

Solomon Airlines Limited

Financial Statements

For the year ended

31 December 2016

Solomon Airlines Limited

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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 2016 and the statement of profit or loss and other 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 Austin Holmes (appointed August 2015)
Deputy Chairman	Mr Robertus Franciscus Bochman (appointed April 2016)
Director	Mr George Rausi (appointed July 2015 - resigned February 2016)
Director	Mr Masao Yamagata (appointed October 2015)
Director	Mrs Kathy Nori (appointed October 2015)
Director	Mr Josefa Tuamoto (appointed June 2016)

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 2016 and the accompanying statement of profit or loss and other 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 loss for the year after income tax expense of \$1,391,941 (2015: income tax benefit of \$928,435) amounted to \$17,244,442 (2015: \$32,927,598).

Dividends

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

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.

Solomon Airlines Limited

Directors' report (continued)

Going concern

The financial statements have been prepared on a going concern basis notwithstanding that at 31 December 2016 the Company had a deficiency of working capital, excluding revenue received in advance of \$65,574,319 (2015: \$67,417,782), and recorded a loss before income tax of \$15,852,501 (2015: \$33,856,033).

The Company's continuation as going concern is dependent upon its ability to generate cash flows from operations and the ongoing support of its bankers in order to meet its obligations as they fall due as well as the continued support of the Company's shareholder being Solomon Islands Government. These conditions indicate the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern.

The Directors consider it is appropriate to prepare these financial statements on a going concern basis as the Company has obtained a letter of support from the Government of Solomon Islands which states that the Government remains committed to the Company and will provide sufficient support to Solomon Airlines for it to meet all of its financial obligations as and when they fall due.

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

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.

Solomon Airlines Limited
Directors' report (continued)

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.

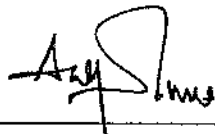
Events subsequent to balance date

During the year, the company incorporated a fleet management strategy of using turbine engines only which necessitated the disposal of Brittan Norman Islander aircraft and its related spare parts. Efforts to sell the assets commenced on 31 December 2016 while the sale was concluded in March 2017.

Other than the matter noted above, 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 12th day of July 2017.

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:

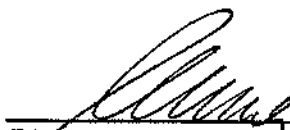
- (a) the accompanying statement of profit or loss and other comprehensive income of the Company is drawn up so as to give a true and fair view of the results of the Company for the year ended 31 December 2016;
- (b) the accompanying statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity of the Company for the year ended 31 December 2016;
- (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 2016;
- (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 2016;
- (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 12th day of July 2017.

Signed in accordance with a resolution of the directors.



Director



Director



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 KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statement of Solomon Airlines Limited, which comprise the statement of financial position as at 31 December 2016, 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 32.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2 (c) in the financial statements regarding the existence of uncertainties in relation to the Company’s ability to continue as a going concern. The Company’s continuation as a going concern is dependent upon its ability to obtain appropriate external financing, the support of the Solomon Islands Government and/or to generate sufficient cash flows from operations in order to meet its obligations and to return to profitable operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are 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 auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

Independent Auditors' Report

To the members of Solomon Airlines Limited (continued)

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, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' 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.

We 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 we identify during our audit.

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 signed statements were received 103 days after the due date of 31 March 2017.


Peter Lokay
Auditor General
17 July, 2017

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 2016

	Note	2016 \$	2015 \$
Revenue	5	244,302,684	259,481,124
Other income	6	15,372,800	7,564,549
Total operating revenue		<u>259,675,484</u>	<u>267,045,673</u>
Staff and related costs	7	(53,208,576)	(53,701,256)
Operations	8	(113,050,981)	(95,450,793)
Selling and marketing expenses	9	(4,018,378)	(6,418,511)
Fuel		(46,598,717)	(56,487,651)
Depreciation	20	(12,691,365)	(17,632,942)
Statutory expenses	25	-	(24,276,096)
Other expenses	10	(39,658,513)	(38,011,974)
Total operating expenses		<u>(269,226,530)</u>	<u>(291,979,223)</u>
Loss from operations		<u>(9,551,046)</u>	<u>(24,933,550)</u>
Finance income	11(a)	25,755	18,776
Finance expenses	11(b)	(6,327,210)	(8,941,259)
Operating loss before income tax		<u>(15,852,501)</u>	<u>(33,856,033)</u>
Income tax (expense) / benefit	12 (a)	(1,391,941)	928,435
Loss after income tax		<u>(17,244,442)</u>	<u>(32,927,598)</u>
Other comprehensive income / (loss) for the year, net of tax			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Revaluation of aircraft and land and buildings - net of tax		(62,680)	5,462,350
Total other comprehensive income		<u>(62,680)</u>	<u>5,462,350</u>
Total comprehensive loss for the year		<u><u>(17,307,122)</u></u>	<u><u>(27,465,248)</u></u>

The notes on pages 11 to 38 are an integral part of these financial statements.

