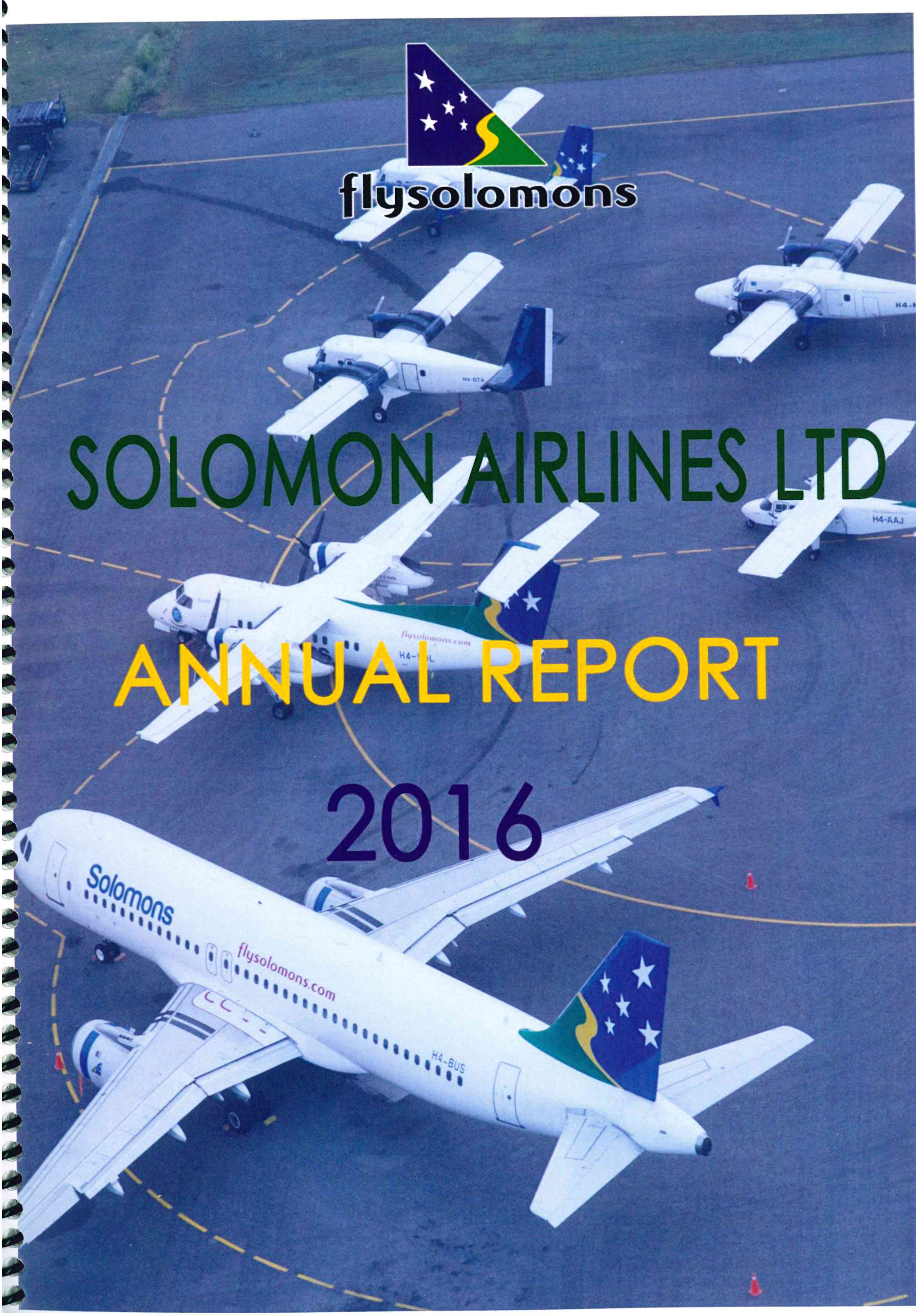

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SOLOMON AIRLINES LTD

ANNUAL REPORT

2016

Solomon Airlines Limited
Directors' report

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of Solomon Airlines Limited ("the Company") as at 31 December 2016 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

