Solomon Airlines Limited

Financial Statements

31 December 2019

Solomon Airlines Limited
Financial Statements – 31 December 2019

Contents

Directors' Report .... 1 to 3

Directors' Statement 4

Independent Auditor's Report .... 5 to 7

Statement of Profit or Loss and Other Comprehensive Income 8

Statement of Changes in Equity 9

Statement of Financial Position 10

Statement of Cash Flows 11

Notes to and Forming Part of the Financial Statements .... 12 to 47

Solomon Airlines Limited
Directors' Report
For the year ended 31 December 2019

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the company for the year ended 31 December 2019 and report as follows:

Directors

The following were directors of the company at any time during the financial year and up to the date of this report:

Chairman	-	Mr Frank Wickham (appointed February 2021)
Chairman	-	Mr Austin Leslie Holmes (resigned February 2021)
Deputy Chairman	-	Mr Robertus Franciscus Bochman
Director	-	Mr Anthony Makabo (appointed February 2021)
Director	-	Mr Bob Pollard (appointed August 2019)
Director	-	Mrs Kathy Launa Nori (resigned February 2021)
Director	-	Mr Josefa Tuamoto
Director	-	Mr Peter Sone Forau (resigned July 2020)
Director	-	Mr Masao Yamagata (retired March 2019)

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.

Trading Results

The loss for the year after income tax benefit of $9,944,503 (2018: income tax expense of $8,919,421) amounted to $39,660,625 (2018: profit of $31,353,665).

Reserves

The directors recommend that no amounts be transferred to reserves in respect of the year ended 31 December 2019.

Dividends

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

Bad and Doubtful Debts

The directors took reasonable steps before the financial statements were made out, to ascertain that all known bad debts were written off and adequate provision was made for doubtful debts. At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, inadequate to any substantial extend.

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.

Non-Current Assets

Prior to the completion of the Company's financial statements, the directors took reasonable steps to ascertain whether any non-current assets were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the company. Where necessary these assets have been written down or adequate provision has been made to bring values of such assets to an amount that they will be expected to realise.

Liabilities

Liabilities include borrowings, trade creditors and accrued expenditure and certain provisions.

Events Subsequent to Balance Date

No charge on the assets of the Company has arisen since the end of the financial period to the date of this report to secure the liabilities of any other person.

No contingent liability has arisen since the end of the financial period to the date of this report.

No contingent or other liability has become enforceable or is likely to become enforceable within a period of twelve months from the date of this report which, in the opinion of the directors, will or may affect the ability of the Company to meet its obligations when they fall due.

Going Concern

The Company had accumulated losses of $120,001,613 as at 31 December 2019 (2018: accumulated loss of $80,340,988) and recorded a loss of $39,660,625 (2018: profit of $31,353,665). This indicates that material uncertainties exist that may cast significant doubt on the Company's ability to continue as a going concern.

Impact of COVID-19

The World Health Organisation declared a pandemic in relation to the Novel Coronavirus (COVID-19) on 11 March 2020 bringing significant health impact globally. Measures taken to contain the virus are already having a significant negative economic impact on global markets including Solomon Islands major trading partners. Economic activity in Solomon Islands has also been drastically impacted with business disruptions and levels of activity already reduced in most market sectors.

There is considerable uncertainty around the possible duration of and the resulting depth of impact that may come from the disruption caused due to the fluidity of the situation. It is expected that there will be a negative impact on the operations for the company's 2020 financial year.

In addition to flight cancellations, the Company has taken urgent action to ensure that the business survives this unprecedented crisis. These include a significant (circa 20%) workforce reduction, cost and capital expenditure reductions, and financing activities. The financing activities include extension of SBD 4 million overdraft till 31 December 2020 and loan principal payment moratoriums. The Government of Solomon Islands has provided an Economic Stimulus Package of SBD20 million to the Company to meet its debt obligations, and also support towards the financial obligations of the Company as and when they fall due.

Directors and management are carefully considering the impact of the COVID-19 pandemic on the business and closely monitoring emerging risks. Directors and management believe that the company has sufficient resources to be able to successfully manage its business risks despite the current uncertain economic outlook due to the COVID-19 pandemic.

Apart from the above, no other matters or circumstances have arisen during the financial period which significantly affected the operations of the Company.

Solomon Airlines Limited
Directors' Report (continued)
For the year ended 31 December 2019

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 financial statements misleading.

Unusual / Significant Transactions

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.

Directors Benefits

No director of the Company has, since the end of the previous financial period, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors as shown in the company financial statements) by reason of any contracts made by the company with the director or with a firm of which he is a member, or with a Company in which he has substantial financial interest.

Related Party Transactions

In opinion of the directors all related party transactions have been adequately recorded in the books of the company and reflected in the attached financial statements.

Signed in accordance with a resolution of the directors this 1st day of December 2021.

For and on behalf of the Board,

....
Director

....
Director

Solomon Airlines Limited
Directors' Statement
For the year ended 31 December 2019

In the opinion of the directors:

(a) the accompanying statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the company for the year ended 31 December 2019;

(b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of the company's affairs as at 31 December 2019;

(c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in shareholders' funds for the year ended 31 December 2019;

(d) the accompanying statement of cash flows 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 2019;

(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.

For and on behalf of the Board of Directors by authority of a resolution of the Directors, this 1st day of December 2021.

Director

Director

Solomon Islands
Office of the Auditor-General

Independent Auditor's Report to the Board of Directors of Solomon Airlines Limited

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of Solomon Airlines Limited (the Company) which comprise the statement of financial position of the Company as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit* of the Financial Statements section of my report. I am independent of the Company in accordance with International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, and the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material Uncertainty Related to Going Concern

Attention is drawn to Note 2(a) of the financial statements which highlights that the Company has incurred a loss of $39,660,625 for the year ended 31 December 2019 and it places on-going reliance on the Solomon Islands Government for financial support to continue its operations. This indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management and directors are responsible for the other information. The other information comprises the information included in the Company's Annual Report for the year ended 31 December 2019, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard except that not all other information was available to me at the date of my signing.

Independent Auditor's Report to the Board of Directors of Solomon Airlines Limited

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Management and Directors for the Financial Statements

The management and directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and the requirements of the Solomon Islands Companies Act 2009 and for such internal control as the management and directors determine 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 and directors are 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 and directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I 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 my 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 and directors.
- Conclude on the appropriateness of the management and 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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's 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.

Independent Auditor's Report to the Board of Directors of Solomon Airlines Limited

Report on the Audit of the Financial Statements (Continued)

I 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 I identify during my audit.

I also provide those charged with governance with a statement that I 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 my independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

In my opinion the financial statements have been prepared in accordance with the requirements of the Solomon Islands Companies Act, 2009, in all material respects, and;

- I have been given all information, explanations and assistance necessary for the conduct of the audit; and
- The Company has kept financial records sufficient to enable the financial statements to be prepared and audited.
- The Company has not complied with the requirement of the State Owned Enterprises Act 2007 which require the audited financial statements to be submitted to the Minister before 31 March of the following year to which the financial statements relate. The process was delayed due to the timing of my appointment as Auditor-General. The signed statements were presented to me on 1 December 2021 following my commencement as Auditor-General on 24 September 2021.

