

PNG Air

2016 ANNUAL REPORT

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PNG AIR LIMITED

Airlines of Papua New Guinea Limited became PNG Air Limited in June 2016, having operated under the PNG Air name since November 2015 when the first of the Company's brand new ATR 72-600 aircraft was introduced to the fleet. The PNG Air name reflects the new concentration and identity of the business after it became majority owned by major PNG institutions and more heavily focussed on the domestic regular passenger transport (RPT) market.

The program to progressively convert the Company's fleet to the ATR has continued, with 7 new ATR 72-600s in the fleet by the end of November 2017. As new ATRs have been introduced, the Company's existing Dash 8 fleet has been reduced to 10.

The Company has always been a regional carrier based in Port Moresby. Since its incorporation, the Company has greatly contributed to Papua New Guinea's economy by servicing remote locations, bringing travel to many more Papua New Guineans and giving choice to the travelling public.

Over the last 25 years PNG Air has built up an extensive network of aviation services catering for the RPT, charter and freight markets, and continues to expand its services.

PNG Air continues to operate 7 days a week charter services for medivac, work crew positioning and transport of parts and other freight on top of its regular scheduled passenger services. The Company has a workforce of more than 700 employees, the great majority of whom are Nationals.

As one of the country's major domestic carriers, the Company now operates over 460 flights per week servicing 25 ports, including all of the principal destinations within Papua New Guinea.

The Company floated on the Port Moresby Stock Exchange in June 2008.

CHAIRMAN'S REPORT

Welcome to PNG Air's 2016 Annual Report.

2016 was certainly an eventful year for the Company. It was PNG Air's first year of operation under its new name and with the brand new ATR 72-600 as part of the fleet, following the introduction of the first ATR and the launch of the new name and livery in November 2015.

Since that launch the Company has taken significant steps forward, ticking off every ambitious goal it set itself for the first year of operation.

The main achievement for the Company over that period to the end of 2016 was to successfully induct 5 new ATRs into service. In mid-2017 we brought in the 6th brand new ATR, and the 7th is scheduled to be introduced in November, in time for the peak Christmas season.

It is a lot of work for any airline to introduce any new type of aircraft to its fleet, and even more so for a relatively small airline in the challenging PNG market.

Introducing 5 brand new aircraft in just over a year was a daunting task, but it has had the enormous benefit that we can now proudly say that most people flying with PNG Air fly on the new state of the art ATR. Importantly, we can also now say that we have on average the youngest fleet in the country. As each new ATR is introduced, our fleet age reduces compared to the competition.

We have always been committed to view that our shareholders and our customers are grassroots Papua New Guineans who deserve world class air services. Choosing to bring in brand new ATR aircraft reflected that belief. In the short term it may have been easier and cheaper to bring in older aircraft, particularly in times that have been tough going for many businesses in the country, but we believed that the ATR offers the best possible long term solution for PNG conditions and PNG Air's network, and that our strategy of trying to offer the best possible quality of product was the right one.

The overwhelmingly positive initial reaction from our passengers to the ATR that I commented on last year has continued, and experience operating the aircraft has substantially justified the Board's and management's expectations regarding the cost of operation and reliability of the aircraft. The ATRs have enabled the Airline to increase RPT revenue in 2016 by approximately 17% over 2015 numbers and by 27% for the half year to June 2017 compared to the same period in 2016. It is a learning curve however and as the Company becomes more experienced as an RPT operator of the ATR, and is able to put more resources into staff training and overcoming the issues encountered operating a new aircraft we expect to gain more of the cost benefits available from the aircraft.

In introducing the ATRs it was always PNG Air's plan to progressively reduce the Dash 8 fleet. Difficult economic conditions in PNG and in world commodity markets in 2016 have meant that there has been little activity in the charter market or growth in the aviation market generally, reducing the opportunities to use all our Dash 8 aircraft. It was therefore significant that PNG Air was able to negotiate the return of 4 leased Dash 8s to their lessors during the year, and to rearrange the commercial terms of its remaining 4 Dash 8 leases to reduce the lease terms of the aircraft by nearly 5 years (on average) and reduce the monthly rents by approximately 25%. Along with other changes to the leases, this represents a large saving for the Company against its future lease obligations, on a net

present value basis.

The revised terms of the remaining Dash 8 leases now align better with the future fleet plan, with these leases expiring as further ATR aircraft are delivered, which is currently expected to be from 2020 onwards. The Company agreed in 2016 to purchase 5 more ATRs, with one to be delivered each year from 2019 (although that delivery was subsequently delayed to 2021 by the PNG Air). That commitment will bring the ATR fleet up to 12 by 2023 on the current schedule and see PNG Air operating an all ATR fleet, or very close to it, with the efficiencies that will bring.

Other highlights during 2016 included the following:

- CASA PNG renewed our Airline Operators Certificate for 3 years which represents a vote of confidence in us and our safety systems from the regulator;
- We opened up new services to Vanimo, Buka and Aropa and new sales outlets in Lae and Port Moresby;
- Introduction of customer service initiatives such as SMS notification for flight disrupts, a Tok Pisin website and on-line check-in;
- Securing space for customer lounges. We have already opened a lounge at Kiunga and by the time this report issues we should have lounges operating at Mt Hagen and at Lae. We also have plans for lounges at Port Moresby and Tokua airports.

2017 has already seen further new services and improvements to the product we offer, and the Company is working on further improvements including commencing regional international flights, establishing links with international carriers and launching a mobile payment facility to complement the existing mobile booking facility.

Away from the Airline's operations, 2016 also saw us complete the entitlement offer to shareholders promised and approved in 2014.

Despite its highlights and successes, 2016 was another financially challenging year. Even with the growth in RPT revenue, for the full year 2016 the Company returned a K34.8 million operating loss before abnormal items and tax. Major factors in that result were the general softening of the PNG economy and the global downturn in the resources sector, a significant drop in revenue from charter operations due to cessation of existing contracts and lack of new opportunities, and an increase in overseas currency denominated expenses due to continuous depreciation of the PNG Kina. Some short term local issues – temporary closure and restructure of Ok Tedi mining operations, and infrastructure work at various domestic airports restricting flight services – also had large effects.

Over the course of 2016 and the first part of 2017 the Company's major shareholders, NasFund and the MRDC group, have contributed significant additional funds to the Company by way of loan to assist the Company through this capital hungry development process. It is proposed in the near future to seek the approval of Shareholders to the issue of new shares to NasFund and MRDC group companies, with the proceeds of those share issues to be used to repay the loans made. Because of this intention, the loan amounts are categorised as other capital contributions as in the Company's 2016 balance sheet. It is anticipated that a further entitlement offer will be made to other Shareholders at the same time, on terms no less favourable than those applying to the proposed share issues to NasFund and MRDC group companies.

The Future

The Board is confident that despite the transition phase the Company is going through and the continuing economic downturn in PNG, the increase in RPT revenues and market share, and the public reception of the ATR, indicate that the Company's strategy is the right one for it to achieve a profitable operation in the future. Increases in market share and having the foundation of a strong RPT business set the Company up to grow and to compete strongly when the PNG economy revives and as charter oportunity arise. A clear demonstration of this is the Company winning the Newcrest charter contract in 2017, which began operation from mid-August.

Once again I thank the Company's shareholders for their continued support, our loyal and committed staff and the people of PNG who have shown their trust in us.



Murray Woo
Chairman, Board of Directors

BOARD OF DIRECTORS



MURRAY WOO
CHAIRMAN
since 2014

Mr Woo was appointed as a director on 29 August 2012 and as the Chairman on 9 December 2014. Mr Woo is the Managing Director of Woo Textile Corporation Limited. He is the Chairman of the Manufacturers' Council of Papua New Guinea, having been a founding Director of that body. Mr Woo holds positions on various other boards, including (amongst other directorships) those of the National Superannuation Fund, and the NASFUND Contributors Saving & Loans Society.



AUGUSTINE MANO
DIRECTOR
since 2010

Mr Mano was appointed as a director on 17 March 2010. Mr Mano is the Managing Director of Mineral Resources Development Company. Before that appointment, he was a Consultant to the Department of Petroleum and Energy on major petroleum projects in PNG. Mr Mano also served as an Executive Director on various national construction, engineering and transportation companies and was responsible for the establishment of a successful national insurance company in PNG.



SIMON WOOLCOTT
DIRECTOR
since 2014

Mr Woolcott was appointed as a director on 22 October 2014. Mr Woolcott was the Company's Chief Financial Officer between 2009 and 2012, and maintained his involvement with the Company as a member of its Board Audit Risk and Compliance Committee from March 2013. He has significant experience as an accountant (qualified Australian and PNG CPA and a Graduate of the Australian Institute of Company Accountants) and as an aviation analyst.



EDWARD MATANE
DIRECTOR
since 2015

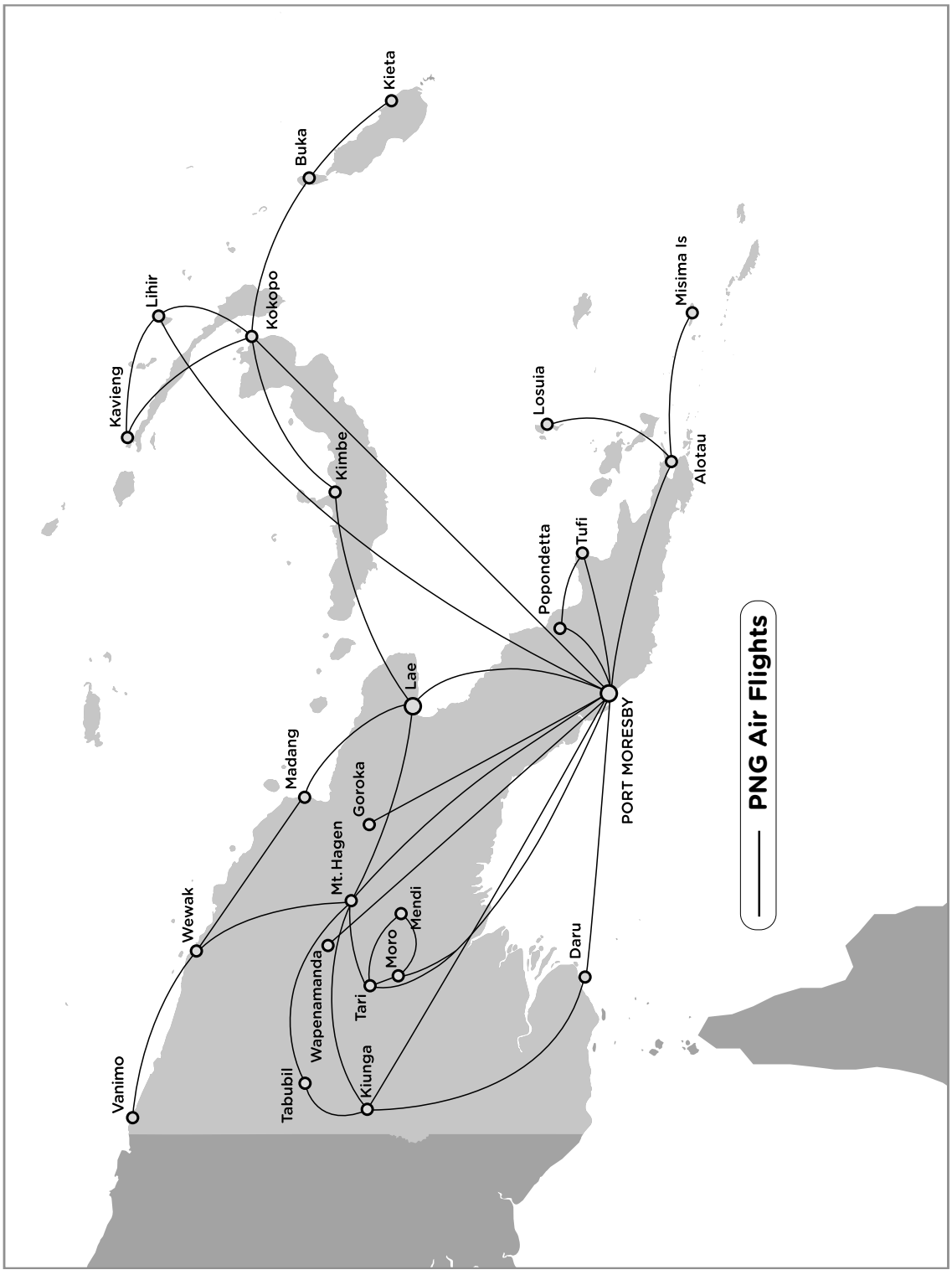
Mr Matane was appointed as a director on 21 January 2015. Since 2012 Mr Matane has been Oilsearch's Aviation Logistics Co-ordinator and brings professional aviation expertise and PNG aviation market knowledge to the Board. Mr Matane worked for Air Niugini for 13 years in maintenance and flight engineering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



WATT KIDDIE
DIRECTOR
since 2015

Mr Kiddie was appointed as a director on 7 April 2015. Mr Kiddie was nominated for appointment by MRDC, and is a highly experienced PNG accountant (CPA) and Registered Company Auditor. He holds council positions in a number of professional bodies. Mr Kiddie has been awarded an MBE for services to Commerce & Accountancy.

Where we fly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PORT MORESBY
Mt. Hagen
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Mendi
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Daru
Wapenamanda
Tari
Tabubil
Kiunga
Vanimo
PNG Air Flights

FRIDAY - 16DEC, 2016

PNG Air achieves objectives

PNG Air says it has excelled to achieve most of its objectives despite the tough financial year during its first year of operations.

And the airline says despite the continuing negative economic situation, it was confident in again achieving record performances next year.

"In a year which was tough going for many businesses, we have continued to make good on the promises we made when we launched," chairman Murray Woo said.

"We have brought in five brand new ATRs in the year, each one direct from the manufacturer, introduced the new livery and significantly upgraded our products and services.

"With the support of our shareholders, MRDC and Nasfund in particular, we made the decision to work towards providing the best possible aviation service for PNG, and I am proud of the efforts from all our staff to make that a reality.

"We are committed to bringing to PNG brand new aircraft because this country deserves the best, and we firmly believe that the ATR offers the best possible long term solution for PNG conditions and network requirements.

"We are committed to upgrading our services and creating new routes because our customer base, the people of PNG, told us what they need and what works for them."

He outlined the airline's achievements over the past 12 months, including bringing in five brand new ATR 72-600 aircraft into its fleet and renewing its Airline Operators Certificate for three years which represents a vote of confidence in the airline and its safety systems.

During the year it also opened up new services to Vanimo, Buka and Aropa and confirmed the start of international services to Jayapura from Mt Hagen.

Customer service initiatives introduced during the year include SMS notification for flight disrupts, a Tok Pisin website and on-line check-in, while staff were given the opportunity to take a direct ownership interest in the airline through a staff share scheme.

