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Directors Statement

In the opinion of the Directors of Airlines of Papua New Guinea Limited:

- a) the financial statements of the Group as set out on pages 20 to 46 are drawn up so as to give a true and fair view of the state of the company's affairs as at 31 December 2009, and of its results, cash flows and changes in equity for the financial year ended on that date; and
- b) there are, when this statement is made out, reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the directors.



Simon D Wild
Chairman



Michael Koisen
Director

Port Moresby, April 2010

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Directors Report

The directors of Airlines of Papua New Guinea Limited submit herewith the annual financial statements of the company and its subsidiaries ('the Group') for the financial year 31 December 2009. In order to comply with the provisions of the Companies Act 1997, the directors report as follows:

Directors

The names of the directors of the Group in office during the financial year and at the date of this report are:

Simon D Wild
 John Fitzgerald (resigned 24th April 2009)
 Paul McLaren
 John Jeffery
 Kostas Constantinou
 Michael Koisen

The Group secretary during the financial year was Steven O' Brien. Michael Koisen replaced Steven O' Brien as secretary effective 28 January 2010.

Interest Register

No new entries were added.

Changes in state of affairs

The principal activity of the Group during the year was the operation of a charter and scheduled passenger airline throughout Papua New Guinea and the operation of charter and scheduled passenger airline service between Papua New Guinea and Australia.

Results and dividends

The Group incurred a loss before income tax for year ended 31 December 2009 of K24,662,000 (2008: K7,465,000).

Changes in Accounting Policies

The accounting policies adopted are consistent with the accounting policies in the 31 December 2008 annual financial report.

Contingent liabilities

Other than as reported in the notes to the accounts, there does not exist any charge on the assets of the Group which has arisen during and since the end of the financial year to secure the liabilities of any other person, and no contingent liabilities have arisen since that date.

No contingent or other liability of the Group has become



Simon D Wild
 Chairman
 Port Moresby, April 2009

enforceable or is likely to become enforceable within the period of twelve months at the date of this report which, in the opinion of the directors, will or may substantially affect the ability of the Group to meet its obligations as and when they fall due.

Directors' benefits

Since the end of the previous financial year, no director of the Group has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the accounts, or the fixed salary of a full time employee of the Group or related corporation) by reason of a contract made by the Group or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest. Remuneration of directors is disclosed in note 17.

Remuneration above K100,000

The number of employees or former employees, not being directors of the company, whose total remuneration and the value of other benefits received, exceeded K100,000, falls within each relevant K10,000 band of income as follows:

Remuneration K 000's	09 No.	08 No.	Remuneration K 000's	09 No.	08 No.
100 – 110	6	5	230 – 240	1	2
110 – 120	10	12	240 – 250	2	1
120 – 130	9	5	250 – 260	2	-
130 – 140	3	10	260 – 270	-	1
140 – 150	7	6	270 – 280	2	-
150 – 160	5	5	280 – 290	-	-
160 – 170	6	6	290 – 300	2	-
170 – 180	2	13	300 – 310	1	-
180 – 190	7	7	310 – 320	4	1
190 – 200	7	6	320 – 330	2	-
200 – 210	7	10	330 – 340	-	1
210 – 220	5	-	340 – 350	1	-
220 – 230	5	1	520 – 530	1	-

Independent audit report

The financial statements have been audited and should be read in conjunction with the Independent Audit Report on pages 47 & 48.

Donations

No donations were made during the current year by the Group (2008: nil).

Signed in accordance with a resolution of the directors.