David Dennis
Auditor-General
1 December 2021

Office of the Auditor-General
Honiara, Solomon Islands

Solomon Airlines Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

	Notes	2019 $	2018 $
Revenue	4	306,876,624	285,034,542
Other income	5	9,310,172	8,957,395
Total operating revenue		316,186,796	293,991,937
Staff and related costs	10	(82,810,106)	(66,763,535)
Operations	6	(90,826,446)	(92,370,041)
Selling and marketing expenses	7	(5,007,470)	(5,123,854)
Fuel		(69,734,650)	(63,455,516)
Depreciation - aircraft, property, plant and equipment	20	(18,007,137)	(14,192,628)
Depreciation - right-of-use assets	29(a)	(6,104,503)	-
Other expenses	8	(52,806,175)	(44,204,628)
Forgiveness of tax debt	26	-	39,241,309
Impairment (allowance) / reversal for financial assets	3(i)	(2,581,255)	1,948,567
Impairment loss on aircraft, property, plant and equipment	9	(34,345,585)	-
Total operating expenses		(362,223,327)	(244,920,326)
(Loss) / profit from operations		(46,036,531)	49,071,611
Finance expenses - net	11	(3,568,597)	(8,798,525)
Operating (loss) / profit before income tax		(49,605,128)	40,273,086
Income tax credit / (expense)	12(a)	9,944,503	(8,919,421)
(Loss) / profit after income tax		(39,660,625)	31,353,665
Other comprehensive 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	27(c)	(1,721,559)	-
Total comprehensive (loss) / profit for the year		(41,382,184)	31,353,665

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Solomon Airlines Limited
Statement of Changes in Equity
For the year ended 31 December 2019

	Notes	Share capital $	Revaluation reserve $	Accumulated losses $	Total $
Balance at 1 January 2018	27(b)	78,809,801	34,251,494	(111,694,653)	(1,366,642)
Comprehensive income for the year					
Net profit for the year		-	-	31,353,665	31,353,665
Total comprehensive income for the year		-	-	31,353,665	31,353,665
Transactions with owners of the company					
Issue of ordinary shares		-	-	-	-
Total transactions with owners of the company		-	-	-	-
Balance at 31 December 2018	27(b)	78,809,801	34,251,494	(80,340,988)	32,720,307
Comprehensive income for the year					
Net loss for the year		-	-	(39,660,625)	(39,660,625)
Other comprehensive income for the year					
Loss on valuation – (net of tax)	27(c)	-	(1,721,559)	-	(1,721,559)
Total comprehensive profit for the year		-	(1,721,559)	(39,660,625)	(41,382,184)
Transactions with owners of the company					
Issue of ordinary shares		-	-	-	-
Total transactions with owners of the company		-	-	-	-
Balance at 31 December 2019	27(b)	78,809,801	32,529,935	(120,001,613)	(8,661,877)

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Solomon Airlines Limited
Statement of Financial Position
As at 31 December 2019

	Notes	2019 $	2018 $
ASSETS			
Non-Current Assets			
Aircraft, property, plant and equipment	20	94,106,842	159,153,360
Right-of-Use Asset	29(a)	6,506,239	-
Deposits	15	8,324,325	6,176,051
Total non-current assets		108,937,406	165,329,411
Current Assets			
Cash and cash equivalents	13	9,673,714	12,317,330
Term deposits	14	958,533	740,922
Deposits	15	11,694,832	2,456,028
Trade receivables	16	11,738,457	13,853,563
Other receivables and prepayments	17	3,352,721	8,309,382
Inventories	18	5,385,346	3,914,681
Assets held for sale	19	21,024,590	2,257,281
Total current assets		63,828,193	43,849,187
Total Assets		$172,765,599	$209,178,598
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	27(b)	78,809,801	78,809,801
Revaluation reserve	27(c)	32,529,935	34,251,494
Accumulated losses		(120,001,613)	(80,340,988)
Total capital and reserves		(8,661,877)	32,720,307
Non-Current Liabilities			
Deferred tax liability	12(c)	2,168,379	12,850,692
Employee benefits	25	14,511,613	11,538,782
Lease liabilities	29(b)	3,223,884	-
Total non-current liabilities		19,903,876	24,389,474
Current Liabilities			
Bank overdraft	13	3,206,210	2,397,433
Borrowings	22	37,052,420	42,023,098
Lease liabilities	29(b)	3,352,727	16,548,592
Revenue received in advance	33	45,727,874	41,752,526
Trade, other payables and accrued expenditure	24	66,739,336	43,190,162
Employee benefits	25	5,445,033	6,157,006
Total current liabilities		161,523,600	152,068,817
Total Liabilities		181,427,476	176,458,291
Total Equity and Liabilities		$172,765,599	$209,178,598

The above statement of financial position should be read in conjunction with the accompanying notes.

Signed on behalf of the Board.

....
Director

....
Director

Solomon Airlines Limited
Statement of Cash Flows
For the year ended 31 December 2019

	Notes	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers		315,837,322	286,113,870
Payments to suppliers and employees		(285,604,777)	(238,941,867)
Cash generated from operations		30,232,544	47,172,003
Interest received		28,010	129,249
Interest paid		(170,171)	(8,927,774)
Statutory liabilities paid		-	6,970,510
Net cash generated from operating activities		30,090,384	45,343,988
Cash flows from investing activities			
Acquisition of property, plant and equipment	20	(4,047,038)	(64,114,031)
Proceeds from withdrawal of term deposits		-	28,813
Proceeds from disposal of aircraft, property, plant and equipment		73,606	15,000
Proceeds from sale of asset held for sale		2,049,180	-
Net cash used in investing activities		(1,924,252)	(64,070,218)
Cash flows from financing activities			
Proceeds from additional loan		-	20,000,000
Principal element of repayments of borrowings		(4,970,678)	(12,050,840)
Interest element of repayment of borrowings		(2,930,036)	-
Principal elements of lease payments		(5,745,114)	-
Interest elements of lease payments		(826,863)	-
Payment of finance lease liabilities		(16,548,592)	-
Net cash (used in) / generated from financing activities		(31,021,283)	7,949,160
Net (decrease) / increase in cash and cash equivalents		(2,855,151)	(10,777,070)
Cash and cash equivalents at 1 January		9,919,897	20,495,387
Effect of IFRS 9 adjustments to cash and cash equivalents		(597,242)	201,580
Cash and cash equivalents at 31 December	13	$6,467,504	$9,919,897

The above statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. GENERAL INFORMATION

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 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 authorised for issue by the board of directors on 1st December 2021.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Solomon Islands Companies Act, 2009. The financial statements comply with the International Financial Reporting Standards (IFRS) that were issued and effective at the time of preparing these statements.

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

Going Concern

The Company had accumulated losses of $120,001,613 as at 31 December 2019 (2018: accumulated loss of $80,340,988) and recorded a loss of $39,660,625 (2018: profit of $31,353,665). This indicates that material uncertainties exist that may cast significant doubt on the Company's ability to continue as a going concern.

Impact of COVID-19

The World Health Organisation declared a pandemic in relation to the Novel Coronavirus (COVID-19) on 11 March 2020 bringing significant health impact globally. Measures taken to contain the virus are already having a significant negative economic impact on global markets including Solomon Islands major trading partners. Economic activity in Solomon Islands has also been drastically impacted with business disruptions and levels of activity already reduced in most market sectors.

There is considerable uncertainty around the possible duration of and the resulting depth of impact that may come from the disruption caused due to the fluidity of the situation. It is expected that there will be a negative impact on the operations for the company's 2020 financial year.

In addition to flight cancellations, the Company has taken urgent action to ensure that the business survives this unprecedented crisis. These include a significant (circa 20%) workforce reduction, cost and capital expenditure reductions, and financing activities. The financing activities include extension of SBD4 million overdraft till 31 December 2020 and loan principal payment moratoriums. The Government of Solomon Islands has provided an Economic Stimulus Package of SBD20 million to the Company to meet its debt obligations, and also support towards the financial obligations of the Company as and when they fall due.

Directors and management are carefully considering the impact of the COVID-19 pandemic on the business and closely monitoring emerging risks. Directors and management believe that the company has sufficient financial resources to be able to successfully manage its business risks despite the current uncertain economic outlook due to the COVID-19 pandemic.

Apart from the above, no other matters or circumstances have arisen during the financial period which significantly affected the operations of the Company.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of Preparation (continued)

(i) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

IFRS 16 'Leases'

IFRS 16 'Leases' is applicable for annual reporting periods beginning on or after 1 January 2019.

Previously, leases in which substantially all the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. Leases of property, plant and equipment where the company had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment was apportioned between the liability and finance charges using the effective interest method. Rental obligations, net of finance charges, were included in borrowings in the statement of financial position. The property, plant and equipment acquired under finance leases was depreciated over the shorter of the useful life of the asset and the lease term.

From 1 January 2019, all leases are now accounted for in accordance with the policy set out in Note 2(h). In accordance with the transition provisions of IFRS 16, the company has elected to apply the simplified approach to adopting the new rules retrospectively with the cumulative effect of initially applying the standard recognised as at 1 January 2019. Comparatives for the year ended 31 December 2019 have not been restated.