"It has certainly been an eventful year for the airline and next year promises to be equally exciting with more new services and product enhancements, and the addition of another two brand new ATRs into service.

"Our thanks go to an incredibly supportive shareholder base, loyal and committed staff and to the people of PNG who have shown their trust in us and who have supported us from day one," Mr Woo said.

TUESDAY - 26 APR, 2016

PNG Air launches flights to Buka and Kieta

BY PAEOPE OVASURU

THE people of Bougainville have welcomed PNG Air as it launched its service in the region. On its inaugral flight, many locals expressed their gratitude that they now have an alternative airline to choose from.

Autonomous Bougainville Government transport minister Luke Karaston expressed his gratitude, saying, the introduction of PNG Air flights will make it easier for the travelling public in Buka and Kieta.

He assured the airline that security will not be compromised and that the people will work together with the airline to ensure that the services delivered were effective.

"The flight service will serve our people well. We will now have a cheaper alternative which will give the other airlins competitive fares," said Mr Karaston.

He urged the landowners of the airport in Buka and Aropa to look after the planes and its crews.

Simon Dansiou, member for South Nasiol constituency where Aropa Aerodrome is located, said the introduction of PNG Air flights into Bougainville is a milestone in aviation history in PNG.

"The choice now is for the people to choose which airline to fly with. I call on the people of South Nasiol and the landowners of Aropa to speak the language of development. We will benefit a lot from these development but first we have to make sacrifices and priorities to achieve our goals," he said.

Chairman of the Council of Elders, Ona Vui thanked PNG Air for having the confidence and trust in the people of Bougainville, especially Aropa, by opening flight routes to that part of the country.

He assured the company executives that the people will look after PNG Air property and the workers in the region.

Paramount chief, John Tsiruna also expressed his gratitude to the airline and appealed to management offer affordable airfares.

> The flight service will serve our people well. We will now have a cheaper alternative...
>
> LUKE KARASTON
> Buka

" Please consider us village people when charging your fares," he said.

PNG Air chief commercial officer Paul Abbott thanked the leaders and people of Bougainville for the warm welcome and assured them that the company was committed to providing the best service.

"We are serious about giving competitive, serious about offering affordable fares and serious about making travel easier for many people. We aim to open up new routes to enable people to travel. Our goal is open up as many ports as possible," he said.

"Our new fleet ATR 72-600 is much more quieter and comfortable to travel in."

He assured the people that airline will service the people of Bougainville by giving them lower rates.

"We will give you the best possible low rates so the people can travel. We are encouraged by the support that you have given us so we will return the best possible service in return."

PNG Air will be operating 3 flights a week on Monday, Wednesday and Friday. Their rates are from Kieta to Buka is K279, from Kieta to Kokopo is K312, from Kieta to Lae is K634, Kieta to Port Moresby is K684 and Buka to Port Moresby is K570.

The flights from Buka and Kieta will all transfer through Kokopo on the way.

PNG Air is committed to getting brand new aircrafts better suited to meet the future demands of the market.

"We already have three ATR aircraft and are looking at having five by the end of this year" said Mr Abbott.



PNG Air's ATR 72 -600 plane at the Aropa Aerodrome. INSET: Locals in Buka were given the chance to see the interior of the new plane. PICTURES: PAEOPE OVASURU



TUESDAY - 08 MAY, 2016

New Tok Pisin website for PNG Air

PNG Air has launched a *Tok Pisin* option for the airline's website *www.pngair.com.pg*.

Chief commercial officer Paul Abbot said it was part of the airline's rebranding strategy.

He said the company believed it was critical to reflect PNG ownership and focus, and the pride in being part of the country.

"This can be seen in the aircraft design, our new uniforms and now in a proudly PNG website," Abbot said.

"People can now choose to view *Tok Pisin* or English versions of the website content," he said.

"For overseas people, the site will give a small taste of Papua New Guinea, and for local people having this choice will make the website more accessible and useful for them as they plan business trips or journeys to connect with family and friends."

MONDAY - 24 OCT, 2016



PNG Air Flight Attendants Shoshana Batia (left) and Verolynne Kavanamur displaying the Pink Ribbon emblem.

PNG Air joins 'Pinktober' month

PNG Air Limited also joined other organisations to support the PNG Cancer Foundation in raising awareness on cancer this "Pinktober" month by having its flight attendants wear pink ribbons.

Chief commercial officer Paul Abbot said flight attendants on PNG Air flights all wore the pink ribbon badge to show their support and other staff attended staff workshops focused on women's health and well-being.

"Throughout the month of October, the Papua New Guinea Cancer Foundation is running free workshops for the public and at business houses to educate as many people as possible," he said.

Pinktober is the annual programme run by the Papua New Guinea Cancer Foundation to raise awareness for woman's cancer.

The programme is developed around increasing general awareness of the importance of regular check-ups, symptoms and treatment of these diseases which impact the lives of so many in this country.

PNG Cancer Foundation fundraising manager Hayley Chown said the workshop was part of the foundation's awareness strategy which also coincided with the Pinktober women's cancer awareness month.

"The PNG Cancer Foundation was formed for the purpose of reducing the threat and impact of cancer through education and prevention programmes," she said.

Chown said the workshops were conducted by two health educators who focused on breast and cervical cancer and how one could prevent cancer or recognise early signs and symptoms of the disease.

TUESDAY - 03 MAY, 2016

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THURSDAY - 26 SEP, 2016

PNG Air offering online booking

DOMESTIC passengers with PNG Air can now check in online to book their flights.

This follows an announcement in the introduction of a web based check-in for PNG Air's domestic passengers yesterday.

Chief commercial officer Paul Abbot said the web check-in allows passengers to go online to check in for their PNG Air flight and select the seat they want.

Mr Abbot explained that for passengers with just carry-on luggage will no longer need to stand in line waiting to be checked in adding that if they are travelling with checked baggage the airlines have bag drop areas identified to help speed up that process as well.

"Either way it's a far more convenient start to your journey.

"The actual process for checking in online is very simple. Just log onto www.pngaircom.pg go to 'Manage My Booking" and follow the prompts from there.

With more and more travellers using the web to help make their travel choices we see this as a natural extension to the booking process and as a way of making life easier for PNG Air passengers."

Web check-in is available from 48 hours before flight departure, up to three hours before the departure time.

> The web check-in allows passengers to go online.
>
> PAUL ABBOT
> Port Moresby

FRIDAY - 16 DEC, 2016

New airline completes first year of operation

PNG Air has completed its first year of operation after launching the new airline on November 4 last year with the arrival of the first of its brand new ATR 72-600 aircraft.

"In a year which was tough going for many businesses, we have continued to make good on the promises we made when we launched," chairman Murray Woo said.

"With the support of our shareholders, Mineral Resources Development Company and Nasfund in particular, we made the decision to work towards providing the best possible aviation service for PNG and I am proud of the efforts from all our staff to make that a reality.

"We committed to bringing to PNG brand new aircraft because this country deserves the best and because we firmly believe that the ATR offers the best possible long-term solution for PNG conditions and network requirements.

"We were committed to upgrading our services and creating new routes because of our customer base. The people of PNG told us what they need and what works for them." In the past 12 months, the airline had:

- Brought five new ATR 72-600 aircraft into its fleet;
- renewed its airline operators certificate for three years which represents a vote of confidence in us and our safety systems by the regulator;
- opened up new services to Vanimo, Buka and Aropa;
- confirmed the airline will begin international services to Jayapura from Mt Hagen;
- opened new sales outlets in Lae and Port Moresby;
- introduced customer service initiatives including SMS notification for flight disrupts, a *Tok Pisin* website and on-line check-in; and,
- Launched a staff share scheme to give our staff the opportunity to take a direct ownership interest in the airline.

WEDNESDAY - 14 DEC, 2016

PNG Air set to cater for extra demand during festive seasor

THE festive season has kicked in and PNG Air is well poised to take on the extra demand for air services.

This is from Paul Abbot, chief commercial officer of PNG Air.

Mr Abbot said with the airline taking delivery of its fifth and latest ATR, which had begun commercial operation, December 9, this would help boost its operations during what will yet again be a busy time.

"The airline is currently running more than 300 flights a week, and is looking to schedule additional services where it can to help move people during this busy time," Mr Abbot said.

He had urged that, for ease of business and travel, customers should fully utilise the web-check in system that is in place.

"We introduced the web check-in system so people can check in for their flights using their home or work computers and this is helping to cut down congestion at the check in stage.

"Traditionally the very busy peak will run through until December 24 with a lull between Christmas Day and New Year's Day before we hit another peak in the first two weeks of January with people returning to work," Mr Abbot said.

Meanwhile, PNG Air yes-

> We introduced the web check-in system to ease congestion...
>
> PAUL ABBOT
> PNG Air

terday announced it will b providing in-flight entertai ment for the two weeks con mencing December 13 on s lected flights.

The gesture has been unde taken by the airline to get pe ple into the Christmas spiri but importantly to thank th travelling public who hav supported the firm in its firs year of opearations, since i rebranding.

"We will be providing e tertainment on board a larg number of our services.

"Together with the tea from EMTV and a number o the stars from the hit serie Vocal Fusion, passenger checking in and on board th aircraft will be treated to liv entertainment as our way o ending the year on a high, Mr Abbot added.

He said artists that will b featured on these selecte flights include Joseph Eh va, Theo Benjamin, Dic Maru, Isaiah Mano and Pete Ho'leong.

THURSDAY - 22 SEP, 2016

Airline announces web-based domestic check-in

PNG AIR has announced the introduction of web based check-in for its domestic passengers.

PNG Air's Chief Commercial Officer Paul Abbot said the Web check-in allowed passengers to go online to check in for their PNG Air flight and select the seat they wanted.

"For those travelling with just carry-on luggage this means no need to stand in line waiting to be checked in. If travelling with checked baggage we have bag drop areas identified to help speed up that process as well. Either way, it's a far more convenient start to your journey," Abbott said.

He said the actual process for checking in online was very simple.

"Just log onto www.pngair.com.pg go to 'Manage My Booking' and follow the prompts from there," he said



A Dash 8 PNG Air aircraft flying on a schedule domestic flight.

"With more and more travellers using the web to help make their travel choices we see this as a natural extension to the booking process and as a way of making life easier for PNG Air passengers," he said

He said the Web check-in was available from 48 hours before flight departure, up to three hours before the departure time.

PNG Air operates ATR 72-600 and Dash 8 aircraft to 23 ports throughout PNG, with 470 flights each week carrying over 400,000 passengers each year.

CORPORATE GOVERNANCE STATEMENT

The Company has in place corporate governance practices which include an audit committee of the Board. These were originally adopted by the Board on 2 October 2008 and subsequently updated on the 18 March 2009, with further amendments on 29 November 2012 and 7 March 2013. The corporate governance practices also include the adoption of a board charter and specific charters for each of the Audit Risk and Compliance Committee and Remuneration and Nominations Committee of the Board. Following is a summary of those practices:

COMMUNICATION WITH SHAREHOLDERS

The Company's Code of Conduct requires its employees to act with high standards of integrity, transparency, accountability and equity in all aspects of their employment with the Company. With this in mind, the Company commits to dealing fairly, transparently and openly with both current and prospective shareholders using available channels and technologies to communicate widely and promptly. The Company commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries.

The Company's shareholder communication policy is built around compliance with disclosure obligations and aspiring to be at the forefront of best practice in disclosure. The framework for communicating with shareholders is to concisely and accurately communicate:

- The Company's strategy;
- How the Company implements that strategy; and
- The financial results consequent upon that strategy and its implementation.

The Company uses shareholder forums such as the Annual General Meeting, and group meetings with larger shareholders, within disclosure policies, to communicate financial performance and strategies

THE BOARD OF DIRECTORS

The Board, with support of its Committees, is responsible to the shareholders for the overall corporate governance and performance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of those goals with a view to optimising Company performance and increasing shareholders value. Key functions of the Board include:

- Overall strategy of the Company, including operating, financing, dividend and risk management;
- Appointing the Chief Executive Officer and setting an appropriate remuneration package;
- Endorsing appropriate policy settings for management;
- Reviewing Board composition and performance;
- Reviewing the performance of the Chief Executive Officer;
- Approving a strategic plan and annual budget for the Company and monitoring results on a regular basis;
- Ensuring that appropriate risk management systems are in place and are operating to protect the Company's financial position and assets;
- Ensuring that the Company complies with the law and relevant regulations and conforms with the highest standards of financial and ethical behaviour;
- Acquisitions and disposals material to the business;
- Establishing authority levels;
- Directors' remuneration (via the Remuneration and Nomination Committee);
- Selecting (with the assistance of the Audit, Risk and Compliance Committee) and recommending to shareholders, the appointment of external auditors; and
- Approving financial statements.

THE CHAIRMAN OF THE BOARD

The Chairman is elected by the Directors. The Chairman's role includes:

- Providing effective leadership on the Company's strategy;
- Presenting the views of the Board to the public;
- Ensuring the Board meets regularly throughout the year and that minutes are

taken and recorded accurately;
- Setting the agenda of meetings and maintaining proper conduct during meetings; and
- Reviewing the performance of non-executive Directors. The Chairman is not permitted to occupy the role of the Chief Executive Officer.

COMPOSITION OF THE BOARD

The maximum number of Directors, as prescribed by the Constitution approved by the shareholders, is 9. The Board currently consists of 5 Non-executive Directors including the Chairman. The Board tests independence of its members using the following criteria:

- The Director is not an executive of the Company;
- The Director is not a substantial shareholder of the Company or otherwise associated directly with a substantial shareholder of the Company (substantial shareholder is currently defined as more than 15%);
- The Director has not within the last 3 years been a material consultant, or a principal of a material professional adviser, to the Company or a group member, or an employee materially associated with the service provided;
- The Director is not a material supplier to, or a customer of, the Company or other group member or a material consultant to the Company or other group member or an employee materially associated with the material supplier or customer;
- The Director has no material contractual relationship with the Company or other group member other than as a Director of the Company; and
- The Director is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Independent Board members are required to review their independence annually. Materiality will be assessed on a case-by-case basis.

The Board does not accept that any office bearer and/ or employee of an institutional shareholder has an automatic right to be appointed to the Board by virtue only of his/her position within that organisation.

BOARD PERFORMANCE REVIEW

The Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment of the Board as a whole to include an assessment of the contribution of each individual Director.

The Board is cognisant of the need to continually identify areas for improvement, to ensure that it meets the highest standards of corporate governance and for the Board and each Director to make an appropriate contribution to the Company's objective of providing value to all its stakeholders. The performance review is conducted periodically and may involve assistance from external consultants.

BOARD'S RELATIONSHIP WITH MANAGEMENT

The management of the business of the Company is conducted by and under the supervision of the Chief Executive Officer and by those other officers and employees to whom the management function is properly delegated by the Chief Executive Officer.