Directors

The names of directors in office at the date of this report and at any time during the financial year and up until the date the financial statements were authorised for issue are as follows:

Chairman	Mr Austin Holmes (appointed August 2015)
Deputy Chairman	Mr Robertus Franciscus Bochman (appointed April 2016)
Director	Mr George Rausi (appointed July 2015 - resigned February 2016)
Director	Mr Masao Yamagata (appointed October 2015)
Director	Mrs Kathy Nori (appointed October 2015)
Director	Mr Josefa Tuamoto (appointed June 2016)

State of affairs

In the opinion of the directors, the accompanying statement of financial position gives a true and fair view of the state of affairs of the Company as at 31 December 2016 and the accompanying statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Company for the year then ended.

Trading results

The loss for the year after income tax expense of $1,391,941 (2015: income tax benefit of $928,435) amounted to $17,244,442 (2015: $32,927,598).

Dividends

It was recommended that no dividends be declared or proposed for the year.

Principal activity

The principal activity of the Company during the course of the financial year was to provide domestic and international air transport services. There were no significant changes in the nature of this activity during the year.

Solomon Airlines Limited
Directors' report (continued)

Going concern
The financial statements have been prepared on a going concern basis notwithstanding that at 31 December 2016 the Company had a deficiency of working capital, excluding revenue received in advance of $65,574,319 (2015: $67,417,782), and recorded a loss before income tax of $15,852,501 (2015: $33,856,033).

The Company's continuation as going concern is dependent upon its ability to generate cash flows from operations and the ongoing support of its bankers in order to meet its obligations as they fall due as well as the continued support of the Company's shareholder being Solomon Islands Government. These conditions indicate the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern.

The Directors consider it is appropriate to prepare these financial statements on a going concern basis as the Company has obtained a letter of support from the Government of Solomon Islands which states that the Government remains committed to the Company and will provide sufficient support to Solomon Airlines for it to meet all of its financial obligations as and when they fall due.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Current assets
The directors took reasonable steps before the Company's financial statements were made out to ascertain that the current assets of the Company were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the directors are not aware of any circumstances which would render the values attributable to the current assets in the financial statements to be misleading.

Receivables
The directors took reasonable steps before the Company's financial statements were made out to ascertain that all known bad debts were written off and adequate allowance was made for impairment losses.

At the date of this report, the directors are not aware of any circumstances which would render the above assessment inadequate to any substantial extent.

Related party transactions
All related party transactions have been adequately recorded in the financial statements.

Other circumstances
At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which would render any amounts stated in the accounts to be misleading.

Solomon Airlines Limited
Directors' report (continued)

Unusual circumstances
The results of the Company's operations during the financial year have not, in the opinion of the directors, been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

Events subsequent to balance date
During the year, the company incorporated a fleet management strategy of using turbine engines only which necessitated the disposal of Brittian Norman Islander aircraft and its related spare parts. Efforts to sell the assets commenced on 31 December 2016 while the sale was concluded in March 2017.

Other than the matter noted above, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Dated at this 12th day of July 2017.

Signed in accordance with a resolution of the directors.

Director

Director

Solomon Airlines Limited
Statement by Directors

In the opinion of the Directors of the Company:

(a) the accompanying statement of profit or loss and other comprehensive income of the Company is drawn up so as to give a true and fair view of the results of the Company for the year ended 31 December 2016;

(b) the accompanying statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity of the Company for the year ended 31 December 2016;

(c) the accompanying statement of financial position of the Company is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2016;

(d) the accompanying statement of cash flows of the Company is drawn up so as to give a true and fair view of the cash flows of the Company for the year ended 31 December 2016;

(e) at the date of this statement there are reasonable grounds to believe the Company will be able to pay its debts as and when they fall due; and

(f) all related party transactions have been adequately recorded in the books of the Company.

Dated at Honiara this 12th day of July 2017.

Signed in accordance with a resolution of the directors.