On adoption the company has recognised lease liabilities in respect of leases previously classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the company's incremental borrowing rate as at 1 January 2019. The lease liability recognised as at 1 January 2019 was $12,321,725 as set out below. The associated right-of-use assets have been recognised at an equivalent amount (note 29(a)), and accordingly there was no adjustment required to retained earnings as at 1 January 2019.

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of right-of-use assets as at 1 January 2019;
- single discount rate is applied 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.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application.

Reconciliation for the differences between operating lease commitments disclosed as at 31 December 2018 and lease liabilities recognised at date of initial application at 1 January 2019 is as follows:

	$
Operating lease commitments disclosed as at 31 December 2018	11,495,030
Discounted at the incremental borrowing rate	12,002,553
Add / (less): contracts reassessed as lease contracts	319,172
Lease liabilities recognised as at 1 January 2019	(12,321,725)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of Preparation (continued)

(i) New and amended standards adopted by the Company (continued)

IFRS 16 'Leases' (continued)

The following table summarises the impact of adopting IFRS 16 on the company's balance sheet. There was no material impact on the company's statement of profit and loss and other comprehensive income and statement of cash flows for the period ended 31 December 2018.

Line items that were not affected by the changes have not been included:

Statement of financial position (extract)	**31 December 2018**	**IFRS 16**	**1 January 2019**
	$	**$**	**$**
Assets			
Right-of use-asset (note 29(a))	-	12,418,117	12,418,117
Liabilities			
Lease liabilities (note 29(b))	-	(12,321,725)	(12,321,725)

There was no impact on the company's retained earnings on adoption of IFRS 16 as at 1 January 2019

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2019 and not early adopted.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. The Company is yet to assess the impact of these standards and intends to adopt the standard no later than the accounting period in which it becomes effective.

Topic	**Key Requirements**	**Effective Date**
Amendments to IAS 1 and IAS 8 on the definition of material	These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates, and errors', and consequential amendments to other IFRSs: i) Use a consistent definition of materiality throughout the IFRSs and the Conceptual Framework for Financial Reporting; ii) Clarify the explanation of the definition of material; and iii) Incorporate some of the guidance in IAS 1 about immaterial information.	Annual periods beginning on or after 1 January 2020.
Revised Conceptual Framework for Financial Reporting	The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include: i) increasing the prominence of stewardship in the objective of financial reporting ii) reinstating prudence as a component of neutrality iii) defining a reporting entity, which may be a legal entity, or a portion of an entity iv) revising the definitions of an asset and a liability v) removing the probability threshold for recognition and adding guidance on derecognition vi) adding guidance on different measurement basis, and vii) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.	Annual periods beginning on or after 1 January 2020.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the company's are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Solomon dollars, which is the company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to exercise judgments, use of certain accounting 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 2(k)	-	Recoverability of trade receivables and other receivables
Note 2(d)	-	Aircraft, property, plant and equipment (Revaluation & Depreciation)
Note 2(n)	-	Revenue in advance
Note 2(l)	-	Employee benefits
Note 2(q)	-	Recoverability of tax losses and deferred tax assets
Note 2(h)	-	Lease liability
Note 2(i)	-	Net realisable value of inventory

d) Aircraft, property, plant and equipment

(i) Recognition and measurement

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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) 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, 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 year's 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.

e) 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.

f) Investment property

Management had repossessed the property at Point Cruz used as an investment property during 2018 financial year and reclassified as property, plant and equipment, its fair value at the date of reclassification became its cost for subsequent accounting.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and measurement

Financial asset

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial Assets: Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

(ii) Classification and measurement (continued)

Financial asset (continued)

Financial Assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Financial Assets: Subsequent measurement and gains and loss

Financial assets that are measured at amortised costs are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial Liabilities

Financial liabilities are classified and measured at amortised cost or FVTPL. A financial liability is classified at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit and loss. Any gains or loss on derecognition is also recognised in profit or loss.

(i) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

Financial Liabilities (continued)

(i) Derecognition (continued)

Financial assets (continued)

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(ii) Offsetting

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

(iii) Share capital

Ordinary shares are classified as equity.

h) Leases

Policy applicable from 1 January 2019

As a lessee

Right-of-use assets and lease liabilities arising from lease contracts are initially measured on a present value basis. Lease liabilities include the present value of all fixed payments (less any lease incentives receivable), variable lease payments that are based on an index or rate, any amounts expected to be paid under residual value guarantees, the exercise price of any purchase options that are reasonably certain to be exercised and any payments for terminating a lease if the lease term reflects the exercise of that termination option. The lease payments are discounted using the discount rate implicit in the lease, if that rate can be determined, or the company's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short term leases of 12 months or less and leases of low value assets are recognised as an expense on a straight line basis. Variable lease payments that are not based on an index or rate are recognised as an expense as incurred.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Leases (continued)

Policy applicable from 1 January 2019 (continued)

As a lessee (continued)

Right-of-use assets are initially measured at cost, comprising the amount on initial recognition of the lease liability plus any lease payments made before commencement of the lease, any initial direct costs and the estimated costs of any restoration required upon completion of the lease contract. Right-of-use assets are subsequently measured at cost less depreciation and any impairment. Right-of-use assets are depreciated on a straight line basis over the shorter of the term of the lease and the asset's useful life, unless there is a purchase option which is reasonably certain of being exercised, in which case the asset will be depreciated over its useful life. The remaining term of lease over which right-of-use assets are depreciated (including extension options) are as follows:

Aircraft	1 to 3 years
Motor Vehicle	2 to 3 years
Rental Space	2 years

Critical judgements in the application of the new standard

The company has entered into land leases for its operations. Management applied judgment in selecting an appropriate rate to discount the remaining future lease payments when determining lease liabilities under IFRS 16.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the company's incremental borrowing rate as of 1 January 2019. The incremental borrowing rate is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

Determining the incremental borrowing rate (IBR)

The company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflective of what the company 'would have to pay', which requires estimation when no observable rates is available or when they need to be adjusted to reflect the terms and conditions of the lease. The company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates. The company has used an IBR based on its current debt facility with the banks in Solomon Islands, which averages 10.92%.

As a lessor

When the company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the company applies IFRS 15 to allocate the consideration in the contract.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Leases (continued)

Policy applicable from 1 January 2019 (continued)

As a lessor (continued)

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application. Under IFRS 16, the Company is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. The Company does not have any sub-lease contracts.

Policy applicable up to 1 January 2019

As a lessee

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost.

The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The aircraft, property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventory is based on the first in first out principle.

j) Receivables

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Impairment

(i) Non-derivative financial assets

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost. The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12 month ECL:

- cash at bank, term deposits and other receivables balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.
- Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers another receivable or cash balance to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Company considers this to be Baa3 or a higher rating per Moodys or BBB- or higher per Moodys.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.12 month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flow due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Credit-impaired financial assets

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that it would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Impairment (continued)

(i) Non-derivative financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(ii) Other employee benefits

Other employee benefits include long service leave and retirement gratuity to its employees. The entitlement to this benefit is conditional on completion of a minimum service period and the employee remaining in service up to the retirement age. A liability for long service leave and retirement gratuity is calculated as the present value of expected future payments to be made in respect of services provided by the employees at the balance sheet date. This is adjusted for employee departure trends and appropriate inflation and discount rate. The accruals are divided into current (expected to be paid in the ensuing twelve months) and non-current portions.

m) 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.

n) Revenue from contracts with customers and other income

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when its transfers control over a service to a customer.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Revenue from contracts with customers and other income (continued)

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers.

Services	**Nature, timing of satisfaction of performance obligations and significant payment terms**	**Revenue recognition under IFRS 15**
Passenger and cargo revenue	Passenger tickets and Cargo freights are sold at all Solomon Airline's sales Offices. The customer pays for passenger air tickets and cargo consignment notes for domestic cargo & airway bills for International cargo. Performance obligation is satisfied when the customer or cargo are uplifted. At this point, the revenue is recognised.	Revenue is recognised when the service is provided in this case uplifting of passengers and cargo.
Traffic income	Solomon Airlines provide ground handling services for other airlines operating at the Henderson International terminal. Performance obligation is satisfied when the customer is issued with a receipt for the service. At this point, the revenue is recognised.	Revenue is recognised on performance of service.
Community service obligation (CSO)	Solomon Airlines provides services to some uneconomical routes with Solomon Islands Government subsidy through an agreement.	Revenue is recognised on signing of an agreement.

o) Finance income

Finance income comprises of interest income on cash held at bank and realised foreign exchange gain. Unrealised exchange gain and losses 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 loss position.

p) Deposits

Deposits are recorded at cost.

q) 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.