The Board is responsible for:

- Defining the limits to management's responsibilities;
- Approving the corporate objectives for which the Chief Executive Officer is responsible.

All Directors have unrestricted access to Company records and information and receive regular detailed financial and operational reports to enable them to carry out their duties. The direct reports to the Chief Executive Officer make regular presentations to the Board on their areas of responsibility. The Chairman and the non-executive Directors have the opportunity to meet with the Chief Executive Officer and his direct reports for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

Non-executive Directors may meet on their own periodically to review the performance and management processes of the Company.

BOARD COMMITTEES

To assist in the execution of its responsibilities, the Board has established two Board Committees. Executive Directors may not be members of such Committees. Each Committee has a formal Charter approved by the Board. After amendment of the Audit Risk and Compliance Committees Charter on the 7 March 2013, the members of that Committee may recommend to the Board that a third member, who need not be a Director, be apointed to that Committee.

Committee members are chosen for the skills, experience and other qualities they bring to the Committee. At the next Board meeting following each Committee meeting, the Board is given a report by the Chairman of the relevant Committee.

Audit Risk and Compliance Committee

The Audit Risk and Compliance Committee is comprised of two Non-executive Directors who are independent and who are duly appointed by the Board. The Committee members may recommend appointment of a third member to the Committee by the Board. The Chairman of the Audit Risk and Compliance Committee must be one of the independent Directors and cannot be the Chairman of the Board. Simon Woolcott is currently Chairman of this Committee. Each member should be capable of making a valuable contribution to the Committee and membership is reviewed annually by the Board.

The Key responsibilities of this Committee include:

- Integrity of the Company's financial state ments and the financial reporting and audit process;
- External auditor's qualifications, performance and independence;
- The system of internal control and manage ment of all risks;
- The systems for ensuring operational efficiency and cost control;
- The systems for approval and monitoring expenditure including capital expenditure;
- The process for monitoring compliance with laws and regulations (both in Papua New Guinea and overseas).
- Implementation of Board decisions by management and making recommendations to the Board for the appointment of the external auditor;
- Annual internal audit plan and its ongoing review. In the course of fulfilling its mandate, the Committee may meet with both the internal and external auditors without management present.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is comprised of two Non-executive Directors who are independent and who are duly appointed by the Board. The Chairman of the Remuneration and Nomination Committee must be one of the independent Directors and cannot be the Chairman of the Board. Augustine Mano is currently the Chairman of this Committee. Each member should be capable of making a valuable contribution to the Committee and membership is reviewed annually by the Board.

The Remuneration and Nomination Committee has been established to assist the Board in fulfilling its oversight responsibilities in respect of Board and executive management selection, appointment, review and remuneration.

The key responsibilities of this Committee include:

- To oversee the selection and appointment of a Chief Executive Officer and recommend an appropriate remuneration and benefits pack age to the full Board;
- Identify and maintain a clear succession plan for the executive management team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly;
- Determine and review appropriate remuneration & benefits of Directors for recommendation to the full Board and

subsequently to the shareholders;
- Ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfil its responsibilities to share holders while maintaining a world class corporate governance regime;
- Receive & endorse positions/titles recommend by the Chief Executive Officer from time to time as applying to designated executive management positions;
- Review the procedures in place to ensure that all new executive appointees are adequately qualified and experienced and that proper recruitment procedures are followed;
- Review transactions between the Company and any of the Directors or relevant executive managers;
- Review employee remuneration and benefits policies and practices generally; and
- Review Board performance, tenure and succes sion planning.

BOARD AND BOARD COMMITTEE MEETINGS

Scheduled meetings of the Board are held at least every two months and the Board meets on other occasions to deal with matters requiring attention. Meetings of Committees are scheduled regularly during the year.

The Chairman, in consultation with the Chief Executive Officer, determines meeting agendas. Meetings provide regular opportunities for the Board to assess the Company's management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Directors one week in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the Board's decision making process.

DISCLOSURES BY DIRECTORS

Prior to appointment a Director designate is required to provide information to the Board for it to assess their independence in terms of the criteria set out above for assessing independence. This information is assessed by the Board to determine whether on balance the relationship could, or could reasonably be perceived to, materially interfere with the exercise of the Director's responsibilities. Materiality is assessed on a case-by-case basis.

The Board is cognisant of the need to avoid conflicts of interest and it has in place policies and procedures for the reporting of any matter which may give rise to a conflict between the interests of a Director and those of the Company. These arrangements are designed to ensure that the independence and integrity of the Board are maintained.

PURCHASE/SALE OF SHARES BY DIRECTORS

The Board encourages Non-executive Directors to own shares in the Company to further link their interests with those of all shareholders. Non-executive Directors are not eligible to participate in any employee share ownership scheme.

Directors are subject to Securities Act restrictions on buying, selling or subscribing for securities in the Company if they are in possession of inside information, i.e. information which is not generally available and which, if the information were generally available, a reasonable person would expect to have a material effect on the price or value of the securities of the Company. Directors should discuss proposed share trades with the Chairman of the Board in advance. Further, Directors may only trade in the securities of the Company, subject to the foregoing insider trading restrictions, during each of the periods of 8 weeks (40 working days) following the announcements of half yearly and yearly results, or the date of issue of a prospectus.

In addition, Directors must not trade in any other entity if inside information on such entity comes to the attention of the Director by virtue of holding office as a Director of the Company.

PURCHASE AND SALE OF SHARES BY MANAGEMENT

Management of the Company is subject to the Securities Act restrictions on buying, selling or subscribing for securities in the Company if they are

in possession of inside information, i.e. information which is not generally available and which, if the information were generally available, a reasonable person would expect to have a material effect on the price or value of the securities of the Company. Further, management may only trade in the securities of the Company, subject to the foregoing insider tradition restrictions, during each of the periods of 8 weeks (40 working days) following the announcements of half yearly and yearly results, or the date of issue of a prospectus. Management should discuss proposed share trades with the Chief Executive Officer in advance, who in turn will keep the Chairman of the Board apprised of management activities.

In addition, management must not trade in any other entity if inside information on such entity comes to the attention of management by virtue of holding office as an officer of the Company.

In the context of this policy, management is defined as the persons occupying the following positions:

- Chief Executive Officer
- Chief Financial Officer
- Chief Commercial Officer
- Chief Operating Officer
- General Counsel & Company Secretary
- Manager Flight Operations
- Manager MRO
- General Manager Continuing Airworthiness
- Manager Charter Operations
- General Manager Information Technology
- Manager Facilities & Ground Services
- Manager People & Resources
- General Manager Safety & Corporate Strategy
- Finance & Planning staff involved with preparation of financial records

INDEPENDENT ADVICE TO DIRECTORS

The Board recognises that in certain circumstances individual Directors may need to seek independent professional advice, at the expense of the Company on matters arising in the course of their duties. Any advice so received is made available to other Directors. Any Director seeking such advice is required to give prior notice to the Chairman of his or her intention to seek independent professional advice.

DIRECTORS' FEES

The maximum aggregate amount of fees that can be paid to non-executive Directors is determined by shareholders at annual general meetings of the Company in accordance with the Constitution. Fees are intended to remunerate non-executive Directors for time spent on Board and Committee matters, including review and preparation time, meeting attendance, visits to Company operations and travel.

The Chairman may be required to spend additional time attending to the Chariman's special responsibilities.

Annual fees are paid to the following, with the actual fees paid each year being disclosed in the Annual Report:

- Board Chairman;
- Non-executive Directors; and
- Board Committee Chairmen and Board Committee members.

EXTERNAL AUDITOR

The Audit Risk and Compliance Committee is responsible for making recommendations to the Board on appointment and terms of engagement of the Company's external auditor.

The selection is made from appropriately qualified firms and the recommended appointee is submitted to shareholders for ratification. In line with the policy of the Company, if it is proposed that the external auditor be appointed or confirmed for periods in excess of three years, the signing partner in the external audit firm must be rotated at least every three years. The Committee reviews annually the performance of the external auditors and makes recommendations to the Board regarding the continuation or otherwise of their appointment while ensuring their independence is in line with Board policy.

There is a review of the external auditor's proposed audit scope and approach to ensure there

are no unjustified restrictions. Meetings are held separately with the external auditor to discuss any matters that the Committee or the external auditor believes should be discussed privately. The external auditor attends meetings of the Audit Risk and Compliance Committee at which the external audit and half yearly review are agenda items. The Committee ensures that significant findings and recommendations made by the external auditor are received and discussed promptly and that management responds to recommendations by the external auditor in a timely manner. The external auditor is invited to the Annual General Meeting of the shareholders and is available to answer any relevant questions from shareholders.

INTERNAL AUDITOR

The Audit Risk and Compliance Committee approves, on the recommendation of management, the appointment of the internal auditors.

Reviews are undertaken of the scope of the work of the internal audit function to ensure no unjustified restrictions or limitations have been placed upon the internal auditors.

The Audit Risk and Compliance Committee also reviews the qualifications of internal audit personnel and endorses their appointment, replacement, reassignment or dismissal.

The Audit Risk and Compliance Committee may meet separately with the internal auditors to discuss and matters that the Committee or the internal auditors believe should be discussed privately. The internal auditors have direct access to the Audit Risk and Compliance Committee and to the Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations made by the internal auditors on a timely basis. The internal auditors meet with the external auditors half yearly to review the scope and findings of internal audit's annual audit plan and the extent of the external audit plan having regard to internal audit's findings.

COMPLIANCE

The Audit Risk and Compliance Committee reviews the effectiveness for monitoring compliance with all legal requirements, accounting standards, regulatory obligations both economic and corporate, air safety and services regulations and listing rules, and with ensuring effective systems for internal financial control and for reporting non-financial operating data. It also reviews the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.

The Committee obtains regular updates from management and the Company's legal officers regarding compliance matters and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

Reviews of the findings of any examination by regulatory agencies are undertaken and the Chairman of the Audit Risk and Compliance Committee has the right to approach a regulatory agency directly in the event of an issue arising.

DIRECTORS' STATEMENT

Directors' Statement

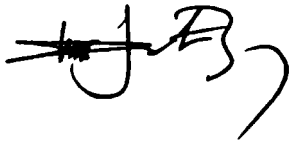
In the opinion of the Directors of PNG Air Limited:
a) the financial statements of the Group as set out on page 19 to 67 are drawn up so as to give a true and fair view of the state of the Group's affairs as at 31 December 2016, and of its results, cash flow and changes in equity for the financial year ended on that date; and
b) there are, when this statement is made out, reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the Directors.



Murray Woo
Director

Port Moresby, 22 September 2017



Augustine Mano
Director

Port Moresby, 22 September 2017

The directors of PNG Air Limited (formerly Airlines of Papua New Guinea Limited) ("the company") submit herewith the annual consolidated financial report of the company and its subsidiaries ("the Group") for the financial year ended 31 December 2016. In order to comply with the provisions of the Companies Act 1997, the directors report as follows:

Office holders

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

Mr. Murray Woo
Mr. Augustine Mano
Mr. Simon Woolcott
Mr. Edward Matane
Mr. Watt Kiddie

The above named directors held office during or since the end of the financial year.

The Group secretary as at the end of the financial year is John Biddle.

Review of operations and changes in state of affairs

The Group's principal activities are the operation of a charter and scheduled passenger airline throughout Papua New Guinea. The Group reported a pre-tax operating Loss of K34.84 million before the one-off significant costs related to Dash 8 early lease exit and re-fleeting and re-branding.

The company also owned 100% interest in its subsidiary companies as follows; Galatoire Investments which is involved in investment property, PNG Ground Services which is involved in the supply of aircraft fuel and APNG Services Pty Ltd for supply of international aircrew. During the financial year there was no significant change in the principal activities or state of affairs of the company other than that referred to in the consolidated financial statements or notes thereto.

Change in accounting policies

No changes in accounting policies occurred during the current year.

Disclosure of Interest

The Directors of the Company have disclosed their interests in Note 27.1.

Directors' remuneration

Subject to the following paragraph, since the end of the previous financial year, no Director of the Group has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts, or the fixed salary of a full time employee of the Group or related corporation) by reason of a contract made by the Group or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest. Total directors' remuneration is disclosed at Note 27.4.

Donations
There were no donations made during the year by the Group (2015: K nil).

Independent audit report
The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent auditor's report on page 68. Audit fees and non-audit fees are disclosed at Note 32.

DIRECTORS' REPORT

Registered office and principal place of business

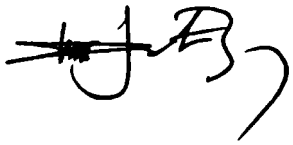
Part Portion 97
Milinch Granville
Jackson's International Airport
Seven Mile NCD
Papua New Guinea

Signed in accordance with a resolution of and on behalf of the directors.



