

Solomon Airlines Limited

Financial Statements

31 December 2017

Solomon Airlines Limited
Financial Statements – 31 December 2017

Contents

Directors' Report	1 to 3
Directors' Statement.....	4
Independent Auditor's Report.....	5 to 7
Statement of Profit or Loss and Other Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Financial Position.....	10
Statement of Cash Flows	11
Notes to and Forming Part of the Financial Statements	12 to 41

Solomon Airlines Limited
Directors' Report
For the year ended 31 December 2017

In accordance with a resolution of the board of directors, the directors herewith submit the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the year ended 31 December 2017 and report as follows:

Directors

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

Chairman	-	Mr Austin Holmes
Deputy Chairman	-	Mr Robertus Franciscus Bochman
Director	-	Mr Masao Yamagata
Director	-	Mrs Kathy Nori
Director	-	Mr Josefa Tuamoto
Director	-	Mr Charlie Siana Panakera (resigned August 2017)

Principal Activity

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

Trading Results

The profit/(loss) for the year after income tax credit of \$1,907,885 (2016: \$1,435,139) amounted to \$10,797,004 (2016: loss of \$15,511,694).

Reserves

The directors recommend that no amounts be transferred to reserves in respect of the year ended 31 December 2017.

Dividends

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

Bad and Doubtful Debts

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

Current Assets

The directors took reasonable steps before the financial statements were made out to ascertain that the current assets of the company were shown in the accounting records of the company at a value equal to or below the value that would be expected to be realised in the ordinary course of the business. At the date of this report, the directors are not aware of any circumstances which would render the values attributable to the current assets in the company's financial statements misleading.

Solomon Airlines Limited
Directors' Report - continued
For the year ended 31 December 2017

Non-Current Assets

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

Liabilities

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

Basis of Accounting

The Directors believe that the basis of preparation of accounts is appropriate and the company will be able to continue in operation for at least 12 months from the date of this statement. Accordingly, the Directors believe that the classification and carrying amounts of the assets and liabilities as stated in the financial statements to be appropriate.

Events Subsequent to Balance Date

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

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

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

Other Circumstances

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

Unusual/ Significant Transactions

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

Directors Benefits

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

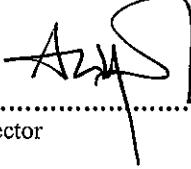
Solomon Airlines Limited
Directors' Report - continued
For the year ended 31 December 2017


Related Parties Transaction

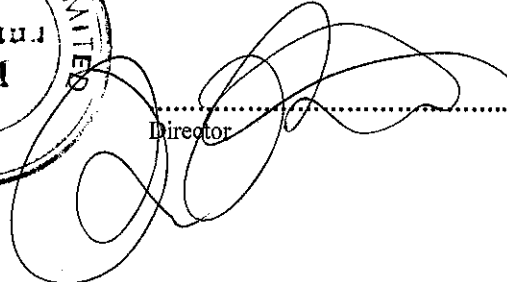
In opinion of the directors all related party transactions have been adequately recorded in the books of the company and reflected in the attached financial statements.

Signed in accordance with a resolution of the directors this 24th day of December 2018.

For and on behalf of the Board,


.....
Director


.....
Director

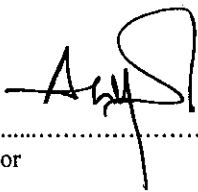



Solomon Airlines Limited
Directors' Statement
For the year ended 31 December 2017

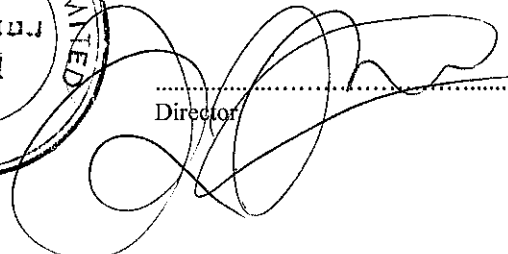
In the opinion of the directors:

- (a) the accompanying statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the company for the year ended 31 December 2017;
- (b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of the company's affairs as at 31 December 2017;
- (c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in shareholders' funds for the year ended 31 December 2017;
- (d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the company for the year ended 31 December 2017;
- (e) at the date of this statement there are reasonable grounds to believe the company will be able to pay its debts as and when they fall due; and
- (f) all related party transactions have been adequately recorded in the books of the company.

For and on behalf of the Board of Directors by authority of a resolution of the Directors, this 24th day of October 2018.


.....
Director




.....
Director

Independent Auditors' Report

To the members of Solomon Airlines Limited (continued)

Solomon Islands Office of the Auditor-General



INDEPENDENT AUDITOR'S REPORT

To the members of Solomon Airlines Limited

Report on the Audit of the Financial Statements

Opinion

I have in joint consultation with the Board of Solomon Airlines Limited ("the Company") contracted PwC, Fiji which is part of the PwC International network to assist me to audit the accompanying financial statements of Solomon Airlines Limited, which comprise the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 34.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independence

I am independent of the Company in accordance with the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independent Auditors' Report

To the members of Solomon Airlines Limited (continued)

Responsibilities of Directors and Management for the Financial Statements

Directors and Management are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and the requirements of the Solomon Islands Companies Act, 2009 and for such internal control as the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, directors and management are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless directors and management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors and management are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Independent Auditors' Report

To the members of Solomon Airlines Limited (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors and management.
- Conclude on the appropriateness of directors and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

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

- a) I have been given all information, explanations and assistance necessary for the conduct of the audit; and
- b) The Company has kept financial records sufficient to enable the financial statements to be prepared and audited.
- c) The Company has not complied with the requirements of the *Public Finance and Audit Act [Cap 120]* and the *State Owned Enterprises Act 2007* which requires the audited financial statements to be submitted to the Minister before 31 March of the following year to which the financial statements relate. The signed statements were not presented to me until 24th October 2018.