Solomon Airlines Limited
Statement of changes in equity
For the year ended 31 December 2016


	Note	Share capital \$	Revaluation Reserve \$	Accumulated losses \$	Total \$
Balance at 1 January 2015		70,909,801	34,439,934	(68,304,091)	37,045,644
Transfer of depreciation on revaluation increment of aircraft		-	(2,306,794)	2,306,794	-
Total comprehensive loss for the year				(32,927,598)	(32,927,598)
Loss for the year		-	-	-	5,462,350
Other comprehensive income for the year		-	5,462,350	-	-
Total comprehensive income / (loss) for the year		-	5,462,350	(32,927,598)	(27,465,248)
Balance at 31 December 2015	26 (b)	70,909,801	37,595,490	(98,924,895)	9,580,396
Balance at 1 January 2016		70,909,801	37,595,490	(98,924,895)	9,580,396
Transfer of depreciation on revaluation increment of aircraft		-	(1,504,960)	1,504,960	-
Total comprehensive loss for the year				(17,244,442)	(17,244,442)
Loss for the year		-	-	-	(62,680)
Other comprehensive loss for the year		-	(62,680)	-	-
Total comprehensive loss for the year		-	(62,680)	(17,244,442)	(17,307,122)
Transactions with owners of the Company					
Issue of ordinary shares	26 (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	26 (b)	78,809,801	36,027,850	(114,664,377)	173,274

The notes on pages 11 to 38 are an integral part of these financial statements.

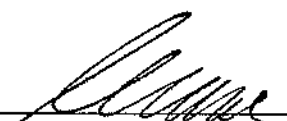
Solomon Airlines Limited
Statement of financial position
As at 31 December 2016

	Note	2016 \$	2015 \$
Assets			
Current assets			
Cash on hand and at bank	13	2,049,202	8,606,936
Term deposits	14	647,963	688,000
Deposits	15	2,184,777	1,683,734
Trade receivables	16	5,230,433	5,615,995
Other receivables and prepayments	17	13,190,762	5,855,157
Inventories	18	4,344,706	9,287,148
Assets held for sale	19	943,952	-
Total current assets		<u>28,591,795</u>	<u>31,736,970</u>
Non-current assets			
Aircraft, property, plant and equipment	20	125,969,911	126,920,911
Investment property	21	8,169,000	8,169,000
Deposits	15	5,583,925	4,354,839
Total non-current assets		<u>139,722,836</u>	<u>139,444,750</u>
Total assets		<u>168,314,631</u>	<u>171,181,720</u>
Liabilities			
Current liabilities			
Bank overdraft	13	3,374,734	-
Borrowings	22	37,240,300	43,274,847
Revenue received in advance		33,116,997	30,963,129
Trade, other payables and accrued expenditure	23	43,282,590	48,178,815
Employee benefits	24	2,258,383	1,940,578
Statutory liabilities	25	8,010,108	5,760,512
Total current liabilities		<u>127,283,112</u>	<u>130,117,881</u>
Non-current liabilities			
Borrowings	22	7,619,149	-
Deferred tax liability	12 (c)	9,955,000	8,589,921
Statutory liabilities	25	23,284,096	22,893,522
Total non-current liabilities		<u>40,858,245</u>	<u>31,483,443</u>
Total liabilities		<u>168,141,357</u>	<u>161,601,324</u>
Shareholders equity			
Share capital	26 (b)	78,809,801	70,909,801
Revaluation reserve	26 (c)	36,027,850	37,595,490
Accumulated losses		(114,664,377)	(98,924,895)
Total shareholders equity		<u>173,274</u>	<u>9,580,396</u>
Total shareholders equity and liabilities		<u>168,314,631</u>	<u>171,181,720</u>

Signed in accordance with a resolution of the Board.



 Director



 Director

The notes on pages 11 to 38 are an integral part of these financial statements.

Solomon Airlines Limited
Statement of cash flows
For the year ended 31 December 2016

	Note	2016 \$	2015 \$
Cash flows from operating activities			
Receipts from customers		248,899,057	259,055,873
Payments to suppliers and employees		<u>(242,327,971)</u>	<u>(233,007,073)</u>
Cash generated from operations		6,571,086	26,048,800
Interest received		25,755	18,776
Interest paid		(2,954,686)	(3,500,468)
Statutory liabilities paid		<u>(5,760,511)</u>	<u>(300,000)</u>
Net cash (used in) / from operating activities		<u>(2,118,356)</u>	<u>22,267,108</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	20	(2,816,939)	(8,447,325)
Proceeds from withdrawal of term deposit		40,037	-
Investment in term deposit		-	<u>(371,409)</u>
Net cash used in investing activities		<u>(2,776,902)</u>	<u>(8,818,734)</u>
Cash flows from financing activities			
Repayments of borrowings		(12,937,210)	(7,278,528)
Proceeds from issue of share capital	26 (b)	<u>7,900,000</u>	-
Net cash used in financing activities		<u>(5,037,210)</u>	<u>(7,278,528)</u>
Net (decrease) / increase in cash and cash equivalents		(9,932,468)	6,169,846
Cash and cash equivalents at 1 January		8,606,936	2,437,090
Cash and cash equivalents at 31 December	13	<u>(1,325,532)</u>	<u>8,606,936</u>
Non cash investing activities	28		

The notes on pages 11 to 38 are an integral part of these financial statements.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

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 approved 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 12th July 2017

(b) Basis of measurement

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.