Director

Director

Solomon Islands Office
of the Auditor-General

INDEPENDENT AUDITOR'S REPORT

To the members of Solomon Airlines Limited

Report on the Audit of the Financial Statements

Opinion

I have in joint consultation with the Board of Solomon Airlines Limited ("the Company") contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statement of Solomon Airlines Limited, which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 32.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2 (c) in the financial statements regarding the existence of uncertainties in relation to the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to obtain appropriate external financing, the support of the Solomon Islands Government and/or to generate sufficient cash flows from operations in order to meet its obligations and to return to profitable operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

Independent Auditors' Report

To the members of Solomon Airlines Limited (continued)

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 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 auditors' 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 auditors' report. However, future events or conditions may cause 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.

We communicate with those charged with governance 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.

Report on Other Legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act and State Owned Enterprises Act

The Company has not complied with the requirements of the *Public Finance and Audit Act [Cap 120] and the State Owned Enterprises Act 2007* which requires the audited financial statements to be placed before the Minister responsible before 31 March of the following year to which the financial statements relate. The signed statements were received 103 days after the due date of 31 March 2017.

Peter Lokay
Auditor General
17 July, **2017**

Office of the Auditor General
Solomon Islands

Solomon Airlines Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2016

	Note	2016 $	2015 $
Revenue	5	244,302,684	259,481,124
Other income	6	15,372,800	7,564,549
Total operating revenue		259,675,484	267,045,673
Staff and related costs	7	(53,208,576)	(53,701,256)
Operations	8	(113,050,981)	(95,450,793)
Selling and marketing expenses	9	(4,018,378)	(6,418,511)
Fuel		(46,598,717)	(56,487,651)
Depreciation	20	(12,691,365)	(17,632,942)
Statutory expenses	25	-	(24,276,096)
Other expenses	10	(39,658,513)	(38,011,974)
Total operating expenses		(269,226,530)	(291,979,223)
Loss from operations		(9,551,046)	(24,933,550)
Finance income	11(a)	25,755	18,776
Finance expenses	11(b)	(6,327,210)	(8,941,259)
Operating loss before income tax		(15,852,501)	(33,856,033)
Income tax (expense) / benefit	12 (a)	(1,391,941)	928,435
Loss after income tax		(17,244,442)	(32,927,598)
Other comprehensive income / (loss) for the year, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of aircraft and land and buildings - net of tax		(62,680)	5,462,350
Total other comprehensive income		(62,680)	5,462,350
Total comprehensive loss for the year		(17,307,122)	(27,465,248)

The notes on pages 11 to 38 are an integral part of these financial statements.

Solomon Airlines Limited
Statement of changes in equity
For the year ended 31 December 2016

	Note	Share capital $	Revaluation Reserve $	Accumulated losses $	Total $
Balance at 1 January 2015		70,909,801	34,439,934	(68,304,091)	37,045,644
Transfer of depreciation on revaluation increment of aircraft		-	(2,306,794)	2,306,794	-
Total comprehensive loss for the year					
Loss for the year		-	-	(32,927,598)	(32,927,598)
Other comprehensive income for the year		-	5,462,350	-	5,462,350
Total comprehensive income / (loss) for the year		-	5,462,350	(32,927,598)	(27,465,248)
Balance at 31 December 2015	26 (b)	70,909,801	37,595,490	(98,924,895)	9,580,396
Balance at 1 January 2016		70,909,801	37,595,490	(98,924,895)	9,580,396
Transfer of depreciation on revaluation increment of aircraft		-	(1,504,960)	1,504,960	-
Total comprehensive loss for the year					
Loss for the year		-	-	(17,244,442)	(17,244,442)
Other comprehensive loss for the year		-	(62,680)	-	(62,680)
Total comprehensive loss for the year		-	(62,680)	(17,244,442)	(17,307,122)
Transactions with owners of the Company					
Issue of ordinary shares	26 (b)	7,900,000	-	-	7,900,000
Total transactions with owners of the Company		7,900,000	-	-	7,900,000
Balance at 31 December 2016	26 (b)	78,809,801	36,027,850	(114,664,377)	173,274

The notes on pages 11 to 38 are an integral part of these financial statements.