Michael Koisen
 Director

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Statement of Comprehensive Income

<i>PGK Thousands</i>	Notes	Group		Company	
		2009	2008	2009	2008
Revenue					
Operating revenue	2(a)	148,478	143,944	145,743	141,782
Other revenue	2(b)	11,757	11,948	11,542	11,693
Total Revenue		160,235	155,892	157,285	153,475
Expenditure					
Aircraft costs		(82,675)	(80,609)	(81,160)	(79,440)
Staff costs		(63,313)	(41,823)	(62,741)	(41,338)
Management cost		(1,262)	(4,994)	(1,262)	(4,994)
Finance cost		(5,322)	(4,851)	(5,322)	(4,851)
Other expenditure		(2,861)	(8,400)	(2,861)	(8,400)
Overhead costs		(29,464)	(22,680)	(27,504)	(22,350)
Total Expenditure		(184,897)	(163,357)	(180,850)	(161,373)
Loss before tax		(24,662)	(7,465)	(23,565)	(7,898)
Income tax expense	3	7,218	(2,724)	7,218	(2,640)
Net Loss for the year		(17,444)	(10,189)	(16,347)	(10,538)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		(17,444)	(10,189)	(16,347)	10,538
Earnings per Share					
From continuing operations:					
Basic and diluted (toea per share)	14	(7.822)	(6.224)	(7.330)	(6.437)

The notes on page 23 to 46 are an integral part of these consolidated financial statements.

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Statement of changes in equity

PGK Thousands

	Share Capital	Revaluation Reserve	Retained Earnings	Total
GROUP				
Year ended 31 December 2008				
Balance at the start of the financial year	34,271	48,227	13,319	95,817
Issue of shares	23,000	-	-	23,000
Prior year adjustment	-	-	(351)	(351)
Net loss for the year	-	-	(10,189)	(10,189)
Balance at the end of the financial year	57,271	48,227	2,779	108,277
Year ended 31 December 2009				
Balance at the start of the financial year	57,271	48,227	2,779	108,277
Aircraft revaluation	-	3,660	-	3,660
Deferred tax on revaluation	-	(1,098)	-	(1,098)
Disposal of aircraft	-	(5,446)	5,446	-
Deferred tax on disposal of aircraft	-	1,634	-	1,634
Net loss for the period	-	-	(17,444)	(17,444)
Balance at the end of the financial year	57,271	46,977	(9,219)	95,029
COMPANY				
Year ended 31 December 2008				
Balance at the start of the financial year	34,271	48,227	11,227	93,725
Issue of shares	23,000	-	-	23,000
Net loss for the year	-	-	(10,538)	(10,538)
Balance at the end of the financial year	57,271	48,277	689	106,187
Year ended 31 December 2009				
Balance at the start of the financial year	57,271	48,227	689	106,187
Aircraft revaluation	-	3,660	-	3,660
Deferred tax	-	(1,098)	-	(1,098)
Rotables disposed	-	(5,446)	5,446	-
Deferred tax	-	1,634	-	1,634
Net loss for the period	-	-	(16,347)	(16,347)
Balance at the end of the financial year	57,271	46,977	(10,212)	94,036

The notes on page 23 to 46 are an integral part of these consolidated financial statements.

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Statement of Financial Position

<i>PGK Million</i>	Notes	Group		Company	
		2009	2008	2009	2008
Current assets					
Cash and Cash Equivalents	4	4,862	17,799	4,566	17,439
Receivables	5	28,742	18,297	27,165	17,552
Other financial assets	6	525	5,753	3,039	7,812
Inventories	7	10,970	10,353	10,069	9,943
Income tax receivable	9	-	-	31	-
Assets classified as held for sale	7	-	13,140	-	13,140
Total current assets		45,099	65,342	44,870	65,886
Non-current assets					
Other financial assets	6	2,940	2,940	-	-
Property, plant and equipment	8	175,055	169,599	175,023	169,395
Deferred tax asset	9	13,854	5,036	13,842	4,984
Intangible assets	10	-	422	-	422
Total non-current assets		191,849	177,997	188,865	174,821
Total assets		236,948	243,339	233,704	240,707
Current liabilities					
Creditors and accruals	11	24,502	9,768	22,853	9,664
Un-availed revenue	11	12,978	11,460	12,978	11,640
Borrowings	12	-	29,233	-	29,230
Income tax liabilities	9	212	200	-	116
Provisions	13	4,974	4,328	4,974	4,328
Total current liabilities		42,666	54,989	40,805	54,798
Non-current liabilities					
Borrowings	12	57,524	39,547	57,524	39,547
Deferred tax liability	9	41,729	40,526	41,370	40,175
Total non-current liabilities		99,253	80,073	98,894	79,722
Total liabilities		141,919	135,062	139,668	134,520
Net assets		95,029	108,277	94,036	106,187
Shareholders equity					
Share capital	15	57,271	57,271	57,271	57,271
Reserves	16	46,977	48,227	46,977	48,227
Retained earnings		(9,219)	2,779	(10,212)	689
Total shareholders equity		95,029	108,277	94,046	106,187

