

Solomon Airlines Limited

Financial Statements

For the year ended

31 December 2015

Solomon Airlines Limited

Contents

Directors' report	1 - 3
Statement by directors	4
Report of the independent auditor	5 - 6
Statement of profit or loss and comprehensive income	7
Statement of changes in equity	8
Statement of financial position	9
Statement of cash flows	10
Notes to the financial statements	11 - 38

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 2015 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 Denton Rarawa (term expired September 2015)
Director	Mr Anthony Bensteeve Langston
Director	Mrs Rose Isukana (resigned May 2015)
Director	Mr Sebastian Hala (term expired July 2015)
Director	Mr Bob Pollard (term expired July 2015)
Director	Mr Primo Afeau (term expired October 2015)
Chairman	Mr Austin Holmes (appointed August 2015)
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 Robertson Bochman (appointed April 2016)
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 2015 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 net loss for the year after income tax benefit of \$928,435 (2014: \$5,029,598) amounted to \$32,927,598 (2014: \$11,805,876).

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 2015 the Company had a deficiency of working capital, excluding revenue received in advance of \$67,417,782 (2014: \$20,698,221), and recorded a net loss before income tax of \$33,856,033 (2014: \$16,835,474).

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

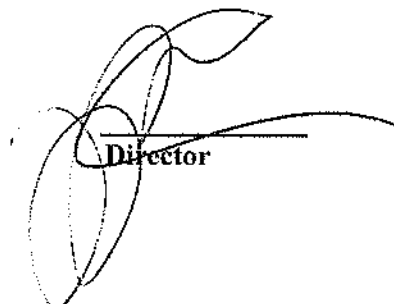
On 30 June 2016, the Company signed a Deed of Settlement with the Inland Revenue Department in relation to the result of the tax audit carried out for the years ended 31 December 2008 to 2014 to pay outstanding taxes amounting to \$28,654,034. This amount has been adjusted in the financial statements.

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 5th day of September 2016. 2016

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:

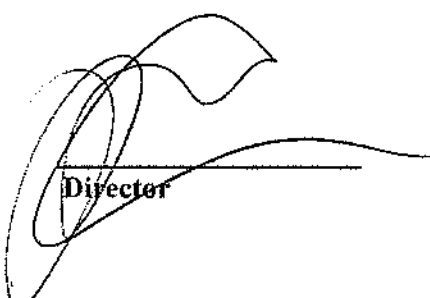
- (a) the accompanying statement of profit or loss and other comprehensive income of the Company is drawn up so as to give a true and fair view of the results of the Company for the year ended 31 December 2015;
- (b) the accompanying statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity of the Company for the year ended 31 December 2015;
- (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 2015;
- (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 2015;
- (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
5th this 5th day of September 2016.

Signed in accordance with a resolution of the directors.



Director



Director



INDEPENDENT AUDITOR'S REPORT

To the Board of Solomon Airlines Limited

Report on the Financial Statements

I have in joint consultation with the Board of the Company contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of Solomon Airlines Limited, which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and Notes 1 to 32 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. The audit has been conducted in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plans 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 control. 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 audit opinion.

Opinion

In my opinion the financial statements give a true and fair view of the financial position of Solomon Airlines Limited as at 31 December 2015 and 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 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 realise its assets and discharge its liabilities in the normal course of business.

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

Other Matter

Without modifying my opinion, I draw attention to Note 31 in the financial statements which sets out the details in relation to the restatement of the prior year figures to correctly record exposure to Pay-As-You-Earn Tax on school fees.

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 2016.



Peter Lokay
Auditor General

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 2015

	Note	2015 \$	2014 \$ <i>Restated *</i>
Revenue	5	259,481,124	241,409,670
Other income	6	7,564,549	16,230,482
Total Operating revenue		<u>267,045,673</u>	<u>257,640,152</u>
Staff and related costs	7	(52,225,255)	(49,508,125)
Operations	8	(95,450,793)	(78,760,426)
Selling and marketing expenses	9	(6,418,511)	(5,880,267)
Fuel		(56,487,651)	(67,196,675)
Depreciation	19	(17,632,942)	(17,918,702)
Statutory expenses	24	(24,276,096)	(4,677,938)
Other expenses	10	(39,487,975)	(42,647,424)
Total Operating Expenses		<u>(291,979,223)</u>	<u>(266,589,557)</u>
Loss from operations		<u>(24,933,550)</u>	<u>(8,949,405)</u>
Finance income	11(a)	18,776	20,179
Finance expenses	11(b)	(8,941,259)	(7,906,248)
Operating loss before income tax		<u>(33,856,033)</u>	<u>(16,835,474)</u>
Income tax benefit	12 (a)	928,435	5,029,598
Net loss after income tax		<u>(32,927,598)</u>	<u>(11,805,876)</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		5,462,350	(3,796,911)
Depreciation on revaluation increment of aircraft - net of tax		2,306,794	-
Total other comprehensive income / (loss)		<u>7,769,144</u>	<u>(3,796,911)</u>
Total Comprehensive loss for the year		<u>(25,158,454)</u>	<u>(15,602,787)</u>