Solomon Airlines Limited
Statement of financial position
As at 31 December 2016

	Note	2016 $	2015 $
Assets			
Current assets			
Cash on hand and at bank	13	2,049,202	8,606,936
Term deposits	14	647,963	688,000
Deposits	15	2,184,777	1,683,734
Trade receivables	16	5,230,433	5,615,995
Other receivables and prepayments	17	13,190,762	5,855,157
Inventories	18	4,344,706	9,287,148
Assets held for sale	19	943,952	-
Total current assets		28,591,795	31,736,970
Non-current assets			
Aircraft, property, plant and equipment	20	125,969,911	126,920,911
Investment property	21	8,169,000	8,169,000
Deposits	15	5,583,925	4,354,839
Total non-current assets		139,722,836	139,444,750
Total assets		168,314,631	171,181,720
Liabilities			
Current liabilities			
Bank overdraft	13	3,374,734	-
Borrowings	22	37,240,300	43,274,847
Revenue received in advance		33,116,997	30,963,129
Trade, other payables and accrued expenditure	23	43,282,590	48,178,815
Employee benefits	24	2,258,383	1,940,578
Statutory liabilities	25	8,010,108	5,760,512
Total current liabilities		127,283,112	130,117,881
Non-current liabilities			
Borrowings	22	7,619,149	-
Deferred tax liability	12 (c)	9,955,000	8,589,921
Statutory liabilities	25	23,284,096	22,893,522
Total non-current liabilities		40,858,245	31,483,443
Total liabilities		168,141,357	161,601,324
Shareholders equity			
Share capital	26 (b)	78,809,801	70,909,801
Revaluation reserve	26 (c)	36,027,850	37,595,490
Accumulated losses		(114,664,377)	(98,924,895)
Total shareholders equity		173,274	9,580,396
Total shareholders equity and liabilities		168,314,631	171,181,720

Signed in accordance with a resolution of the Board.

Director

Director

Solomon Airlines Limited
Statement of cash flows
For the year ended 31 December 2016

	Note	2016	2015
		$	$
Cash flows from operating activities			
Receipts from customers		248,899,057	259,055,873
Payments to suppliers and employees		(242,327,971)	(233,007,073)
Cash generated from operations		6,571,086	26,048,800
Interest received		25,755	18,776
Interest paid		(2,954,686)	(3,500,468)
Statutory liabilities paid		(5,760,511)	(300,000)
Net cash (used in) / from operating activities		(2,118,356)	22,267,108
Cash flows from investing activities			
Acquisition of property, plant and equipment	20	(2,816,939)	(8,447,325)
Proceeds from withdrawal of term deposit		40,037	-
Investment in term deposit		-	(371,409)
Net cash used in investing activities		(2,776,902)	(8,818,734)
Cash flows from financing activities			
Repayments of borrowings		(12,937,210)	(7,278,528)
Proceeds from issue of share capital	26 (b)	7,900,000	-
Net cash used in financing activities		(5,037,210)	(7,278,528)
Net (decrease) / increase in cash and cash equivalents		(9,932,468)	6,169,846
Cash and cash equivalents at 1 January		8,606,936	2,437,090
Cash and cash equivalents at 31 December	13	(1,325,532)	8,606,936
Non cash investing activities	28		

The notes on pages 11 to 38 are an integral part of these financial statements.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

1. Reporting entity

Solomon Airlines Limited trading as Solomon Airlines, (the "Company") is domiciled in the Solomon Islands. The address of the Company's registered office is Henderson, Honiara, Solomon Islands.

The principal activity of the Company during the course of the financial year was to provide international and domestic air transport services. There were no significant changes in the nature of this activity during the year.

The financial statements were prepared and approved as an individual reporting entity.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were approved by the Board of the Directors on 12th July 2017

(b) Basis of measurement

The financial statements have been prepared using the historical cost basis except for investment property and assets held for sale which are measured at fair value and aircraft which is measured using the revaluation model.

(c) Going concern basis of accounting

The financial statements have been prepared on a going concern basis notwithstanding that at 31 December 2016 the Company had a deficiency of working capital, excluding revenue received in advance of \$65,574,319 (2015: \$67,417,782), and recorded a net loss before income tax of \$15,852,501 (2015: \$33,856,033).