Peter Lokay
Auditor General
Date 30 October 2018

Office of the Auditor General
Solomon Islands

Solomon Airlines Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Notes	2017 \$	2016 \$ Restated *)
Revenue	4	267,523,634	244,302,684
Other income	5	10,321,576	15,372,800
Total operating revenue		<u>277,845,210</u>	<u>259,675,484</u>
Staff and related costs	9	(61,961,500)	(54,302,908)
Operations	6	(90,660,535)	(113,050,981)
Selling and marketing expenses	7	(5,433,674)	(4,018,378)
Fuel		(49,329,567)	(46,598,717)
Depreciation	19	(13,586,481)	(12,691,365)
Other expenses	8	(38,687,606)	(39,658,513)
Total operating expenses		<u>(259,659,363)</u>	<u>(270,320,862)</u>
Profit/(loss) from operations		18,185,847	(10,645,378)
Finance expenses - net	10	(9,296,728)	(6,301,455)
Operating profit/ (loss) before income tax		8,889,119	(16,946,833)
Income tax credit	11(a)	1,907,885	1,435,139
Profit/ (loss) after income tax		<u>10,797,004</u>	<u>(15,511,694)</u>
Other comprehensive income / (loss) for the year, net of tax			
<i>Items that will not be reclassified subsequently to profit or loss</i>		(1,657,930)	(62,680)
Revaluation of aircraft and land and buildings - net of tax			
Total comprehensive profit/(loss) for the year		<u>\$9,139,074</u>	<u>(\$15,574,374)</u>

*) As restated, refer to Note 32

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

Solomon Airlines Limited
Statement of Changes in Equity
For the year ended 31 December 2017

	Notes	Share capital \$	Revaluation reserve \$	Accumulated Losses \$ Restated *)	Total \$
Balance at 1 January 2016 (previously reported)		70,909,801	37,595,490	(98,924,895)	9,580,396
Changes in accounting policy and estimates	32	-	-	(8,329,267)	(8,329,267)
Restated balance at 1 January 2016		70,909,801	37,595,490	(107,254,162)	1,251,129
Comprehensive loss for the year					
Transfer of depreciation on revaluation increment of aircraft		-	(1,504,960)	1,504,960	-
Net loss for the year – restated		-	-	(15,511,694)	(15,511,694)
Other comprehensive loss for the year		-	(62,680)	-	(62,680)
Total comprehensive loss for the year - Restated		-	(1,567,640)	(14,006,734)	(15,574,374)
Transactions with owners of the company					
Issue of ordinary shares	25(b)	7,900,000	-	-	7,900,000
Total transactions with owners of the Company		7,900,000	-	-	7,900,000
Balance at 31 December 2016		78,809,801	36,027,850	(121,260,896)	(6,423,245)
Comprehensive profit/(loss) for the year					
Transfer of depreciation on revaluation increment of aircraft		-	(118,426)	118,426	-
Net profit for the year		-	-	10,797,004	10,797,004
Other comprehensive loss for the year		-	(1,657,930)	-	(1,657,930)
Total comprehensive profit/(loss) for the Year		-	(1,776,356)	10,915,430	9,139,074
Transactions with owners of the company					
Issue of ordinary shares	25(b)	-	-	-	-
Total transactions with owners of the Company		-	-	-	-
Balance at 31 December 2017		\$78,809,801	\$34,251,494	(\$110,345,466)	\$2,715,829

*) As restated, refer to Note 32

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

Solomon Airlines Limited
Statement of Financial Position
As at 31 December 2017

	Notes	2017 \$	2016 \$ Restated *
ASSETS			
Non-Current Assets			
Aircraft, property, plant and equipment	19	109,710,885	125,969,911
Investment property	20	8,169,000	8,169,000
Deposits	14	5,312,951	5,583,925
Total non-current assets		123,192,836	139,722,836
Current Assets			
Cash on hand and at bank	12	20,495,387	2,049,202
Term deposits	13	769,735	647,963
Deposits	14	7,021,220	2,184,777
Trade receivables	15	10,217,899	17,635,511
Other receivables and prepayments	16	1,858,247	785,684
Inventories	17	3,754,980	4,344,706
Assets held for sale	18	-	943,952
Total current assets		44,117,468	28,591,795
Total Assets		\$ 167,310,304	\$168,314,631
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	25(b)	78,809,801	78,809,801
Revaluation reserve	30	34,251,494	36,027,850
Accumulated losses		(110,345,466)	(121,260,896)
Total shareholders' equity		2,715,829	(6,423,245)
Non-current liabilities			
Borrowings	21	4,230,286	7,619,149
Deferred tax liability	11(c)	4,509,494	7,127,920
Employee benefits	23	10,701,184	7,719,618
Statutory liabilities	24	17,569,760	23,284,096
Total non-current liabilities		37,010,724	45,750,783
Current Liabilities			
Bank overdraft	12	-	3,374,734
Borrowings	21	29,843,652	37,240,300
Revenue received in advance	31	39,528,794	33,116,997
Trade, other payables and accrued expenditure	22	38,711,612	43,282,590
Employee benefits	23	4,798,654	3,962,364
Statutory liabilities	24	14,701,039	8,010,108
Total current liabilities		127,583,751	128,987,093
Total Liabilities		164,594,475	174,737,876
Total Equity and Liabilities		\$167,310,304	\$168,314,631

*) As restated, refer to Note 32 and 33

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

Signed on behalf of the Board.

Director

[Signature]
24/10/2018



Director

[Signature]
24/10/2018

Solomon Airlines Limited
Statement of Cash Flows
For the year ended 31 December 2017

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers		290,780,893	248,899,057
Payments to suppliers and employees		(251,786,627)	(242,327,971)
Cash generated from operations		38,994,266	6,571,086
Interest received		41,938	25,755
Interest paid		(2,571,128)	(2,954,686)
Statutory liabilities paid		(3,009,596)	(5,760,511)
Net cash generated from/(used in) operating activities		33,455,480	(2,118,356)
Cash flows from investing activities			
Acquisition of property, plant and equipment	15	(1,453,798)	(2,816,939)
Proceeds from withdrawal of term deposits		-	40,037
Investment in term deposits		(121,772)	-
Proceeds from disposal of aircraft, property, plant and equipment		726,520	-
Net cash used in investing activities		(849,050)	(2,776,902)
Cash flows from financing activities			
Repayments of borrowings		(10,785,511)	(12,937,210)
Proceeds from issue of share capital	21(b)	-	7,900,000
Net cash used in financing activities		(10,785,511)	(5,037,210)
Net increase/ (decrease) in cash and cash equivalents		21,820,919	(9,932,468)
Cash and cash equivalents at 1 January		(1,325,532)	8,606,936
Cash and cash equivalents at 31 December	8	\$20,495,387	(\$1,325,532)

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

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017

Note 1. GENERAL INFORMATION

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

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

The financial statements were authorised for issue by the board of directors on 24/10/2018.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Preparation

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

The financial statements have been prepared using the historical cost basis except for investment property and assets held for sale which are measured at fair value and aircraft which is measured using the revaluation model. The accounting policies adopted are consistent with those of the previous year, except where noted.

b) Standards, amendments and interpretations

(i) Standards, amendments and interpretations issued but not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2018 or later periods, but the company has not early adopted them. The company is yet to assess the impact of these standards and intends to adopt the standards no later than the accounting period in which the standards become effective.