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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Income tax (continued)

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.

r) 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 re-measured in accordance with the Company's accounting policies. Thereafter, generally the assets are measured at the lower of their carrying amount or fair value to sell.

s) 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.

Note 3. 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.

Note 3. FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Trade and other receivables (continued)

The Company establishes an allowance for impairment that represents its estimate of possible losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for similar assets in respect of loss exposures but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date were as follows:

	2019 $	2018 $
Cash at bank	10,231,914	12,477,213
Trade receivables	11,738,457	13,853,563
Deposits	20,019,157	8,632,079
Other receivables (excluding prepayments)	1,099,505	434,980
Term deposits	958,533	740,922
	44,047,566	36,138,757

Expected credit losses assessment as at 1 January 2019 and 31 December 2019:

Trade Receivable

The company uses an allowance matrix to measure the ECLs of trade receivable from individual customers, which comprise a small number of customers. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. On application of IFRS 9, the Company recognised $Nil impairment allowance as at 1 January 2019 as the company does not consider the impairment allowance to be material and the same applied as at 31 December 2019.

Cash at Bank

The company held cash of $10.23 million (2018: $12.48 million). Cash at bank have been measured based on credit ratings as per the Standard and Poors, and Moody's ratings. Impairment on cash at bank has been measured on the 12 month expected loss basis and reflects short term maturities of the exposures. The Company considers that its cash have high credit ratings of the counterparties. On application of IFRS 9, the Company recognised $201,754 impairment allowance as at 1 January 2019 as the Company considers the impairment allowance to be material. The amount of the allowance changed during 2019 to that of $597,242.

Term deposit

The Company held term deposit of $958,533 (2018: $740,922). Term deposits have been measured based on credit ratings of banks and financial institutions as per Standard and Poors and Moody's ratings. Impairment on term deposits has been measured on the 12 month expected loss basis and reflects short term maturities of the exposures. The Company considers that its term deposits have high credit ratings of the counterparties. On application of IFRS 9, the Company recognised $4,024 impairment allowance as at 1 January 2019 as the Company considers the impairment allowance to be material. The amount of the allowance changed during 2019 to that of $1,883.

Note 3. FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Deposits

Impairment has been measured on the 12 month expected loss basis and reflects short term turn over. On application of IFRS 9, the Company recognised $152,166 impairment allowance as at 1 January 2019 as the company considers the impairment allowance to be material. The amount of the allowance changed during 2019 to that of $563,128.

Movement of impairment allowance for financial assets:

	2019	2018
	$	$
Cash and cash equivalents	395,488	92,957
Term deposits	(2,141)	(12)
Deposits	410,962	(23,910)
Trade receivable - provision made / (utilised)	705,204	180,423
- remeasurement of allowance	1,071,742	(2,198,025)
	2,581,255	(1,948,567)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company has bank overdraft facilities available.

The following are the contractual maturities of financial liabilities:

31 December 2019	Carrying amount	Contractual cash flows	0 – 1 years	1 – 2 years	More than 2 years
	$	$	$	$	$
Financial liabilities					
Borrowings	37,052,420	37,052,420	37,052,420		-
Trade, other payables and accrued expenditure	66,739,336	66,739,336	66,739,336	-	-
Bank overdraft	3,206,210	3,206,210	3,206,210	-	-
Lease Liabilities	6,576,611	6,576,611	3,352,727	3,223,884	-
At 31 December 2019	113,574,577	113,574,577	110,350,693	3,223,884	-

Note 3. FINANCIAL RISK MANAGEMENT (continued)

(ii) Liquidity risk (continued)

31 December 2018	Carrying amount $	Contractual cash flows $	0 – 1 years $	1 – 2 years $	More than 2 years $
Financial liabilities					
Borrowings	42,023,098	42,023,098	42,023,098	-	-
Trade, other payables and accrued expenditure	43,190,162	43,190,162	43,190,162	-	-
Bank overdraft	2,397,443	2,397,443	2,397,443	-	-
Lease Liabilities	16,548,592	16,548,592	16,548,592	-	-
At 31 December 2018	104,159,295	104,159,295	104,159,295	-	-

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(a) Currency risk

The Company is exposed to foreign currency risks on revenue, expenses and borrowings that are denominated in a currency other than the Solomon Island Dollar. The Company has AUD, NZD, USD, PGK and FJD bank accounts which it uses to manage foreign currency exposures.

As at year end, assets and liabilities denominated in foreign currencies include cash at bank, trade receivables, deposits and trade and other payables. Significant foreign exchange exposures are as follows:

31 December 2019

Original currency	USD SBD $	AUD SBD $	FJD SBD $	NZD SBD $	PGK SBD $
Financial assets					
Deposits	19,809,586	-	-	-	-
Cash at bank	3,660,762	951,999	325,873	1,080,662	362,253
Trade receivables	1,105,016	1,819,375	-	-	-
Other receivables	306,169	1,065,098	128,955	106,575	-
Term deposits	-	717,916	-	-	-
	24,881,533	4,554,388	454,828	1,187,237	362,253
Financial liabilities					
Trade and other payables and accrued expenditure	(4,834,089)	(7,538,097)	(1,613,493)	(44,940)	-
	(4,834,089)	(7,538,097)	(1,613,493)	(44,940)	-
Net exposure	20,047,444	(2,983,709)	(1,158,665)	1,142,297	362,253

Note 3. FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risk (continued)

(a) Currency risk (continued)

31 December 2018

Original currency	USD SBD $	AUD SBD $	FJD SBD $	NZD SBD $	PGK SBD $
Financial assets					
Deposits	7,405,118	-	-	-	-
Cash at bank	2,491,675	1,046,580	1,976,006	331,556	184,087
Trade receivables	2,141,435	982,565	-	-	-
Other receivables	5,416,163	223,729	18,833	3	-
Term deposits	-	504,116	-	-	-
	17,454,391	2,756,990	1,994,839	331,559	184,087
Financial liabilities					
Trade and other payables and accrued expenditure	(4,070,426)	(9,876,828)	(740,963)	(51,884)	-
	(4,070,426)	(9,876,828)	(740,963)	(51,884)	-
Net exposure	13,383,965	(7,119,838)	1,253,876	279,675	184,087

A strengthening of the Solomon Island Dollar as indicated below against USD, AUD, FJD, NZD and PGK at 31 December would have increased / (decreased) profit after tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. This assumes that all other variables remain constant.

	2019 $	2018 $
Financial assets		
Impact on profit/loss after tax if 10% increase in USD fx rate against SBD	2,488,153	1,745,439
Impact on profit/loss after tax if 10% decrease in USD fx rate against SBD	(2,488,153)	(1,745,439)
Impact on profit/loss after tax if 10% increase in AUD fx rate against SBD	455,439	275,699
Impact on profit/loss after tax if 10% decrease in AUD fx rate against SBD	(455,439)	(275,699)
Impact on profit/loss after tax if 10% increase in FJD fx rate against SBD	45,483	199,484
Impact on profit/loss after tax if 10% decrease in FJD fx rate against SBD	(45,483)	(199,484)
Impact on profit/loss after tax if 10% increase in NZD fx rate against SBD	118,724	33,156
Impact on profit/loss after tax if 10% decrease in NZD fx rate against SBD	(118,724)	(33,156)
Impact on profit/loss after tax if 10% increase in PGK fx rate against SBD	36,225	18,409
Impact on profit/loss after tax if 10% decrease in PGK fx rate against SBD	(36,225)	(18,409)

Note 3. FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risk (continued)

(a) Currency risk (continued)