The Company's continuation as going concern is dependent upon its ability to generate cash flows from operations and the ongoing support of its bankers in order to meet its obligations as they fall due as well as the continued support of the Company's shareholder being Solomon Islands Government. These conditions indicate the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern.

The Directors consider it is appropriate to prepare these financial statements on a going concern basis as the Company has obtained a letter of support from the Government of Solomon Islands which states that the Government remains committed to the Company and will provide sufficient support to Solomon Airlines for it to meet all of its financial obligations as and when they fall due.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

(d) Functional and presentation currency

The financial statements are presented in Solomon Island dollars, which is the Company's functional currency. All amounts disclosed are rounded to the nearest dollar.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

2. Basis of preparation (continued)

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 3(i) -	Recoverability of trade receivables and other receivables
Note 3(b) -	Aircraft, property, plant and equipment (Revaluation & Depreciation)
Note 3(l)(i) -	Revenue in advance
Note 3(n) -	Recoverability of tax losses and deferred tax assets

3. Significant accounting policies

The accounting policies set out below have been consistently applied by the Company except where otherwise indicated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Solomon Island dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Solomon Island dollars at the exchange rate at that date. The foreign currency gains or losses on retranslation are recognised in profit or loss. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

(b) Aircraft, property, plant and equipment

(i) <u>Recognition and measurement</u>

Items of aircraft, property, plant and equipment are measured at cost less accumulated depreciation and impairment losses with the exception of owned aircraft and land and buildings which are measured at fair value less accumulated depreciation.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of aircraft, property, plant and equipment have different useful lives, they are accounted for as separate items (major aircraft components) of aircraft, property, plant and equipment.

Any gain and loss on disposal of an item of aircraft, property plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of aircraft, property, plant and equipment. This is recognised within other income / other expense in profit or loss.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(b) Aircraft, property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing part of an item of aircraft, property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefit embodied within the part will flow to the Company and its cost can be measured reliably. The cost of the day-to-day servicing of aircraft, property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight line basis over the useful life of each class of asset. The depreciation rates used are as follows:

Land and buildings	5%
Aircraft	5%
Aircraft spares	10%
Aircraft establishment costs	20%
Aircraft components (included as part of aircraft)	Based on expected total flying hours
Motor vehicles	20%
Plant and equipment	10% - 30%

(iv) Revaluation

Aircraft and land and buildings are shown at fair value, based on valuations by an external independent valuer. The fair values are recognised in the financial statements of the Company. Depreciation for the year, based on the prior years valuation is taken to profit or loss.

Any revaluation increase arising on the revaluation of assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of assets is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve, is transferred directly to retained earnings.

(c) Aircraft / engine overhaul

For owned aircraft, costs incurred in respect of heavy maintenance and overhaul of aircraft engines and airframes are capitalised and depreciated over the period to the next scheduled maintenance. Other non-heavy maintenance and overhaul costs are charged to the profit or loss on consumption or as incurred.

Maintenance checks, which are covered by third party maintenance agreements where there is a transfer of risk and legal obligation, are expensed on the basis of hours flown.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(d) Investment property

Investment property is property held to earn rental income. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property is recognised in profit or loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(e) Financial instruments

(i) Non-derivative financial assets

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date which is the date the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: loans and receivables and held to maturity financial assets.

<u>Loans and receivables</u>

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables and deposits.

<u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash on hand, cash at bank and bank overdraft for the purposes of the statement of cash flows.

<u>Held to maturity financial assets</u>

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held to maturity. Held to maturity financial assets comprises of term deposits.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Non-derivative financial liabilities
All financial liabilities are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise borrowings, trade payables, other payables, accrued expenditure and statutory liabilities.

(iii) Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(f) Leases
Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Company's statement of financial position. Operating lease payments are recognised in profit or loss on a straight line basis over the term of the lease.

(g) Inventories
Inventories are measured at the lower of cost and net realisable value. The cost of inventory is based on the weighted average cost principle.