The notes on page 23 to 46 are an integral part of these consolidated financial statements.

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Statement of cash flows

<i>PGK Thousands</i>	Notes	Group		Company	
		2009	2008	2009	2008
Cash flows from operating activities					
Receipts from customers		138,033	143,198	136,130	141,034
Other revenue		11,757	11,831	11,542	11,693
Payments to suppliers and employees		(138,561)	(142,417)	(136,382)	(140,297)
Interest paid		(5,322)	(4,851)	(5,322)	(4,851)
Income tax paid		-	(737)	-	(736)
Net cash flows provided by operating activities	20(a)	5,907	7,024	5,968	6,843
Cash flows from investing activities					
Proceeds from sale of fixed assets		7,498	153	7,498	-
Loan proceeds		-	35,838	-	35,838
Payment for the purchase of land and buildings		(304)	(518)	(304)	(475)
Payment for the purchase of aircraft		(4,244)	(41,042)	(4,244)	(41,042)
Payment for the purchase of plant and equipment		(10,463)	(15,639)	(10,463)	(15,638)
Payment for purchase of motor vehicles		(75)	(202)	(75)	(202)
Net cash flows used in investing activities		(7,588)	(21,410)	(7,588)	(21,519)
Cash flows from financing activities					
Repayments of secured notes		(5,000)	(25,400)	(5,000)	(25,400)
Proceeds from the issue of secured notes		-	10,000	-	10,000
Proceeds for issuing shares		-	23,000	-	23,000
Capitalised costs on IPO funds raised		-	(493)	-	(493)
Loan proceeds / (repayments)		-	-	-	-
- Financial Institutions		(6,256)	36,317	(6,253)	36,317
- Affiliated / Related Parties		-	(8,172)	-	(7,846)
Net cash flows (used in)/provided by financing activities		(11,256)	35,252	(11,253)	35,578
Net decrease/ (increase) in cash and cash equivalents		(12,937)	20,886	(12,873)	20,902
Cash and cash equivalents at the:					
Beginning of the financial year		17,799	(3,067)	17,439	(3,463)
End of the financial year		4,862	17,799	4,566	17,439

The notes on page 23 to 46 are an integral part of these consolidated financial statements.

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1. Summary of Significant Accounting Policies

Statement of compliance

The financial statements of Airlines of Papua New Guinea Limited (“the Group”) have been prepared in accordance with International Financial Reporting Standards as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of consideration given in exchange for assets.

All amounts are presented in Papua New Guinea Kina unless otherwise noted.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies adopted are consistent with those of the previous year unless otherwise specified.

The financial statements were authorized for issue by the directors on 29 April 2010.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

a) Basis of consolidation

The Group financial statements comprise the financial statements of the Group and controlled entities. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

b) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and in banks, net

of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

c) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the carriage of passengers and freight is recognised at the time the passenger or freight is uplifted for carriage, includes concession revenue and is after deducting returns, commissions and taxes. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset’s net carrying amount.

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

d) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including the cost of direct materials, transportation and duties, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out or average cost basis.

Net realisable value represents the estimated selling price for the inventories less all estimated costs of completion and costs necessary to make the sale

e) Property, plant and equipment

Cost and Valuation

Property, plant and equipment are carried at cost or valuation. All other assets are carried at cost except Land and Buildings, Aircrafts and Aircraft parts which are carried at fair value. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income, as appropriate. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date. Any revaluation increase arising on the revaluation of land and buildings, aircrafts and aircraft parts is credited to a 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 credit to the income statement to the extent of the decrease previously charged.