	2019 $	2018 $
Financial liabilities		
Impact on profit/loss after tax if 10% increase in USD fx rate against SBD	(483,409)	(407,043)
Impact on profit/loss after tax if 10% decrease in USD fx rate against SBD	483,409	407,043
Impact on profit/loss after tax if 10% increase in AUD fx rate against SBD	(753,810)	(987,683)
Impact on profit/loss after tax if 10% decrease in AUD fx rate against SBD	753,810	987,683
Impact on profit/loss after tax if 10% increase in FJD fx rate against SBD	(161,349)	(74,096)
Impact on profit/loss after tax if 10% decrease in FJD fx rate against SBD	161,349	74,096
Impact on profit/loss after tax if 10% increase in NZD fx rate against SBD	(4,494)	(5,188)
Impact on profit/loss after tax if 10% decrease in NZD fx rate against SBD	4,494	5,188
Impact on profit/loss after tax if 10% increase in PGK fx rate against SBD	-	-
Impact on profit/loss after tax if 10% decrease in PGK fx rate against SBD	-	-

(b) Interest rate risk

Interest rate refers to the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the reporting date the interest rate profile of the Company's interest bearing financial instruments were as follows:

	2019 $	2018 $
Fixed rate instruments		
Term deposits	958,533	740,992
Variable rate instruments		
Borrowings	37,052,420	42,023,098
Bank overdraft	3,206,210	2,397,433
Lease liabilities	3,352,727	16,548,592
	43,611,357	60,969,123
Sensitivity analysis on variable rate instruments A 1% change in interest rate would have the following impact	436,114	609,691

(c) Fuel price risk

The Company purchases its fuel at market price. The Company is exposed to fuel price risk through world fuel price fluctuations. An increase / decrease of 10% on the global fuel prices as at 31 December with all other variables constant would have the following impact on profit or loss before tax.

	Profit or loss impact (increase) / decrease	
	2019 $	2018 $
10% increase in fuel price	(6,973,465)	(6,347,022)
10% decrease in fuel price	6,973,465	6,347,022

Fuel price risk is mitigated as the Company monitors fuel prices monthly to see if fuel surcharges need adjusting.

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2019 (continued)

Note 4. REVENUE

	2019 $	2018 $
Passenger revenue	236,397,097	217,898,655
Cargo and mail revenue	17,692,492	16,062,802
Charter revenue	19,359,335	12,247,077
Excess baggage	3,726,632	5,566,166
Traffic income	16,775,735	17,366,984
Revenue from unused tickets and cargo manifests	12,925,333	15,892,858
	306,876,624	285,034,542

Note 5. OTHER INCOME

	2019 $	2018 $
Ticket cancellation fees	2,948,509	2,864,102
Rental income	1,687,271	2,148,000
Community service obligation (CSO) subsidy	3,800,000	2,766,000
Departure tax on unused tickets	1,920	391,103
Proceeds from insurance claim	42,126	10,323
Other income	830,346	777,867
	9,310,172	8,957,395

Note 6. OPERATING EXPENSES

	2019 $	2018 $
Aircraft lease	4,130,332	31,210,749
Airport navigation charges	6,595,913	4,216,166
Catering	6,915,189	6,320,486
Engineering and maintenance	53,099,276	32,807,345
Ground handling	8,467,516	7,941,191
Insurance – aircraft	4,840,814	3,953,581
Passenger disruption costs	1,473,794	845,936
Other operational costs	5,303,612	5,074,587
	90,826,446	92,370,041

Note 7. SELLING AND MARKETING EXPENSE

	2019 $	2018 $
Advertising	1,186,201	1,006,529
Agents commission	3,821,269	4,117,325
	5,007,470	5,123,854

Note 8. OTHER EXPENSES

	2019 $	2018 $
Accounting and audit fees	2,101,884	1,414,252
Bad and doubtful debts	(105,204)	1,641,939
Bank charges	1,365,768	954,523
Computer and communications	11,597,295	10,214,009
Consultancy	5,173,717	6,392,412
Directors fees	232,202	162,211
Freight and courier	3,693,703	2,194,801
Insurance - others	729,188	591,416
Motor vehicle expenses	2,380,296	3,337,107
Others	5,545,943	6,554,779
Premises expenses	9,454,762	9,333,291
Printing and stationery	1,740,352	1,437,324
Loss / (gain) on disposal of aircraft, property, plant & equipment	8,896,269	(23,436)
	52,806,175	44,204,628

Note 9. IMPAIRMENT LOSS ON AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT

	2019 $	2018 $
Impairment on Aircraft – A320 MSN 302 (H4-BUS)	31,740,388	-
Impairment on A320 Spares parts held in Brisbane	2,605,197	-
	34,345,585	-

An agreement was reached in December 2019 where HESTON MRO agreed to purchase A320 MSN 302 (H4-BUS) from Solomon Airlines in 2020 when it was no longer required for operations. The agreed sum was US$5m subject to the aircraft meeting certain criteria. A deposit of US$500,000 was paid to Solomon Airlines in December to remove the aircraft from the market. A further US$2m was paid at the end of January 2020 when the contract was signed with balance to be paid on acceptance of the aircraft in the USA.

The aircraft was eventually delivered to Marana Airport in Arizona on 10 February 2020. At the final inspection, HESTON MRO rejected the aircraft due to damage to both engines since the first inspection carried out on 7 December 2019. Quotes to repair the engines for resale were obtained and at the time there was strong interest from several buyers, however it was apparent that COVID-19 was rapidly gathering momentum and that the market for these engines may not exist when they had been repaired. The Board of Directors were advised of the situation and that an alternate purchaser in the form of HESTON 1 Aviation DAC (a member of the HESTON Group) that was prepared to take the aircraft as is where is for US$2.5m thus releasing the Airline from repaying the US$2.5m already received for the aircraft.

The A320 H4-BUS aircraft sale was finalised with the buyer, **HESTON 1 Aviation DAC** on 10 March 2020 for USD2.5m, therefore the aircraft was valued at SBD 2.5m and the aircraft spare parts held in Brisbane were valued at USD65k as at 31st December 2019 resulting in an asset impairment loss of SBD34.3m at the end of the financial period and the asset is being held for Sale in 2020.

Note 10. STAFF AND RELATED COSTS

	2019 $	2018 $
Wages and salaries expense – key management personnel	8,445,979	7,795,377
Wages and salaries expense – others	31,594,352	28,425,959
National Provident Fund contributions – key management personnel	736,115	584,653
National Provident Fund contributions – others	3,086,313	2,678,213
Housing and other allowances	32,350,332	19,975,729
Other staff related costs	6,597,015	7,303,604
	82,810,106	66,763,535

Note 11. FINANCE INCOME AND EXPENSES

	2019 $	2018 $
Finance Income		
Interest income	(28,010)	(129,249)
Finance Expense		
Interest expense – loans	3,318,200	3,499,094
Interest expense – overdraft	170,171	222,258
Interest expense – statutory account	1,471,602	-
Realised exchange loss	3,655,801	749,219
Unrealised exchange (gain) / loss	(5,019,167)	4,457,203
	3,596,607	8,927,774
Finance Expense – net	3,568,597	8,798,525

Note 12. INCOME TAX

		2019 $	2018 $
(a)	Income tax credit / (expense) recognised in profit or loss	(9,944,503)	8,919,421
(b)	**Reconciliation of effective tax rate**		
	Operating (loss) / profit before income tax	(49,605,128)	40,273,086
	Prima facie income tax expense calculated at 30% (2018: 30%)	(14,881,538)	12,081,926
	Non-allowable	(1,500)	(1,500)
	Tax losses recouped / derecognised	5,530,602	(3,161,005)
	Deferred tax - prior year adjustment	(592,067)	-
	Income tax (credit) / expense	(9,944,503)	8,919,421

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2019 (continued)

Note 12. INCOME TAX (continued)

(c) Recognised deferred tax liability

	2019 $	2018 $
Provision for doubtful debts – accounts receivables	2,519,375	2,477,841
Provision for doubtful debts – other receivables	-	51,110
Provision for inventory obsolescence	149,869	147,428
Unrealised exchange loss	(1,505,750)	1,337,161
Employee benefits	5,986,993	5,308,736
Cash at bank	179,173	93,165
Term deposit	565	2,418
Deposits	168,939	98,473
Statutory liabilities	-	-
Property, plant and equipment	9,827,368	(2,134,302)
Investment property	-	-
Asset revaluation reserve	(19,494,911)	(20,232,722)
	(2,168,379)	(12,850,692)