* See Note 31

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 2015

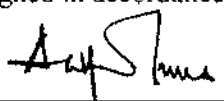
	Note	Share capital	Revaluation Reserve	<i>Restated</i> Accumulated losses	Total
		\$	\$	\$	\$
Balance at 1 January 2014		70,909,801	38,236,845	(56,498,215)	52,648,431
<i>Total comprehensive loss for the year</i>					
Loss for the year		-	-	(11,805,876)	(11,805,876)
Total other comprehensive loss for the year		-	(3,796,911)	-	(3,796,911)
Total comprehensive income for the year		-	(3,796,911)	(11,805,876)	(15,602,787)
Balance at 31 December 2014		<u>70,909,801</u>	<u>34,439,934</u>	<u>(68,304,091)</u>	<u>37,045,644</u>
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)
<i>Total comprehensive loss for the year</i>					
Loss for the year		-	-	(32,927,598)	(32,927,598)
Other comprehensive income for the year		-	5,462,350	2,306,794	7,769,144
Total comprehensive income / (loss) for the year		-	5,462,350	(30,620,804)	(25,158,454)
Balance at 31 December 2015		<u>70,909,801</u>	<u>37,595,490</u>	<u>(98,924,895)</u>	<u>9,580,396</u>

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

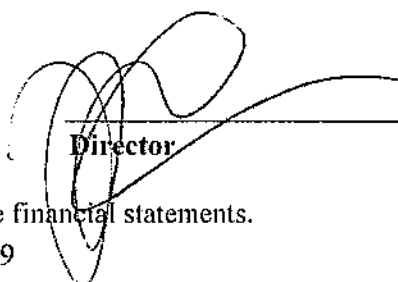
Solomon Airlines Limited
Statement of financial position
As at 31 December 2015

	Note	2015 \$	2014 \$ <i>Restated *</i>
Assets			
Current assets			
Cash and cash equivalents	13	8,606,936	5,478,905
Investments	14	688,000	316,591
Deposits	15	468,741	821,665
Trade receivables	16	5,615,995	6,209,849
Other receivables and prepayments	17	7,070,150	8,114,968
Inventories	18	9,287,148	10,730,296
Total current assets		<u>31,736,970</u>	<u>31,672,274</u>
Non-current assets			
Aircraft, property, plant and equipment	19	126,920,911	131,976,901
Investment property	20	8,169,000	7,600,000
Deposits	15	4,354,839	4,122,137
Total non-current assets		<u>139,444,750</u>	<u>143,699,038</u>
Total assets		<u>171,181,720</u>	<u>175,371,312</u>
Liabilities			
Current liabilities			
Bank overdraft	13	-	3,041,815
Borrowings	21	43,274,847	12,223,842
Revenue received in advance		30,963,129	35,770,353
Trade, other payables and accrued expenditure	22	48,178,815	34,952,856
Employee benefits	23	1,940,578	2,151,982
Statutory liabilities	24	5,760,512	-
Total current liabilities		<u>130,117,881</u>	<u>88,140,848</u>
Non-current liabilities			
Borrowings	21	-	38,329,533
Deferred tax liability	12 (c)	8,589,921	7,177,349
Statutory liabilities	24	22,893,522	4,677,938
Total non-current liabilities		<u>31,483,443</u>	<u>50,184,820</u>
Total liabilities		<u>161,601,324</u>	<u>138,325,668</u>
Shareholders equity			
Share capital	25 (b)	70,909,801	70,909,801
Revaluation reserve	25 (c)	37,595,490	34,439,934
Accumulated losses		(98,924,895)	(68,304,091)
Total shareholders equity		<u>9,580,396</u>	<u>37,045,644</u>
Total shareholders equity and liabilities		<u>171,181,720</u>	<u>175,371,312</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 2015