Any gain or loss on the disposal of revalued assets is determined as the difference between the carrying value at the time of disposal and the proceeds from disposal, and is included in the result of the Group in the year of disposal.

Depreciation

Depreciation is provided on a diminishing basis on all property, plant and equipment (excluding land) at rates calculated to allocate the cost less estimated residual value, against revenue over the estimated useful lives of the assets.

Major depreciation rates are:

Land and Buildings	3.00% straight line
Aircraft	5.00% straight line
Plant and equipment	11.25% diminishing value
Motor vehicles	30.00% diminishing value

f) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted

by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid or refundable.

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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

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

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Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

g) Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at market value.

Gains and losses arising from changes in the market value of investment property are included in profit or loss in the period in which they arise.

h) Goods and Services Tax

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

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

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

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

i) Overhaul of Aircraft Engines and Major Components

Engine overhaul costs for the Dash 8 aircraft are paid for at a fixed rate per flying hour. This cost is charged by Standard Aero each month and is recognised as an expense in the income statement as invoiced.

The cost associated with the overhaul of other aircraft engines and major components is amortised over the lifetime of those specific overhaul costs.

j) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably on the basis of statutory or contractual requirements.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

k) Impairment of Assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a

pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

l) Financial Instruments

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

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

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Trade and other receivables are recognised at the amount receivable as they are due for settlement no more than 30 days from the date of recognition.

An allowance for doubtful debts is made when the collection of the full amount is no longer probable.

Trade and other creditors

Trade and other creditors represent liabilities for goods and services provided to Airlines of Papua New Guinea Limited prior to balance sheet date which were unpaid. The amounts are unsecured and are usually paid between 7 and 60 days after recognition.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

m) Comparative Amounts

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

n) Non Current Assets Held for Sale

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

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

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o) Going Concern Basis

The financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities and obligations as and when they fall due in normal course of business for the foreseeable future. Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

As at 31 December 2009 the Group has net current assets of K2.4m (31 December 2008: net current assets of K10.3m), has incurred a loss of K17.4m in the current period (31 December 2008: K10.18m) and has negative net cash flows. The ability of the company to continue as a going concern is dependent on its ability to:

- Generate sufficient cash flows from operations to meet

its financial obligations,

- Move to a more efficient aircraft maintenance system which will provide a better quality of product for customers through increased availability of aircraft and improved on time performance
- Secure further profitable sales contracts. In this respect, the expected upturn in the demand for aviation services as a direct result of LNG. The airline is already seeing new RPT and charter opportunities emerging.
- Continue to manage the performance of the company, including increasing operating cash flows and reducing outgoings

Derive sufficient revenue from its existing operations. The airline is committed to increasing its revenue by being competitive through aggressive marketing, continually improving passenger connectivity through better scheduling and the improvement of the core products.

At the date of this report and having considered the above factors, the directors are confident that the company will be able to continue as a going concern.

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<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
2. Operating Profit				
The operating profit before income tax includes the following items of income and expenditure				
2(a) Operating revenue				
Revenue from carriage of passengers and cargo	79,284	80,570	79,052	80,570
Revenue from charters	66,458	61,212	66,691	61,212
Revenue from sale of fuel	2,736	2,162	-	-
	148,478	143,944	145,743	141,782
2(b) Other revenue				
Aircraft hire income	5,343	4,169	5,526	4,011
Engineering sales	2,250	612	2,067	1,220
Interest received	476	1,659	476	1,659
Other revenue	536	1,714	4,428	1,126
Rent received	84	14	84	14
Realised foreign currency gain	1,128	3,861	1,128	3,861
Unrealised foreign currency gain/ (loss)	1,621	(198)	1,514	(198)
Profit/ (Loss) on the sale of plant & equip	319	117	319	-
	11,757	11,948	15,542	11,693
2(c) Operating expenditure				
Amortisation of capitalized expenses	71	71	71	71
Amortisation of Borrowing Cost	351	225	351	226
Impairment loss	2,861	-	2,861	-
Accountants' fees – audit services	260	259	238	226
Accountants' fees – tax & other services	576	45	576	45
Depreciation of fixed assets	15,047	11,798	14,877	11,744
2(d) Finance costs				
Interest paid	(5,322)	(4,851)	(5,322)	(4,851)
2(e) Intangible assets write off				
Air Operators Certificate Write Off	-	8,400	-	8,400