(c) Going concern basis of accounting

The financial statements have been prepared on a going concern basis notwithstanding that at 31 December 2016 the Company had a deficiency of working capital, excluding revenue received in advance of \$65,574,319 (2015: \$67,417,782), and recorded a net loss before income tax of \$15,852,501 (2015: \$33,856,033).

The Company's continuation as going concern is dependent upon its ability to generate cash flows from operations and the ongoing support of its bankers in order to meet its obligations as they fall due as well as the continued support of the Company's shareholder being Solomon Islands Government. These conditions indicate the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern.

The Directors consider it is appropriate to prepare these financial statements on a going concern basis as the Company has obtained a letter of support from the Government of Solomon Islands which states that the Government remains committed to the Company and will provide sufficient support to Solomon Airlines for it to meet all of its financial obligations as and when they fall due.

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

(d) Functional and presentation currency

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

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

2. Basis of preparation (continued)

(e) 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 3(i) -	Recoverability of trade receivables and other receivables
Note 3(b) -	Aircraft, property, plant and equipment (Revaluation & Depreciation)
Note 3(I)(i) -	Revenue in advance
Note 3(n) -	Recoverability of tax losses and deferred tax assets

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. Foreign currency differences are generally recognised in profit or loss.

(b) 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 the financial statements
31 December 2016

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 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 and 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.

(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.

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.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(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 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.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

(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.

(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. Operating lease payments are recognised in profit or loss on a straight line basis over the term of the lease.

(g) Inventories

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

(h) Receivables

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

(i) 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.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(i) Impairment (continued)

(i) Non-derivative financial assets (continued)

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 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.

(j) Employee benefits

(i) Defined contribution plan

Contributions are paid on behalf of employees to secure retirement benefits to the Solomon Islands National Provident Fund for local employees or to the respective superannuation scheme in the country of overseas based employees. Costs are recognised within the profit or loss.

(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.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(k) 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.

(l) 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.

(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 in profit or loss when government approves the subsidy and a contract is signed.

(m) Deposits

Deposits are recorded at cost.

(n) 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.

(o) 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 remeasured in accordance with the Company's accounting policies. Thereafter, generally the assets are measured at the lower of their carrying amount or fair value less costs to sell.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(n) 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.

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.

(o) 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.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are available for early adoption but have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements, except for IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

IFRS 9 becomes mandatory for the Company effective 1 January 2018 and could change the classification and measurement of financial assets.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The standard will provide a single source of requirements for accounting for all contracts with customers (except for some specific exceptions, such as lease contracts, insurance contracts and financial instruments) and will replace all current accounting pronouncements on revenue. New revenue disclosures are also introduced.

The standard IFRS 16 removes the classification of leases, effectively treating all leases as finance leases. IFRS 16 is effective from annual periods beginning on or after 1 January 2019. The Company does not plan to adopt these standards early and the extent of the impact has not been determined.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

3. Significant accounting policies (continued)

(q) Comparative information

Changes in the classification of items presented in the statement of financial position

During the current year, the Company reclassified comparative amounts in the statement of financial position to conform to current year presentation, which resulted in \$1,214,993 being reclassified from Other receivables and prepayments (refer Note 17) to Deposits (refer Note 15).

Changes in the classification of items presented in the statement of profit or loss and other comprehensive

During the current year, the Company reclassified comparative amounts in the statement of profit or loss and other comprehensive to conform to current year presentation, which resulted in the following changes:

- i. rental income of \$1,476,000 being reclassified from other staff related costs (refer Note 7 Staff and related costs) to premises expenses (Refer Note 10 Other expenses); and
- ii. fuel surcharge of \$11,453,569 being recorded as part of passenger revenue (refer Note 5).

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 are offered.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

4. Financial risk management (continued)

(i) Credit risk (continued)

Trade and other receivables (continued)

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

Exposure to credit risk

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

	2016	2015
	\$	\$
Cash at bank	2,008,641	8,567,330
Trade receivables	5,230,433	5,615,995
Deposits	1,333,722	1,322,722
Other receivables (excluding prepayments)	12,384,623	5,025,171
Term deposits	647,963	688,000
	<u>21,605,382</u>	<u>21,219,218</u>

Impairment losses

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

Not past due	14,809,320	6,317,217
Past due 31 - 60 days	1,246,811	1,514,142
Past due 61 - 90 days	1,169,121	598,527
Past due 91 - 120 days	236,060	245,894
Past due more than 120 days	153,744	1,965,386
	<u>17,615,056</u>	<u>10,641,166</u>

The movement in the provision for doubtful debts in respect of trade receivables and other receivables during the year is disclosed in Note 16 and Note 17 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.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

4. Financial risk management (continued)

(ii) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities:

31 December 2016

	Carrying amount \$	Contractual cash flows \$	0 - 1 Years \$	1-2 years \$	More than 2 years \$
<u>Financial liabilities</u>					
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)	-	-
	<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>

Due to the breach of certain financial covenants the BSP loan, interest payments for the remaining term to maturity have been presented as 0 - 1 years as at 31 December 2016.