	Note	2015 \$	2014 \$
Operating activities			
Receipts from customers		259,055,873	264,602,820
Payments to suppliers and employees		<u>(233,007,073)</u>	<u>(245,967,964)</u>
Cash generated from operations		26,048,800	18,634,856
Interest received		18,776	20,179
Interest and bank charges paid		(3,500,468)	(4,459,123)
Statutory liabilities paid		<u>(300,000)</u>	-
Cash flows from operating activities		<u>22,267,108</u>	<u>14,195,912</u>
Investing activities			
Payments for property, plant and equipment	27	(8,447,325)	(3,510,933)
Proceeds from sale of property, plant and equipment		-	214,143
Investment in term deposit		<u>(371,409)</u>	<u>(98,643)</u>
Cash flows used in investing activities		<u>(8,818,734)</u>	<u>(3,395,433)</u>
Financing activities			
Repayments of borrowings		<u>(7,278,528)</u>	<u>(8,401,424)</u>
Cash flows used in financing activities		<u>(7,278,528)</u>	<u>(8,401,424)</u>
Net increase in cash and cash equivalents		6,169,846	2,399,055
Cash and cash equivalents at 1 January		2,437,090	38,035
Cash and cash equivalents at 31 December	13	<u>8,606,936</u>	<u>2,437,090</u>
Non cash investing activities	27		

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 2015

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 21/8/16.

(b) Basis of measurement

The financial statements have been prepared using the historical cost basis except for investment property which is measured at fair value.

(c) Going concern basis of accounting

The financial statements have been prepared on a going concern basis notwithstanding that at 31 December 2015 the Company had a deficiency of working capital, excluding revenue received in advance of \$67,417,782 (2014: \$20,698,221), and recorded a net loss before income tax of \$33,856,033 (2014: \$16,835,474).

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 2015

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
Note 3(b) -	Aircraft, property, plant and equipment (Revaluation & Depreciation)
Note 3(l)(i) -	Revenue in advance
Note 3(n) -	Recoverability of tax losses

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 / operating expense in profit or loss.

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

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	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.

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.

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 2015

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 2015

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 creditors, other payables and 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 in the periods in which they are incurred.

(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 2015

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 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.

(j) 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 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 2015

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 in profit or loss after 12 months from the ticket flight date. Passenger recoveries (including fuel surcharge on passenger tickets) are disclosed separately as revenue. 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

This 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 subsidy

This 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) Deposit

Deposit 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, in which case it is recognised in equity.

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.

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

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;
- 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.

(o) Finance income and expenses

Finance income and expenses comprise interest income, interest on borrowings and bank overdraft 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 effective for annual periods beginning on or after 1 January 2015 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 15 - Revenue from Contracts with customers (effective 1 January 2017)
- IFRS 9 - Financial instruments (effective 1 January 2017)
- IFRS 16 - Leases (effective 1 January 2019)

The company has not assessed the potential impact on the financial statements from the application of the above standards.

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

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 SBD 4,122,137 being reclassified from current deposits to non-current deposits.

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

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 bank charges of SBD 1,454,775 being reclassified from finance expenses to other expenses.

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 2015

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 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.

	2015	2014
	\$	\$
Cash at bank	8,567,330	5,441,260
Trade receivables	5,615,995	6,209,849
Deposits	4,823,580	4,943,802
Other receivables (excluding prepayments)	5,025,171	5,105,527
Investments	688,000	316,591
	<u>24,720,076</u>	<u>22,017,029</u>

Impairment losses

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

Not past due	1,292,046	2,789,494
Past due 31 - 60 days	1,514,142	1,340,710
Past due 61 - 90 days	598,527	485,646
Past due 91 - 120 days	245,894	345,975
Past due more than 120 days	1,965,386	1,248,024
	<u>5,615,995</u>	<u>6,209,849</u>

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 facilities available.

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

4. Financial risk management (continued)

(ii) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities:

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>

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 2015.

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 2014

	Carrying amount \$	Contractual cash flows \$	0 - 1 Years \$	1-2 years \$	More than 2 years \$
<u>Financial liabilities</u>					
Bank overdraft	3,041,815	3,041,815	3,041,815	-	-
Borrowings	50,553,375	60,256,725	11,035,370	9,456,322	39,765,033
Trade, other payables and accrued expenditure	34,952,856	34,952,856	34,952,856	-	-
Statutory liabilities	4,677,938	4,677,938	-	4,677,938	-
	<u>93,225,984</u>	<u>102,929,334</u>	<u>49,030,041</u>	<u>14,134,260</u>	<u>39,765,033</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 2015

