Savings & Loan Society Limited | 500,000 | 0.01 |
| 18 | Pacific MMI Insurance limited | 500,000 | 0.01 |
| 19 | Star Mountain Investment Holding Ltd | 500,000 | 0.01 |
| 20 | Tabubil Hotel Limited | 500,000 | 0.01 |
| Total | | 8,268,551,334 | 99.77% |

c. Issued capital as at 20 June 2025 was 8,287,544,748 ordinary fully paid shares.

OTHER INFORMATION

Current Directors' Interests as at 20 June 2025

| Director | Direct / Indirect | Shares Held | % |
|---|-------------------|---------------|-------|
| Mr. Mano, Mr. Woolcott and Ms. Kaman (Mineral Resources Development Company Limited) | Indirect | 4,878,896,797 | 58.87 |
| Mr. Mano, Mr. Woolcott and Ms. Kaman (Mineral Resources OK TEDI No 2 Limited) | Indirect | 1,028,658,363 | 12.41 |
| Mr. Mano, Mr. Woolcott and Ms. Kaman (Mineral Resources Star Mountains Limited) | Indirect | 1,012,158,362 | 12.21 |

Other Information

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