As disclosed in Note 2(c) the Company has received a letter of support from the Government which states that the Government remains committed to the Company and will provide sufficient support to Solomon Airlines for it to meet all of its financial obligations as and when they fall due.

31 December 2015

	Carrying amount \$	Contractual cash flows \$	0 - 1 Years \$	1-2 years \$	More than 2 years \$
<u>Financial liabilities</u>					
Borrowings	43,274,847	43,611,442	43,611,442	-	-
Trade, other payables and accrued expenditure	48,178,815	48,178,815	48,178,815	-	-
Statutory liabilities	28,654,034	38,919,939	7,548,776	7,623,528	23,747,635
	<u>120,107,696</u>	<u>130,710,196</u>	<u>99,339,033</u>	<u>7,623,528</u>	<u>23,747,635</u>

(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.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

4. Financial risk management (continued)

(iii) Market risk (continued)

(a) Currency risk (continued)

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 2016

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

31 December 2015

Financial assets

Deposits	5,930,844	-	-	-	-
Cash at bank	662,432	494,874	-	425,149	73,187
Trade receivables	290,381	1,427,690	-	-	-
Other receivables	-	1,187,775	79,232	40,190	3,112
Term deposits	-	412,595	-	-	-
	<u>6,883,657</u>	<u>3,522,934</u>	<u>79,232</u>	<u>465,339</u>	<u>76,299</u>

Financial liabilities

Bank overdraft	-	-	(220,031)	-	-
Borrowings	(8,181,666)	-	(20,795)	-	-
Trade and other payables & accrued expenditure	(18,998,825)	(9,281,073)	(1,662,319)	(14,736)	(107,424)
	<u>(27,180,491)</u>	<u>(9,281,073)</u>	<u>(1,903,145)</u>	<u>(14,736)</u>	<u>(107,424)</u>
Net exposure	<u>(20,296,834)</u>	<u>(5,758,139)</u>	<u>(1,823,913)</u>	<u>450,603</u>	<u>(31,125)</u>

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.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

4. Financial risk management (continued)

(iii) Market risk (continued)

(a) Currency risk (continued)

	2016	2015
	\$	\$
<u>Financial assets</u>		
Impact on profit / loss after tax if 10% increase in USD fx rate against SBD	1,386,526	764,851
Impact on profit / loss after tax if 10% decrease in USD fx rate against SBD	(1,134,431)	(625,787)
Impact on profit / loss after tax if 10% increase in AUD fx rate against SBD	454,329	391,437
Impact on profit / loss after tax if 10% decrease in AUD fx rate against SBD	(371,724)	(320,267)
Impact on profit / loss after tax if 10% increase in FJD fx rate against SBD	12,753	8,804
Impact on profit / loss after tax if 10% decrease in FJD fx rate against SBD	(10,435)	(7,203)
Impact on profit / loss after tax if 10% increase in NZD fx rate against SBD	36,658	51,704
Impact on profit / loss after tax if 10% decrease in NZD fx rate against SBD	(29,993)	(42,304)
Impact on profit / loss after tax if 10% increase in PGK fx rate against SBD	8,389	8,478
Impact on profit / loss after tax if 10% decrease in PGK fx rate against SBD	<u>(6,864)</u>	<u>(6,936)</u>
<u>Financial liabilities</u>		
Impact on profit / loss after tax if 10% increase in USD fx rate against SBD	(2,314,627)	(3,020,055)
Impact on profit / loss after tax if 10% decrease in USD fx rate against SBD	1,893,786	2,470,954
Impact on profit / loss after tax if 10% increase in AUD fx rate against SBD	(1,061,706)	(1,031,230)
Impact on profit / loss after tax if 10% decrease in AUD fx rate against SBD	868,669	843,734
Impact on profit / loss after tax if 10% increase in FJD fx rate against SBD	(180,700)	(211,461)
Impact on profit / loss after tax if 10% decrease in FJD fx rate against SBD	147,845	173,013
Impact on profit / loss after tax if 10% increase in NZD fx rate against SBD	(8,787)	(1,637)
Impact on profit / loss after tax if 10% decrease in NZD fx rate against SBD	7,190	1,340
Impact on profit / loss after tax if 10% increase in PGK fx rate against SBD	(11,275)	(11,936)
Impact on profit / loss after tax if 10% decrease in PGK fx rate against SBD	<u>9,225</u>	<u>9,766</u>

(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:

	2016	2015
	\$	\$
<u>Fixed rate instruments</u>		
Term deposits	<u>647,963</u>	<u>688,000</u>
<u>Variable rate instruments</u>		
Borrowings	44,859,449	43,274,846
Bank overdraft	3,374,734	-
	<u>48,234,183</u>	<u>43,274,846</u>
<u>Sensitivity analysis on variable rate instruments</u>		
A 1% change in interest rate would have the following impact	<u>482,342</u>	<u>432,748</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

4. Financial risk management (continued)

(iii) Market risk (continued)