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 2015

	USD SBD \$	AUD SBD \$	FJD SBD \$	NZD SBD \$	PGK SBD \$
Financial assets					
Deposits	4,715,851	-	-	-	-
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
	<u>5,668,664</u>	<u>3,110,339</u>	<u>79,232</u>	<u>465,339</u>	<u>76,299</u>
Financial liabilities					
Cash at bank	-	-	(220,031)	-	-
Borrowings	(8,181,666)	-	(20,795)	-	-
Trade and other	(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>(21,511,827)</u>	<u>(6,170,734)</u>	<u>(1,823,913)</u>	<u>450,603</u>	<u>(31,125)</u>

31 December 2014

Financial assets					
Deposits	4,901,710	-	-	-	-
Cash at bank	1,025,283	293,389	2,265,625	948,230	227,314
Trade receivables	283,746	1,594,880	-	-	-
Other receivables	-	1,543,428	136,685	7,016	-
	<u>6,210,739</u>	<u>3,431,697</u>	<u>2,402,310</u>	<u>955,246</u>	<u>227,314</u>
Financial liabilities					
Borrowings	(11,577,795)	-	(105,000)	-	-
Trade and other	(12,432,616)	(5,182,293)	(171,507)	(58,070)	(101,478)
	<u>(24,010,411)</u>	<u>(5,182,293)</u>	<u>(276,507)</u>	<u>(58,070)</u>	<u>(101,478)</u>
Net exposure	<u>(17,799,672)</u>	<u>(1,750,596)</u>	<u>2,125,803</u>	<u>897,176</u>	<u>125,836</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 2015

4. Financial risk management (continued)

(iii) Market risk (continued)

(a) Currency risk (continued)

	2015	2014
	\$	\$
<u>Financial assets</u>		
Impact on profit after tax if 10% increase in USD fx rate against SBD	629,852	690,082
Impact on profit after tax if 10% decrease in USD fx rate against SBD	(515,333)	(564,613)
Impact on profit after tax if 10% increase in AUD fx rate against SBD	345,593	381,300
Impact on profit after tax if 10% decrease in AUD fx rate against SBD	(282,758)	(311,972)
Impact on profit after tax if 10% increase in FJD fx rate against SBD	8,804	266,923
Impact on profit after tax if 10% decrease in FJD fx rate against SBD	(7,203)	(218,392)
Impact on profit after tax if 10% increase in NZD fx rate against SBD	51,704	106,138
Impact on profit after tax if 10% decrease in NZD fx rate against SBD	(42,304)	(86,841)
Impact on profit after tax if 10% increase in PGK fx rate against SBD	8,478	25,257
Impact on profit after tax if 10% decrease in PGK fx rate against SBD	(6,936)	(20,665)
<u>Financial liabilities</u>		
Impact on profit after tax if 10% increase in USD fx rate against SBD	2,470,954	2,182,765
Impact on profit after tax if 10% decrease in USD fx rate against SBD	(3,020,055)	(2,667,823)
Impact on profit after tax if 10% increase in AUD fx rate against SBD	843,734	471,118
Impact on profit after tax if 10% decrease in AUD fx rate against SBD	(1,031,230)	(575,810)
Impact on profit after tax if 10% increase in FJD fx rate against SBD	173,013	25,137
Impact on profit after tax if 10% decrease in FJD fx rate against SBD	(211,461)	(30,723)
Impact on profit after tax if 10% increase in NZD fx rate against SBD	1,340	5,279
Impact on profit after tax if 10% decrease in NZD fx rate against SBD	(1,637)	(6,452)
Impact on profit after tax if 10% increase in PGK fx rate against SBD	9,766	9,225
Impact on profit after tax if 10% decrease in PGK fx rate against SBD	(11,936)	(11,275)

(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:

	2015	2014
	\$	\$
<u>Fixed rate instruments</u>		
Term deposits	688,000	316,591
<u>Variable rate instruments</u>		
Borrowings	43,274,847	50,553,375
Bank overdraft	-	3,041,815
	43,274,847	53,595,190
<u>Sensitivity analysis</u>		
A 1% change in interest rate would have the following impact	432,748	535,952

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

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	
	2015	2014
	\$	\$
10% increase in fuel price	(5,648,765)	(6,719,668)
10% decrease in fuel price	<u>5,648,765</u>	<u>6,719,668</u>

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

	2015	2014
	\$	\$
5. Revenue		
Passenger revenue	190,976,880	155,395,822
Cargo and mail revenue	14,213,406	13,138,397
Charter revenue	20,022,051	16,675,860
Excess baggage	3,963,104	4,190,508
Fuel surcharge	11,453,569	42,222,506
Traffic income	5,338,610	3,920,416
Revenue from unused tickets and cargo manifests	<u>13,513,504</u>	<u>5,866,161</u>
	<u>259,481,124</u>	<u>241,409,670</u>
6. Other income		
Ticket cancellation fees	2,171,262	2,263,959
Rental income	480,000	480,000
Community service obligation (CSO) subsidy	-	5,799,999
Departure tax on unused tickets	2,532,805	2,957,081
Increase in fair value of investment property	569,000	-
Proceeds from insurance claim	523,952	3,024,800
Other	<u>1,287,530</u>	<u>1,704,643</u>
	<u>7,564,549</u>	<u>16,230,482</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

	2015	2014
	\$	\$
7. Staff and related costs		
Wages and salaries expense - Key management personnel	5,490,518	5,156,488
Wages and salaries expense - Others	27,608,210	27,336,108
National Provident Fund contributions - Key management personnel	411,789	386,737
National Provident Fund contributions - Others	2,330,589	2,352,418
Housing and other allowances	10,521,019	9,285,196
Other staff related costs	5,863,130	4,991,178
	<u>52,225,255</u>	<u>49,508,125</u>
8. Operations		
Aircraft lease	19,312,214	14,554,660
Airport navigation charges	6,062,701	4,818,520
Catering	7,154,606	7,253,244
Engineering and Maintenance	46,541,721	37,469,439
Ground handling	6,973,236	6,073,759
Insurance - aircraft	6,517,573	4,752,613
Passenger disruption costs	580,403	705,621
Other operational costs	2,308,339	3,132,570
	<u>95,450,793</u>	<u>78,760,426</u>
9. Selling and marketing expenses		
Advertising	5,069,345	4,844,927
Agents commission	1,349,166	1,035,340
	<u>6,418,511</u>	<u>5,880,267</u>
10. Other expenses		
Accounting fees	1,339,678	1,160,373
Audit fee	17,629	243,882
Bad and doubtful debts	965,046	1,398,737
Bank charges	1,156,572	1,454,775
Computer and communications	8,621,769	8,556,543
Consultancy	3,222,364	3,480,125
Directors fees	115,657	102,257
Freight & courier	2,675,163	1,966,174
Insurance - others	623,536	1,038,685
Motor vehicle expenses	2,644,703	2,931,622
Others	5,088,976	6,146,990
Premises expenses	5,499,459	8,022,761
Printing and stationery	1,520,954	1,739,246
Loss on revaluation of aircraft	5,827,027	4,405,254
Loss on revaluation of land and buildings	169,442	-
	<u>39,487,975</u>	<u>42,647,424</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

11. Finance income and expenses	2015	2014
	\$	\$
(a) Finance income		
Interest income	18,776	20,179
	<u>18,776</u>	<u>20,179</u>
(b) Finance expenses		
Interest expense - loans	3,352,222	2,796,345
Interest expense - Overdraft	148,246	208,003
Realised exchange loss	2,214,945	2,853,262
Unrealised exchange loss	3,225,846	2,048,638
	<u>8,941,259</u>	<u>7,906,248</u>
	2015	2014
	\$	\$
12. Income tax		<i>Restated</i>
(a) Income tax expense recognised in profit or loss		
Deferred tax credit	<u>(928,435)</u>	<u>(5,029,598)</u>
(b) Reconciliation of effective tax rate		
Operating (loss) / profit before income tax	(33,856,033)	(16,835,474)
Prima facie income tax (benefit) calculated at 30% (2014: 30%)	(10,156,810)	(5,050,642)
Under provision in respect of prior years	2,280,000	9,065
Allowable deductions	(1,501)	-
Carried forward tax losses derecognised	6,949,876	-
Deferred tax differences in respect of prior and current year temporary differences	-	11,979
	<u>(928,435)</u>	<u>(5,029,598)</u>
(c) Recognised deferred tax asset / (liability)		
Provision for doubtful debts	2,943,976	3,034,237
Provision for inventory obsolescence	60,000	60,000
Unrealised exchange loss	967,754	614,591
Employee benefits	582,173	645,595
Statutory liabilities	8,596,210	1,403,381
Tax losses	-	6,223,929
Property, plant and equipment	1,680,792	(529,963)
Investment property	(2,450,700)	-
Asset revaluation reserve	(20,970,126)	(18,629,119)
	<u>(8,589,921)</u>	<u>(7,177,349)</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

12. Income tax (continued)

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

Movement in temporary differences during the year

	1 January 2014	Recognised in income statement	Recognised directly on equity	31 December 2014
	\$	\$	\$	\$
		<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
Provision for doubtful debts	2,614,616	419,621	-	3,034,237
Provision for inventory obsolescence	60,000	-	-	60,000
Unrealised exchange loss	137,894	476,697	-	614,591
Employee benefit	746,190	(100,595)	-	645,595
Statutory liabilities	-	1,403,381	-	1,403,381
Tax losses	4,753,199	1,470,730	-	6,223,929
Property, plant and equipment	(22,146,171)	21,616,208	-	(529,963)
Asset revaluation reserve	-	(20,256,444)	1,627,325	(18,629,119)
	<u>(13,834,272)</u>	<u>5,029,598</u>	<u>1,627,325</u>	<u>(7,177,349)</u>
	1 January 2015	Recognised in income statement	Recognised directly on equity	31 December 2015
	\$	\$	\$	\$
Provision for doubtful debts	3,034,237	(90,261)	-	2,943,976
Provision for inventory obsolescence	60,000	-	-	60,000
Unrealised exchange	614,591	353,163	-	967,754
Employee benefits	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>

(d) Unrecognised deferred tax assets

Deferred tax assets amounting to \$6,949,876 (2014: Nil) 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 2016 to 2020.

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

	2015	2014
	\$	\$
13. Cash and cash equivalents		
Cash on hand	39,606	37,645
Cash at bank	<u>8,567,330</u>	<u>5,441,260</u>
	8,606,936	5,478,905
Bank overdraft	-	(3,041,815)
Cash and cash equivalents for the statement of cash flows	<u><u>8,606,936</u></u>	<u><u>2,437,090</u></u>

The Company has an overdraft facility with BSP of \$4,000,000 (2014: \$5,000,000). Interest is charged on the overdraft at 9% per annum (2014: 9%).

	2015	2014
	\$	\$
14. Investments		
Term deposits	<u><u>688,000</u></u>	<u><u>316,591</u></u>

The average rate on term deposits in 2015 was 0.25% (2014 :1.25%). The deposits have an average maturity of 365 days (2014: 365 days).

	2015	2014
	\$	\$
15. Deposits		
Deposits with IATA and others	<u><u>4,823,580</u></u>	<u><u>4,943,802</u></u>

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

Current	468,741	821,665
Non current	<u>4,354,839</u>	<u>4,122,137</u>
	<u><u>4,823,580</u></u>	<u><u>4,943,802</u></u>

16. Trade receivables		
Trade receivables	15,429,247	16,323,973
Provision for doubtful debts	<u>(9,813,252)</u>	<u>(10,114,124)</u>
	<u><u>5,615,995</u></u>	<u><u>6,209,849</u></u>

Reconciliation of provision for doubtful debts

Balance at 1 January	10,114,124	8,715,387
Provision made during the year	450,000	1,398,737
Provisions utilised during the year	<u>(750,872)</u>	<u>-</u>
Balance at 31 December	<u><u>9,813,252</u></u>	<u><u>10,114,124</u></u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

	2015	2014
	\$	\$
17. Other receivables and prepayments		
Other receivables	4,027,055	4,177,212
GST receivable	998,116	928,315
Prepayments	2,044,979	3,009,441
	<u>7,070,150</u>	<u>8,114,968</u>
18. Inventories		
Aircraft spares	8,315,386	10,221,868
Fuel	1,171,762	708,428
Provision for inventory obsolescence	(200,000)	(200,000)
	<u>9,287,148</u>	<u>10,730,296</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

19. 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 2014	36,974,833	68,455,881	20,573,217	29,327,858	3,024,691	6,473,141	129,766	164,959,387
Additions	330,601	18,381,108	1,710,460	-	342,742	831,807	158,245	21,754,963
Disposals	-	(312,604)	-	-	(379,552)	-	-	(692,156)
Offset of accumulated depreciation on revaluation	-	(5,417,449)	-	-	-	-	-	(5,417,449)
Revaluation decrement	-	(9,829,672)	-	-	-	-	-	(9,829,672)
Balance at 31 December 2014	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 classes	(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
Breakdown of cost / revaluation								
2015 Valuation	34,460,255	67,806,452	-	-	-	-	-	102,266,707
Cost	3,267,804	-	22,767,430	29,327,858	2,600,985	8,090,169	129,766	66,184,012
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