Topic	Key Requirements	Effective Date
IFRS 9, 'Financial instruments'	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.	Annual periods beginning on or after 1 January 2018
Amendments to IFRS 9, 'Financial instruments'	This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.	Annual periods beginning on or after 1 January 2018
IFRS 15, 'Revenue from contracts with customers'	IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve comparability of the top line in financial statements globally.	Annual periods beginning on or after 1 January 2018

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards, amendments and interpretations – (continued)

(i) Standards, amendments and interpretations issued but not yet effective – (continued)

Topic	Key Requirements	Effective Date
Amendment to IFRS 15, 'Revenue from contracts with customers'	These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.	Annual periods beginning on or after 1 January 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	The IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.	Annual periods beginning on or after 1 January 2018
IFRS 16 'Leases'	This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by leases in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease-of-IFRS has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	Annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, from contracts with also applied.
IFRIC 23, 'Uncertainty over income tax treatments'	This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.	Annual periods beginning on or after 1 January 2019

(ii) Standards, amendments and interpretations to existing standards those are effective in 2017

There have been a number of new standards, interpretations, and amendments to the IFRS that came into effect for periods beginning on 1 January 2017. The adoption of these had no material impact on the financial statements and the accounting policies are consistent with those used in the prior year.

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

d) Use of estimates and judgments

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

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

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

Note 2(k)	-	Recoverability of trade receivables and other receivables
Note 2(e)	-	Aircraft, property, plant and equipment (Revaluation & Depreciation)
Note 2(o)(i)	-	Revenue in advance
Note 2(m)	-	Employee benefits
Note 2(q)	-	Recoverability of tax losses and deferred tax assets

e) Aircraft, property, plant and equipment

(i) Recognition and measurement

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

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

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

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

(iv) Revaluation

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

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

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

f) Aircraft / engine overhaul

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

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

g) Investment property

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

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

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

Loans and receivables

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

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

Cash and cash equivalents

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

Held to maturity financial assets

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

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

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

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

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

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

(iii) Ordinary shares

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

i) Leases

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

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

j) Inventories

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

k) Receivables

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

l) Impairment

(i) Non-derivative financial assets

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

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

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Impairment (continued)

(iii) Non-financial assets (continued)

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

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

m) Employee benefits

(i) Employee leave entitlements

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

(ii) Other employee benefits

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

The benefits came into effect in this financial year and the impact is disclosed in Note 23 and 32 to the financial statements.

n) Trade payables, other payables and accrued expenditure

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

o) Revenue and other income

(i) Passenger and cargo revenue

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

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Revenue and other income (continued)

(ii) Traffic income

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

(iii) Community service obligation (CSO) subsidy

CSO subsidy represents subsidy received from the government for operation of outer island airports. The income is recognised at their fair value where there is a reasonable assurance that the grant will be received and the entity will comply with the attached conditions.

p) Deposits

Deposits are recorded at cost.

q) Income tax

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

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

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

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

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

r) Assets held for sale

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

s) Finance income and expenses

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

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 3. FINANCIAL RISK MANAGEMENT

Overview

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

- (i) Credit risk;
- (ii) Liquidity risk; and
- (iii) Market risk.

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

Risk management framework

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

(i) Credit risk

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

Trade and other receivables

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

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

Exposure to credit risk

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

	2017 \$	2016 \$
Cash at bank	20,452,091	2,008,641
Trade receivables	10,217,899	17,635,511
Deposits	12,334,171	7,768,702
Other receivables (excluding prepayments)	776,567	(20,455)
Term deposits	769,735	647,963
	<u>44,550,463</u>	<u>28,040,362</u>

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 3. FINANCIAL RISK MANAGEMENT (continued)

Impairment losses

The ageing of trade receivables at reporting date that were not impaired was as follows:

	2017 \$	2016 \$
Not past due	5,393,568	14,809,320
Past due 31 – 60 days	2,786,700	1,246,811
Past due 61 – 90 days	2,037,631	1,169,121
Past due 91 – 120 days	-	236,060
Past due more than 120 days	-	153,744
	<u>10,217,899</u>	<u>17,615,056</u>

The movement in the provision for doubtful debts in respect of trade receivables and other receivables during the year is disclosed in Note 15 and Note 16 respectively.

(ii) Liquidity risk

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

The following are the contractual maturities of financial liabilities:

31 December 2017	Carrying amount \$	Contractual cash flows \$	0 – 1 years \$	1 – 2 years \$	More than 2 years \$
Financial liabilities					
Borrowings	34,073,938	34,073,938	29,843,647	3,172,718	1,057,573
Trade, other payables and accrued expenditure	38,711,612	38,711,612	38,711,612		
Statutory liabilities	32,270,799	32,270,799	14,701,039	8,465,252	9,104,508
Bank overdraft	-	-	-	-	-
At 31 December 2017	<u>105,056,349</u>	<u>105,056,349</u>	<u>83,256,298</u>	<u>11,637,970</u>	<u>10,162,081</u>
	Carrying amount \$	Contractual cash flows \$	0 – 1 years \$	1 – 2 years \$	More than 2 years \$
Financial liabilities					
Borrowings	44,859,449	45,884,452	37,805,530	3,571,233	4,507,689
Trade, other payables and accrued expenditure	43,282,590	43,282,590	43,282,590	-	-
Statutory liabilities	31,294,204	44,988,079	10,795,787	7,862,191	26,330,101
Bank overdraft	(3,374,734)	(3,374,734)	(3,374,734)	-	-
At 31 December 2016	<u>116,061,509</u>	<u>130,780,387</u>	<u>88,509,173</u>	<u>11,433,424</u>	<u>30,837,790</u>

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 3. FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risk