Murray Woo
Director

Port Moresby, 22 September 2017



Augustine Mano
Director

Port Moresby, 22 September 2017

Consolidated statement of profit or loss
for the year ended 31 December 2016

	Notes	Consolidated		Company	
		Year ended 31/12/16 K'000	Year ended 31/12/15 K'000	Year ended 31/12/16 K'000	Year ended 31/12/15 K'000
Revenue	5(a)	214,601	209,116	211,949	206,583
Cost of sales	5(c)	(134,750)	(105,537)	(133,385)	(104,265)
Gross profit		79,851	103,579	78,564	102,318
Other revenue	5(b)	8,432	10,748	8,432	10,748
Operational expenses	5(d)	(83,980)	(76,773)	(83,545)	(76,305)
Occupancy expenses		(7,928)	(7,121)	(7,515)	(6,734)
Administration expenses	5(e)	(25,434)	(20,434)	(24,976)	(20,039)
Finance costs	7	(5,781)	(5,788)	(5,781)	(5,788)
Significant items					
ATR Induction & rebranding cost		(6,603)	(13,979)	(6,603)	(13,979)
Dash 8 early lease exit cost		(32,088)	-	(32,088)	-
Loss before tax	5(f)	(73,531)	(9,768)	(73,512)	(9,779)
Income tax benefit	8.1	1,885	333	1,907	212
LOSS FOR THE YEAR		(71,646)	(9,435)	(71,605)	(9,567)
Loss attributable to:					
Owners of the Company		(71,646)	(9,435)	(71,605)	(9,567)
Earnings per Share					
From loss through continuing operations:					
Basic and diluted loss per share (toea)	18	(23.65)	(3.11)	(23.63)	(3.16)

The income statements should be read in conjunction with accompanying notes

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Notes	Consolidated		Company	
		Year ended 31/12/16 K'000	Year ended 31/12/15 K'000	Year ended 31/12/16 K'000	Year ended 31/12/15 K'000
LOSS FOR THE YEAR		(71,646)	(9,435)	(71,605)	(9,567)
Other comprehensive income *Items that will not be reclassified subsequently to profit or loss:*					
Gain on revaluation of non-current assets net of tax	19	770	4,874	770	4,874
Impairment of revalued non-current assets net of tax	19	(8,428)	(3,377)	(8,428)	(3,377)
Items that may be reclassified subsequently to profit or loss: Exchange difference on translation of foreign operation		(119)	(50)	-	-
Other comprehensive income/(loss) for the year net of tax		(7,777)	1,447	(7,658)	1,497
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(79,423)	(7,988)	(79,263)	(8,070)
Loss attributable to:					
Owners of the Company		(71,646)	(9,435)	(71,605)	(9,567)
Total Comprehensive loss attributable to:					
Owners of the Company		(79,423)	(7,988)	(79,263)	(8,070)

The income statements should be read in conjunction with accompanying notes

Consolidated statement of financial position at 31 December 2016

	Notes	Consolidated Year ended 31/12/16 K'000	Consolidated Year ended 31/12/15 K'000	Company Year ended 31/12/16 K'000	Company Year ended 31/12/15 K'000
Assets					
Non-current assets					
Property, plant and equipment	11	133,884	147,605	132,816	146,390
Other financial assets	13	17,610	13,321	17,630	13,341
Deferred tax assets	8.3	33,913	37,708	33,674	37,474
Total non-current assets		185,407	198,634	184,120	197,205
Current assets					
Inventories	15	12,634	11,835	11,868	11,298
Trade and other receivables	16	22,348	14,162	22,057	13,844
Other financial assets	13	483	2,746	483	2,746
Other assets	14(a)	18,256	20,554	19,216	22,112
Assets held for sale	14(b)	5,079	3,420	5,079	3,420
Cash and bank balances	9	653	2,440	495	2,215
Total current assets		59,453	55,157	59,198	55,635
Total assets		244,860	253,791	243,318	252,840
Equity and liabilities					
Capital and reserves					
Issued capital	17(a)	77,271	77,271	77,271	77,271
Other capital contributions from shareholders	17(b)	35,000	5,000	35,000	5,000
Reserves	19	2,515	10,933	2,515	10,933
Accumulated losses	20	(130,308)	(58,529)	(130,866)	(59,247)
Total equity		(15,522)	34,675	(16,080)	33,957
Non-current liabilities					
Borrowings	21	28,962	33,420	28,962	33,420
Other financial liabilities	22	35,573	9,799	35,573	9,799
Deferred tax liabilities	8.3	33,913	37,708	33,788	37,597
Provisions	23	6,532	5,219	6,491	5,184
Total non-current liabilities		104,980	86,146	104,814	86,000
Current liabilities					
Trade and other payables	24	87,082	73,753	86,274	73,674
Borrowings	21	40,353	34,539	40,353	34,539
Other financial liabilities	22	1,510	818	1,510	818
Provisions	23	12,582	17,629	12,572	17,621
Deferred revenue	24	13,875	6,231	13,875	6,231
Total current liabilities		155,402	132,970	154,584	132,883
Total liabilities		260,382	219,116	259,398	218,883
Total equity and liabilities		244,860	253,791	243,318	252,840

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

Consolidated statement of changes in equity for the year ended 31 December 2015

Consolidated	Share capital K'000	Contributed equity K'000	Revaluation reserve K'000	Retained earnings K'000	Total K'000
Balance at 1 January 2015	77,271	-	10,166	(49,058)	38,379
Additional capital contribution from shareholders	-	5,000	-	-	5,000
Exchange gain on translation of foreign operations	-	-	-	(50)	(50)
Revaluation of aircraft (net of tax)	-	-	4,874	-	4,874
Impairment on revalued aircraft	-	-	(3,377)	-	(3,377)
Disposal of rotable parts	-	-	(14)	14	-
Reversal of deferred tax liability on sale of rotables	-	-	(716)	-	(716)
Net loss for the year	-	-	-	(9,435)	(9,435)
Balance at 31 December 2015	77,271	5,000	10,933	(58,529)	34,675
Additional capital contribution from shareholders	-	30,000	-	-	30,000
Exchange gain on translation of foreign operations	-	-	-	(119)	(119)
Revaluation of aircraft (net of tax)	-	-	770	-	770
Impairment on revalued aircraft (net of tax)	-	-	(8,428)	-	(8,428)
Disposal of rotable parts	-	-	155	(14)	141
Reversal of deferred tax liability on sale of rotables	-	-	(915)	-	(915)
Net loss for the year	-	-	-	(71,646)	(71,646)
Balance at 31 December 2016	77,271	35,000	2,515	(130,308)	(15,522)

Company	Share capital K'000	Contributed equity K'000	Revaluation reserve K'000	Retained earnings K'000	Total K'000
Balance at 1 January 2015	77,271	-	10,166	(49,694)	37,743
Additional capital contribution from shareholders	-	5,000	-	-	5,000
Revaluation of aircraft (net of tax)	-	-	4,874	-	4,874
Impairment on revalued aircraft	-	-	(3,377)	-	(3,377)
Disposal of rotable parts/aircraft	-	-	(14)	14	-
Reversal of deferred tax liability on sale of rotable parts	-	-	(716)	-	(716)
Net loss for the year	-	-	-	(9,567)	(9,567)
Balance at 31 December 2015	77,271	5,000	10,933	(59,247)	33,957
Additional capital contribution from shareholders	-	30,000	-	-	30,000
Revaluation of aircraft (net of tax)	-	-	770	-	770
Impairment on revalued aircraft (net of tax)	-	-	(8,428)	-	(8,428)
Disposal of rotable parts/aircraft	-	-	155	(14)	141
Reversal of deferred tax liability on sale of rotable parts	-	-	(915)	-	(915)
Net loss for the year	-	-	-	(71,605)	(71,605)
Balance at 31 December 2016	77,271	35,000	2,515	(130,866)	(16,080)

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

Consolidated statement of cash flows for the year ended 31 December 2016

	Notes	Consolidated		Company	
		Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
		K'000	K'000	K'000	K'000
Cash flows from operating activities					
Receipts from customers		216,327	206,211	213,648	213,858
Other revenue		8,360	7,825	8,360	7,825
Payments to suppliers and employees		(230,622)	(202,042)	(229,181)	(209,617)
Cash absorbed by/generated from operations		(5,935)	11,994	(7,173)	12,066
Interest paid		(4,727)	(5,384)	(4,727)	(5,384)
Net cash absorbed/ generated by operating activities		(10,662)	6,610	(11,900)	6,682
Cash flows from investing activities					
Payments for property, Land and		(248)		(248)	
Payments for property, plant and equipment		(2,211)	(2,590)	(2,211)	(2,436)
Payment for aircraft improvements		(18,341)	(19,849)	(18,341)	(19,849)
Payment for purchase of rotables		(2,958)	(5,985)	(2,958)	(5,985)
Payment for purchase of motor vehicle		(114)	(475)	(114)	(339)
Proceeds from disposal of aircraft and rotables		1,391	11,436	1,391	11,436
Proceeds from disposal of property, plant and equipment		-	103	-	-
Net cash used in investing activities		(22,481)	(17,360)	(22,481)	(17,070)
Cash flows from financing activities					
New shares issued		-	-	-	-
Proceeds from borrowings (secured notes)		21,500	(1,701)	21,500	(1,701)
Other capital contributions from shareholders		10,000	5,000	10,000	5,000
Proceeds from borrowings/ (repayments)					
- Financial institutions		(5,538)	-	(5,538)	-
Credit Corp		(1,139)		(1,139)	
- Affiliated/ Related parties			-	1,305	(218)
Net generated by financing activities		24,823	3,299	26,128	3,081
Net increase / (decrease) in cash and cash equivalents		(8,320)	(7,451)	(8,253)	(7,307)
Cash and cash equivalents at the beginning of the year		(17,641)	(10,190)	(17,866)	(10,559)
Cash and cash equivalents at the end of the year	9	(25,961)	(17,641)	(26,119)	(17,866)
Represented by:					
Cash at bank and on hand		653	2,440	495	2,215
Bank overdraft		(26,614)	(20,081)	(26,614)	(20,081)

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

1. General information

PNG Air Limited (the 'Parent' or 'Parent Company') is incorporated in Papua New Guinea (PNG). The Parent Company was formerly known as Airlines of Papua New Guinea Limited and changed its name to PNG Air Limited on 29 June 2016. The addresses of its registered office and principal place of business are disclosed in the Directors report. The principal activities of the Company and its subsidiaries (the Group) are categorized in note 6 in the segment note.

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

2.1 New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The Group has applied these amendments for the first time in the current year. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirements for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Group's financial statements as the Company is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The Group has applied these amendments for the first time in the current year. The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.
The application of these amendments has had no impact on the Company's financial statements as the Group did not have any such transactions in the current year.

Amendments to IAS 1 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Company, and should be separated into the share items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

Amendments to IAS 16 and IAS 38 ***Clarification of Acceptable Methods of Depreciation and Amortisation***

The Company has applied these amendments for the first time in the current year. The amendment to IAS 16 prohibits entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Company already uses the straight-line method of depreciation for its property, plant and equipment, the application of these amendments has had no impact on the Company's financial statements.

Amendments to IAS 16 and IAS 41 ***Agriculture: Bearer Plants***

The Company has applied these amendments for the first time in the current year. The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The application of these amendments has had no impact on the Company's financial statements as the Company is not engaged in agricultural activities.

Annual Improvements to IFRSs 2012-2014 Cycle

The Company has applied these amendments for the first time in the current year. The *Annual Improvements to IFRSs 2012-2014 Cycle* include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of the market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Company's financial statements.

2.2 New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)[2]
IFRS 16	Leases[3]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2.2 New and revised IFRSs in issue but not yet effective (cont'd)

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that exist at that date, the directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Company undertakes a detailed review.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

IFRS 15 applies to annual periods beginning on or after 1 January 2018. The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

2.2 New and revised IFRSs in issue but not yet effective (cont'd)

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related Interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lease accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will be also be affected as operating lease payments under IAS 17are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 applies to annual periods beginning on or after 1 January 2019. The directors of the Company anticipate that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Company performs a detailed review.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
i) the original liability is derecognised;

ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. The directors of the Company do the anticipate that the application of the amendments in the future will have a significant impact on the Company's financial statements as the Company does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

2.2 New and revised IFRSs in issue but not yet effective (cont'd)

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Company's financial statements as the Company does not have an associate or joint venture that is accounted for using the equity method.

Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply to annual periods beginning on or after 1 January 2017 with earlier application permitted. The directors of the Company do not anticipate that the application of these amendments to will have a material impact on the Company's financial statements.

Amendments to IAS12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether the taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible differences of that type, but separately from other types of deductible temporary differences;

3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount of there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Company's financial statements.

3.Significant accounting policies

3.1 Statement of compliance
The financial statements of PNG Air Limited and its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997.

3.2 Basis of preparation
The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.
All amounts are presented in Papua New Guinea Kina unless otherwise noted.
Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, therefore ensuring that the substance of the underlying transactions or other events is reported. The accounting policies adopted are consistent with those of the previous year unless otherwise specified.

The principal accounting policies are set out below.

3.3 Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and subsidiaries that are controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

3.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

3.4.1 Carriage of passenger and freight

Revenue from the carriage of passengers and freight is recognised at the time the passenger or freight is uplifted for carriage, includes concession revenue and is after deducting returns, commissions and taxes.
3.4.2 Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.4.3 Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

3.5 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see 3.7 below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3.6 Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Papua New Guinea Kina ('K'), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

Exchange differences are recognised in statement of comprehensive income in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

3.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of profit or loss in the period in which they are incurred.

3.8 Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

3.9 Taxation

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

3.9.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.9.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial

recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.9.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in statement of comprehensive income, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside statement of comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

3.10 Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Rotable parts held for use in the supply of goods or services are stated at the revalued amounts, being the fair value at the date of revaluation, less any subsequent depreciation and accumulated impairment losses. Revaluations for aircraft and rotables are performed with sufficient regularity (i.e. annually) such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

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

Freehold land is not depreciated.

Plant and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method except for aircraft and aircraft components which are depreciated based on usage. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Aircraft held for use in the supply of services are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Owned aircraft are depreciated based on estimated useful life and usage of its components, as each component of an aircraft namely airframe, propeller, landing gear, engine and auxiliary power unit, have specific useful lives prescribed by the manufacturer and their specific usage.

Effective annual depreciation rates resulting from those methods are:

Dash 8 Aircraft	6.5%

Twin Otter aircraft did not operate after 31 January 14 following a decision by the board to cease their operations.

Other major depreciation rates are:

Buildings	3.00% straight line
Plant and equipment	11.25% straight line
Motor vehicle	30.00% straight line

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

3.10.1 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The impairment loss recognised during the year was taken to revaluation reserve.

3.11 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the Internal Revenue Commission, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the Internal Revenue Commission is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Internal Revenue Commission is classified as operating cash flows.

3.12 Overhaul of Aircraft Engines and Major Components

The cost associated with the overhaul of aircraft engines and major components excluding leased assets is amortised over the lifetime of those specific overhaul costs. When aircraft are revalued these costs are taken into account to arrive at the revaluation increase or decrease, hence the costs will be adjusted accordingly to reflect the fair value of the total aircraft asset upon revaluation.
In relation to leased assets, the net surplus of overhaul costs (less amount claimed on maintenance reserve from lessor) is capitalised and amortised over the lifetime of those assets or remaining lease term whichever is lower. Any shortfall is expensed.

3.12.1 The cost of subsequent major cyclical maintenance checks

The cost of subsequent major cyclical maintenance checks for owned aircraft are capitalised and depreciated over the scheduled usage period to the next major inspection or the remaining life of the aircraft.
The costs incurred for scheduled major maintenance of the aircraft's fuselage and engines are capitalised and depreciated until the next maintenance. The depreciation rate is determined on technical grounds, according to its use expressed in terms of cycles and flight hours.

In case of aircraft under operating leases, current lease contracts establish the obligation of the company (lessee) to make deposits to the lessors as a guarantee of compliance with the maintenance and return conditions. The maintenance costs for leased aircraft are accrued on the basis of aircraft usage to reflect the maintenance reserve requirement per lease agreement. When a major maintenance is performed that expenditure is then offset against the maintenance provision.
The unscheduled maintenance of aircraft and engines, as well as minor maintenance, are charged to results as incurred.

3.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs include the cost of direct materials and cost of transportation and duties are expensed as and when incurred.
Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.14 Financial instruments

3.14.1 Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through statement of comprehensive income, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in statement of comprehensive income incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in statement of comprehensive income.

3.14.2 Financial liabilities and equity instruments issued by the Group

3.14.2.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.14 Financial instruments (cont.)

3.14.2.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

3.14.2 .3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

3.14.2.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss.