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

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

	Land & Buildings	Aircraft	Aircraft spares	Aircraft establishment cost	Motor vehicles	Plant and equipment	Work In Progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Depreciation								
Balance at 1 January 2014	5,847,871	-	3,949,755	11,902,972	2,214,314	3,074,163	-	26,989,075
Depreciation charge for the year	1,859,697	5,798,193	2,023,615	7,053,300	371,840	812,057	-	17,918,702
Accumulated depreciation on disposal	-	(312,604)	-	-	(379,552)	-	-	(692,156)
Offset of accumulated depreciation on revaluation	-	(5,417,449)	-	-	-	-	-	(5,417,449)
Balance at 31 December 2014	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)
Transfers 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
Carrying amount								
At 1 January 2014	31,126,962	68,455,881	16,623,462	17,424,886	810,377	3,398,978	129,766	137,970,312
At 31 December 2014	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

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

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

(a) Valuation

The aircraft were revalued on 31 December 2015. The valuation was carried out by an independent valuer Michael Knight and Associates. (2014: 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 on 31 December 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 2015, aircraft, property, plant and equipment were subject to a mortgage that forms security for bank loans (refer Note 21).

	2015	2014
	\$	\$
20. Investment property		
Balance as 1 January	7,600,000	7,600,000
Change in fair value	569,000	-
Balance at 31 December	<u>8,169,000</u>	<u>7,600,000</u>

Investment property comprises a commercial property that is leased to third parties for a period of five years. See note 25 for more information. 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.

	2015	2014
	\$	\$
21. Borrowings		
Loan - Bank of South Pacific	35,072,385	38,870,580
Loan - Hevilift	3,588,710	4,198,473
Finance lease liabilities - AAR Parts Trading	4,592,957	7,379,322
Finance lease liabilities - Credit Corporation	20,795	105,000
	<u>43,274,847</u>	<u>50,553,375</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

21. Borrowings (continued)

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

	2015	2014
	\$	\$
Current	43,274,847	12,223,842
Non current	-	38,329,533
	<u>43,274,847</u>	<u>50,553,375</u>

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% (2014: 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 2015 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;
- (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. Principal repayments of \$609,763 (US\$ 110,000) were made during the year. Interest is paid monthly at the rate of 12% per annum on a daily balance. If interest payments are made on or before the due date, Hevilift Engineering Pty Limited accepts interest payments at the rate of 8% per annum. In December 2015 an agreement was reached with Hevilift for the loan to be paid in ten monthly installments of US\$ 55,000 per month effective from 1 December 2015.

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\$ 42,900. Interest is charged at the rate of 8.82% per annum. An additional lease liability of US\$ 9,000 per month was added in April 2014 with an interest rate of 10.94% per annum which increased the monthly lease liability payable to US\$51,900. Principal repayments of \$2,786,365 (US\$ 396,990) were made during the year.

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

21. Borrowings (continued)

Finance lease (continued)

Credit Corporation

The finance lease liability is in respect of purchase of a Honda CRV Wagon in Fiji. The lease liability is payable by monthly instalments of FJD 1,775. Interest is charged at the rate of 8.5%. Principal repayments of \$84,205 (FJD 21,294) were made during the year.

	2015	2014
	\$	\$
Finance lease liabilities are payable as follows:		
Less than one year	4,842,569	4,847,523
Between one and five years	-	3,259,975
	<u>4,842,569</u>	<u>8,107,498</u>
Less future interest charges	(228,817)	(623,176)
	<u><u>4,613,752</u></u>	<u><u>7,484,322</u></u>

22. Trade, other payables and accrued expenditure

Trade payables	36,837,242	22,184,371
Other payables	9,867,199	8,588,120
Accrued expenditure	1,474,374	4,180,365
	<u><u>48,178,815</u></u>	<u><u>34,952,856</u></u>

23. Employee benefits

Annual leave

Balance at 1 January	2,151,982	2,487,301
Provisions made during the year	256,765	1,111,246
Provisions utilised during the year	(468,169)	(1,446,565)
Balance at 31 December	<u><u>1,940,578</u></u>	<u><u>2,151,982</u></u>

24. Statutory expenses and liabilities

The Company has been subject to a tax audit by the Inland Revenue Department (IRD) during 2014 and 2015. Subsequent to year end, 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. An initial payment of \$300,000 was made prior to 31 December 2015 and a payment plan has been agreed with the IRD over an 8 year period.

Classification in the statement of financial position is as follows:

	2015	2014
	\$	\$
		<i>Restated</i>
Current	5,760,512	-
Non-current	22,893,522	4,677,938
	<u><u>28,654,034</u></u>	<u><u>4,677,938</u></u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

24. Statutory expenses and liabilities (continued)

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 commencing 31 December 2016.