(h) Receivables
Receivables are recognised and carried at original invoice amount less impairment losses.

(i) Impairment

(i) Non-derivative financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(i) Impairment (continued)

(i) Non-derivative financial assets (continued)

Objective evidence that financial assets are impaired include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise or indications that a debtor will enter bankruptcy.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

(i) Defined contribution plan

Contributions are paid on behalf of employees to secure retirement benefits to the Solomon Islands National Provident Fund for local employees or to the respective superannuation scheme in the country of overseas based employees. Costs are recognised within the profit or loss.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in profit or loss as the related service is provided.

A liability is recognised for the amount to be paid under short-term benefits if the Company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

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3. Significant accounting policies (continued)

(k) Trade payables, other payables and accrued expenditure

Trade and other payables are stated at cost. A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Revenue and other income

(i) Passenger and cargo revenue

Passenger and cargo revenue is measured at the fair value of the consideration received, net of sales discount, passenger and freight interline / IATA commission. Agency commission paid by the Company are included in selling and marketing expense. Passenger and cargo revenue is recognised when passengers and cargo are uplifted. Unused tickets are recognised as revenue in profit or loss after 12 months from the ticket flight date. Revenue from ancillary passenger revenue, excess baggage, ticket cancellation fees and air charter revenue is recognised as revenue when the services are provided. Receipts for advance passenger ticket and freight sales which have not been availed or recognised as revenue are deferred on the balance sheet as revenue received in advance.

(ii) Traffic income

Traffic income relates to ground handling services provided by the Company to other airlines that land in Solomon Islands. This is based on fixed contracts with the respective airlines and is recognised when services are provided.

(iii) Community service obligation (CSO) subsidy

CSO subsidy represents subsidy received from the government for operation of outer island airports. The income is recognised in profit or loss when government approves the subsidy and a contract is signed.

(m) Deposits

Deposits are recorded at cost.

(n) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(o) Assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Company's accounting policies. Thereafter, generally the assets are measured at the lower of their carrying amount or fair value less costs to sell.

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3. Significant accounting policies (continued)

(n) Income tax (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Finance income and expenses

Finance income and expenses comprise interest income on term deposits, interest expense on borrowings, bank overdraft, and statutory liabilities, and foreign exchange gains and losses. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Borrowing costs are recognised in the profit or loss using the effective interest method. Foreign currency gains and losses on financial assets and liabilities are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are available for early adoption but have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements, except for IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

IFRS 9 becomes mandatory for the Company effective 1 January 2018 and could change the classification and measurement of financial assets.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The standard will provide a single source of requirements for accounting for all contracts with customers (except for some specific exceptions, such as lease contracts, insurance contracts and financial instruments) and will replace all current accounting pronouncements on revenue. New revenue disclosures are also introduced.

The standard IFRS 16 removes the classification of leases, effectively treating all leases as finance leases. IFRS 16 is effective from annual periods beginning on or after 1 January 2019. The Company does not plan to adopt these standards early and the extent of the impact has not been determined.

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3. Significant accounting policies (continued)

(q) Comparative information

Changes in the classification of items presented in the statement of financial position

During the current year, the Company reclassified comparative amounts in the statement of financial position to conform to current year presentation, which resulted in $1,214,993 being reclassified from Other receivables and prepayments (refer Note 17) to Deposits (refer Note 15).

Changes in the classification of items presented in the statement of profit or loss and other comprehensive

During the current year, the Company reclassified comparative amounts in the statement of profit or loss and other comprehensive to conform to current year presentation, which resulted in the following changes:

i. rental income of $1,476,000 being reclassified from other staff related costs (refer Note 7 Staff and related costs) to premises expenses (Refer Note 10 Other expenses); and

ii. fuel surcharge of $11,453,569 being recorded as part of passenger revenue (refer Note 5).

4. Financial risk management

Overview

The Company has exposure to the following risks arising from financial instruments:

(i) Credit risk;

(ii) Liquidity risk; and

(iii) Market risk.

This note presents information about the Company's exposure to each of the above risks, and the Company's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Board of Directors have overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered.