Solomon Airlines Limited

Financial Statements

For the year ended

31 December 2013

Solomon Airlines Limited

Contents

Solomon Airlines Limited
Directors' report

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of Solomon Airlines Limited ("the Company") as at 31 December 2013 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

Directors

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

Chairman	-	Mr Denton Rarawa
Deputy Chairman	-	Mr Antony Bensteeve Langston
Director	-	Mr Sebastian Ilala
Director	-	Mr Bob Pollard
Director	-	Mrs Rose Isukana
Director	-	Mr Primo Afeau

State of affairs

In the opinion of the directors, the accompanying statement of financial position gives a true and fair view of the state of affairs of the Company as at 31 December 2013 and the accompanying statement of comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Company for the year then ended.

Trading results

The net loss for the year after income tax benefit of $3,120,132 (2012: $3,146,329) amounted to $7,274,788 (2012: Net loss $35,203).

Going concern

The Company incurred a loss after tax of $7,274,788, and had a deficiency of working capital, excluding revenue received in advance, of $18,792,486 for the year ended 31 December 2013. The Company's continuation as a going concern, therefore is dependent upon its ability to obtain appropriate external financing and /or the support of the Solomon Islands Government in order to meet its obligations.

The directors consider the application of the going concern principle to be appropriate in the preparation of these financial statements as the Company has positive cashflows from operations, is the single provider of domestic aviation services in Solomon Islands, is the international carrier and is a state owned enterprise.

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

Dividends

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

Reserves

The Directors recommend that no amounts be transferred to or from reserves in respect of 31 December 2013.

Solomon Airlines Limited
Directors' report (continued)

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.

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

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

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

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

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

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

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

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

Dated at this Thirty First day of JULY 2014.

Signed in accordance with a resolution of the directors.

Director

Director

Solomon Airlines Limited
Statement by Directors

In the opinion of the Directors of the Company:

(a) the accompanying statement of comprehensive income of the Company is drawn up so as to give a true and fair view of the results of the Company for the year ended 31 December 2013;

(b) the accompanying statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity of the Company for the year ended 31 December 2013;

(c) the accompanying statement of financial position of the Company is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2013;

(d) the accompanying statement of cash flows of the Company is drawn up so as to give a true and fair view of the cash flows of the Company for the year ended 31 December 2013;

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

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

Dated at HONIARA this 31st day of JULY 2014.

Signed in accordance with a resolution of the directors.

Director

Director

Solomon Islands Office of the Auditor-General

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOLOMON AIRLINES LIMITED

Report on the Financial Statements

I have audited the accompanying financial statements of Solomon Airlines Limited ("the Company"), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information.

Directors' and Management's Responsibility for the Financial Statements

Directors and Management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis of Qualified Opinion

I have expressed a qualified opinion on revenue received in advance and inventories as at 31 December 2012 as I was unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of revenue received in advance and completeness, existence, accuracy and valuation of inventory at year end.

Since I was unable to satisfy myself by alternative means concerning the completeness and accuracy of revenue received in advance and completeness, existence, accuracy and valuation of inventory as at 31 December 2012 and opening revenue received in advance and inventories enter into the determination of the financial performance for the year ended 31 December 2013, I am unable to determine whether adjustments might be necessary in respect of the loss for the year reported in the statement of comprehensive income and net cash flows reported in the statement of cash flows.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOLOMON AIRLINES LIMITED (CONTINUED)

Qualified Audit Opinion

In my opinion, except for the possible effects of the matters described in the Basis of Qualified Opinion paragraphs, the financial statements give a true and fair view of the financial position of Solomon Airlines Limited as at 31 December 2013, and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further modifying my opinion, I draw attention to Note 2 (c) in the financial statements which indicates that the Company incurred a loss after tax of $7,274,788 and had a working capital deficiency of $18,792,486 excluding revenue received in advance as at 31 December 2013. Whilst there has been an improvement in management of the Company's cash flows from previous periods, the financial position as at balance date indicates the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern except for the Company's ability to access Solomon Island Government financial support should that become necessary.

Report on Other Legal and Regulatory Requirements

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

The Company has not complied with the requirements of the *Public Finance and Audit Act [Cap 120] and the State Owned Enterprises Act 2007* which requires the audited financial statements to be placed before the Minister responsible before 31 March of the following year to which the financial statements relate. The statements were received 153 days after the due date of 31 March 2014.

Robert Cohen
Auditor- General

Office of the Auditor- General
Solomon Islands

3 September 2014

Solomon Airlines Limited
Statement of comprehensive income
For the year ended 31 December 2013

	Note	2013 $	2012 $
Revenue	5	255,439,869	284,015,526
Other income	6	13,198,090	4,252,057
		268,637,959	288,267,583
Staff and related costs	7	(55,873,625)	(49,838,465)
Operations	8	(83,756,490)	(105,218,814)
Selling and marketing expenses	9	(9,658,400)	(8,369,511)
Fuel		(68,247,027)	(70,993,212)
Depreciation		(20,140,506)	(13,664,393)
Other expenses	10	(36,548,389)	(40,374,178)
Loss from operations		(5,586,478)	(190,990)
Finance income	11	956,596	398,929
Finance expenses	11	(5,765,038)	(3,389,471)
Operating loss before income tax		(10,394,920)	(3,181,532)
Income tax benefit	12 (a)	3,120,132	3,146,329
Net loss after income tax		(7,274,788)	(35,203)
Other comprehensive income for the year, net of tax			
Revaluation of aircraft - net of tax		2,588,991	8,298,324
Depreciation on revaluation increment of aircraft - net of tax		6,062,230	-
Total other comprehensive income		8,651,221	8,298,324
Total comprehensive income for the year		1,376,433	8,263,121

The notes on pages 10 to 33 are an integral part of these financial statements.

Solomon Airlines Limited
Statement of changes in equity
For the year ended 31 December 2013

	Share capital $	Revaluation Reserve $	Accumulated losses $	Total $
Balance at 1 January 2012	70,909,801	33,411,758	(53,556,977)	50,764,582
Total comprehensive income for the year				
Loss for the year	-	-	(35,203)	(35,203)
Total other comprehensive income for the year	-	8,298,324	-	8,298,324
Total comprehensive income for the year	-	8,298,324	(35,203)	8,263,121
Balance at 31 December 2012	70,909,801	41,710,082	(53,592,180)	59,027,703
Balance at 1 January 2013	70,909,801	41,710,082	(53,592,180)	59,027,703
Transfer of depreciation on revaluation increment of aircraft	-	(6,062,230)	-	(6,062,230)
Total comprehensive income for the year				
Loss for the year	-	-	(7,274,788)	(7,274,788)
Total other comprehensive income for the year	-	2,588,991	6,062,230	8,651,221
Total comprehensive income for the year	-	2,588,991	(1,212,558)	1,376,433
Balance at 31 December 2013	70,909,801	38,236,843	(54,804,738)	54,341,906

The notes on pages 10 to 33 are an integral part of these financial statements.

Solomon Airlines Limited
Statement of financial position
As at 31 December 2013

	Note	2013	2012
		$	$
Assets			
Current assets			
Cash and cash equivalents	13	38,035	650,152
Investments	14	217,948	227,968
Deposits	15	3,062,238	2,168,870
Trade receivables	16	6,298,551	6,564,330
Other receivables and prepayments	17	6,857,270	8,937,054
Inventories	18	10,913,336	8,833,728
Total current assets		27,387,378	27,382,102
Non-current assets			
Aircraft, Property, Plant and Equipment	19	137,970,312	150,658,329
Investment property	20	7,600,000	7,600,000
Deposits	15	1,764,706	1,779,096
Total non-current assets		147,335,018	160,037,425
Total assets		174,722,396	187,419,527
Liabilities			
Current liabilities			
Borrowings	21	7,785,195	7,242,364
Revenue received in advance		25,914,801	19,813,963
Trade, other payables and accrued expenditure	22	35,907,368	39,682,209
Employee benefits	23	2,487,301	2,380,689
Total current liabilities		72,094,665	69,119,225
Non-current liabilities			
Borrowings	21	32,319,203	40,179,417
Trade, other payables and accrued expenditure	22	1,406,572	2,522,582
Deferred tax liability	12 (c)	14,560,050	16,570,600
Total non-current liabilities		48,285,825	59,272,599
Total liabilities		120,380,490	128,391,824
Shareholders equity			
Share capital	25 (b)	70,909,801	70,909,801
Revaluation reserve	25 (c)	38,236,843	41,710,082
Accumulated losses		(54,804,738)	(53,592,180)
Total shareholders equity		54,341,906	59,027,703
Total shareholders equity and liabilities		174,722,396	187,419,527

Signed in accordance with a resolution of the Board.

Director **Director**

The notes on pages 10 to 33 are an integral part of these financial statements.

Solomon Airlines Limited
Statement of cash flows
For the year ended 31 December 2013

	Note	2013	2012
		$	$
Operating activities			
Receipts from customers		276,558,273	283,259,280
Payments to suppliers and employees		(259,884,122)	(266,784,460)
Cash generated from operations		16,674,151	16,474,820
Interest received		13,325	33,688
Interest and bank charges paid		(5,305,389)	(3,342,309)
Cash flows from operating activities		11,382,087	13,166,199
Investing activities			
Payments for property, plant and equipment		(5,672,082)	(55,588,251)
Proceeds from sale of property, plant and equipment		985,241	-
Withdrawal of term deposit		10,020	1,992,752
Cash flows used in investing activities		(4,676,821)	(53,595,499)
Financing activities			
Proceeds from borrowings		-	37,500,000
Repayments of borrowings		(7,317,383)	(4,635,152)
Cash flows (used in) / from financing activities		(7,317,383)	32,864,848
Net decrease in cash and cash equivalents		(612,117)	(7,564,452)
Cash and cash equivalents at 1 January		650,152	8,214,604
Cash and cash equivalents at 31 December	13	38,035	650,152
Non cash investing activities	27		

Solomon Airlines Limited
Notes to the financial statements
31 December 2013

1. Reporting entity

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

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

The financial statements were prepared and reported as an individual reporting entity

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved by the Board of the Directors on 31st JULY 2014

(b) Basis of measurement

The financial statements have been prepared using the historical cost basis except for the following items in the statement of financial position:

- investment property is measured at fair value
- owned aircrafts are measured at fair value

(c) Going concern basis of accounting

The Company incurred a loss after tax of $7,274,788, and had a deficiency of working capital, excluding revenue received in advance, of $18,792,486 for the year ended 31 December 2013. The Company's continuation as a going concern, therefore is dependent upon its ability to obtain appropriate external financing, the support of the Solomon Islands Government in order to meet its obligations.

The directors consider the application of the going concern principle to be appropriate in the preparation of these financial statements as the Company has positive cash flows from operations, is the single provider of domestic aviation services in Solomon Islands, is the international carrier and is a state owned enterprise.

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

(d) Functional and presentation currency

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

2. Basis of preparation (continued)

(e) Use of estimates and judgments

The preparation of the 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 16	-	Recoverability of trade receivable
Note 18	-	Impairment of inventories
Note 19	-	Aircraft, Property, Plant & Equipment (Revaluation & Depreciation)

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Solomon Island dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Solomon Island dollars at the exchange rate at that date. The foreign currency gains or losses on retranslation are recognised in profit or loss.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

(b) Aircraft, property, plant and equipment

(i) Recognition and measurement

Items of aircraft, property, plant and equipment are measured at either fair value or at cost less accumulated depreciation and impairment losses.

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 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 / operating expense in profit or loss.

3. Significant accounting policies (continued)

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight line basis over the useful life of each class of asset. The depreciation rates used for aircraft, property, plant and equipment are:

Land and building	5%
Aircraft	5% - 12.5%
Aircraft spares	10%
Aircraft establishment costs	20%
Aircraft Components	Based on expected total flying hours
Motor vehicles	20%
Plant and equipment	10% - 30%

(iv) Revaluation

Aircraft shown at fair value, are based on annual 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.

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

(c) Aircraft / engine overhaul

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

3. Significant accounting policies (continued)

(c) Aircraft / engine overhaul (continued)

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

(d) Investment property

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

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

(e) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

<u>Loans and receivables</u>

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

Loan and receivables comprise cash and cash equivalents, trade and other receivables.

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, cash at bank and bank overdraft.

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 creditors and accrued expenses.

(iii) Ordinary shares

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

(f) Leases

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

Other leases are operating leases and are not recognised in the company's statement of financial position and are recognised in profit or loss.

3. Significant accounting policies (continued)

(g) Inventories

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

(h) 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").

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 first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other 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.

3. Significant accounting policies (continued)

(i) Employee benefits

(i) Defined contribution plan

Contributions are paid to the Solomon Islands National Provident Fund on behalf of employees to secure retirement benefits. Costs are recognised within the statement of comprehensive income.

(ii) Short-term benefits

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

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

(j) 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.

(k) Revenue

Passenger and freight sales are recorded as "revenue received in advance" and transferred to revenue earned when the service is provided or the ticket has a fixed date of service which has passed. Passenger and freight sales are included in profit or loss net of sales discounts. Agency commission is included as a selling and marketing expense.

Unused tickets are recognised as revenue after 12 months from the ticket issue date.

(l) Deposits

Deposits are recorded at transaction costs.

(m) 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, in which case it is recognised in

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.

3. Significant accounting policies (continued)

(m) Income tax (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:
- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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.

(n) Finance income and expenses

Finance income and expenses comprise interest income, interest on borrowings 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 and 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.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2013 and have not been applied in preparing these financial statements. The Company has not applied the following standards that are applicable, have been issued , but are not yet effective:
- IFRS 9 - Financial instruments classification and measurement (effective 1 January 2015)
- IFRS 13 - Fair value measurements (effective 1 January 2015)

The impact of the above standards as not yet been evaluated.

4. Financial risk management

Overview
The Company has exposure to the following risks arising from financial instruments:
(i) Credit risk;
(ii) Liquidity risk; and
(iii) Market risk.

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

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

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

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

The Company establishes an allowance for impairment that represents its estimate of incurred 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 losses that have been incurred 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 was as follows.

	2013	2012
	$	$
Cash at bank	2,652,705	3,512,095
Trade receivables	6,298,551	6,564,330
Deposits	4,826,944	3,947,966
Other receivables (excluding prepayments)	5,941,933	7,846,314
Investments	217,948	227,968
	19,938,081	22,098,673

Solomon Airlines Limited
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4. Financial risk management (continued)

(i) Credit risk (continued)

Impairment losses

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

	2013	2012
	$	$
Not past due	3,138,787	1,058,720
Past due 1 - 30 days	1,527,065	1,700,762
Past due 31 - 60 days	263,051	2,144,122
Past due 61 - 90 days	121,810	936,644
Past due more than 91 days	1,247,838	724,082
	6,298,551	6,564,330

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

(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 facility of $5,000,000 available.

The following are the contractual maturities of financial liabilities including estimated interest payments:

31 December 2013	Carrying amount	Contractual cash flows	0 - 1 years	1-2 years	More than 2 years
Financial liabilities	$	$	$	$	$
Bank overdraft	2,666,490	2,666,490	2,666,490	-	-
Borrowings	40,104,398	47,761,319	10,409,765	10,409,765	26,941,789
Trade, other payables and accrued expenditure	37,313,940	37,313,940	35,907,368	1,406,572	-
	80,084,828	87,741,749	48,983,623	11,816,337	26,941,789
31 December 2012					
Financial liabilities					
Bank Overdraft	2,916,457	2,916,457	2,916,457	-	-
Borrowings	47,421,781	58,171,084	10,409,765	10,409,765	37,351,554
Trade, other payables and accrued expenditure	42,204,791	42,204,791	39,682,209	2,522,582	-
	92,543,029	103,292,332	53,008,431	12,932,347	37,351,554

4. 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 2013	**USD SBD $**	**AUD SBD $**	**FJD SBD $**	**NZD SBD $**	**PGK SBD $**
Financial assets					
Deposits	4,844,489	-	-	-	-
Cash at bank	1,158,491	628,394	259,669	225,494	96,903
Trade receivables	345,163	1,032,986	-	-	-
Other receivables	-	777,212	94,564	85,053	-
	6,348,143	2,438,592	354,233	310,547	96,903
Financial liabilities					
Borrowings	(8,966,825)	-	-	-	-
Trade, other payables and accrued expenditure	(13,956,446)	(8,182,199)	(922,778)	-	(2,676,550)
	(22,923,271)	(8,182,199)	(922,778)	-	(2,676,550)
Net exposure	(16,575,128)	(5,743,607)	(568,545)	310,547	(2,579,647)
31 December 2012					
Financial assets					
Deposits	4,002,966	-	-	-	-
Cash at bank	449,243	1,306,144	462,852	535,553	545,360
Trade receivables	461,366	1,835,202	-	-	-
Other receivables	-	2,543,919	131,999	139,634	7,197
	4,913,575	5,685,265	594,851	675,187	552,557
Financial liabilities					
Borrowings	(11,919,824)	-	-	-	-
Trade, other payables and accrued expenditure	(8,703,372)	(7,481,784)	-	-	-
	(20,623,196)	(7,481,784)	-	-	-
Net exposure	(15,709,621)	(1,796,519)	594,851	675,187	552,557

4. Financial risk management (continued)

(a) Currency risk (continued)

A strengthening of the Dollar as indicated below against USD, AUD, FJD, NZD and PGK at 31 December would have increased (decreased) profit before 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 are constant.

	2013	2012
	$	$
Financial assets		
Impact on profit after tax if 10% increase in USD fx rate against SBD	634,814	491,358
Impact on profit after tax if 10% decrease in USD fx rate against SBD	(634,814)	(491,358)
Impact on profit after tax if 10% increase in AUD fx rate against SBD	243,859	568,527
Impact on profit after tax if 10% decrease in AUD fx rate against SBD	(243,859)	(568,527)
Impact on profit after tax if 10% increase in FJD fx rate against SBD	35,423	59,485
Impact on profit after tax if 10% decrease in FJD fx rate against SBD	(35,423)	(59,485)
Impact on profit after tax if 10% increase in NZD fx rate against SBD	31,055	67,519
Impact on profit after tax if 10% decrease in NZD fx rate against SBD	(31,055)	(67,519)
Impact on profit after tax if 10% increase in PGK fx rate against SBD	9,690	55,256
Impact on profit after tax if 10% decrease in PGK fx rate against SBD	(9,690)	(55,256)
Financial liabilities		
Impact on profit after tax if 10% increase in USD fx rate against SBD	2,292,327	2,062,320
Impact on profit after tax if 10% decrease in USD fx rate against SBD	(2,292,327)	(2,062,320)
Impact on profit after tax if 10% increase in AUD fx rate against SBD	818,220	748,178
Impact on profit after tax if 10% decrease in AUD fx rate against SBD	(818,220)	(748,178)
Impact on profit after tax if 10% increase in FJD fx rate against SBD	92,278	-
Impact on profit after tax if 10% decrease in FJD fx rate against SBD	(92,278)	-
Impact on profit after tax if 10% increase in PGK fx rate against SBD	267,655	-
Impact on profit after tax if 10% decrease in PGK fx rate against SBD	(267,655)	-

(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 was as follows:

	2013	2012
	$	$
Fixed rate instruments		
Term deposits	217,948	227,968

4. Financial risk management (continued)

(b) Interest rate risk (continued)

	2013	2012
	$	$
Variable rate instruments		
Borrowings	40,104,398	47,421,781
Bank overdraft	2,666,490	2,916,457
	42,770,888	50,338,238

Sensitivity analysis		
A 1% change in interest rate would have the following impact on profit before tax	427,709	503,382

(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 and loss and statement of changes in equity.

	Profit or loss & equity (Increase) / decrease	
	2013	2012
	$	$
10% increase in fuel price	(6,824,703)	(7,099,321)
10% decrease in fuel price	6,824,703	7,099,321

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

5. Revenue

	2013	2012
	$	$
Passenger revenue	169,711,118	189,758,428
Cargo and mail revenue	10,087,583	15,145,614
Charter revenue	19,875,051	18,442,865
Excess baggage	5,016,573	4,050,555
Fuel surcharge	40,866,858	37,777,704
Traffic income	4,376,837	5,195,388
Revenue from unused tickets and cargo manifests	5,505,849	13,644,972
	255,439,869	284,015,526

6. Other income

Ticket cancellation fees	991,523	689,202
Rental income	460,000	375,000
Community service obligation (CSO) Subsidy	5,289,775	-
Departure tax on unused tickets	3,069,737	1,764,759
Proceeds from Insurance	1,377,487	-
Other	2,009,568	1,423,096
	13,198,090	4,252,057

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	2013	2012
	$	$
7. Staff and related costs		
Wages and salaries expense - key management personnel	4,706,420	3,460,990
Wages and salaries expense - others	30,892,411	27,941,894
National Provident Fund contributions - key management personnel	352,981	259,574
National Provident Fund contributions - others	2,596,832	2,243,440
Housing and other allowances - key management personnel	716,478	543,916
Housing and other allowances - others	10,344,121	12,302,016
Other staff related costs - key management personnel	1,626,270	925,800
Other staff related costs - others	4,638,112	2,160,835
	55,873,625	49,838,465

	2013	2012
8. Operations		
Aircraft lease	17,526,684	45,427,499
Airport navigation charges	5,383,112	4,766,769
Catering	8,139,132	7,581,728
Engineering and Maintenance	35,466,528	35,031,578
Ground handling	7,401,333	6,572,782
Insurance - aircraft	5,702,260	4,699,223
Passenger disruption costs	2,019,739	685,026
Other operational costs	2,117,702	454,209
	83,756,490	105,218,814

	2013	2012
9. Selling and marketing expenses		
Advertising	855,396	1,425,767
Agents commission	8,803,004	6,943,744
	9,658,400	8,369,511

	2013	2012
10. Other expenses		
Accounting fees	1,876,261	1,428,557
Audit fee	348,722	336,833
Bad and doubtful debts	526,092	3,407,937
Commission	-	1,107,404
Computer and communications	8,814,481	10,585,783
Consultancy	3,283,785	3,548,313
Directors fees	177,715	159,000
Freight & courier	3,216,037	2,730,790
Insurance - others	477,136	667,347
Motor vehicle expenses	3,473,614	2,567,646
Others	4,972,993	5,324,846
Premises expenses	7,821,636	6,765,836
Printing and stationery	1,559,917	1,743,886
	36,548,389	40,374,178

Solomon Airlines Limited
Notes to the financial statements
31 December 2013

11. Finance income and expenses

	2013	2012
	$	$
Finance income		
Interest income	13,325	33,688
Realised exchange gain	943,271	-
Unrealised exchange gain	-	365,241
	956,596	398,929
Finance expenses		
Bank charges	1,700,161	1,757,741
Interest expense - loans	3,284,370	1,585,068
Interest expense - overdraft	320,859	500
Realised exchange loss	-	46,162
Unrealised exchange loss	459,648	-
	5,765,038	3,389,471

12. Income tax

	2013	2012
(a) Income tax expense recognised in profit or loss		
Deferred tax credit	(3,120,132)	(3,146,329)
(b) Reconciliation of effective tax rate		
Operating loss before income tax	(10,394,920)	(3,181,532)
Prima facie income tax benefit calculated at 30% (2012: 30%)	(3,118,476)	(954,460)
Under provision in respect of prior years	(1,656)	-
Deferred tax assets in respect of prior and current year temporary differences now brought to account	-	(2,191,869)
	(3,120,132)	(3,146,329)
(c) Recognised deferred tax asset / (liability)		
Provision for doubtful debts	2,614,616	2,567,603
Provision for inventory obsolescence	60,000	-
Unrealised exchange loss	137,894	-
Employee benefits	746,190	714,207
Tax losses	4,027,421	2,144,523
Property, plant and equipment	(22,146,171)	(21,996,933)
	(14,560,050)	(16,570,600)

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12. Income tax (continued)

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

Movement in temporary differences during the year

	1 January 2012	Recognised in income statement	Recognised directly in equity	31 December 2012
	$	$		$
Provision for doubtful debts	-	2,567,603	-	2,567,603
Employee benefits	-	714,207	-	714,207
Tax losses	-	2,144,523	-	2,144,523
Property, plant and equipment	(16,160,504)	(2,280,004)	(3,556,424)	(21,996,933)
	(16,160,504)	3,146,329	(3,556,424)	(16,570,600)

	1 January 2013	Recognised in income statement	Recognised directly in equity	31 December 2013
	$	$		$
Provision for doubtful debts	2,567,603	47,013	-	2,614,616
Provision for inventory obsolescence	-	60,000	-	60,000
Unrealised exchange loss	-	137,894	-	137,894
Employee benefits	714,207	31,983	-	746,190
Tax losses	2,144,523	1,882,898	-	4,027,421
Property, plant and equipment	(21,996,933)	960,344	(1,109,580)	(22,146,171)
	(16,570,600)	3,120,132	(1,109,580)	(14,560,050)

	2013	2012
	$	$
13. Cash and cash equivalents		
Cash on hand	51,820	54,514
Cash at bank	2,652,705	3,512,095
	2,704,525	3,566,609
Bank overdraft	(2,666,490)	(2,916,457)
	38,035	650,152
14. Investments		
Term deposits	217,948	227,968

The average rate on term deposits in 2013 was 0.25% (2012:1.25%). The deposits have an average maturity of 365 days (2012: 365 days).

15. Deposits

	2013	2012
	$	$
Current		
Deposit with IATA and others	3,062,238	2,168,870
Non current		
Deposit for leased A320 aircraft	1,764,706	1,779,096

16. Trade receivables

Trade receivables	15,013,938	15,123,007
Provision for doubtful debts	(8,715,387)	(8,558,677)
	6,298,551	6,564,330

Reconciliation of provision for doubtful debts		
Balance at 1 January	8,558,677	5,150,740
Provision made during the year	526,092	3,407,937
Provisions utilised during the year	(369,382)	-
Balance at 31 December	8,715,387	8,558,677

17. Other receivables and prepayments

Other receivables	5,632,163	6,724,353
GST receivable	309,770	1,121,961
Prepayments	915,337	1,090,740
	6,857,270	8,937,054

18. Inventories

Aircraft spares	10,473,400	8,424,298
Fuel	639,936	409,430
Provision for inventory obsolescence	(200,000)	-
	10,913,336	8,833,728

19. Aircraft, property, plant and equipment

	Land & buildings	Aircraft	Aircraft spares	Aircraft establishment cost	Motor vehicles	Plant and equiment	Work in progress	Total
	$	$	$	$	$	$	$	$
Cost / Revaluation								
Balance at 1 January 2012	25,234,983	30,460,624	-	21,047,098	2,600,106	4,107,558	4,974,740	88,425,109
Additions	6,141,369	35,915,506	18,168,439	9,016,054	349,359	1,591,265	-	71,181,992
Work in progres capitalised	4,844,974	-	-	-	-	-	(4,844,974)	-
Revaluation	-	(3,807,578)	-	-	-	-	-	(3,807,578)
Revaluation increment	-	11,854,749	-	-	-	-	-	11,854,749
Balance at 31 December 2012	36,221,326	74,423,301	18,168,439	30,063,152	2,949,465	5,698,823	129,766	167,654,272
Additions	753,507	314,190	3,540,637	-	289,430	774,318	-	5,672,082
Disposals	-	-	(1,135,859)	-	(214,204)	-	-	(1,350,063)
Offset of accumulated depreciation on revaluation	-	(9,980,167)	-	-	-	-	-	(9,980,167)
Revaluation increment	-	3,698,557	-	-	-	-	-	3,698,557
Transfer to deposits	-	-	-	(735,294)	-	-	-	(735,294)
Balance at 31 December 2013	36,974,833	68,455,881	20,573,217	29,327,858	3,024,691	6,473,141	129,766	164,959,387
Breakdown of cost / revaluation								
2009 Valuation	19,100,000	-	-	-	-	-	-	19,100,000
2013 Valuation	-	68,455,881	-	-	-	-	-	68,455,881
Cost	17,874,833	-	20,573,217	29,327,858	3,024,691	6,473,141	129,766	77,403,506
Balance at 31 December 2013	36,974,833	68,455,881	20,573,217	29,327,858	3,024,691	6,473,141	129,766	164,959,387

The aircraft were revalued on 31 December 2013. The valuation was carried out by an independent valuer Michael Knight and Associates. The valuation was based on recent market activity and known transaction data in relation to the aircraft type.

19. Aircraft, property, plant and equipment (continued)

	Land & buildings	Aircraft	Aircraft spares	Aircraft establishment cost	Motor vehicles	Plant and equiment	Work In progress	Total
	$	$	$	$	$	$	$	$
Depreciation								
Balance at 1 January 2012	2,659,897	-	-	1,146,147	1,656,325	1,676,759	-	7,139,128
Depreciation charge for the year	1,349,331	4,537,571	1,892,433	4,891,254	342,318	651,486	-	13,664,393
Offset of accumulated depreciation as a result of revaluation	-	(3,807,578)	-	-	-		-	(3,807,578)
Balance at 31 December 2012	4,009,228	729,993	1,892,433	6,037,401	1,998,643	2,328,245	-	16,995,943
Depreciation charge for the year	1,838,643	9,250,174	2,057,322	5,865,571	382,878	745,918	-	20,140,506
Accumulated depreciation on sale	-	-	-	-	(167,207)	-	-	(167,207)
Offset of accumulated depreciation as a result of revaluation	-	(9,980,167)	-	-	-	-	-	(9,980,167)
Balance at 31 December 2013	5,847,871	-	3,949,755	11,902,972	2,214,314	3,074,163	-	26,989,075
Carrying amount								
At 1 January 2011	22,575,086	30,460,624	-	19,900,951	943,781	2,430,799	4,974,740	81,285,981
At 31 December 2012	32,212,098	73,693,308	16,276,006	24,025,751	950,822	3,370,578	129,766	150,658,329
At 31 December 2013	31,126,962	68,455,881	16,623,462	17,424,886	810,377	3,398,978	129,766	137,970,312

20. Investment property

	2013	2012
	$	$
Balance 1 January and 31st December 2013	7,600,000	7,600,000

Investment property comprises a commercial property that is leased to third parties for a period of five years. See note 26 for more information. The property was valued in March 2012 by Value Solutions Appraisal using the income approach, capitalising net operating income (allowing for a 2% vacancy factor) at a rate of 11%. The Directors have reviewed the carrying value at 31 December 2013 and propose no adjustments thereto.

21. Borrowings

	2013	2012
	$	$
Loan - Bank of South Pacific	31,137,573	35,501,957
Finance lease liabilities	8,966,825	11,919,824
	40,104,398	47,421,781

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

Current	7,785,195	7,242,364
Non current	32,319,203	40,179,417
	40,104,398	47,421,781

Loan - Bank of South Pacific (BSP)

The Company has secured a loan from BSP to fund the purchase of an aircraft. The loan is repayable by monthly installments of $552,039. Interest is charged at the rate of 6.75%. The loan is secured as follows:

(i) First registered charge over properties situated in the following areas:
- Rove
- Property situated along Tandai highway, central Kola'a ridge, west Kola'a ridge.
- Henderson Airport
- Gizo

(ii) First registered charge over residential properties situated at West Kola'a ridge, Tandai highway, Auki, Henderson Airport, Gizo and Western Province.