The amounts recorded in profit or loss are as follows (see also note 31):

	2015	2014
	\$	\$
Statutory expenses		<i>Restated</i>
Non-resident Withholding Tax	22,889,418	-
Pay As You Earn	1,386,678	4,677,938
	<u>24,276,096</u>	<u>4,677,938</u>

	2015	2014
	\$	\$
25. Capital and reserves		
(a) Authorised capital		
70,909,801 ordinary shares @ \$1.00 each	<u>70,909,801</u>	<u>70,909,801</u>
(b) Share capital		
70,909,801 ordinary shares @ \$1.00 each	<u>70,909,801</u>	<u>70,909,801</u>
(c) Revaluation reserve		
The revaluation reserve relates to the revaluation of aircraft and buildings.		

26. Commitments

(a) **Capital expenditure approved and committed**

<u>-</u>	<u>-</u>
----------	----------

(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 for one year from 1 February 2012. The agreement was extended upon mutual agreement by one year intervals until further notice;

- lease agreement for A320 aircraft with Pegasus Aviation II, Inc for US\$ \$120,000 per month from 26 February 2011 to 31 December 2015. The lease was extended for another 48 months effective 1 January 2016 with monthly lease payment of US\$95,000.00.

- 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:

	2015	2014
	\$	\$
Less than one year	9,388,134	10,823,430
Between one and five years	27,585,728	5,083
More than five years	11,568	12,524
	<u>36,985,430</u>	<u>10,841,037</u>

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

26. Commitments (continued)

(b) Operating lease (continued)

Leases as lessor

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

	2015	2014
	\$	\$
Less than one year	-	225,000
Between one and five years	-	-
More than five years	-	-
	<u>-</u>	<u>225,000</u>

27. Non cash investing activities

Additions to property, plant and equipment (refer Note 19)	10,770,066	21,754,963
Additions paid for by cash (refer statement of cash flows)	<u>(8,447,325)</u>	<u>(3,510,933)</u>
Non cash additions to property, plant and equipment	<u>2,322,741</u>	<u>18,244,030</u>

28. Related parties

(a) Directors

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

Chairman	Mr Denton Rarawa (term expired September 2015)
Director	Mr Anthony Bensteeve Langston
Director	Mrs Rose Isukana (resigned May 2015)
Director	Mr Sebastian Ilala (term expired July 2015)
Director	Mr Bob Pollard (term expired July 2015)
Director	Mr Primo Afeau (term expired October 2015)
Chairman	Mr Austin Holmes (appointed August 2015)
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 Robertson Bochman (appointed April 2016)
Director	Mr Josefa Tuamoto (appointed June 2016)

(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.

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

28. Related parties (continued)

(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.

	2015	2014
	\$	\$
Amounts receivable from key management personnel	<u>180,095</u>	<u>180,095</u>

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 claims against the Company, the liability for which is not material or will result in no loss to the Company.

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 the 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 capital of the Company is \$70,909,801 with allotment of subscription shares to the following subscribers: Investment Corporation of Solomon Islands (SI) 66,909,801 Ordinary Shares, Solomon Airlines Holdings Limited 3,999,999 Ordinary Shares and General Manager ICSI (In Trust) 1 Ordinary Shares.

Solomon Airlines Limited
Notes to the financial statements
31 December 2015

31. Correction of prior period error

The Company was aware of an exposure in relation to Pay-As-You Earn Tax on school fees in 2014 (see note 24) and therefore the adjustment relating to the 2008 to 2014 years should have been recorded in that year. The financial statements for the year ended 31 December 2014 have, therefore, been restated to correct this error. The effect of the restatement on the 2014 financial statements is summarised below:

(i) Statement of financial position

31 December 2014	Previously reported	Effect of restatement	Restated balance
Statutory liabilities	-	4,677,938	4,677,938
Net deferred tax liability	8,580,743	(1,403,394)	7,177,349
Accumulated losses	<u>(65,029,547)</u>	<u>(3,274,544)</u>	<u>(68,304,091)</u>

(ii) Statement of Profit or loss and other comprehensive income

31 December 2014	Previously reported	Effect of restatement	Restated balance
Statutory expenses	-	(4,677,938)	(4,677,938)
Loss before tax	(12,157,536)	(4,677,938)	(16,835,474)
Income tax benefit	3,626,204	1,403,394	5,029,598
Loss after tax	<u>(8,531,332)</u>	<u>(3,274,544)</u>	<u>(11,805,876)</u>

32. Subsequent events

On 30 June 2016, the Company signed a Deed of Settlement with the Inland Revenue Department in relation to the result of the tax audit carried out for the years ended 31 December 2008 to 2014 to pay outstanding taxes amounting to \$28,654,034. This amount has been adjusted in the financial statements.

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.