3.14.2.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

3.14.2.6 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.14.3 Derivative financial instruments

The Group may enter into forward contracts to manage its exposure to foreign exchange rate risk.
Cash flow hedging instruments recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in equity and subsequently reclassified to profit or loss.
A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

3.15 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.16 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

3.17 Comparative Amounts
Where necessary, comparative figures have been adjusted to conform to current disclosure and reclassifications of balances. This has not resulted in any adjustment to net assets or retained earnings.

3.18 Going Concern

The financial statements have been prepared on the going concern basis, which assumes that the Group will be able to meet its liabilities and obligations as and when they fall due in the normal course of business for the foreseeable future.

The consolidated entity recorded a loss before tax of K73.5 million (2015: Loss of K9.8 million) and experienced net cash outflows of K8.32 million (2015: net outflow of K7.45 million) for the year ended 31 December 2016.

As at 31 December 2016 the consolidated entity had a working capital deficiency, being an excess of current liabilities over current assets, of K95.9 million and a net asset deficiency of K15.5 million.

As disclosed in the Annual Report for the year ended 31 December 2015, the Directors outlined the key aspects of funding the business based on management's business plan which included:

- A further equity raising;
- The sale of the refuelling business;
- The continued forbearance of the consolidated entity's major creditors;
- Continuing support from financial lenders;
- The planned sale of the Dash 8's as part of the re-fleeting policy over the next five years; and
- Restructuring initiatives resulting in sufficient operating profit and positive cash flows to enable the consolidated entity to meet its liabilities as and when they fall due.

Management and the Directors continue to meet with potential investors, major shareholders and the Group's major financier (BSP) who continues to provide support.

The financial report has been prepared on the going concern basis, based on management's business plan which incorporates the following:

- Receipt of the additional capital from NasFund of K20 million and K10 million from MRDC.
- Continued support of financial lenders. This include additional lending of K5 million by existing Note holders and the restructure and extension of the finance facilities with BSP until 30 September 2018. The facility restructure with BSP includes conversion of a part of the overdraft to a term loan and reduction of interest rates and has been extended and is subject to an annual review on or before 15 May 2018.
- Continuing forbearance from the consolidated entity's major creditors. The Group has entered into agreed deferred payments plans with certain creditors, while final agreement is being negotiated with one creditor.
- The Group continuing to improve performance and managing costs. This includes:
    - growing the RPT business as has been evident during 2016 and 2017,
    - winning of a major charter contract for the next 3 years and continuing to pursue new charter contracts with corporate customers, and
    - other ongoing cost reduction measures.

- Sale of PNG Ground Services Ltd, a wholly owned subsidiary by December 2017 subject to necessary approvals.

3.18 Going Concern (cont'd)

At the date of this report and having considered the above factors, the Directors are confident that the consolidated entity will be able to continue as a going concern given the following factors:

a. MRDC and NasFund Boards have indicated their continuing support to the Airline, during this transition phase. MRDC has committed to provide additional capital of K10 million and NASFUND's board has approved the injection of additional K20 million capital, all of which have been duly received in 2017.

b. PNG Sustainable Development Program (PNGSDP) invested K20 million in July 2016 and a further K5 million in March 2017 in the form of Notes under the Secured Notes program.

c. BSP provided an increase and extension of the existing facilities during 2016. Subsequent to which facilities with BSP have been restructured during 2017 by converting part of the overdraft to a term loan and reducing interest rates, indicating continued support extended by the bank. The restructured facilities are subject to an annual review with next review date on or before 15 May 2018.

d. Management are in continual discussion with major creditors. Group has entered into agreed deferred payment plans with certain creditors. The deferred payment plans entered into have been met. Where payment plans have been proposed but are yet to be formally approved, the Group continues to make payments according to these proposed plans.

e. The Airline had negotiated & terminated the lease of its all seven leased Dash 8 aircraft with Aircraft Solutions Singapore Pte Ltd A further negotiation was conducted with Avions de transport regional ("ATR") and leased back four of those aircraft at reduced lease charges. This arrangement has enabled the Airline to release three leased Dash 8 aircraft from its fleet in addition to the one that was released to the lessor in March 2016. The release of three Dash 8 and new lease of four Dash 8 aircraft expected to generate substantial cumulative future savings to the end of year 2020. Formal agreements were executed between the Airline and relevant parties during July 2016.

f. Further to the above, subsequent to the reporting period, the Airline has signed a letter of agreement to purchase five more ATR 72-600 aircraft from ATR. This commitment is in line with the Group's overall long term fleet plan of progressively exiting Dash 8 aircraft. One aircraft each annually is to be inducted starting from mid-2018 with the option of deferring the delivery by 24 months if necessary and upon delivery of each ATR aircraft a leased Dash 8 aircraft will be returned to ATR. The Airline has deferred delivery of the first aircraft in 2018 by 24 months and hence as per current plans the first delivery of these additional aircraft will be in late-2019;

g. The Group continues to improve performance and managing costs. The restructuring initiatives continue to yield results in reducing costs. RPT business continues to grow and the Group has been successful in obtaining new charter contracts with corporate customers; and

h. The Group has received a firm offer from Pacific Energy Aviation (PNG) Ltd to acquire PNG Ground Services Ltd, a wholly owned subsidiary of PNG Air Limited. The proposed transaction has been approved by ICCC and the Group is negotiating final agreements.

Notwithstanding that the respective outcomes of the matters referred to above are not entirely within the control of the consolidated entity, the Board is confident, based on achievement of previous milestones, that it can achieve successful outcomes and believes that it is appropriate to prepare these financial statements on the going concern basis.

However, in the event that the consolidated entity and the Company are unable to secure successful outcomes in relation to the matters described above, significant uncertainty would exist as to the ability of the consolidated entity and the Company to continue as going concerns and therefore whether they would be able to realise their assets and discharge their liabilities in the normal course of business.

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

4 Critical judgements in applying accounting estimates

The following are the critical judgments, apart from those involving estimations (see 4.1 below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

4.1 Key sources of estimation uncertainty

The following areas of estimations and application of accounting policies are taken to ensure that a true and fair financial position and performance is represented at year end. None of the following accounting estimates had a material effect on the preparation of the year end financials.

Bad debts are treated on an individual basis and no general provision has been made. Allowances for doubtful debtors are provided for based on irrecoverable amounts determined by reference to past default experience of the counterparty.

Inventory obsolescence is recognised on the basis of inventory ageing, therefore inventory that has not been used in the last 5 years is provided for 50% of the value and inventory and inventory items that have not been used for more than 5 years is fully provided for.

The following assumptions underlie the calculation of long service leave benefits:

Probability that the leave will be taken based on years of service:

1. Total annual gross salary is factored by annual PNG CPI change % to reflect annual wage increase.
2. The above is then multiplied by the number of years yet to be completed till 15 years to arrive at salary at 15 years.
3. LSL at 15 years is then calculated based on the above salary at 15 years
4. LSL at 15 years is discounted at PNG CPI 6.2% to arrive at NPV of LSL.
5. NPV of LSL is then adjusted for the probability factors arrived based on range from 3 to 15 years as shown below to arrive at probable liability of LSL

5. Revenue & costs

An analysis of the Group's revenue for the year from continuing operations is as follows:

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
5. (a) Revenue				
Revenue from carriage of passenger and cargo	198,977	170,199	198,977	170,199
Revenue from charters	12,972	36,384	12,972	36,384
Revenue from sale of fuel	2,652	2,533	-	-
	214,601	209,116	211,949	206,583

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
5. (b) Other revenue	K'000	K'000	K'000	K'000
Engineering sales	40	471	40	471
Interest received	1	2	1	2
Aircraft handling income	4,013	3,919	4,013	3,919
Other revenue	3,237	1,845	3,237	1,845
Rent received	54	130	54	
Realised foreign currency gain	383	(1,604)	383	(1,604)
Unrealised foreign currency gain/ (loss)	631	2,781	631	2,781
Profit/ (Loss) on the sale of plant & equipment	73	3,204	73	3,204
	8,432	10,748	8,432	10,748

5.Revenue & costs (cont.)

5. (c) Cost of sales	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Direct activity costs	10,558	9,151	9,466	7,973
Fuel, air navigation & landing costs	41,953	41,609	41,680	41,515
Engineering costs	31,774	25,302	31,774	25,302
Depreciation of aircraft & rotable improvements	8,608	8,762	8,608	8,762
Lease hire costs	36,367	16,687	36,367	16,687
Aircraft insurance costs	5,490	4,026	5,490	4,026
	134,750	105,537	133,385	104,265

5. (d) Operational expenses	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Crew and engineering staff costs	62,077	57,735	62,077	57,735
Other operational staff costs	18,010	15,998	17,838	15,812
Other operational costs	3,893	3,040	3,630	2,758
	83,980	76,773	83,545	76,305

5. (e) Administration expenses	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Management and other admin staff costs	15,034	13,792	15,035	13,792
Other administration costs	10,400	6,642	9,941	6,247
	25,434	20,434	24,976	20,039

5. (f) Loss before tax	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Operating (loss)/profit before significant items	(34,840)	4,211	(34,821)	4,200
Significant items-				
ATR induction & re-branding costs	(6,603)	(13,979)	(6,603)	(13,979)
Dash 8 early lease exit costs	(32,088)	-	(32,088)	-
	(73,531)	(9,768)	(73,512)	(9,779)

6. Segment information

6.1 Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The group's reportable segments under IFRS 8 are as follows;

- Regular Passenger Travel (RPT)
- Aircraft charters
- Other-comprising of fuel sales

6.2 Segment assets and liabilities

The Group used the same assets to generate the revenue of the three segments noted above.

6.3 Geographical information

The Group operates in one principal geographical area which is its country of domicile.

7. Finance costs

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Interest on loans & lease	1,172	1,646	1,172	1,646
Interest on bank overdraft	2,100	1,730	2,100	1,730
Interest on other borrowings (non-financial institutions)	2,509	2,412	2,509	2,412
	5,781	5,788	5,781	5,788

8. Income taxes

8.1 Income tax recognised in profit or loss

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Tax benefit / (expense) comprises:				
Current tax benefit/ (expense) in respect of the current year	22,060	2,931	22,054	2,934
Deferred tax benefit relating to the origination and reversal of temporary differences	(20,175)	(2,598)	(20,147)	(2,722)
Total tax benefit /(expense) relating to continuing operations	1,885	333	1,907	212

8. Income taxes (cont.)

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

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Loss before tax	(73,532)	(9,768)	(73,512)	(9,779)
Income tax benefit calculated at 30%	22,060	2,931	22,054	2,934
Effect of prior year adjustments	(14)	(7)	-	-
Effect of expenses that are not deductible in determining taxable profit (Tax effect of permanent differences)	(7)	-	(7)	-
Effect of tax losses not recognized as a deferred tax asset	(20,154)	(2,591)	(20,140)	(2,722)
Income tax benefit/(expense) recognised in loss or profit	1,885	333	1,907	212

The tax rate used for the 2016 and 2015 reconciliations above is the corporate tax rate of 30% payable by corporate entities under tax law that have been enacted or substantively enacted by reporting date.

8.2 Current tax assets and liabilities

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Current tax assets				
Tax refund receivable	18	18	-	-
	18	18	-	-
Current tax liabilities				
Income tax payable	-	-	-	-
	-	-	-	-

8. Income taxes (cont.)

8.3 Deferred tax balances

Deferred tax assets/ (liabilities) arise from the following:

Consolidated 2016	Opening balance K'000	Recognised in statement of comprehensive income K'000	Closing balance K'000
Temporary differences			
Doubtful debts	91	(8)	83
Leave entitlements	2,608	307	2,915
Maintenance	4,247	(1,428)	2,819
Stock Obsolescence	535	21	556
	7,481	(1,108)	6,373
Tax losses	30,227	(2,687)	27,540
Deferred tax assets	37,708	(3,795)	33,913
Capitalised expenses	(21,918)	(2,812)	(24,730)
Inventory	(3,389)	(171)	(3,560)
Fixed assets	(11,567)	6,133	(5,434)
Unrealised currency losses	(834)	645	(189)
Deferred tax liabilities	(37,708)	(3,795)	(33,913)

Consolidated 2015	Opening balance K'000	Recognised in statement of comprehensive income K'000	Closing balance K'000
Temporary differences			
Doubtful debts	948	(857)	91
Leave entitlements	2,219	389	2,608
Maintenance	3,268	979	4,247
Investment property	385	(385)	-
Stock Obsolescence	592	(57)	535
	7,412	69	7,481
Unused tax losses and credits			
Tax losses	24,078	6,149	30,227
Other			
Deferred tax assets	31,490	6218	37,708
Capitalised expenses	(17,899)	(4,019)	(21,918)
Inventory	(4,522)	1,133	(3,389)
Fixed assets	(8,912)	(2,655)	(11,567)
Unrealised currency losses	(157)	(677)	(834)
	(31,490)	(6,218)	(37,708)

8. Income taxes (cont.

Company 2016	Opening balance K'000	Recognised in statement of comprehensive income K'000	Closing balance K'000
Temporary differences			
Doubtful debts	78	(7)	71
Leave entitlements	2,595	305	2,900
Maintenance	4,247	(1,428)	2,819
Stock Obsolescence	535	21	556
	7,455	(1,109)	6,346
Unused tax losses and credits			
Tax losses	30,019	(2,691)	27,328
Deferred tax assets	37,474	(3,800)	33,674
Capitalised expenses	(21,918)	(2,812)	(24,730)
Inventory	(3,389)	(171)	(3,560)
Fixed assets	(11,456)	6,147	(5,309)
Unrealised currency gains/(loss)	(834)	645	(189)
Deferred tax liabilities			
	(37,597)	3,809	(33,788)

Company 2015	Opening balance K'000	Recognised in statement of comprehensive income K'000	Closing balance K'000
Temporary differences			
Doubtful debts	948	(870)	78
Leave entitlements	2,208	387	2,595
Maintenance	3,268	979	4,247
Stock Obsolescence	592	(57)	535
	7,016	439	7,455
Unused tax losses and credits			
Tax losses	24,378	5,641	30,019
Deferred tax assets	31,394	6,080	37,474
Capitalised expenses	(17,796)	(4,122)	(21,918)
Inventory	(4,523)	1,134	(3,389)
Fixed assets	(8,918)	(2,538)	(11,456)
Unrealised currency gains/(loss)	(157)	(677)	(834)
Deferred tax liabilities	(31,394)	(6,203)	(37,597)

9. Cash & cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	Consolidated		Company	
	Year ended 31/12/16 K'000	Year ended 31/12/15 K'000	Year ended 31/12/16 K'000	Year ended 31/12/15 K'000
Cash and bank balances	653	2,440	495	2,215
Bank overdraft	(26,614)	(20,081)	(26,614)	(20,081)
	(25,961)	(17,641)	(26,119)	(17,866)

10. Commitments for expenditure

Expenditure commitments of the Group in respect of lease of ATR 72-600 aircraft and Dash 8 aircraft and early return of leased Dash 8 aircraft are set out below.