Movement in temporary differences during the year	1 January 2019 $	Recognised in income statement $	Recognised through OCI $	31 December 2019 $
ECL allowance – trade receivables	2,477,841	41,534	-	2,519,375
ECL allowance – other receivables	51,110	(51,110)	-	-
Provision for inventory obsolescence	147,429	2,440	-	149,869
Unrealised exchange loss	1,337,161	(2,842,911)	-	(1,505,750)
Employee benefits	5,308,736	678,257	-	5,986,993
Cash at bank	93,165	86,008	-	179,173
Term deposit	2,418	(1,853)	-	565
Deposit	98,473	70,466	-	168,939
Statutory liabilities	-	-	-	-
Property, plant and equipment	(2,134,303)	11,961,671	-	9,827,368
Investment property	-	-	-	-
Asset revaluation reserve	(20,232,722)	737,811	-	(19,494,911)
	(12,850,692)	10,682,313	-	(2,168,379)

Movement in temporary differences during the year	1 January 2018 $	Recognised in income statement $	Recognised through OCI $	31 December 2018 $
ECL allowance – trade receivables	2,591,571	(113,730)	-	2,477,841
ECL allowance – other receivables	165,402	(114,292)	-	51,110
Provision for inventory obsolescence	146,711	718	-	147,429
Unrealised exchange loss	(152,762)	1,489,923	-	1,337,161
Employee benefits	4,649,951	658,785	-	5,308,736
Cash at bank	32,639	60,526	-	93,165
Term deposit	1,211	1,207	-	2,418
Deposit	52,823	45,650	-	98,473
Statutory liabilities	9,681,240	(9,681,240)	-	-
Property, plant and equipment	1,583,365	(3,717,668)	-	(2,134,303)
Investment property	(2,450,700)	2,450,700	-	-
Asset revaluation reserve	(20,232,722)	-	-	(20,232,722)
	(3,931,271)	(8,919,421)	-	(12,850,692)

Note 13. CASH AND CASH EQUIVALENTS

	2019 $	2018 $
Cash on hand	39,043	41,871
Cash at bank	10,231,913	12,477,213
	10,270,956	12,519,084
Impairment allowance - cash at bank	(597,242)	(201,754)
Bank overdraft	(3,206,210)	(2,397,433)
Cash and cash equivalents for the statement of cash flows	6,467,504	9,919,897

The Company has an overdraft facility with Bank of South Pacific of $8,000,000 (2018: $4,000,000). Interest is charged on the overdraft at 9% (2018: 9% per annum).

Note 14. TERM DEPOSITS

	2019 $	2018 $
Term deposits	960,416	744,946
Impairment allowance – term deposit	(1,883)	(4,024)
	958,533	740,922

The average rate on term deposits was 0.25% (2018: 0.25%). The deposits have an average maturity of 365 days (2018: 365 days).

Note 15. DEPOSITS

	2019 $	2018 $
IATA security deposit	2,459,016	2,439,024
IATA voluntary deposit	1,448,930	2,201,866
Aircraft deposits	15,901,639	2,764,228
Other deposits	772,700	1,379,127
	20,582,285	8,784,245
Impairment allowance - deposits	(563,128)	(152,166)
	20,019,157	8,632,079

The deposits have been classified in the statement of financial position as follows:

Current	11,694,832	2,456,028
Non-current	8,324,326	6,176,051
	20,019,157	8,632,079

Note 16. TRADE RECEIVABLES

	2019 $	2018 $
Trade receivables	20,136,373	20,474,533
Provision for doubtful debts	(8,397,916)	(6,620,970)
	11,738,457	13,853,563

Note 16. TRADE RECEIVABLES (continued)

	2019 $	2018 $
Reconciliation of expected credit loss allowance		
Balance at beginning of the year as per IAS 39	6,620,970	7,000,071
Adjustment on initial application of IFRS 9	-	1,638,501
Provisions utilised during the year	-	-
	6,620,970	8,638,572
Provision made during the year	705,204	180,423
Re-measurement of loss allowance as per IFRS 9	1,071,742	(2,198,025)
Balance at 31 December	8,397,916	6,620,970

Note 17. OTHER RECEIVABLES AND PREPAYMENTS

	2019 $	2018 $
Other receivables	459,157	362,783
GST receivable	640,348	242,565
Prepayments	2,253,216	7,874,402
Provision for doubtful debts	-	(170,368)
	3,352,721	8,309,382
Reconciliation of provision for doubtful debts		
Balance at 1 January	170,368	551,341
Provision made during the year	-	-
Provisions utilised during the year	(170,368)	(380,973)
Balance at 31 December	-	170,368

Note 18. INVENTORIES

	2019 $	2018 $
Aircraft spares	5,428,980	4,044,853
Fuel	455,927	361,255
Provision for inventory obsolescence	(499,561)	(491,427)
	5,385,346	3,914,681

Note 19. ASSETS HELD FOR SALE

As 31 December 2019, assets held for sale were stated at book value and comprised of the below:

	2019 $	2018 $
Aircraft – A320 MSN 302 (H4-BUS) and Rotable Aircraft Spares held in Brisbane (2018: De Havilland Canada DHC-6-300 Twin Otter, msn442, registered as H4-SID) [previously included as part of aircraft, property, plant and equipment – note 20]	21,024,590	2,257,281
	21,024,590	2,257,281

Note 20. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT

(a) Valuation

The aircraft were revalued on 31 December 2019. The valuation was carried out by an independent valuer DavAir Group. The valuation was based on recent market activity and known transaction data relating to the aircraft types. The same valuer valued the A320 aircraft spare parts held in Brisbane. Note, as at 31st December 2019 the A320 was valued at US5m based on the offer to purchase at that time and the A320 Spares at US703,000. Subsequent events are described in note 8b.

The land and buildings were revalued in October 2015. The valuation was carried out by an independent valuer Value Solutions Appraisal. The valuation was based on the income approach method capitalising net rental income.

(b) Security

As at 31 December 2016, aircraft, property, plant and equipment were subject to a mortgage that forms security for bank loans (refer Note 22).

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2019 (continued)

NOTE 20. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (continued)

	Land & Buildings $	Aircraft $	Aircraft spares $	Aircraft establishment cost $	Motor vehicles $	Plant and equipment $	Work in Progress $	Total $
Cost / Revaluation								
Balance at 1 January 2018	37,799,471	57,539,537	29,482,203	29,327,858	2,083,968	9,203,954	162,605	165,599,596
Additions	-	55,832,904	6,794,613	-	120,016	1,017,317	349,181	64,114,031
Disposals	-	-	(7,044,642)	-	(100,102)	-	-	(7,144,744)
Reclassification from investment property (Note 20)	8,197,000	-	-	-	-	-	-	8,197,000
Reclassification to asset held for sale (Note 18)		(2,508,091)	-	-	-	-	-	(2,508,091)
Reclassification between cost and accumulated depreciation	-	2,780,500	(5,683,985)	(14,666)	872,696	2,434,203	(3)	388,745
Balance at 31 December 2018	45,996,471	113,644,850	23,548,189	29,313,192	2,976,578	12,655,474	511,783	228,646,537
Additions	143,424	15,875,716	2,065,746	-	380,000	1,457,868	-	19,922,754
Disposals	-	-	-	-	(502,533)	-	-	(502,533)
Write Off	-	(6,891,960)	(3,074,976)	-	(1,295,611)	(7,458,406)	-	(18,720,953)
Revaluation increment/decrement	-	(52,546,638)	(17,988,025)	-	-	-	-	(70,534,663)
Reclassification to asset held for sale (Note 19)	-	(20,491,803)	(532,787)	-	-	-	-	(21,024,590)
Balance at 31 December 2019	46,139,895	49,590,165	4,018,147	29,313,192	1,558,434	6,654,936	511,783	137,786,552
Breakdown of cost / revaluation								
2019 Valuation	-	49,590,165	4,018,147	-	-	-	-	53,608,312
2018 Valuation	-	-	-	-	-	-	-	-
Cost	46,139,895	-	-	29,313,192	1,558,434	6,654,936	511,783	84,178,240
Balance at 31 December 2019	46,139,895	49,590,165	4,018,147	29,313,192	1,558,434	6,654,936	511,783	137,786,552

Note 20. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (continued)