(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	
	2016	2015
	\$	\$
10% increase in fuel price	(4,659,872)	(5,648,765)
10% decrease in fuel price	4,659,872	5,648,765

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

	2016	2015
	\$	\$
5. Revenue		
Passenger revenue	195,882,139	202,430,449
Cargo and mail revenue	12,835,039	14,213,406
Charter revenue	13,658,638	20,022,051
Excess baggage	4,093,321	3,963,104
Traffic income	7,379,684	5,338,610
Revenue from unused tickets and cargo manifests	10,453,863	13,513,504
	<u>244,302,684</u>	<u>259,481,124</u>
6. Other income		
Ticket cancellation fees	1,810,037	2,171,262
Rental income	480,000	480,000
Community service obligation (CSO) subsidy	9,978,000	-
Departure tax on unused tickets	1,932,500	2,532,805
Increase in fair value of investment property	-	569,000
Proceeds from insurance claim	169,594	523,952
Other	1,002,669	1,287,530
	<u>15,372,800</u>	<u>7,564,549</u>

The Solomon Islands Government recommenced its provision of CSO subsidy on non-profitable domestic routes during the year.

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

	2016	2015
	\$	\$
7. Staff and related costs		
Wages and salaries expense - key management personnel	4,227,762	5,490,518
Wages and salaries expense - others	27,675,654	27,608,211
National Provident Fund contributions - key management personnel	317,082	411,789
National Provident Fund contributions - others	2,341,770	2,330,589
Housing and other allowances	13,246,593	12,828,356
Other staff related costs	5,399,715	5,031,793
	<u>53,208,576</u>	<u>53,701,256</u>
8. Operations		
Aircraft lease	34,074,883	19,312,214
Airport navigation charges	6,456,408	6,062,701
Catering	5,544,399	7,154,606
Engineering and maintenance	49,895,690	46,541,721
Ground handling	6,183,747	6,973,236
Insurance - aircraft	5,513,673	6,517,573
Passenger disruption costs	1,587,959	580,403
Other operational costs	3,794,222	2,308,339
	<u>113,050,981</u>	<u>95,450,793</u>
9. Selling and marketing expenses		
Advertising	491,351	1,349,166
Agents commission	3,527,027	5,069,345
	<u>4,018,378</u>	<u>6,418,511</u>
10. Other expenses		
Accounting and audit fees	1,132,440	1,357,307
Bad and doubtful debts	5,956,405	965,046
Bank charges	1,121,452	1,156,572
Computer and communications	9,741,638	8,621,769
Consultancy	3,819,525	3,222,364
Directors fees	130,267	115,657
Freight and courier	2,463,919	2,675,163
Insurance - others	567,281	623,536
Motor vehicle expenses	2,456,652	2,644,703
Others	6,359,431	5,088,976
Premises expenses	4,419,649	4,023,458
Printing and stationery	1,394,414	1,520,954
Inventory obsolescence	449,525	-
Write down of inventories	1,250,707	-
(Reversal) / loss on revaluation of aircraft	(2,458,067)	5,827,027
Loss on disposal of aircraft, property, plant and equipment	853,275	-
Loss on revaluation of land and buildings	-	169,442
	<u>39,658,513</u>	<u>38,011,974</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

	2016	2015
	\$	\$
11. Finance income and expenses		
(a) Finance income		
Interest income	25,755	18,776
(b) Finance expenses		
Interest expense - loans	2,754,891	3,352,222
Interest expense - overdraft	199,795	148,246
Interest expense - statutory account	2,249,596	-
Realised exchange loss	296,929	2,214,945
Unrealised exchange loss	825,999	3,225,846
	<u>6,327,210</u>	<u>8,941,259</u>
12. Income tax		
(a) Income tax expense recognised in profit or loss		
Deferred tax credit	1,391,941	(928,435)
(b) Reconciliation of effective tax rate		
Operating (loss) / profit before income tax	(15,852,501)	(33,856,033)
Prima facie income tax benefit calculated at 30% (2015: 30%)	(4,755,750)	(10,156,810)
Under provision in respect of prior years	-	2,280,000
Permanent differences	32,885	(1,501)
Tax losses derecognised	6,114,806	6,949,876
	<u>1,391,941</u>	<u>(928,435)</u>
(c) Recognised deferred tax asset / (liability)		
Provision for doubtful debts - accounts receivables	1,831,914	2,943,976
Provision for doubtful debts - other receivables	636,263	-
Provision for inventory obsolescence	168,395	60,000
Unrealised exchange loss	247,800	967,754
Employee benefits	677,515	582,173
Statutory liabilities	9,388,261	8,596,210
Property, plant and equipment	488,816	1,680,792
Investment property	(2,450,700)	(2,450,700)
Asset revaluation reserve	(20,943,264)	(20,970,126)
	<u>(9,955,000)</u>	<u>(8,589,921)</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