	K'000
1 to 2 years	97,577
3 to 4 years	176,016
5 years & longer	197,402

The Group has entered into an agreement with Vector Aerospace to maintain its Dash 08 aircraft engines through a power by the hour programme through progressive payments in respect of future engine repairs or events. Monthly payments are to be made at a certain rate per engine hour based on the actual engine hours flown in a month for the engines covered under the programme.

The Group as the lessee under the ATR operating lease agreements is obliged to pay for maintenance reserves on account of the operation of the aircraft on a monthly basis at certain rates.

11. Property, plant and equipment

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Cost or valuation	221,683	226,559	219,688	224,563
Accumulated depreciation	(87,799)	(78,954)	(86,870)	(78,173)
	133,884	147,605	132,818	146,390
Land & Buildings	3,592	3,487	2,793	2,641
Aircraft	83,973	98,504	83,973	98,505
Plant & Equipment	6,386	5,488	6,206	5,267
Rotable Parts	39,502	39,589	39,502	39,590
Motor Vehicles	431	537	342	387
	133,884	147,605	132,816	146,390

11. Property, plant and equipment (cont.)

Consolidated

	Land & Buildings	Aircraft	Plant & Equipment	Rotable Parts	Motor Vehicle	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Cost or valuation						
Balance at 1 January 2015	3,770	137,003	12,279	45,136	2,977	201,165
Additions	350	19,849	2,239	5,985	478	28,901
Impairment	-	(4,825)	-	-	-	(4,825)
Disposals	-	(110)	(42)	(3,057)	(233)	(3442)
Transferred from leased assets	-	-	-	-	-	-
Revaluation	-	4,760	-	-	-	4,760
Balance at 31 December 2015	4,120	156,677	14,476	48,064	3,222	226,559
Additions	248	18,341	2,211	2,958	114	23,872
Impairment	-	(24,008)	-	-	-	(24,008)
Disposals	-	-	(13)	(4,746)	(96)	(4,855)
Disposals-revaluation	-	-	-	13	-	13
Disposals-impairment	-	-	-	209	-	209
Revaluation	-	(107)	-	-	-	(107)
Balance at 31 December 2016	4,368	150,903	16,674	46,498	3,240	221,683
Accumulated depreciation						
Balance at 1 January 2015	496	50,591	7,917	8,964	2,688	70,656
Depreciation expense	137	8,763	1,086	-	230	10,216
Depreciation on revaluation	-	1,022	-	-	-	1,022
Disposal	-	(2,203)	(15)	(489)	(233)	(2,940)
Balance at 31 December 2015	633	58,173	8,988	8,475	2,685	78,954
Depreciation expense	143	8,608	1,307	-	220	10,278
Depreciation on revaluation	-	1,308	-	-	-	1,308
Disposal	-	-	(7)	(1,032)	(96)	(1,135)
Reclassification	-	447	-	(447)	-	-
Write back	-	(1,606)	-	-	-	(1,606)
Balance at 31 December 2016	776	66,930	10,288	6,996	2,809	87,799
Net book value at 31 December 2016	3,592	83,973	6,386	39,502	431	133,884
Net book value at 31 December 2015	3,487	98,504	5,488	39,589	537	147,605

11.(i) *One Twin Otter aircraft with carrying amount of K 5,079,000 was classified as assets held for sale on the balance sheet (refer Note 14) following a board decision to sell the Twin otter fleet.*
11. (ii) *Included in Rotable parts are Assets under finance leases with BSP with net book value K 8,499 thousand as at 31 December 2016 and K9,142 thousand 31 December 2015.*
11. (iii) *Rotable parts are depreciated from the day these are fitted in the aircraft which is when these parts are used.*

11. Property, plant and equipment (cont.)

Company

	Land & Buildings K'000	Aircraft K'000	Plant & Equipment K'000	Rotable Parts K'000	Motor vehicle K'000	Total K'000
Cost or valuation						
Balance at 1 January 2015	2,863	137,003	11,866	45,133	2,598	199,463
Additions	241	19,849	2,195	5,987	336	28,608
Revaluation	-	4,760	-	-	-	4,760
Transferred from leased assets	-	-	-	-	-	-
Disposals	-	(110)	(42)	(3,057)	(233)	(3,442)
Impairment	-	(4,825)	-	-	-	(4,825)
Balance at 31 December 2015	3,104	156,677	14,019	48,063	2,701	224,564
Additions	248	18,341	2,211	2,958	114	23,872
Impairment	-	(24,008)	-	-	-	(24,008)
Disposals	-	-	(13)	(4,746)	(96)	(4,855)
Disposals-Impairment	-	-	-	209	-	209
Disposals- revaluation	-	-	-	13	-	13
Revaluation	-	(107)	-	-	-	(107)
Balance at 31 December 2016	3,352	150,903	16,217	46,497	2,719	219,688
Accumulated depreciation						
Balance at 1 January 2015	376	50,591	7,719	8,961	2,376	70,023
Depreciation expense	87	8,763	1,048	-	171	10,069
Depreciation on revaluation	-	1,022	-	-	-	1,022
Disposal	-	(2,203)	(15)	(489)	(233)	(2,940)
Balance at 31 December 2015	463	58,173	8,752	8,472	2,314	78,174
Depreciation expense	94	8,608	1,265	-	162	10,129
Depreciation on revaluation	-	1,308	-	-	-	1,308
Write back	-	(1,606)	-	-	-	(1,606)
Reclassification	-	447	-	(447)	-	-
Disposal	-	-	(7)	(1,032)	(96)	(1,135)
Balance at 31 December 2016	557	66,930	10,010	6,996	2,378	86,870
Net book value at 31 December 2016	2,795	83,973	6,207	39,502	341	132,818
Net book value at 31 December 2015	2,641	98,504	5,267	39,591	387	146,390

11. (i) *One Twin Otter aircraft with carrying amount of K 5,079,000 was classified as assets held for sale on the balance sheet (refer Note 14) following a board decision to sell the Twin otter fleet.*
11. (ii) *Included in Rotable parts are Assets under finance leases with BSP with net book value K 8,499 thousand as at 31 December 2016 and K9,142 thousand 31 December 2015.*
11. (iii) *Rotable parts are depreciated from the day these are fitted in the aircraft which is when these parts are used.*

11. Property, plant and equipment (cont.)

11.1 Impairment losses recognised in the period

During the year, Group recognised impairment of K12.04 million in respect of Dash 8 aircraft related non –current assets through the revaluation reserve (2015: K4.82 million).

11.2 Depreciation

The following useful lives are used in the calculation of depreciation:

Aircraft are depreciated based on estimated useful life and usage of its components, as each component of an aircraft namely airframe, propeller, landing gear, engine and auxiliary power unit, have specific useful lives prescribed by the manufacturer and their specific usage.

Buildings	3.00% straight line
Plant and equipment	11.25% straight line
Motor vehicle	30.00% straight line

11.3 Aircraft carried at fair value

Dash 8 aircraft were revalued to K 76.9 million at 31 December 2016 (31 December 2015: K 82.0 million) and the carrying amount as at 31 December 2016 has been adjusted to reflect the fair value. The revaluations were based on the fair market value in continued use of the Dash 8 aircraft fleet. The valuations were based on the physical inspection of the aircraft, relevant documents together with the comparison of recent sale prices of similar aircraft type. Further, aircraft ageing has also been factored in. The revaluations for the Group were undertaken by a Registered Independent Aircraft valuer not related to the Group and the valuer has appropriate qualifications and recent experience in the fair value measurement of Aircraft.

Details of the Group's aircraft and information about the fair value hierarchy as at December 2016 are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31/12/16
	K'000	K'000	K'000	K'000
Aircraft	-	76,952	-	76,952

11.4 Assets pledged as security

Aircraft with a carrying amount of K76.9 million (2015: K82.0 million) have been pledged to secure borrowings of the Group (see note 21). Aircraft and land and buildings have been pledged as security for bank loans, leases, secured notes and other financial institution loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

12. Subsidiaries

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Subsidiary	Principal activities	Place of Incorporation	Ownership Interest	
			2016	2015
Galatoire Ltd	Investment property	Papua New Guinea	100%	100%
PNG Ground Services Ltd	Supplying Aviation fuel	Papua New Guinea	100%	100%
APNG Services Pty Ltd	Supply of International Aircrew	Australia	100%	100%

The Company owns 100% equity shares of three subsidiary entities and the relevant activities of these subsidiary entities are determined by the board of directors of PNG Air Limited on voting rights. Therefore, the directors of the Group concluded that the Company has full control over three subsidiary entities and they are consolidated in these financial statements.

13. Other financial assets

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Investments and deposits carried at cost				
Security deposits on leased assets	17,610	13,321	17,610	13,321
Investments in subsidiaries	-	-	20	20
ATR lease incentive assets (refer note 22)	483	2,746	483	2,746
	18,093	16,067	18,113	16,087
Current asset	483	2,746	483	2,746
Non-current asset	17,610	13,321	17,630	13,341
	18,093	16,067	18,113	16,087

14a. Other assets

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Prepayments to suppliers	8,053	6,936	7,966	6,717
Prepaid maintenance deposits	10,203	13,618	10,203	13,618
Other (i)	-	-	1,047	1,777
	18,256	20,554	19,216	22,112
(i) Loans carried at amortised cost:				
APNG Services Limited	-	-	-	818
Galatoire Limited	-	-	1,048	959
	-	-	1,048	1,777

14b. Held for sale assets

Assets classified as held for sale	5,079	3,420	5,079	3,420

Assets classified as held for sale as at 31 December 2016 include one Twin Otter aircraft. It is expected that the sale of Twin Otter will materialise during the year 2017 as negotiations are underway with the buyers.

15. Inventories

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Consumables stock on hand – at cost	14,487	13,597	13,721	13,059
Goods in transit	-	22	-	23
	14,487	13,619	13,721	13,082
Allowance for stock obsolescence	(1,853)	(1,784)	(1,853)	(1,784)
	12,634	11,835	11,868	11,298

16. Trade and other receivables

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Trade receivables	14,367	12,157	14,134	11,904
Allowance for doubtful debts	(277)	(303)	(235)	(260)
	14,090	11,854	13,899	11,644
Other receivables	8,240	2,290	8,158	2,200
Income tax receivable	18	18	-	-
	22,348	14,162	22,057	13,844

Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost less impairment.

The average credit period on sales of goods is 30 days.

Before accepting any new customer, the Group uses an internal credit appraisal process to assess the potential customer's credit quality and defines credit limits by customer.

Ageing of past due but not impaired

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
61-90 days	742	437	739	437
Over 90 days	524	58	524	58
Total	1,266	495	1,263	495
Average age (days)	24	21	24	21

Movement in the allowance for doubtful debts

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Balance at beginning of the year	(303)	(3,158)	(260)	(3,158)
Impairment provision release/(charge) in the year	25	2,855	25	2,898
Balance at end of the year	(278)	(303)	(235)	(260)

17(a). Issued capital

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Opening Issued capital				
303,000,000 fully paid ordinary shares	77,271	77,271	77,271	77,271
Closing issued capital				
303,000,000 fully paid ordinary shares	77,271	77,271	77,271	77,271

17(b). Other capital contributions from shareholders

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Opening balance	5,000	-	5,000	-
Additional capital contribution from shareholders in the year	30,000	5,000	30,000	5,000
Closing balance	35,000	5,000	35,000	5,000

Two current major shareholders, Mineral Resource Development Company (MRDC) further invested K10.0 million and NasFund converted K20 million Notes towards equity share capital of the Company. Shares have not been issued for this capital contribution as at year end due to formalities to be completed.

18. Loss per share

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	Toea	Toea	Toea	Toea
Basic and diluted loss per share				
From continuing operations	(23.65)	(3.11)	(23.63)	(3.16)
Total	(23.65)	(3.11)	(23.63)	(3.16)

Basic and diluted loss is calculated by dividing the Loss for the year attributable to owners of the company by the weighted average number of shares that were outstanding in the year.

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

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Loss for the year	(71,646)	(9,435)	(71,605)	(9,567)
Earnings used in the calculation of basic and diluted EPS from continuing operations	(71,646)	(9,435)	(71,605)	(9,567)

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	'000	'000	'000	'000
Weighted average number of ordinary shares	303,000	303,000	303,000	303,000

19. Reserves

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Revaluation reserve				
Balance at beginning of year	10,933	10,166	10,933	10,166
Revaluation of aircraft (net of tax)	770	4,874	770	4,874
Impairment on revalued aircraft (net of tax)	(8,428)	(3,377)	(8,428)	(3,377)
Rotables disposal	(760)	(730)	(760)	(730)
Balance at end of year	2,515	10,933	2,515	10,933

The revaluation reserve arises on the revaluation of aircraft and rotables. When revalued aircraft are sold, the portion of the revaluation reserve that relates to that asset (aircraft) is effectively realised, and is transferred directly to retained earnings.

20. Retained earnings and dividends

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Accumulated losses				
Balance at beginning of year	(58,529)	(49,058)	(59,247)	(49,694)
Realised revaluation aircraft/rotables	(15)	14	(14)	14
Exchange loss on translation of foreign operation	(118)	(50)	-	-
Net loss attributable to owners of the Company	(71,646)	(9,435)	(71,605)	(9,567)
Balance at end of year	(130,308)	(58,529)	(130,866)	(59,247)

21. Borrowings

		Consolidated		Company	
		Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
		K'000	K'000	K'000	K'000
a) Current					
Secured loan from other financial institutions	(i)	1,301	1,554	1,301	1,554
Loan BSP & bank overdraft	(ii)	27,638	22,243	27,638	22,243
Finance lease –Bank South Pacific		2,414	3,242	2,414	3,242
Secured notes & loans associated with assets held for sale	(iii)	3,912	2,200	3,912	2,200
Secured notes	(iii)	5,088	5,300	5,088	5,300
		40,353	34,539	40,353	34,539
b) Non-current					
Secured loan from other financial institution	(i)	1,295	2,182	1,295	2,182
Loan – Bank South Pacific	(ii)	-	702	-	702
Finance lease – Bank South Pacific		2,667	5,536	2,667	5,536
Secured notes	(iii)	25,000	25,000	25,000	25,000
		28,962	33,420	28,962	33,420
Total Borrowings		69,315	67,959	69,315	67,959

21.1 Financing facilities

	Consolidated		Company	
	31/12/16	31/12/15	31/12/16	31/12/15
	K'000	K'000	K'000	K'000
Secured loan from other financial institutions				
- amount used	2,596	3,736	2,596	3,736
- amount unused	-	-	-	-
	2,596	3,736	2,596	3,736

	31/12/16	31/12/15	31/12/16	31/12/15
Secured bank overdraft facility	K'000	K'000	K'000	K'000
- amount used	26,614	20,081	26,614	20,081
- amount unused	2,996	4,529	2,996	4,529
	29,610	24,610	29,610	24,610

	31/12/16	31/12/15	31/12/16	31/12/15
Secured bank loans	K'000	K'000	K'000	K'000
- amount used	1,024	2,864	1,024	2,864
- amount unused	-	-	-	-
	1,024	2,864	1,024	2,864

	31/12/16	31/12/15	31/12/16	31/12/15
Secured lease facilities	K'000	K'000	K'000	K'000
- amount used	5,081	8,778	5,081	8,778
- amount unused	4,919	1,222	4,919	1,222
	10,000	10,000	10,000	10,000

	31/12/16	31/12/15	31/12/16	31/12/15
Secured notes	K'000	K'000	K'000	K'000
- amount used	34,000	32,500	34,000	32,500
- amount unused	-	-	-	-
	34,000	32,500	34,000	32,500

21.2 Summary of borrowing arrangements

(i) Credit Corporation of PNG holds a registered first mortgage over the property at Matirogo owned by the Group which is not otherwise secured to Bank of South Pacific as per (ii) or Custos as per (iii).