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

(a) Currency risk

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

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

31 December 2017

Original currency	USD SBD \$	AUD SBD \$	FJD SBD \$	NZD SBD \$	PGK SBD \$
Financial assets					
Deposits	12,044,425	-	-	-	-
Cash at bank	2,250,174	1,164,967	1,086,749	2,253,588	72,522
Trade receivables	1,611,634	1,571,698	-	-	-
Other receivables	-	452,992	13,122	12,278	-
Term deposits	-	450,327	-	-	-
	<u>15,906,233</u>	<u>3,639,984</u>	<u>1,099,871</u>	<u>2,265,866</u>	<u>72,522</u>
Financial liabilities					
Borrowings	(7403,003)	-	-	-	-
Trade and other payables and accrued expenditure	(3,034,293)	(7,738,373)	(1,209,607)	(10,595)	-
	<u>(10,437,296)</u>	<u>(7,738,373)</u>	<u>(1,209,607)</u>	<u>(10,595)</u>	<u>-</u>
Net exposure	<u>5,468,937</u>	<u>(4,098,389)</u>	<u>(109,736)</u>	<u>2,255,271</u>	<u>72,522</u>

31 December 2016

Original currency	USD SBD \$	AUD SBD \$	FJD SBD \$	NZD SBD \$	PGK SBD \$
Financial assets					
Deposits	7,649,973	-	-	-	-
Cash at bank	603,886	353,702	-	168,715	75,502
Trade receivables	145,278	1,962,017	-	-	-
Other receivables	4,079,600	1,361,622	114,780	161,210	-
Term deposits	-	411,621	-	-	-
	<u>12,478,737</u>	<u>4,088,962</u>	<u>114,780</u>	<u>329,925</u>	<u>75,502</u>

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 3. FINANCIAL RISK MANAGEMENT (continued)

(iii) **Market risk – (continued)**

(a) **Currency risk – (continued)**

31 December 2016

Original currency	USD SBD \$	AUD SBD \$	FJD SBD \$	NZD SBD \$	PGK SBD \$
Financial liabilities					
Bank overdraft	-	-	(521,807)	-	-
Borrowings	(13,843,230)	-	-	-	-
Trade and other payables and accrued expenditure	(6,988,415)	(9,555,356)	(1,104,493)	(79,085)	(101,478)
	(20,831,645)	(9,555,356)	(1,626,300)	(79,085)	(101,478)
Net exposure	(8,352,908)	(5,466,394)	(1,511,520)	250,840	(25,976)

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

	2017 \$	2016 \$
Financial assets		
Impact on profit/loss after tax if 10% increase in USD fx rate against SBD	1,590,623	1,386,526
Impact on profit/loss after tax if 10% decrease in USD fx rate against SBD	(1,590,623)	(1,134,431)
Impact on profit/loss after tax if 10% increase in AUD fx rate against SBD	363,998	454,329
Impact on profit/loss after tax if 10% decrease in AUD fx rate against SBD	(363,998)	(371,724)
Impact on profit/loss after tax if 10% increase in FJD fx rate against SBD	109,987	12,753
Impact on profit/loss after tax if 10% decrease in FJD fx rate against SBD	(109,987)	(10,435)
Impact on profit/loss after tax if 10% increase in NZD fx rate against SBD	226,587	36,658
Impact on profit/loss after tax if 10% decrease in NZD fx rate against SBD	(226,587)	(29,993)
Impact on profit/loss after tax if 10% increase in PGK fx rate against SBD	7252	8,389
Impact on profit/loss after tax if 10% decrease in PGK fx rate against SBD	(7252)	(6,864)
Financial liabilities		
Impact on profit/loss after tax if 10% increase in USD fx rate against SBD	(1,043,730)	(2,314,627)
Impact on profit/loss after tax if 10% decrease in USD fx rate against SBD	1,043,730	1,893,786
Impact on profit/loss after tax if 10% increase in AUD fx rate against SBD	(773,837)	(1,061,706)
Impact on profit/loss after tax if 10% decrease in AUD fx rate against SBD	773,837	868,669
Impact on profit/loss after tax if 10% increase in FJD fx rate against SBD	(120,961)	(180,700)
Impact on profit/loss after tax if 10% decrease in FJD fx rate against SBD	120,961	147,845
Impact on profit/loss after tax if 10% increase in NZD fx rate against SBD	(1,060)	(8,787)
Impact on profit/loss after tax if 10% decrease in NZD fx rate against SBD	1060	7,190
Impact on profit/loss after tax if 10% increase in PGK fx rate against SBD	-	(11,275)
Impact on profit/loss after tax if 10% decrease in PGK fx rate against SBD	-	9,225

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 3. FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risk – (continued)

(b) Interest rate risk

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

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

	2017 \$	2016 \$
<u>Fixed rate instruments</u>		
Term deposits	769,735	647,963
<u>Variable rate instruments</u>		
Borrowings	34,073,938	44,859,449
Bank overdraft	-	3,374,734
	<u>34,073,938</u>	<u>48,234,183</u>
<u>Sensitivity analysis on variable rate instruments</u>		
A 1% change in interest rate would have the following impact	<u>340,739</u>	<u>482,342</u>

(c) Fuel price risk

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

	Profit or loss impact (increase) / decrease	
	2017 \$	2016 \$
10% increase in fuel price	(4,932,957)	(4,659,872)
10% decrease in fuel price	<u>4,932,957</u>	<u>4,659,872</u>

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

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 4.

	2017 \$	2016 \$
Revenue		
Passenger revenue	204,962,653	195,882,139
Cargo and mail revenue	16,624,313	12,835,039
Charter revenue	16,095,906	13,658,638
Excess baggage	5,380,710	4,093,321
Traffic income	11,654,483	7,379,684
Revenue from unused tickets and cargo manifests	12,805,569	10,453,863
	<u>267,523,634</u>	<u>244,302,684</u>

Note 5.

Other Income

Ticket cancellation fees	2,886,150	1,810,037
Rental income	2,952,000	480,000
Community service obligation (CSO) subsidy	3,039,000	9,978,000
Departure tax on unused tickets	523,005	1,932,500
Proceeds from insurance claim	162,369	169,594
Other	759,052	1,002,669
	<u>10,321,576</u>	<u>15,372,800</u>

Note 6.

Operating Expenses

Aircraft lease	14,118,715	34,074,883
Airport navigation charges	5,268,053	6,456,408
Catering	6,393,801	5,544,399
Engineering and maintenance	47,532,937	49,895,690
Ground handling	8,051,517	6,183,747
Insurance – aircraft	4,762,345	5,513,673
Passenger disruption costs	763,816	1,587,959
Other operational costs	3,769,351	3,794,222
	<u>90,660,535</u>	<u>113,050,981</u>

Note 7.

Selling and marketing expense

Advertising	1,193,683	491,351
Agents commission	4,239,991	3,527,027
	<u>5,433,674</u>	<u>4,018,378</u>

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 8.