12. Income tax (continued)

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

Movement in temporary differences during the year

	1 January 2015	Recognised in income statement	Recognised through OCI	31 December 2015
	\$	\$	\$	\$
Provision for doubtful debts - accounts receivables	3,034,237	(90,261)	-	2,943,976
Provision for inventory obsolescence	60,000	-	-	60,000
Unrealised exchange loss	614,591	353,163	-	967,754
Employee benefit	645,595	(63,422)	-	582,173
Statutory liabilities	1,403,381	7,192,829	-	8,596,210
Tax losses	6,223,929	(6,223,929)	-	-
Property, plant and equipment	(529,963)	2,210,755	-	1,680,792
Investment property	-	(2,450,700)	-	(2,450,700)
Asset revaluation reserve	(18,629,119)	-	(2,341,007)	(20,970,126)
	<u>(7,177,349)</u>	<u>928,435</u>	<u>(2,341,007)</u>	<u>(8,589,921)</u>

	1 January 2016	Recognised in income statement	Recognised through OCI	31 December 2016
	\$	\$	\$	\$
Provision for doubtful debts - accounts receivables	2,943,976	(1,112,062)	-	1,831,914
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 benefits	582,173	95,342	-	677,515
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>(1,391,941)</u>	<u>26,862</u>	<u>(9,955,000)</u>

(d) Unrecognised deferred tax assets

Deferred tax assets amounting to \$13,062,626 (2015: \$6,949,876) have not been recognised in respect of tax losses carried forward because it is not probable that future taxable profit will be available before their expiry against which the Company can use the benefits therefrom. These tax losses expire from 2017 to 2021.

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Notes to the financial statements
31 December 2016

	2016	2015
13. Cash and cash equivalents	\$	\$
Cash on hand	40,561	39,606
Cash at bank	2,008,641	8,567,330
	<u>2,049,202</u>	<u>8,606,936</u>
Bank overdraft	(3,374,734)	-
Cash and cash equivalents for the statement of cash flows	<u>(1,325,532)</u>	<u>8,606,936</u>

The Company has an overdraft facility with Bank of South Pacific of \$4,000,000 (2015: \$4,000,000). Interest is charged on the overdraft at 9% per annum (2015: 9%).

	2016	2015
14. Term deposits	\$	\$
Term deposits	647,963	688,000

The average rate on term deposits was 0.25% (2015 :0.25%). The deposits have an average maturity of 365 days (2015: 365 days).

	2016	2015
15. Deposits	\$	\$
IATA security deposit	2,427,184	2,419,355
IATA voluntary deposit	2,066,048	361,012
Aircraft deposits	1,941,748	1,935,484
Other deposits	1,333,722	1,322,722
	<u>7,768,702</u>	<u>6,038,573</u>

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

Current	2,184,777	1,683,734
Non current	5,583,925	4,354,839
	<u>7,768,702</u>	<u>6,038,573</u>

16. Trade receivables		
Trade receivables	11,336,814	15,429,247
Provision for doubtful debts	(6,106,381)	(9,813,252)
	<u>5,230,433</u>	<u>5,615,995</u>

Reconciliation of provision for doubtful debts

Balance at 1 January	9,813,252	10,114,124
Provision made during the year	4,253,168	450,000
Provisions utilised during the year	(7,960,039)	(750,872)
Balance at 31 December	<u>6,106,381</u>	<u>9,813,252</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

	2016	2015
17. Other receivables and prepayments	\$	\$
Other receivables	13,293,174	4,027,055
GST receivable	1,212,325	998,116
Prepayments	806,139	829,986
Provision for doubtful debts	(2,120,876)	-
	<u>13,190,762</u>	<u>5,855,157</u>
 <u>Reconciliation of provision for doubtful debts</u>		
Balance at 1 January	-	-
Provision made during the year	2,120,876	-
Balance at 31 December	<u>2,120,876</u>	<u>-</u>
 18. Inventories		
Aircraft spares	4,611,779	8,315,386
Fuel	574,767	1,171,762
Reclassifications to assets held for sale (refer Note 19)	(280,522)	-
Provision for inventory obsolescence	(561,318)	(200,000)
	<u>4,344,706</u>	<u>9,287,148</u>

During the year, the Company identified and transferred \$3,055,425 worth of aircraft rotatable spare parts from inventory to aircraft, property, plant and equipment (refer Note 20). Depreciation for the year was recorded on the amount capitalised.

19. Assets held for sale

During the year, the Company incorporated a fleet management strategy of using turbine engines only which necessitated the disposal of Brittian Norman Islander aircraft and its related spare parts. Efforts to sell the assets commenced on 31 December 2016 while the sale was concluded in March 2017 for value as stated below.

Impairment losses of \$1,250,707 for write-down of inventory to the lower of its carrying amount and its net realisable value have been included in 'Other expenses' (refer Note 10).