(ii) The Bank of South Pacific holds a registered first mortgage over the aircraft owned by the Group which are not otherwise secured to Custos as per (iii) and holds a floating charge over the whole of the Company's assets and undertakings including: Called, but unpaid capital; and uncalled capital.

(iii) Custos as the trustee for the note holders holds a registered first mortgage over four of the aircraft owned by the Group.

Details concerning interest rates and repayments are included in Note 25.

22. Other financial liabilities

22.a

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Lease Incentive liability (ATR) - current	1,510	818	1,510	818
Lease incentive liability (ATR) – non current	15,736	9,799	15,736	9,799
	17,246	10,617	17,246	10,617

Sale & purchase agreement between the Group and ATR manufacturer included certain incentives to be provided by ATR manufacturer to support the Airline with the induction expenses. These incentives were then included in the lease through "sale & lease back" agreement. The IAS 17 "Leases" requires these lease incentives to be treated as a reduction of the lease expenses over the lease term of 12 years. The applicable incentives related to each ATR aircraft were recorded as an asset and a liability as and when the respective aircraft were delivered. The asset has been reduced by the funds/parts received from ATR manufacturer.

22.b

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Dash 8 early lease exit liability– non current	19,837	-	19,837	-

Lease exit agreement between the Group and Dash 8 lessor included early return fee payable to the lessor.

23. Provisions

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Provision for annual leave -current (a)	3,185	3,474	3,175	3,466
Provision for maintenance expenses (c)	9,397	14,155	9,397	14,155
	12,582	17,629	12,572	17,621
Provision for long service leave -non-current (b)	6,532	5,219	6,490	5,184
(a) Movement in provision for annual leave				
Balance at the start of the year	3,475	3,420	3,466	3,407
Additional provision recognised	25	3	28	4
Amount used	(315)	51	(319)	55
Balance at the end of the year	3,185	3,474	3,175	3,466
(b) Movement in provision for long service leave				
Balance at the start of the year	5,219	3,980	5,184	3,951
Amount used	(1,405)	(1,289)	(1,406)	(1,289)
Additional provision recognised	2,718	2,528	2,713	2,522
Balance at the end of the year	6,532	5,219	6,491	5,184
(c) Movement in provision for maintenance expenses (i)				
Balance at the start of the year	14,155	10,894	14,155	10,894
Provision recognised	13,461	3,349	13,461	3,349
Amount used	(18,219)	(88)	(18,219)	(88)
Balance at the end of the year	9,397	14,155	9,397	14,155

(i) Provision for maintenance expenses that were related to leased Dash 8 aircraft were reversed against the prepaid maintenance deposit during the year 2016 with the early exit of leases. The balance at end of 2016 relates to ATR aircraft. The company started leasing ATR aircraft from October 2015.

24. Trade and other payables

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Trade payables	52,151	34,594	49,994	32,995
Accrued expenses- fuel	807	1,185	635	726
Accrued expenses – other	30,072	20,214	29,492	20,178
Related party payable	-	-	2113	1,538
Salary and wages tax	4,052	17,760	4,040	18,237
Total Trade & other Payable	87,082	73,753	86,274	73,674
Deferred Revenue (un-availed)	13,875	6,231	13,875	6,231
Total Trade & other Payable & un-availed revenue	100,957	79,984	100,149	79,905

The amounts payable are unsecured and are usually paid between 7 and 60 days after recognition. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Un-availed revenue is made up of sales that have not been uplifted at year end.

25. Financial instruments

25.1 Recognised financial instruments

The Group does not enter into or trade financial instruments, including derivative instruments, for speculative purposes. While the Group does make use of short term deposits and bank overdraft facilities with registered trading banks to manage short term funds, the use of other financial assets and liabilities requires the specific prior approval of the Board of Directors.

25.2 Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

25.3 Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports quarterly to the Group's risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

25.4 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see 25.5 below) and interest rates (see 25.6 below). Market risk exposures are measured using value-at-risk (VaR) supplemented by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

25. Financial instruments (cont.)

25.5 Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. The Group has negotiated a number of contracts with its customers where payments are received in either United States or Australian dollars. The value of these contracts is roughly equal to the anticipated outflow of expenditure in those respective currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31/12/16 K'000	31/12/15 K'000	31/12/16 K'000	31/12/15 K'000
Australian Dollar	359	341	414	607
United States Dollar	6,009	3,591	366	1,324

25.5.1 Foreign currency sensitivity analysis

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

	Australian Dollar impact		United States Dollar impact	
	2016 K'000	2015 K'000	2016 K'000	2015 K'000
Profit or (loss)	13	60	1,668	697

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

25.6 Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating borrowings. Interest rates are subject to change based on review by the financial institutions and agreed by management.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

25. Financial instruments (cont.)

25.7 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and presents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- Loss for the year ended 31 December 2016 would increase/decrease by K346,574 (2015: by increase/decrease K 339,795). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the reduction in variable rate debt instruments.

25.8 Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly. The Group measures credit risk on a fair basis.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and from time to time there may be a significant concentration of credit risk for a particular contract.

25.9 Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

25. Financial instruments (cont.)

25.9.1 Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

			Fixed maturity dates							
	Weighted average effective interest rate	Variable interest rate	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Non interest bearing	Total
	%	%	K'000's	K'000's	K'000's	K'000's	K'000's	K'000's	K'000's	K'000's
GROUP										
31 December 2016										
Financial assets										
Cash & cash equivalents	-	-	652	-	-	-	-	-	-	652
Trade receivables	-	-	-	-	-	-	-	-	14,090	14,090
Other receivables	-	-	-	-	-	-	-	-	8,240	8,240
Security and other deposits	-	-	-	-	-	-	-	-	36,349	36,349
			652	-	-	-	-	-	58,678	59,331
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	52,151	52,151
Other payables	-	-	-	-	-	-	-	-	48,805	48,805
Non-bank loans	13.00%	-	1,470	1,515	129	-	-	-	-	3,114
Bank loans & leases	12.20%	-	3,866	3,099	255	-	-	-	-	7,220
Bank overdraft	12.83%	-	29,861	-	-	-	-	-	-	29,861
Secured notes	8.17%	-	9,736	-	-	-	27,043	-	-	36,779
			44,933	4,614	384	-	27,043	-	100,956	177,930
GROUP										
31 December 2015										
Financial assets										
Cash & cash equivalents	-	-	2,440	-	-	-	-	-	-	2,440
Trade receivables	-	-	-	-	-	-	-	-	11,854	11,854
Other receivables	-	-	-	-	-	-	-	-	2,290	2,290
Security and other deposits	-	-	-	-	-	-	-	-	36,621	36,621
			2,440	-	-	-	-	-	50,765	53,205
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	34,594	34,594
Other payables	-	-	-	-	-	-	-	-	45,504	45,504
Non-bank loans	13.00%	-	1,676	1,249	1,362	-	-	-	-	4,287
Bank overdraft	12.20%	-	22,531	-	-	-	-	-	-	22,531
Bank loans & leases	12.83%	-	6,098	3,307	2,009	2,055	1,309	-	-	14,778
Secured notes	7.84%	-	8,088	26,960	-	-	-	-	-	35,048
			38,393	31,516	3,371	2,055	1,309	-	80,098	156,742

25. Financial instruments (cont.)

	Weighted average effective interest rate	Variable interest rate	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Non-interest bearing	Total
	%	%	K'000's	K'000's	K'000's	K'000's	K'000's	K'000's	K'000's	K'000's
COMPANY										
31 December 2016										
Financial assets										
Cash & cash equivalents	-	-	494	-	-	-	-	-	-	494
Trade receivables	-	-	-	-	-	-	-	-	13,899	13,899
Other receivables	-	-	-	-	-	-	-	-	8,159	8,159
Security and other deposits	-	-	-	-	-	-	-	-	36,261	36,261
Related party loans (PGK)	-	-	-	-	-	-	-	-	1,048	1,048
			494	-	-	-	-	-	59,367	59,861
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	49,994	49,994
Other payables	-	-						-	48,041	48,041
Related party loans (PGK)	-	-	-	-	-	-	-	-	2,113	2,113
Non-bank loans	13.00%	-	1,470	1,515	129	-	-	-	-	3,114
Bank loans & leases	12.83%	-	3,866	3,099	255	-	-	-	-	7,220
Bank overdraft	12.20%	-	29,861	-	-	-	-	-	-	29,861
Secured notes	8.17%	-	9,736	-	-	-	27,043	-	-	36,779
			44,933	4,614	384	-	27,043	-	100,148	177,122
Company										
31 December 2015										
Financial assets										
Cash & cash equivalents	-	-	2,215	-	-	-	-	-	-	2,215
Trade receivables	-	-	-	-	-	-	-	-	21,297	21,297
Other receivables	-	-	-	-	-	-	-	-	15,557	15,557
Security and other deposits	-	-	-	-	-	-	-	-	36,621	36,621
Related party loans (PGK)	-	-	-	-	-	-	-	-	1,777	1,777
			2,215	-	-	-	-	-	75,252	77,467
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	32,995	32,995
Other payables	-	-	-	-	-	-	-	-	45,369	45,369
Related party loans(PGK)	-	-	-	-	-	-	-	-	1,538	1,538
Non-bank loans	13.00%	-	1,676	1,249	2,553	1,358	-	-	-	6,836
Bank loans & leases	12.83%	-	6,098	3,307	2,009	2,055	1,309	-	-	14,778
Bank overdraft	12.20%	-	22,531	-	-	-	-	-	-	22,531
Secured notes	7.84%	-	8,088	26,960	-	-	-	-	-	35,048
			38,393	31,516	4.562	3,413	1,309	-	79,902	159,095

At the end of the reporting period, there were no financial guarantee contracts (2015: Nil). Consequently, the amount included above is nil.

25.10 Fair value of financial assets and financial liabilities that are not measured at fair value (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values as disclosed in the consolidated statement of financial position and notes.

Financial assets comprise of cash and bank balances (note 9), Trade and other receivables (note 16) and Other financial assets (note 13).

Financial liabilities comprise of trade and other payables (note 24), borrowings (note 21) and other financial liabilities (note 22).

26. Operating lease & Finance lease arrangements

Operating leases relate to leases of Dash 08 Aircraft with lease terms of between 3 and 6 years and leases of Avions de transport regional ("ATR") aircraft for 12 years. Finance leases relate to assets purchased under finance leases secured against the same assets financed.

	Consolidated		Company	
	31/12/16 K'000	31/12/15 K'000	31/12/16 K'000	31/12/15 K'000
Minimum lease payments	36,153	16,687	36,153	16,687

	Consolidated		Company	
	31/12/16 K'000	31/12/15 K'000	31/12/16 K'000	31/12/15 K'000
Operating lease commitments				
Not later than 1 year	44,561	31,259	44,561	31,259
Later than 1 year and not later than 5 years	169,902	112,985	169,902	112,985
Later than 5 years	236,694	134,446	236,694	134,446
Total	451,157	278,690	451,157	278,690

Corresponding last year figures have been adjusted at 2016 period-end exchange rate between PGK & USD for comparison.

27. Related party disclosures

27.1 Disclosure of interest

Name of Director	Organisation	Interest
Murray Woo	National Superannuation Fund	Director
	Getaway Travel Limited	Director
	NASFUND Contributors Saving & Loans Society	Director
	Woo Textile Corporation	Managing Director
	Manufacturer's Council of Papua New Guinea	Chairman
	Oil Search Limited	Shareholder
	Highlands Pacific Limited	Shareholder
	Print Monster Limited	Director
	Galatoire Limited (subsidiary APNG)	Director
	City Centre Development Limited	Chairman
	Heathly Kamwood Limited	Director
Augustine Mano	Mineral Resource Development Company	Managing Director
	Mineral Resources Star Mountains	Director
	Mineral Resource Ok Tedi (No.2)	Director
	Mineral Resource Madang	Director
	Petroleum Resource Kutubu	Director
	Petroleum Resource Moran	Director
	Bank of South Pacific Ltd	Director
	GFS Limited	Director
	Leisure Holidays & Travel Ltd	Director
	Hevilift (PNG) Ltd	Director
	Petroleum Resource Gobe	Director
	Star Mountain Plaza	Director
	Pearl South Pacific Resort	Chairman
	INSPAC Limited	Chairman
	CIVIPAC Limited	Chairman
	Handy Group Limited	Director
	PNG Ground Services (subsidiary of PNG Air)	Director
Simon Woolcott	APNG Services Pty Ltd (subsidiary of PNG Air)	Director
	Kavieng Port Services Limited	Director
	Lae Port Services Limited	Director
	Madang Port Services Limited	Director
	Palm Stevedoring & Transport Limited	Director
	Port Services PNG Limited	Director
Edward Matane	Jeneeda Investments Ltd	Director
Watt Kiddie	Mineral Resources Development Company Limited	Director
	Asian Pacific Insurance Brokers Limited	Director
	Wooner Trading Limited	Director
	Diamond Finance Limited	Director
	Hanrick Curran Kiddie Limited	Director

27. Related party disclosures (cont.)

27.2 Transactions with subsidiaries and affiliated companies

The following transactions with related parties occurred on normal trading terms during the year. The amounts recoverable (refer to note 14(a)) and amounts payable (refer to note 24).