Other Expenses

	2017 (\$)	2016 (\$)
Accounting and audit fees	1,839,474	1,132,440
Bad and doubtful debts	(406,000)	5,956,405
Bank charges	1,063,361	1,121,452
Computer and communications	8,936,043	9,741,638
Consultancy	4,891,248	3,819,525
Directors fees	121,034	130,267
Freight and courier	2,002,513	2,463,919
Insurance - others	643,179	567,281
Motor vehicle expenses	3,343,652	2,456,652
Others	4,415,076	6,359,431
Premises expenses	8,391,728	4,419,649
Printing and stationery	1,772,294	1,394,414
Inventory obsolescence	(72,283)	449,525
Write down of inventories	-	1,250,707
(Reversal) / loss on revaluation of aircraft	-	(2,458,067)
Loss on disposal of aircraft, property, plant and equipment	1,746,287	853,275
	<u>\$38,687,606</u>	<u>\$39,658,513</u>

Note 9. STAFF AND RELATED COSTS

	2017 \$	2016 *) \$
Wages and salaries expense – key management personnel	7,539,533	4,227,762
Wages and salaries expense – others	28,913,933	27,675,654
National Provident Fund contributions – key management personnel	565,465	317,082
National Provident Fund contributions – others	2,527,272	2,341,770
Housing and other allowances	15,678,075	13,246,593
Other staff related costs	6,737,222	6,494,047
	<u>61,961,500</u>	<u>54,302,908</u>

*) As restated, refer to Note 32.

Note 10. FINANCE INCOME AND EXPENSES

	2017 \$	2016 \$
<u>Finance Income</u>		
Interest income	(41,938)	(25,755)
<u>Finance Expense</u>		
Interest expense – loans	2,508,951	2,754,891
Interest expense – overdraft	62,176	199,795
Interest expense – statutory account	3,986,191	2,249,596
Realised exchange loss	3,290,555	296,929
Unrealised exchange (gain)/loss	(509,207)	825,999
	<u>9,338,666</u>	<u>6,327,210</u>
Finance Expense-net	<u>9,296,728</u>	<u>6,301,455</u>

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 11. INCOME TAX

	2017 \$	2016 *) \$
(a) Income tax credit recognised in profit or loss	(1,907,885)	(1,435,139)
(b) <u>Reconciliation of effective tax rate</u>		
Operating profit/(loss) before income tax	8,889,119	(16,946,833)
Prima facie income tax expense/ (credit) calculated at 30% (2016: 30%)	2,666,735	(5,084,050)
Non-allowable	(1,500)	32,885
Tax losses recouped/ derecognised	(4,573,120)	6,114,806
Deferred tax - prior year adjustment	-	(2,498,780)
Income tax credit	(1,907,885)	(1,435,139)
(c) <u>Recognised deferred tax asset / (liability)</u>		
Provision for doubtful debts – accounts receivables	2,100,023	1,831,915
Provision for doubtful debts – other receivables	165,401	636,263
Provision for inventory obsolescence	146,711	168,395
Unrealised exchange loss	(152,762)	247,800
Employee benefits	4,649,951	3,504,594
Statutory liabilities	9,681,240	9,388,261
Property, plant and equipment	1,583,365	488,816
Investment property	(2,450,700)	(2,450,700)
Asset revaluation reserve	(20,232,723)	(20,943,264)
	(4,509,494)	(7,127,920)

<u>Movement in temporary differences during the year</u>	1 January 2017 \$	Recognised in income statement \$	Recognised through OCI \$	31 December 2017 \$
Provision for doubtful debts - accounts receivables	1,831,915	268,108	-	2,100,023
Provision for doubtful debts - other receivables	636,263	(470,862)	-	165,401
Provision for inventory obsolescence	168,395	(21,684)	-	146,711
Unrealised exchange loss	247,800	(400,562)	-	(152,762)
Employee benefits	3,504,594	1,145,357	-	4,649,951
Statutory liabilities	9,388,261	292,979	-	9,681,240
Property, plant and equipment	488,816	1,094,549	-	1,583,365
Investment property	(2,450,700)	-	-	(2,450,700)
Asset revaluation reserve	(20,943,264)	-	710,541	(20,232,723)
	(7,127,920)	1,907,885	710,541	(4,509,494)

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 11. INCOME TAX (continued)

(c) Recognised deferred tax asset / (liability) - continued

<u>Movement in temporary differences during the year</u>	1 January 2016	Recognised in income statement	Recognised through OCI	31 December 2016 *)
	\$	\$	\$	\$
Provision for doubtful debts – accounts receivables	2,943,976	(1,112,061)	-	1,831,915
Provision for doubtful debts - other receivables	-	636,263	-	636,263
Provision for inventory obsolescence	60,000	108,395	-	168,395
Unrealised exchange	967,754	(719,954)	-	247,800
Employee benefit	582,173	2,922,421	-	3,504,594
Statutory liabilities	8,596,210	792,051	-	9,388,261
Property, plant and equipment	1,680,792	(1,191,976)	-	488,816
Investment property	(2,450,700)	-	-	(2,450,700)
Asset revaluation reserve	(20,970,126)	-	26,862	(20,943,264)
	<u>(8,589,921)</u>	<u>1,435,139</u>	<u>26,862</u>	<u>(7,127,920)</u>

*) As restated, refer to Note 32.

Note 12. CASH AND CASH EQUIVALENTS

	2017 \$	2016 \$
Cash on hand	43,296	40,561
Cash at bank	20,452,091	2,008,641
	<u>20,495,387</u>	<u>2,049,202</u>
Bank overdraft	-	(3,374,734)
	<u>20,495,387</u>	<u>1,325,532</u>
Cash and cash equivalents for the statement of cash flows		

The Company has an overdraft facility with Bank of South Pacific of \$4,000,000 (2016: \$4,000,000). Interest is charged on the overdraft at 9% (2016: 9% per annum).

Note 13. TERM DEPOSITS

	2017 \$	2016 \$
Term deposits	<u>769,735</u>	<u>647,963</u>

The average rate on term deposits was 0.25% (2016: 0.25%). The deposits have a average maturity of 365 days (2016: 365 days).