At 31 December 2016, assets held for sale were stated at fair value less costs to sell and comprised of the following:

	2016
	\$
Aircraft Brittian 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>943,952</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

20. Aircraft, property, plant and equipment

	Land & Buildings	Aircraft	Aircraft spares	Aircraft establishment cost	Motor vehicles	Plant and equipment	Work in Progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost / Revaluation								
Balance at 1 January 2015	37,305,434	71,277,264	22,283,677	29,327,858	2,987,881	7,304,948	288,011	170,775,073
Additions	-	7,674,646	483,753	-	100,000	287,004	2,224,663	10,770,066
Disposals	-	-	-	-	(486,896)	-	-	(486,896)
Transfer from WIP	2,382,908	-	-	-	-	-	(2,382,908)	-
Transfers within asset class	(498,217)	-	-	-	-	498,217	-	-
Offset of accumulated depreciation on revaluation	(8,640,036)	(5,774,375)	-	-	-	-	-	(14,414,411)
Revaluation increment / (decrement)	7,177,970	(5,371,083)	-	-	-	-	-	1,806,887
Balance at 31 December 2015	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 (refer Note 18)	-	-	3,055,425	-	-	-	-	3,055,425
Reclassification to assets held for sale (refer Note 19)	-	(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
Breakdown of cost / revaluation								
2016 Valuation	-	66,100,324	-	-	-	-	-	66,100,324
2015 Valuation	34,460,255	-	-	-	-	-	-	34,460,255
Cost	3,339,216	-	30,842,536	29,327,858	2,156,345	8,208,640	129,766	74,004,361
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

During the year, the Company identified and transferred \$3,055,425 worth of aircraft rotatable spare parts from inventory to aircraft, property, plant and equipment. Depreciation for the year was recorded on the amount capitalised (refer Note 18).

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

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

	Land & Buildings	Aircraft	Aircraft spares	Aircraft establishment cost	Motor vehicles	Plant and equipment	Work In Progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Depreciation								
Balance at 1 January 2015	7,707,568	68,140	5,973,370	18,956,272	2,206,602	3,886,220	-	38,798,172
Depreciation charge for the year	1,873,037	5,706,235	2,584,363	6,478,735	301,439	689,133	-	17,632,942
Accumulated depreciation on disposal	-	-	-	-	(486,895)	-	-	(486,895)
Transfer within asset classes	(312,944)	-	-	-	-	312,944	-	-
Offset of accumulated depreciation on revaluation	(8,640,036)	(5,774,375)	-	-	-	-	-	(14,414,411)
Balance at 31 December 2015	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
Carrying amount								
At 1 January 2015	29,597,866	71,209,124	16,310,307	10,371,586	781,279	3,418,728	288,011	131,976,901
At 31 December 2015	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

(a) Valuation

The aircraft were revalued on 31 December 2016. The valuation was carried out by an independent valuer Michael Knight and Associates (2015: Michael Knight and Associates). The valuation was based on recent market activity and known transaction data in relation to the aircraft type.

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

(b) Security

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

Solomon Airlines Limited
Notes to the financial statements
31 December 2016

	2016	2015
	\$	\$
21. Investment property		
Balance as 1 January	8,169,000	7,600,000
Change in fair value	-	569,000
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. A commitment note in relation to this has not been presented as part of Note 27 as the Company were still in the process of finalising the details of the new lease contract with the same tenant.

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.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

The fair value of the investment property has been categorised as a Level 3 fair value.

	2016	2015
	\$	\$
22. Borrowings		
Loan - Bank of South Pacific	31,016,219	35,072,385
Loan - Hevilift	-	3,588,710
Loan - Airbus A320 Avionics & Interior Loan	4,361,897	-
Loan - PTB Power by the Hour	1,849,067	-
Loan - Pegasus	6,521,858	-
Finance lease liabilities - AAR Parts Trading	1,110,408	4,592,957
Finance lease liabilities - Credit Corporation	-	20,795
	<u>44,859,449</u>	<u>43,274,847</u>

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

	2016	2015
	\$	\$
Current	37,240,300	43,274,847
Non current	7,619,149	-
	<u>44,859,449</u>	<u>43,274,847</u>

Solomon Airlines Limited
Notes to the financial statements
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22. Borrowings (continued)

Loan - Bank of South Pacific (BSP)

In 2013 and 2014 the Company secured loans from BSP to fund the purchase of aircraft. Interest is charged at the rate of 6.75% (2015: 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 2016 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'a ridge, West Kola'a ridge, Panatina, along Tandai Highway, Henderson Airport and Gizo;
- (ii) Registered equitable mortgage over the whole of Solomon Airlines 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 three De Hallivand Twin Otter, one Britten Norman Islander and one Dash 8 aircraft.

Hevilift Engineering Pty Limited

The loan is in respect of the purchase of a Twin Otter which was not covered by the additional loan from BSP. The loan was fully settled in September 2016.

Airbus A320 Avionics & Interior Loan

This loan is in respect of upgrade of avionics systems and interior of the Airbus A320 that occurred during the year and is as per 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.

Loan - PTB Power by the Hour

This loan is in respect of the outstanding liability payment 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.

Loan - Pegasus

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.

Solomon Airlines Limited
Notes to the financial statements
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22. Borrowings (continued)

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 (2015: 9.88% per annum).

Credit Corporation

The finance lease is in respect of purchase of a Honda CRV Wagon in Fiji was settled in full in February 2016.