	Land & Buildings $	Aircraft $	Aircraft spares $	Aircraft establishment cost $	Motor vehicles $	Plant and equipment $	Work In Progress $	Total $
Depreciation								
Balance at 1 January 2018	4,420,144	125,404	15,163,784	28,004,130	1,926,966	6,248,283	-	55,888,711
Depreciation charge for the year	1,918,055	6,964,980	3,525,050	833,085	107,291	844,167	-	14,192,628
Accumulated depreciation on disposal	-	(250,809)	(625,995)	-	(100,102)	-	-	(976,906)
Reclassification between cost and accumulated depreciation	(74,813)	707,482	(3,984,470)	475,977	881,140	2,383,428	-	388,744
Balance at 31 December 2018	6,263,386	7,547,057	14,078,369	29,313,192	2,815,295	9,475,878	-	69,493,177
Depreciation charge for the year	2,284,335	11,256,650	2,401,080	-	164,369	1,900,702	-	18,007,136
Accumulated depreciation on disposal	-	-	-	-	(478,165)	-	-	(478,165)
Accumulated depreciation on write off	-	(456,828)	(421,209)	-	(1,295,611)	(7,439,083)	-	(9,612,731)
Offset of accumulated depreciation on revaluation	-	(18,346,879)	(15,382,828)	-	-	-	-	(33,729,707)
Balance at 31 December 2019	8,547,721	-	675,413	29,313,192	1,205,888	3,937,497	-	43,679,710
Carrying amount								
At 1 January 2018	**33,379,327**	**57,414,133**	**14,318,419**	**1,323,728**	**157,002**	**2,955,671**	**162,605**	**109,710,885**
At 31 December 2018	**39,733,085**	**106,097,793**	**9,469,820**	**-**	**161,283**	**3,179,596**	**511,783**	**159,153,360**
At 31 December 2019	**37,592,174**	**49,590,165**	**3,342,734**	**-**	**352,546**	**2,717,440**	**511,783**	**94,106,842**

Note 21. INVESTMENT PROPERTY

	2019 $	2018 $
Balance as 1 January	-	8,169,000
Transferred to aircraft, property, plant and equipment	-	(8,169,000)
Balance at 31 December	-	-

The investment property was capitalised during 2018 financial year and has since been used as a sales office.

The property was valued in October 2015 by Value Solutions Appraisal using the income approach method capitalising net rental income. Changes in fair values are recognised as gains in profit or loss and included in other income. The directors and management in consultation with independent valuers have assessed the valuation and deem that the current value is the fair value of the investment property.

Note 22. BORROWINGS

	2019 $	2018 $
Loan – Bank of South Pacific	37,052,420	42,023,098

Borrowings have been classified in the statement of financial position as follows:

	2019 $	2018 $
Current	37,052,420	42,023,098
Non-Current	-	-
	37,052,420	42,023,098

Details of the borrowings are as follows:

<u>Loan – Bank of South Pacific (BSP)</u>

The Company secured a loan from BSP to fund the purchase of aircraft. Interest is charged at the rate of 6.75% (2018: 6.75%). Repayments of $6,301,536 were made during the year. Interest is charged at the rate of 8%. Interest only repayments of $1,600,021 were made during the year. The Company was in breach of certain financial covenants as at 31 December 2019 and as a result all borrowings with BSP have now been classified as current. As of the date of this report, the Bank has not taken any action in relation to the breach as monthly repayments continue to be made.
The loan is secured as follows:

(i) First registered charge over residential properties situated at Rove, Central West Kola's ridge, West Kola's ridge, Panatina, along Tandai Highway, Henderson Airport and Gizo;
(ii) Registered equitable mortgage over the whole of Solomon Airline Limited's assets and undertakings including uncalled capital, fire policy assigned over stock, plant and machinery;
(iii) Registered equitable mortgage over the whole of Pacific Car Rentals Limited's assets and undertakings including uncalled capital;

Note 22. BORROWINGS (continued)

(iv) Registered charge over property situated at Henderson Airport and Gizo;
(v) Registered charge over commercial properties, Honiara Head Office and Gizo office;
(vi) Guarantee (unlimited as amount) by Pacific Car Rentals Limited supported by the commercial property at Henderson; and
(vii) Registered mortgage over two De Havilland Twin Otter and one Dash 8 aircraft.

Note 23. LEASE LIABILITIES

The finance lease liabilities undertaken in 2018 for A320-211 aircraft ended in September 2019. The ownership of the aircraft was passed on to Solomon Airlines Limited in October 2019 and shown in the company's fixed asset register.

	2019 $	2018 $
The future lease payments under finance leases are:		
Less than one year	-	16,878,114
Between one year and five years	-	-
Later than five years	-	-
Minimum lease payments	-	16,878,114
Deduct: future finance charges	-	(329,522)
	-	16,548,592
Represented by:		
Current	-	16,548,592
Non-current	-	-
	-	16,548,592

Note 24. TRADE, OTHER PAYABLES AND ACCRUED EXPENDITURE

	2019 $	2018 $
Trade payables	22,112,692	22,260,208
Accrued expenditure	44,626,644	20,929,954
	66,739,336	43,190,162

Note 25. EMPLOYEE BENEFITS

	2019 $	2018 $
Annual leave		
Balance at 1 January	2,745,722	2,928,284
Provisions made during the year	1,228,064	1,292,198
Provision utilised during the year	(1,521,252)	(1,474,760)
Balance at 31 December	2,452,534	2,745,722

Note 25. EMPLOYEE BENEFITS (continued)

	2019 $	2018 $
Long Service Leave		
Balance at 1 January	1,656,549	1,126,313
Provisions made during the year	573,872	530,236
Provision utilised during the year	(1,363,143)	-
Balance at 31 December	867,278	1,656,549
Retirement benefit		
Balance at 1 January	13,293,517	11,445,241
Provisions made during the year	3,343,317	1,971,919
Provision utilised during the year	-	(123,643)
Balance at 31 December	16,636,834	13,293,517
Classification in the statement of financial position is as follows:		
Current	5,445,033	6,157,006
Non-current	14,511,613	11,538,782
	19,956,646	17,695,788

The employee benefits relating to long service leave and retirement benefit came into effect in 2017.

Note 26. STATUTORY EXPENSES AND LIABILITIES

a) Statutory Liabilities

The Company was subject to a tax audit by the Inland Revenue Department (IRD) in 2014 and 2015. On 30 June 2016, a Deed of Settlement was agreed between IRD and the Company to settle disputed items in relation to non-resident withholding tax and pay-as-you-earn tax liabilities for 2008 to 2015 period amounting to $28,954,034. On this date, the company voluntarily declared statutory taxes owing to the government from the period January to June 2016 of $5,851,085 which was expensed and added to the existing statutory liability in 2016. From July 2016 onwards the Company has made eight instalment payments totaling $3,040,000, consist of interest of $2,249,596 plus a 10% deposit of $3,480,512. Interest of $6,235,788 had been accrued from July 2016 to 31 December 2017.

b) Remission and Discharge of Debt

The company had made various submissions to The CIR and MOF to seek forgiveness of the debt and interest owing to the CIR and remission of all NRWHT payments from 15 August 2017 to 14 August 2022.

The submissions were endorsed by the ICSI on 10 May 2018 and accepted by the CIR on 6 June and 6 August 2018 respectively and by the Ministry of Finance pursuant to an Exemption Order by the Minister dated 15 August 2017.

The above arrangements were then formalised under a Deed of Acknowledgement of Debt, Remission and Discharge dated 24 June 2019 between the company, CIR and MOF. Under the Deed, the CIR and MOF exercise their joint authority under Section 92(b) of the ITA to remit in its entirety the outstanding debt and interest under the DOS such remission to be effective from 1 March 2017 the exemption from NRWHT for the period of 5 years from 15 August 2017.

The total debt and interest forgiven in 2018 financial year was $39,241,309 and was disclosed in the Statement of Profit of Loss and Other Comprehensive Income as "forgiveness of tax debt".

Note 27. CAPITAL AND RESERVES

	2019 $	2018 $
(a) Authorised capital		
Ordinary shares @$1.00 each	78,809,801	78,909,801
(b) Share capital		
An issue at 1 January	78,809,801	78,809,801
Issued for cash	-	-
In issue at 31 December – fully paid	78,809,801	78,809,801
(c) Revaluation Reserve		
1 January	34,251,494	34,251,494
Revaluation of aircraft (Note 20) - gross	(2,459,370)	-
Deferred tax on revaluation	737,811	-
Net revaluation loss	(1,721,559)	-
31 December	32,529,935	34,251,494

Holders of these shares are entitled to dividends as and when declared and are entitled to one vote per share at general meetings of the Company. In September 2016, the general meeting of shareholders approved the issue of 7,900,000 shares at an exercise price of $1.00 per share.