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 14. DEPOSITS

	2017 \$	2016 \$
IATA security deposit	2,358,491	2,427,184
IATA voluntary deposit	6,731,474	2,066,048
Aircraft deposits	2,279,874	1,941,748
Other deposits	964,332	1,333,722
	<u>12,334,171</u>	<u>7,768,702</u>

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

Current	7,021,220	2,184,777
Non-current	5,312,951	5,583,925
	<u>12,334,171</u>	<u>7,768,702</u>

Note 15. TRADE RECEIVABLES

	2017 \$	2016 *) \$
Trade receivables	17,217,970	23,741,892
Provision for doubtful debts	(7,000,071)	(6,106,381)
	<u>10,217,899</u>	<u>17,635,511</u>

Reconciliation of provision for doubtful debts

Balance at 1 January	6,106,381	9,813,252
Provision made during the year	1,569,535	4,253,168
Provisions utilised during the year	(675,845)	(7,960,039)
Balance at 31 December	<u>7,000,071</u>	<u>6,106,381</u>

*) As restated, refer to Note 32.

Note 16. OTHER RECEIVABLES AND PREPAYMENTS

	2017 \$	2016 *) \$
Other receivables	849,516	888,096
GST receivable	478,392	1,212,325
Prepayments	1,081,680	806,139
Provision for doubtful debts	(551,341)	(2,120,876)
	<u>1,858,247</u>	<u>785,684</u>

Reconciliation of provision for doubtful debts

Balance at 1 January	2,120,876	-
Provision made during the year	-	2,120,876
Provisions utilised during the year	(1,569,535)	-
Balance at 31 December	<u>551,341</u>	<u>2,120,876</u>

*) As restated, refer to Note 32.

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 17. INVENTORIES

	2017 \$	2016 \$
Aircraft spares	3,245,275	4,611,779
Fuel	998,740	574,767
Reclassification to assets held for sale (refer Note 18)	-	(280,522)
Provision for inventory obsolescence	(489,035)	(561,318)
	<u>3,754,980</u>	<u>4,344,706</u>

Note 18. ASSETS HELD FOR SALE

	2017 \$	2016 \$
Aircraft Britten Norman Islander (previously included as part of aircraft, property, plant and equipment)	-	663,430
Islander spare parts (previously included as part of inventories)	-	280,522
	<u>-</u>	<u>943,852</u>

The assets held for sale were sold in March 2017.

Note 19. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT

(a) Valuation

The aircrafts were revalued on 31 December 2017. The valuation was carried out by an independent valuer DavAir Group (2016: Michael Knight and Associates). The valuation was based on recent market activity and known transaction data relating to the aircraft types.

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

(b) Security

As at 31 December 2016, aircraft, property, plant and equipment were subject to a mortgage that forms security for bank loans (refer Note 21).

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

NOTE 19. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT
(continued)

	Land & Buildings \$	Aircraft \$	Aircraft spares \$	Aircraft establishment cost \$	Motor vehicles \$	Plant and equipment \$	Work in Progress \$	Total \$
Cost / Revaluation								
Balance at 1 January 2016	37,728,059	67,806,452	22,767,430	29,327,858	2,600,985	8,090,169	129,766	168,450,719
Additions	71,412	2,623,556	5,019,681	-	-	118,471	-	7,833,120
Disposals	-	(2,027,507)	-	-	(444,640)	-	-	(2,472,147)
Transfer from inventory (Note 17)	-	-	3,055,425	-	-	-	-	3,055,425
Reclassification to asset held for sale (Note 18)	-	(663,430)	-	-	-	-	-	(663,430)
Offset of accumulated depreciation on revaluation	-	(4,007,272)	-	-	-	-	-	(4,007,272)
Revaluation increment	-	2,368,525	-	-	-	-	-	2,368,525
Balance at 31 December 2016	37,799,471	66,100,324	30,842,536	29,327,858	2,156,345	8,208,640	129,766	174,564,940
Additions	-	-	425,645	-	-	995,314	32,839	1,453,798
Disposals	-	-	(1,785,978)	-	(72,377)	-	-	(1,858,355)
Offset of accumulated depreciation on revaluation	-	(6,192,316)	-	-	-	-	-	(6,192,316)
Revaluation decrement	-	(2,368,471)	-	-	-	-	-	(2,368,471)
Balance at 31 December 2017	37,799,471	57,539,537	29,482,203	29,327,858	2,083,968	9,203,954	162,605	165,599,596
Breakdown of cost / revaluation								
2017 Valuation	-	55,031,446	-	-	-	-	-	55,031,446
2016 Valuation	-	2,508,091	-	-	-	-	-	2,508,091
Cost	37,799,471	-	29,482,203	29,327,858	2,083,968	9,203,954	162,605	108,060,059
Balance at 31 December 2017	37,799,471	57,539,537	29,482,203	29,327,858	2,083,968	9,203,954	162,605	165,599,596

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 19. AIRCRAFT, PROPERTY, PLANT AND EQUIPMENT (continued)

	Land & Buildings \$	Aircraft \$	Aircraft spares \$	Aircraft establishment cost \$	Motor vehicles \$	Plant and equipment \$	Work In Progress \$	Total \$
Depreciation								
Balance at 1 January 2016	627,625	-	8,557,733	25,435,007	2,021,146	4,888,297	-	41,529,808
Depreciation charge for the year	1,877,966	5,198,583	2,992,077	1,683,219	226,440	713,080	-	12,691,365
Accumulated depreciation on disposal	-	(1,191,311)	-	-	(427,561)	-	-	(1,618,872)
Offset of accumulated depreciation on revaluation	-	(4,007,272)	-	-	-	-	-	(4,007,272)
Balance at 31 December 2016	2,505,591	-	11,549,810	27,118,226	1,820,025	5,601,377	-	48,595,029
Depreciation charge for the year	33,038	6,317,720	3,650,525	885,904	170,873	2,528,421	-	13,586,481
Accumulated depreciation on disposal	-	-	(36,551)	-	(63,932)	-	-	(100,483)
Offset of accumulated depreciation on revaluation	-	(6,192,316)	-	-	-	-	-	(6,192,316)
Balance at 31 December 2017	2,538,629	125,404	15,163,784	28,004,130	1,926,966	8,129,798	-	55,888,711
Carrying amount								
At 1 January 2016	37,100,434	67,806,452	14,209,697	3,892,851	579,839	3,201,872	129,766	126,920,911
At 31 December 2016	35,293,880	66,100,324	19,292,726	2,209,632	336,320	2,607,263	129,766	125,969,911
At 31 December 2017	35,260,842	57,414,133	14,318,419	1,323,728	157,002	1,074,156	162,605	109,710,885

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 20. INVESTMENT PROPERTY

	2017 \$	2016 \$
Balance as 1 January	8,169,000	8,169,000
Change in fair value	-	-
Balance at 31 December	<u>8,169,000</u>	<u>8,169,000</u>

Investment property comprises a commercial property that is leased to third parties for a period of five years.