(iii) Registered charge over commercial properties, Honiara head office and Gizo office

(iv) Registered equitable mortgage over the whole of Solomon Airlines Limited assets and undertakings including uncalled capital, fire policy assigned over stock, plant and machinery;

(v) Guarantee (unlimited as amount) by Pacific Car Rentals Limited supported by the commercial property at Henderson; and

(vi) Registered mortgage over two De Hallivand Twin Otter and one Dash 8 aircraft.

21. Borrowings (continued)

Finance lease

The finance lease liability is in respect of spare parts leased for the A320 aircraft from AAR Parts Trading Limited. The lease liability is payable by monthly instalments of USD 42,900. Interest is charged at the rate of 8.82%. Repayments of $3,785,294 (USD 514,800) were made during the year.

	2013	2012
Finance lease liabilities are payable as follows:	$	$
Less than one year	3,785,295	3,816,160
Between one and five years	6,308,912	10,176,887
	10,094,207	13,993,047
Less future interest charges	(1,127,382)	(2,073,223)
	8,966,825	11,919,824

	2013	2012
22. Trade, other payables and accrued expenditure	$	$
Trade payables	17,903,247	19,983,578
Other payables	9,357,925	11,488,728
Accrued expenditure	10,052,768	10,732,485
	37,313,940	42,204,791
Disclosed in the financial statements as follows:		
Current	35,907,368	39,682,209
Non current	1,406,572	2,522,582
	37,313,940	42,204,791

The non current portion in 2013 represents an agreement made with a creditor to restructure lease payments.

In 2012 the non current portion represented an agreement made with the Government of the Solomon Islands for payment of $300,000 monthly in relation to outstanding Pay As You Go taxes (PAYG). As at 31 December 2013 the liability is current.

	2013	2012
23. Employee benefits	$	$
Balance at 1 January	2,380,689	1,373,917
Provisions made during the year	408,313	1,244,903
Provisions utilised during the year	(301,701)	(238,131)
Balance at 31 December	2,487,301	2,380,689

	2013	2012
25. Capital and reserves	**$**	**$**
(a) Authorised capital		
70,909,801 ordinary shares @ $1.00 each	70,909,801	70,909,801
(b) Share capital		
70,909,801 ordinary shares @ $1.00 each	70,909,801	70,909,801

(c) Revaluation reserve

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

26. Commitments

	2013	2012
	$	**$**
(a) Capital expenditure approved and committed	-	-

(b) Operating leases

The Company has the following operating leases:

-lease agreement for one Britten Norman Islander with Colville Aviation Services for AUD$5,000 per month for one year from 1 February 2012. The agreement was extended upon mutual agreement for one year until further notice.
- lease agreement for A320 aircraft with Pegasus Aviation II, Inc for USD$120,000 per month from 26 February 2011 to 31 December 2015; and
- lease agreement for leasehold land

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

	2013	2012
	$	**$**
Less than one year	10,414,007	10,713,124
Between one and five years	10,386,011	21,349,148
More than five years	13,481	-
	20,813,499	32,062,272

Leases as lessor

The Company leases out its investment property. The future minimum lease payments under the agreement are as follows:

	2013	2012
	$	**$**
Less than one year	450,000	450,000
Between one and five years	225,000	675,000
More than five years	-	-
	675,000	1,125,000

	2013	2012
27. Non cash investing activities	**$**	**$**
Additions to property, plant and equipment (refer Note 19)	-	71,181,992
Additions paid for by cash (refer statement of cash flows)	-	(55,588,251)
Non cash additions to property, plant and equipment	-	15,593,741

28. Related parties

(a) Directors

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

Chairman	Mr Denton Rarawa
Deputy Chairman	Mr Antony Bensteeve Langston
Director	Mr Sebastian Ilala
Director	Mr Bob Pollard
Director	Mrs Rose Isukana
Director	Mr Primo Afeau

(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 government and government related entities

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

18% of the Company's sales and 10% of its purchases are with State Owned Enterprises and for 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.

28. Related parties (continued)

(e) Transactions with key management personnel and directors (continued)

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 10.

29. Contingent liabilities

There are two law claims pending against the company of which they are at various stages of being defended. The amount of claims due to litigation against the company are unable to be quantified as at the date of this report

30. Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital or issue new shares.
The paid up share capital of the company of $70,909,801.00 with allotment of subscription shares to the following subscribers : Investment Corporation (SI) 66,909,801 Ordinary Shares Solomon Airlines Holding Limited 3,999,999 Ordinary Shares and General Manager (ICSI) (In Trust) 1 Ordinary Share

31. Subsequent events

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