2016				
Related Party	**Relationship**	**Nature of transaction**	**Value K'000**	**Balance**
			To/(from)	**Receivable/(payable)**
APNG Services Pty Ltd	Subsidiary Company	Loan no fixed repayment	218	
		Supply of Aircrew	(13,749)	
		Settlement	13,967	
				218
Galatoire Limited	Subsidiary Company	Loan no fixed repayments	1,048	
		Rental charges	(360)	
		Maintenance costs	1,408	
				1,048
PNG Ground Services Limited	Subsidiary Company	Loan on fixed repayments	(1,895)	
		Fuel Sales	(16,521)	
		Settlement	14,626	
				(1,895)

27. Related party disclosures (cont.)

2015

Related Party	Relationship	Nature of transaction	Value K'000	Balance
			To/(from)	Receivable/(payable)
APNG Services Pty Ltd	Subsidiary Company	Loan no fixed repayment	818	
		Supply of Aircrew	(12,518)	
		Settlement	13,336	
				818
Galatoire Limited	Subsidiary Company	Loan no fixed repayments	959	
		Rental charges	(360)	
		Maintenance costs	1,319	
				959
PNG Ground Services Limited	Subsidiary Company	Loan on fixed repayments	(1,537)	
		Fuel Sales	(16,618)	
		Settlement	15,081	
				(1,537)

27. Related party disclosures (cont.)

27.3 Transactions with key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

2016

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

2015

Muralee Siva	Jaydip Sengupta	Crag Williams
Bruce Alabaster	John Biddle	Paul Abbot
Craig Chapple	Andrew Serenc	Adrian Smith

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

	Year ended 31/12/16 K'000	Year ended 31/12/15 K'000
Remuneration	6,199	5,710

Corresponding last year figure has been adjusted at 2016 period -end exchange rate between PGK & AUD for comparison to eliminate the impact from conversion of AUD denominated remuneration at two different exchange rates on respective reporting dates.

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

27.4 Details of Board Remuneration

The following table shows the level of Remuneration received by the Non-Executive Directors in the respective Financial years:

Director	Date of appointment	2016 PGK	2015 PGK
Augustine Mano	17/03/2012	47,252	47,252
Murray Woo	29/08/2012	49,252	49,252
Simon Woolcott	22/10/2014	47,252	47,127
Edward Matane	19/01/2015	46,252	45,039
Watt Kiddie	07/04/2015	46,252	34,293

27. Related party disclosures (cont.)

27.5 Remuneration above K100,000

The following table shows Remuneration of K100,000 and above received by staff

Remuneration K'000's	2016 Nos.	2015 Nos.		Remuneration K'000's	2016 Nos.	2015 Nos.
100 - 110	4	7		360 - 370	-	4
110 - 120	6	5		370 – 380	5	4
120 - 130	4	3		380 – 390	3	3
130 - 140	1	-		390 - 400	1	-
140 - 150	6	2		400 – 410	1	3
150 - 160	1	5		410 – 420	3	-
160 - 170	4	9		420 – 430	2	-
170 - 180	5	6		430 – 440	1	1
180 - 190	1	4		440 – 450	6	2
190 - 200	11	5		450 – 460	3	1
200 - 210	-	3		460 – 470	1	-
210 - 220	4	7		470 – 480	2	3
220 - 230	6	4		480 - 490	3	3
230 - 240	15	19		490 - 500	4	-
240 - 250	4	7		500 - 510	-	1
250 - 260	9	6		510 - 520	4	3
260 - 270	3	2		520 - 530	1	-
270 - 280	1	5		530 - 540	-	1
280 - 290	6	4		540 – 550	1	-
290 - 300	4	2		550 – 560	-	1
300 – 310	6	5		560 - 570	1	2
310 - 320	6	6		570 – 580	1	-
320 - 330	1	9		590 - 600	1	1
330 - 340	6	5		630 – 640	-	1
340 - 350	4	4		1,100 –1,200	1	1
350 - 360	10	10				

Corresponding last year figures have been adjusted at 2016 period-end exchange rate between PGK & AUD for comparison to eliminate the impact from conversion of AUD denominated remuneration at two different exchange rates on respective reporting dates.

28. Contingent liabilities

(i) The Group has given a guarantee of K250,000 to the ANZ Banking Corporation in respect of corporate credit cards;
(ii) The Group has provided a letter of credit for approx. K 948,000 (A$401,575) to National Australia Bank for merchant facility.
(iii) The company has commitments as stated in Note 10.
(iv) Currently there is no possibility of a litigation claim.

29. Other company information

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

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
National employees	607	592	600	583
Expatriate employees	123	145	123	145
	730	737	723	728

30. Events after the reporting period

The group negotiated with NasFund to subscribe for new shares in the Company (or to subscribe for new shares and exercise the options already held by NasFund) for K5 million. NasFund has agreed to do so provided the funds subscribed (or subscribed and paid if part of the K5 million is paid by way of exercise of the existing options held by NasFund) are applied to paying out or paying down Notes held by NasFund under the Secured Notes program, thereby effectively "converting" K5 million of existing Notes and accrued interest of K0.6 million into equity. The share issue will need to be approved by the Company's shareholders at a general meeting before any share issue can be made.

PNG Sustainable Development Program (PNGSDP) further invested K5 million in the Group in the form of Notes under the Secured Notes program at an 8% annual interest during March 2017.

Major shareholders have further invested in the group as follows:
- NasFund K20 million in April 2017 and
- MRDC K10 million over the four months from April to July 2017.

Facilities with Bank South Pacific have been restructured from September 2017 by converting part of the overdraft to term loan and reducing interest rates. These facilities are subject to an annual review with next review date on or before 15 May 2018.

Sixth ATR was inducted to operations in June 2017.

The Group has received a firm offer from Pacific Energy Aviation (PNG) Ltd to acquire PNG Ground Services Ltd, a wholly owned subsidiary of PNG Air Limited. The proposed transaction has been approved by ICCC and the Group is negotiating final agreements.

Other than the items described above, there have been no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations or state of affairs of the company in the financial year subsequent to 31 December 2016.

31. Approval of financial statements

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

32. Auditors Remuneration

	Consolidated		Company	
	Year ended 31/12/16	Year ended 31/12/15	Year ended 31/12/16	Year ended 31/12/15
	K'000	K'000	K'000	K'000
Audit Fee (Deloitte Touche Tohmatsu)	316	300	316	300
Other service fees (Deloitte Touche Tohmatsu)	61	52	39	32
	377	352	355	332

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Independent Auditor's Report to the Members of PNG Air Limited (formerly Airlines of Papua New Guinea Limited)

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of PNG Air Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Company's and Group's financial position as at 31 December 2016 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and the *Companies Act 1997*.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants (the Code)* that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3.18 in the financial report, which indicates that the Group incurred a net loss of K73.5 million and experience net cash outflows of K8.32 million and as at 31 December 2016 has an excess of current liabilities over current assets of K95.9 million and a net asset deficiency of K15.5 million. As stated in Note 3.18, these events or conditions, along with the other matters as set forth in Note 3.18, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group and the Company to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determines the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
Revenue recognition	
The Group's revenue primarily consists of revenue from carriage of passenger and cargo which totalled K199 million in the year to 31 December 2016 as outlined in note 5 (a). Passenger revenue is complex due to the various fare rules that may apply to a transaction, and as tickets are typically sold prior to the day of flight. Revenue from carriage of passengers and cargo are recognised as revenue when the related transportation service is provided. The value of passenger and cargo sales for which the related transportation service has not yet been provided at the end of the reporting period is recorded as deferred revenue in the consolidated statement of financial position. We have identified revenue recognition as a key audit matter due to the significance of revenue to the financial statements and is one of the key performance indicators of the Group.	Our procedures included but not limited to: • Evaluating the systems, processes and controls in place over revenue including key account reconciliation processes. • Performing substantive procedures to determine if the revenue has been correctly recognised. • Testing the accuracy and completeness of reports used to recognise or defer passenger revenue.
Carrying value of aircraft	
The carrying value of the Group's aircraft as at 31 December 2016 was K84 million. The carrying value of aircraft are reviewed annually taking into consideration factors such as changes in fleet composition, market values and technical factors which may affect the useful life expectancy of the assets and therefore could have a material impact on any impairment charges for the year. We have identified the carrying value of aircraft as a key audit matter because of its significance to the consolidated financial statements.	Our procedures included but not limited to: • Assessing the reasonableness of management's assertions and estimates using valuation reports published by third party specialists, our knowledge of the airline industry and the Group's historical experience and future operating plans. • Discussing indicators of possible impairment of aircraft with the management and, where such indicators were identified, assessing whether management performed impairment testing in accordance with the requirements of IFRS. • Challenging the assumptions and critical judgement used by management by assessing the reasonableness of management's estimates and plans and taking into account recent developments in the airline industry and future operating plans.

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Aircraft maintenance provisions	
The group has nine remaining aircraft held under operating leases as at 31 December 2016. The Group is contractually committed to return five of these aircraft to the lessors in a certain condition agreed at the inception of the lease. Management estimates the maintenance costs at the end of each reporting period and accrues such costs over the lease term. The calculation of such costs includes a number of factors and assumptions, including the anticipated utilisation of the aircraft, escalation percentage applied during the lease period and estimated lifespan of the life-limited parts. Maintenance provisions for aircraft maintenance costs totalled K9.4 million as at 31 December 2016 and are included within provisions in the consolidated statement of financial position. We have identified aircraft maintenance provisions as a key audit matter because of the inherent level of management judgements required in assessing the various factors and assumptions in order to quantify such provision amounts.	Our procedures included but not limited to: • Evaluating the methodology and key assumptions adopted by management in estimating the provisions. • Assessing the integrity and accuracy of the provisions through recalculation, reviewing the terms of the operating leases and comparing assumptions to contract terms and the Group's maintenance cost experience. • Challenging assumptions used by management by comparing past assumptions made in prior years with actual events as well as the current year's assumptions.
Early termination of aircraft leases	
During the year ended 31 December 2016, PNG Air terminated four of its Dash 8 leases with the respective lessors. This is a key audit matter given the significant impact of the costs associated with the early termination of aircraft leases in the consolidated financial statements.	Our procedures included but not limited to: • Assessing the terms and conditions of the leases to understand the early termination conditions and clauses contained in the agreement. • Assessing accuracy of the lease exit cost calculation and the related accounting treatment thereof.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial

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report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and the *Companies Act 1997* and for such internal control as management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the directors, we determine that those matters that were of most significant in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulations precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonable be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
The financial report of PNG Air Limited is in accordance with the *Companies Act 1997* and proper accounting records have been kept by the Company. During the year ended 31 December 2016 we provided PNG Air Limited with tax agency and compliance services.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Benjamin Lee
Registered under the Accountants Act 1996
Partner
Chartered Accountants
Port Moresby, 22 September 2017

CORPORATE DIRECTORY

There are no material difference between the following information provided as at 31 December 2016 and the circumstances prevailing at the date of publishing this report.

PNG Air Limited
Incorporated in Papua New Guinea

Directors
Murray Woo
Augustine Mano
Simon Woolcott
Edward Matane
Watt Kiddie

Company Secretary
John Biddle

Registered Office, address for service and principal administrative office
Part Portion 97
Milinch Granville
Jackson's International Airport
Seven Mile NCD
Papua New Guinea

Principal place of business
Jackson's International Airport
Port Moresby
Papua New Guinea

Postal address
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Subsidiaries
Galatoire Limited
PNG Ground Services Limited
APNG Services Pty Ltd

Auditors
Deloitte Touche Tohmatsu
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MacGregor Street
PO Box 1275
Port Moresby NCD 121
Papua New Guinea

Registry
PNG Registries Limited
Level 2, AON House
McGregor Street

PO Box 1265
Port Moresby, NCD
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Telephone 321 6377

Stock Exchanges
The company maintains a listng only on POMSoX

SHAREHOLDERS INFORMATION

Distribution of Shareholders

a. The distribution of ordinary shares ranked to size at 31 December 2016 is as follows

Range PGK	Shareholders	Shares	% Issued Capital
1-1000	111	93,686	.03
1,001-5,000	1,713	4,292,305	1.39
5,001-10,000	310	2,891,424	.94
10,001-100, 000	337	9,421,508	3.06
100, 0001 and Over	32	291,305,657	94.58
Total	2,503	308,004,580	100.00

b. The twenty largest Shareholders representing 93.89% of the ordinary shares as at 31 Decembers 2016 were as follows

	Shareholder	Number of shares	% of issued capital
1	National Superannuation Fund Limited	121,000,000	39.29
2	Mineral Resources OK TEDI No 2 Limited	50,500,000	16.04
3	Mineral Resources Development Company Ltd	40,000,000	12.99
4	Mineral Resources Star Mountains Ltd	34,000,000	11.04
5	John Ralston Wild	15,750,000	5.11
6	Pacific Nominees Limited	8,967,100	2.91
7	Teachers Savings & Loans Society Ltd	7,000,000	2.27
8	Credit Corporation (PNG) Ltd	2,000,000	0.65
9	Steen Wirth <Skills Development A/C>	2,000,000	0.65
10	BSP Capital Limited <HAUS A/C>	1,411,566	0.46
11	Fubilan Catering Services Limited	1,000,000	0.32
12	Kambang Holdings Limited	1,000,000	0.32
13	Star Mountains Properties & Investment Limited	750,000	0.24
14	Dan Corporation Limited	700,000	0.23
15	George Mannga Tagobe	600,000	0.19
16	Philip Depis <NIMAMAR DEVELOPMENT AUTHORITY A/C>	500,000	0.16
17	Nasfund Contributers Savings & Loan Society Limited	500,000	0.16
18	Pacific MMI Insurance Limited	500,000	0.16
19	Star Mountain Investment Holdings Limited	500,000	0.16
20	Tabubil Hotel Limited	500,000	0.16
Total		289,178,666	93.89%

c. Issued capital as at 31 December 2016 was 308,004,580 ordinary fully paid shares and 407,299,160 options each convertible to an ordinary share, if exercised within 5 years of their issue and on payment of 2 toea per option exercised.

Directors' Interests

Director	Direct / Indirect	Shares Held	%	Options Held	%
Mr Mano and Mr Kiddie (Mineral Resources OK TEDI No 2 Limited)	Indirect	50,500,000	16.04	80,000,000	19.64
Mr Mano and Mr Kiddie (Mineral Resources Development Company Ltd)	Indirect	40,000,000	12.99	66,000,000	16.20
Mr Mano and Mr Kiddie (Mineral Resources Star Mountains Limited)	Indirect	34,000,000	11.04	54,000,000	13.26
Mr Woo and Mr Matane (National Superannuation Fund Limited)	Indirect	121,000,000	39.29	200,000,000	49.10

Other Information

There is no material variance between the Audit Accounts of the Company and the Appendix 4B Report filed with POMSoX for the period.
The Company has no restricted securities on issue.
The Company has no unquoted equity securities on issue other than the 407,299,160 options referred to above. The Company has no listed debt securities on issue. The voting rights attaching to each quoted ordinary share in the Company are set out in full in the Constitution. In summary, this includes one vote on each resolution at a general or extraordinary meeting of shareholders. It includes the right to participate equally with each other ordinary shareholder in any distributions or dividends by the Company. There are restrictions on the extent of foreign ownership permitted in the Company and the Company retains the power to force the sale of any offending foreign shareholdings. The Company must remain more than 50% PNG owned to ensure PNG Air retains Papua New Guinea nationality for the purposes of the various bilateral air service agreements.