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

Management intends to use this property in the next financial year and has not renewed the existing tenancy agreement subsequent to year end.

Note 21. BORROWINGS

		2017 \$	2016 \$
Loan – Bank of South Pacific	(a)	26,670,935	31,016,219
Loan – Pegasus Aviation II LLC	(b)	7,403,003	10,883,775
Loan – Pacific Turbine Brisbane	(c)	-	1,849,067
Finance lease liabilities – AAR Parts Trading	(d)	-	1,110,408
		<u>34,073,938</u>	<u>44,859,449</u>

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

	2017 \$	2016 \$
Current	29,843,652	37,240,300
Non-Current	<u>4,230,286</u>	<u>7,619,149</u>
	<u>34,073,938</u>	<u>44,859,449</u>

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 21. BORROWINGS – (continued)

Details of the borrowings are as follows:

(a) Loan – Bank of South Pacific (BSP)

The Company secured loans from BSP to fund the purchase of aircraft. Interest is charged at the rate of 6.75% (2016: 6.75%). Repayments of \$6,301,536 were made during the year. The Company was in breach of certain financial covenants as at 31 December 2017 and as a result all borrowings with BSP have been classified as current. As of the date of this report, the Bank has not taken any action in relation to the breach as monthly repayments continue to be made.

The loan is secured as follows:

- (i) First registered charge over residential properties situated at Rove, Central West Kola's ridge, West Kola's ridge, Panatina, along Tandai Highway, Henderson Airport and Gizo;
- (ii) Registered equitable mortgage over the whole of Solomon Airline Limited's assets and undertakings including uncalled capital, fire policy assigned over stock, plant and machinery;
- (iii) Registered equitable mortgage over the whole of Pacific Car Rentals Limited's assets and undertakings including uncalled capital;
- (iv) Registered charge over property situated at Henderson Airport and Gizo;
- (v) Registered charge over commercial properties, Honiara Head Office and Gizo office;
- (vi) Guarantee (unlimited as amount) by Pacific Car Rentals Limited supported by the commercial property at Henderson; and
- (vii) Registered mortgage over two De Hallivand Twin Otter and one Dash 8 aircraft.

(b) Pegasus Aviation II, LLC

The Company obtained the following loans from Pegasus Aviation II, LLC.

i) Airbus A320 Avionics & Interior Loan

This loan is in respect of upgrade of avionics systems and interior of the Airbus A320 during the year and is in line with the current A320 lease agreement with Pegasus Aviation II. The loan is payable by monthly instalments of US \$13,478.26. Interest is charged at 5% per annum.

ii) Maintenance Reserves Loan

This loan is in respect of the outstanding liability payment obligations to Pegasus Aviation II as at 20 July 2016. The loan is payable by monthly instalments of US 20,153. Interest is charged at 11% per annum.

(c) Pacific Turbine Brisbane

This loan is in respect of the outstanding liability obligations under the PBH agreement with PTB Group Limited. The loan is payable by monthly instalments of US 21,616. Interest is charged at 11% per annum. This loan was fully settled in 2017.

(d) Finance Lease- AAR Parts Trading

The finance lease liability is in respect of spare parts leased for the A320 aircraft from AAR Parts Trading. The lease liability is payable by monthly instalments of US\$ 51,900. Interest is charged at an average rate of 9.88% per annum. The finance lease was fully settled in financial year 2017.

	2017 \$	2016 \$
Finance lease liabilities are payable as follows:		
Less than one year	-	1,110,408
Less furniture interest charges	-	-
	-	<u>1,110,408</u>

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 22. TRADE, OTHER PAYABLES AND ACCRUED EXPENDITURE

	2017	2016
	\$	\$
Trade payables	23,300,443	26,663,096
Accrued expenditure	15,411,169	16,619,494
	<u>38,711,612</u>	<u>43,282,590</u>

Note 23. EMPLOYEE BENEFITS

Annual leave

Balance at 1 January	2,258,383	1,940,578
Provisions made during the year	2,677,928	1,589,601
Provision utilised during the year	(2,008,027)	(1,271,769)
	<u>2,928,284</u>	<u>2,258,383</u>

Balance at 31 December

	2017	2016*)
	\$	\$

Long Service Leave

Balance at 1 January	893,640	960,672
Provisions made during the year	574,068	78,517
Provision utilised during the year	(341,395)	(145,550)
	<u>1,126,313</u>	<u>893,639</u>

Balance at 31 December

Retirement benefit

Balance at 1 January	8,529,960	7,368,595
Provisions made during the year	3,495,365	1,161,365
Provision utilised during the year	(580,084)	-
	<u>11,445,241</u>	<u>8,529,960</u>

Balance at 31 December

Classification in the statement of financial position is as follows:

Current	4,798,654	3,962,364
Non-current	10,701,184	7,719,618
	<u>15,499,838</u>	<u>11,681,982</u>

The employee benefits relating to long service leave and retirement benefit came into effect in 2017 (refer to Note 2(m)). The comparatives have been restated to include prior period charges/liabilities as required under IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (refer to Note 32).

*) As restated, refer to Note 32.

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 24. STATUTORY EXPENSES AND LIABILITIES

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

Subsequent to year the end, the Inland Revenue Division with The Ministry of Finance and Treasury and Investment Corporation of Solomon Islands (investment arm of Government) advised that they are in the process of finalising the arrangements to equitize the above statutory debts. The arrangement will extinguish the tax debt owed by Solomon Airlines with the Inland Revenue Division, increasing the existing shareholding of Investment Corporation of Solomon Islands in the company, via the issue of additional shares.

Classification in the statement of financial position is as follows:

	2017 \$	2016 \$
Current	14,701,039	8,010,108
Non-current	17,569,760	23,284,096
	<u>32,270,799</u>	<u>31,294,204</u>

Interest is charged at a rate of 1.25% per month on the outstanding tax balance at the end of each month and is payable every 6 months.