Note 28. COMMITMENTS

	2019 $	2018 $
Capital expenditure approved and committed	-	-

Note 29. LEASES

The company has accounted for its lease contracts in accordance with IFRS 16 with effect from 1 January 2019. Note 2(a)(i) includes details of the accounting impact as at date of initial adoption.

In the previous year the company only recognised leased assets and lease liabilities in relation to lease contracts that were classified as finance leases under IAS 17. The leased assets were previously presented within property, plant and equipment (Note 20).

Information about leases for which the Company is a lessee is presented below. The statement of financial position shows the following amounts relating to right-of-use assets:

(a) Right-of-use assets

	Aircraft $	Motor vehicle $	Rental space $	Total $
Year ended 31 December 2019				
Net book amount				
Balance recognised as at date of adoption on 1 January 2019 on previous operating leases (note 2(a)(i))	10,264,634	2,026,936	126,548	12,418,118
Additions during the year	-	-	192,624	192,624
Depreciation charge for the year	(5,183,508)	(770,364)	(150,631)	(6,104,503)
Closing net book amount	5,081,126	1,256,572	168,541	6,506,239

Note 29. LEASES (continued)

(b) Lease liabilities

(i) Lease liabilities included in the statement of financial position at 31 December 2020

	2019 $	2018 $
Lease liability recognised at date of adoption – 1 January 2019	12,321,725	-
Less: principal element of lease payments	(5,745,114)	-
Lease liability at 31 December 2019	6,576,611	$-

	2019 $	2018 $
Current	(3,352,727)	-
Non-current	(3,223,884)	-
Total lease liabilities at 31 December 2019	(6,576,611)	$-

(ii) Amounts recognised in profit or loss

The statement of profit or loss shows the following amounts relating to leases.

	2019 $	2018 $
Depreciation charge on right-of-use assets	6,104,503	-
Interest expense (included in finance cost)	826,863	-

(iii) Amounts recognised in statement of cash flows – financing

	2019 $	2018 $
Principal element of lease payments	(5,745,114)	-
Interest element of lease payments	(826,863)	-
Total cash outflow of leases	(6,571,977)	$ -

(iv) Maturity analysis – contractual undiscounted cash flows

	Aircraft $	Motor vehicle $	Rental space $	Total $
Less than one period	2,725,225	961,008	105,600	3,791,833
One to five periods	2,683,732	614,680	79,200	3,377,612
More than five periods	-	-	-	-
Total undiscounted lease liabilities at 31 December 2019	5,408,957	1,575,688	184,800	7,169,445

Note 30. MATERIAL NON-CASH TRANSACTIONS

	2019 $	2018 $
Reclassification of assets to assets held for sale (refer Note 19)	21,024,590	2,257,281
Transfer of investment property to aircraft, property, plant and equipment	-	8,169,000
Non cash additions to property, plant and equipment	21,024,590	10,426,281

Note 31. RELATED PARTIES

(a) Directors

The names of directors in office at any time during the financial year are:

Chairman	-	Mr Frank Wickham (appointed February 2021)
Chairman	-	Mr Austin Leslie Holmes (resigned February 2021)
Deputy Chairman	-	Mr Robertus Franciscus Bochman
Director	-	Mr Anthony Makabo (appointed February 2021)
Director	-	Mr Bob Pollard (appointed August 2019)
Director	-	Mrs Kathy Launa Nori (resigned February 2021)
Director	-	Mr Josefa Tuamoto
Director	-	Mr Peter Sone Forau (resigned July 2020)
Director	-	Mr Masao Yamagata (retired March 2019)

(b) Parent company

The Company is owned by Investment Corporation of Solomon Islands (ICSI). ICSI is wholly owned by the Government of Solomon Islands.

(c) Identity of related parties

As the Company is owned by the government, all government and government related entities are its related parties. Other related parties include directors and employees of the Company.

(c) Transactions with key management personnel and directors

The transactions with the government and government related entities are individually insignificant hence do not warrant disclosure in the financial statements.

11% of the Company's sales and 13% of its purchases are with State Owned Enterprises and Solomon Islands Government departments.

(e) Transactions with key management personnel and directors

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly and indirectly.

Key management personnel in the current and prior year comprises of the Chief Executive Officer, Chief Financial Officer, Manager Commercial, Manager Operations, Manager Corporate Services, Manager Engineering, Chief Pilot and Maintenance Controller.

Transactions with key management personnel are on no more favorable terms than those available, or which might be reasonably be expected to be available, on similar transactions to third parties at arm's length.

Note 31. RELATED PARTIES (continued)

Key management compensation is disclosed in Note 10.

	2019	2018
Amounts receivable from key management personnel	$-	$

In addition to their salaries, the company also provides non-cash benefits to the directors and key management personnel.

Directors fees are disclosed in Note 8.

Note 32. CONTINGENT LIABILITIES

As at reporting date two contingent liabilities exists in respect security deposit guarantees provided by Commonwealth Bank of Australia in favour of Sydney Airport Corporation Limited and Brisbane Airport Corporation Pty Limited amounting to AUD 50,000 (2018: AUD 50,000) and AUD 47,751 (2018: AUD 13,266) respectively.

In addition to the above, there are legal claims against the Company at year end. The liability for these is either not material or is not expected to result in a loss to the Company.

Note 33. REVENUE RECEIVED IN ADVANCE

Refer to note 2(n) for a description of the Company's policy in relation to revenue recognition and deferral of unearned revenue, including the estimates and judgement used in estimating unearned revenue.

	2019 $	2018 $
Current		
Unearned passenger revenue	45,727,874	41,752,526

Note 34. SUBSEQUENT EVENTS

The World Health Organisation declared a pandemic in relation to the Novel Coronavirus (COVID-19) on 11 March 2020 bringing significant health impact globally. Measures taken to contain the virus are already having a significant negative economic impact on global markets including Solomon Islands major trading partners. Economic activity in Solomon Islands has also been drastically impacted with business disruptions and levels of activity already reduced in most market sectors.

There is considerable uncertainty around the possible duration of and the resulting depth of impact that may come from the disruption caused due to the fluidity of the situation. It is expected that there will be a negative impact on the operations for the company's 2020 financial year.

In addition to flight cancellations, the Company has taken urgent action to ensure that the business survives this unprecedented crisis. These include a significant (circa 20%) workforce reduction, cost and capital expenditure reductions, and financing activities. The financing activities include extension of SBD4 million overdraft till 31 December 2020 and loan principal payment moratoriums. The Government of Solomon Islands has provided an Economic Stimulus Package of SBD20 million to the Company to meet its debt obligations, and also support towards the financial obligations of the Company as and when they fall due.

Directors and management are carefully considering the impact of the COVID-19 pandemic on the business and closely monitoring emerging risks. Directors and management believe that the company has sufficient financial resources to be able to successfully manage its business risks despite the current uncertain economic outlook due to the COVID-19 pandemic.

Note 34. SUBSEQUENT EVENTS (continued)

Apart from the above, no other matters or circumstances have arisen during the financial period which significantly affect the operation of the company since the end of the financial period to the date of this report to secure the liabilities of any other person.

No contingent liability has arisen since the end of the financial period to the date of this report.

No contingent or other liability has become enforceable or is likely to become enforceable within a period of twelve months from the date of this report which, in the opinion of the directors, will or may affect the ability of the Company to meet its obligations when they fall due.

The company purchased a twin Otter aircraft on the Solomon Islands register as H4-SIC in February 2021 from Ikhana Group INC partially through a Solomon Islands Government loan of Solomon Islands Dollar Thirty-Eight Million (SBD38m). The purchase price of the aircraft was SBD49m the balance of SBD10m being SAL contribution.

On Wednesday 24th November 2021 the Country experienced civil unrest in the form of rioting, looting and burning of business houses. This continues through until Saturday 27th November 2021. The Airline sent all staff home on the Wednesday afternoon and repositioned domestic aircraft to Munda in the Western province returning to Honiara on Sunday 28th November. By not flying for the four days on conflict the airline lost a significant sum of revenue