	2016	2015
	\$	\$
Finance lease liabilities are payable as follows:		
Less than one year	1,110,408	4,842,569
Less future interest charges	-	(228,817)
	<u>1,110,408</u>	<u>4,613,752</u>

23. Trade, other payables and accrued expenditure

Trade payables	26,663,096	36,837,242
Other payables	2,087,933	9,867,291
Accrued expenditure	14,531,561	1,474,282
	<u>43,282,590</u>	<u>48,178,815</u>

24. Employee benefits

Annual leave

Balance at 1 January	1,940,578	2,151,982
Provisions made during the year	1,589,601	256,765
Provisions utilised during the year	(1,271,796)	(468,169)
Balance at 31 December	<u>2,258,383</u>	<u>1,940,578</u>

25. Statutory expenses and liabilities

The Company has been subject to a tax audit by the Inland Revenue Department (IRD) during 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 from the 2008 to 2015 period amounting to \$28,954,034 of which \$300,000 was paid in prior year. On this date the company voluntarily declared statutory taxes owing to the government from the period January to June 2016 of \$6,151,085 which was added to the existing statutory liability in 2016 and expensed. From July 2016 onwards the Company has made six instalment payments totalling \$2,280,000 plus a 10% deposit of \$3,480,512.

Solomon Airlines Limited
Notes to the financial statements
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25. Statutory expenses and liabilities (continued)

Classification in the statement of financial position is as follows:

	2016	2015
	\$	\$
Current	8,010,108	5,760,512
Non-current	23,284,096	22,893,522
	<u>31,294,204</u>	<u>28,654,034</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.

The amounts recorded in profit or loss are as follows:

	2016	2015
	\$	\$
Statutory expenses		
Non-resident Withholding Tax	-	22,889,418
Pay As You Earn	-	1,386,678
	<u>-</u>	<u>24,276,096</u>

	2016	2015
	\$	\$
26. Capital and reserves		
(a) Authorised capital		
Ordinary shares @ \$1.00 each	<u>78,809,801</u>	<u>70,909,801</u>
(b) Share capital		
In issue at 1 January	70,909,801	70,909,801
Issued for cash	7,900,000	-
In issue at 31 December - fully paid	<u>78,809,801</u>	<u>70,909,801</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.

(c) Revaluation reserve

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

27. Commitments

(a) Capital expenditure approved and committed	<u>-</u>	<u>-</u>
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Solomon Airlines Limited
Notes to the financial statements
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27. Commitments (continued)

(b) Operating lease

The Company has the following operating leases:

- lease agreement for one Britten Norman Islander with Colville Aviation Services for AU\$5,000 per month. The agreement was terminated in October 2016 and the aircraft was returned to the owner.
- lease agreement for A320 aircraft with Pegasus Aviation II, Inc for US\$ \$95,000 per month effective from January 2016. The lease was extended for another 48 months effective 1 January 2016 and will expire in January 2020.
- 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:

	2016	2015
	\$	\$
Less than one year	9,224,358	9,388,134
Between one and five years	27,674,986	27,585,728
More than five years	10,611	11,568
	<u>36,909,954</u>	<u>36,985,430</u>

Operating lease expense in respect of this has been recorded as part of aircraft lease expense under 'Operations' cost in Note 8.

28. Material non-cash transactions

Acquisition of A320 avionics and interior parts (refer Note 22)	5,016,181	2,322,741
Transfer of aircraft spares from inventories to aircraft, property, plant and equipment (refer Note 18 and 20)	3,055,425	-
Reclassification of assets to assets held for sale (refer Note 19)	943,952	-
Conversion of trade payables to long term borrowings (refer Note 22)	9,505,631	-
Non cash additions to property, plant and equipment	<u>18,521,189</u>	<u>2,322,741</u>

29. Related parties

(a) Directors

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

Chairman	Mr Austin Holmes (appointed August 2015)
Deputy Chairman	Mr Robertus Franciscus Bochman (appointed April 2016)
Director	Mr George Rausi (appointed July 2015 - resigned February 2016)
Director	Mr Masao Yamagata (appointed October 2015)
Director	Mrs Kathy Nori (appointed October 2015)
Director	Mr Josefa Tuamoto (appointed June 2016)

Solomon Airlines Limited
Notes to the financial statements
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29. 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 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 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 7.

	2016	2015
	\$	\$
Amounts receivable from key management personnel	-	180,095

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.

30. 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 \$294,985 (AUD 50,000) and \$78,265 (AUD 13,266) respectively.

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

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Notes to the financial statements
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31. 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 the cost of capital.

The Company's shareholding increased by \$7,900,000 during the year through capital injection by the major shareholder, Investment Cooperation of Solomon Islands (ICSI) which now hold 95% Shareholding in Solomon Airlines Limited. The paid up capital of the Company is \$78,809,801 with allotment of subscription shares to the following subscribers: Investment Corporation of Solomon Islands (SI) 74,809,801 Ordinary Shares, Solomon Airlines Holdings Limited 3,999,999 Ordinary Shares and General Manager ICSI (In Trust) 1 Ordinary Shares.

32. Subsequent events

During the year, the company incorporated a fleet management strategy of using turbine engines only which necessitated the disposal of Brittan Norman Islander aircraft and its related spare parts. Efforts to sell the assets commenced on 31 December 2016 while the sale was concluded in March 2017.

Other than the matter noted above, 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.