Note 25. CAPITAL AND RESERVES

(a) Authorised capital

Ordinary shares @\$1.00 each

<u>\$78,809,801</u>	<u>\$78,909,801</u>
---------------------	---------------------

(b) Share capital

An issue at 1 January

78,809,801	70,909,801
------------	------------

Issued for cash

-	7,900,000
---	-----------

In issue at 31 December – fully paid

<u>78,809,801</u>	<u>78,809,801</u>
-------------------	-------------------

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

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 26. COMMITMENTS

	2017 \$	2016 \$
(a) Capital expenditure approved and committed	-	-
(b) Operating lease		

The Company has the following operating leases:

The following is a summary of future operating lease commitments for aircrafts and properties payable by the Company translated (where applicable) at exchange rates prevailing at reporting date:

	2017 \$	2016 \$
Less than one year		
Between one and five years	16,178,530	9,224,358
More than five years	26,823,050	27,674,986
	-	10,611
	<u>43,001,580</u>	<u>36,909,955</u>

Note 27. MATERIAL NON-CASH TRANSACTIONS

Acquisition of A320 avionics and interior parts (refer Note 21)	-	5,016,181
Transfer of aircraft spares from inventories to aircraft, property, plant and equipment (refer Note 17 and 19)	-	3,055,425
Reclassification of assets to assets held for sale (refer Note 18)	-	943,952
Conversion of trade payables to long term borrowings (refer Note 21)	-	9,505,631
	-	<u>18,521,189</u>
Non cash additions to property, plant and equipment	-	<u>18,521,189</u>

Note 28. RELATED PARTIES

(a) Directors

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

Chairman	-	Mr Austin Holmes
Deputy Chairman	-	Mr Robertus Franciscus Bochman
Director	-	Mr Masao Yamagata
Director	-	Mrs Kathy Nori
Director	-	Mr Josefa Tuamoto
Director	-	Mr Charlie Siana Panakera (resigned August 2017)

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 28. RELATED PARTIES - (continued)

(b) Parent company

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

(c) Identity of related parties

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

(d) Transactions with key management personnel and directors

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

13% of the Company's sales and 9% of its purchases are with State Owned Enterprises and Solomon Islands Government departments.

e) Transactions with key management personnel and directors

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

Key management personnel in the current and prior year comprises of the Chief Executive Officer, General Manager Commercial and Operations and General Manager Finance and Corporate Services.

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

Key management compensation is disclosed in Note 9.

	2017	2016
Amounts receivable from key management personnel	\$ -	\$ -

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

Directors fees are disclosed in Note 8.

Note 29. CONTINGENT LIABILITIES

As at reporting date two contingent liabilities exists in respect security deposit guarantees provided by Commonwealth Bank of Australia in favour of Sydney Airport Corporation Limited and Brisbane Airport Corporation Pty Limited amounting to AUD\$50,000 (2016:AUD\$294,985) and AUD\$13,266 (2016:AUD\$13,266) respectively.

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

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 30. ASSET REVALUATION RESERVE

The revaluation reserve relates to the revaluation of aircraft and buildings.

	2017 \$	2016 \$
Balance 1 January	36,027,850	37,595,490
Loss on revaluation of aircraft, land and building	(2,368,471)	(89,543)
Less: Transfer to depreciation on revaluation increment of aircraft	(118,426)	(1,504,960)
Less: Tax on revaluation gain	710,541	26,863
Balance 31 December	34,251,494	36,027,850

Note 31. REVENUE RECEIVED IN ADVANCE

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

	2017 \$	2016 \$
Current		
Unearned passenger revenue	39,528,794	33,116,997

Note 32. RESTATEMENT OF 2016 FINANCIAL STATEMENTS

The restatement is to record the provision of long service leave and retirement benefit that relates to the prior financial year following the formal approval by the Board of the long service leave and retirement benefit policy (refer to note 2(m)). In the past, the company was informally recognising these benefits when it is due/paid to staff. The restatement is in accordance to IAS 8-Accounting Policies, Changes in Accounting Estimates and Errors.

	Notes	Previously Reported 2016 \$	Prior Period Adjustment 2016 \$	Restated 2016 \$
Statement of Profit or Loss and Other Comprehensive Income (Extract)				
Staff and related cost	9	(53,208,576)	(1,094,332)	(54,302,908)
Income tax benefit/(expense)	11	(1,391,941)	2,827,080	1,435,139

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 32. RESTATEMENT OF 2016 FINANCIAL STATEMENTS (continued)

	Notes	Previously Reported 2016 \$	Prior Period Reclassification 2016 \$	Re-classed 2016 \$
Statement of Financial Position				
Employee Benefits (Current)	23	2,258,383	1,703,981	3,962,364
Employee Benefits (Non- current)	23	-	7,719,618	7,719,618
Accumulated Losses		(114,664,377)	(6,596,519)	(121,260,896)
Deferred tax liability	11	9,955,000	(2,827,080)	7,127,920
		Previously Reported 2016 \$	Prior Period Adjustment 2016 \$	Restated 2016 \$
Statement of Changes in equity				
Accumulated loss - 1 January 2016 (page 9)		(98,924,895)	(8,329,267)	(107,254,162)
Loss for the year - 31 December 2016 (page 9)		(17,244,442)	1,732,748	(15,511,694)

Note 33. RECLASSIFICATION OF 2016 FINANCIAL STATEMENTS

During the current year, the company reclassified comparative amounts in the statement of financial position to conform to current year presentation, which resulted in the reclassification of \$12,405,078 in Other receivables (refer Note 16) to Accounts Receivables (refer Note 15). These are agent debtor balances that were classified as Other receivables in 2016.

	Notes	Previously Reported 2016 \$	Prior Period Reclassification 2016 \$	Re-classed 2016 \$
Statement of Financial Position				
Trade receivables	15	5,230,433	12,405,078	17,635,511
Other receivables and prepayments	16	13,190,762	(12,405,078)	785,684

Solomon Airlines Limited
Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2017 (continued)

Note 34. SUBSEQUENT EVENTS

Subsequent to year end:

- a) Solomon Airlines Limited entered into an agreement with Pegasus Aviation LLC, for the purchase of an A320-211 Aircraft on finance lease. This Aircraft was under an operating lease agreement in 2017.
- b) Solomon Airlines obtained a loan of \$20,000,000 from BSP Bank to finance for the purchase of the A320-211 aircraft.
- c) Based on the correspondence between the Inland Revenue Division (IRD) and the Company on 6th June 2018, the IRD is supportive of the conversion of statutory debts to equity held by the Investment Corporation of Solomon Islands (ICSI - investment arm of Government). Subsequent correspondence highlighted that the IRD, ICSI and the Ministry of Finance and Treasury are finalising the arrangements of this conversion.

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

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

No contingent or other liability has become enforceable or is likely to become enforceable within a period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the Group and the Company to meet its obligations when they fall due, other than those that have been included and disclosed in the financial statements.

