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PNG Air is the registered business name of Airlines of PNG Limited

Chairman's letter to Shareholders regarding the Entitlement Offer Prospectus

… 2016

Dear Shareholder

Accompanying this letter you will find a prospectus and application form allowing you, as an existing Shareholder in Airlines of Papua New Guinea Limited (the "**Company**") to subscribe for 5 new shares in the Company for each existing share you hold. For each new share subscribed for, Shareholders will also receive 2 options, exercisable as set out in the prospectus.

I am very pleased that this entitlement offer is now being made to the Company's shareholders. You will recall that the entitlement offer was part of the recapitalisation approved by shareholders at the Special Meeting held on 18 December 2014, which also approved the issue of 100 million new shares in the Company and 200 million options to three Mineral Resources Development group companies (collectively called the "**MRDC Group**") and a further 100 million new shares and 200 million options to the National Superannuation Fund ("**NasFund**").

The MRDC Group and NasFund were already major shareholders in the Company before those issues. Between them, they are now the majority holders of the Company. The entitlement offer detailed in the attached prospectus allows other existing Shareholders to increase their holdings by a slightly greater percentage than the MRDC Group and NasFund increased their holdings as a result of the issues in late 2014, and at the same price per share and option exercise price. The MRDC Group and NasFund have undertaken not to participate in the entitlement offer.

Full details of the entitlement offer are set out in the prospectus and I urge you to read through all that material carefully before deciding whether or not to increase your investment in the Company.

Far more time has passed between the entitlement offer being approved and the issue of the prospectus than was ever anticipated. The Board can only apologise to Shareholders regarding that delay. The delay does at least mean that the re-fleeting initiative also approved at the Special Meeting in December 2014 is now well under way, with 3 new ATR 72-600 aircraft now operating in the Company's fleet, 2 more to come in this year and another 2 in 2017. Rebranding of the airline has also been completed. Through re-fleeting and rebranding, the airline is now in a good position to grow its domestic RPT business and to take advantage of opportunities in the charter market when market conditions improve and resource industry activity grows again.

Yours Sincerely

Murray Woo
Chairman, Board of Directors, Airlines of Papua New Guinea Limited