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<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
3. Income Tax Expense/(Benefit)				
The prima facie income tax on operating profit reconciles to the income tax expense provided in the accounts as follows				
Operating loss before income tax	(24,662)	(7,465)	(23,565)	(7,898)
Prima facie tax at 30%	(7,398)	(2,241)	(7,096)	(2,370)
Tax effect of permanent differences	180	3,390	(122)	3,435
Under provision of tax from prior year	-	1,575	-	1,575
Income tax expense	(7,218)	2,724	(7,218)	2,640
4. Cash & Cash Equivalents				
Cash on hand	1,430	2,519	1,430	2,519
Cash in Bank	3,432	15,280	3,136	14,920
	4,862	17,799	4,566	17,439
5. Receivables (Current)				
Trade debtors	20,487	15,268	19,662	14,732
Less : Allowance for doubtful debts	(2,086)	(866)	(2,086)	(866)
	18,401	14,402	17,576	13,866
Other receivables	4,308	643	3,836	619
Prepayments	5,208	2,824	5,191	2,809
G.S.T. receivable	825	428	562	258
	28,742	18,297	27,165	17,552
6. Other Financial Assets				
Loans carried at amortised cost:				
Current				
John R Wild Limited	525	893	525	893
Galatoire Limited	-	-	941	1,031
PNG Ground Services Limited	-	-	1,573	1,415
Pacrim Leasing Limited	-	-	-	3,584
Skytrans Services Pty Ltd	-	4,860	-	889
	525	5,753	3,039	7,812
Investments carried at cost:				
Non current				
Investments in subsidiaries	-	20	-	20

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6. Other Financial Assets (Cont.)

<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
Financial assets carried at fair value through profit or loss:				
Non current				
Investment properties	2,940	2,940	2,940	2,940
Disclosed in the financial statements as:				
Current other financial assets	525	5,753	3,039	7,812
Non-current other financial assets	2,940	2,960	2,940	2,960
	3,465	8,713	5,979	10,772

7. Inventories

Consumable stock on hand – at cost	12,005	12,905	11,668	11,685
Goods in transit	737	40	173	40
	12,742	12,135	11,841	11,725
Allowance for stock obsolescence	(1,772)	(1,782)	(1,772)	(1,782)
	10,970	10,353	10,069	9,943
Rotables held for sale	(i) -	13,140	-	13,140
	10,970	23,493	10,069	23,083

(i) In the prior year rotatable aircraft parts had been reclassified as "Assets held for sale", these parts were considered in excess of the current fleet requirements and were classified as available for sale as at the reporting date

8. Property, Plant & Equipment

<i>PGK Thousands</i>	Land & Buildings	Aircraft	Plant & Equipment	Rotable Parts	Motor Vehicles	Total
GROUP						
Cost or valuation						
Balance 1 Jan 2008	331	97,445	6,456	34,636	1,015	139,885
Revaluation	518	41,042	566	15,071	202	57,399
Transferred to current assets	-	-	(2,082)	(12,570)	-	(14,652)
Disposals	-	-	(48)	-	-	-
Balance 1 Jan 2009	849	138,487	4,894	37,137	1,217	182,584
Additions	304	3,024	10,463	1,220	75	15,086
Revaluation	-	(13,187)	-	2,924	-	(10,263)
Impairment	-	-	-	(2,861)	-	(2,861)
Transferred from current assets	-	-	2,082	12,570	-	14,652
Disposals	-	(6,251)	-	(2,123)	(15)	(8,389)
Balance 31 Dec 2009	1,153	122,073	17,439	48,867	1,277	190,809
Accumulated depreciation						
Balance 1 Jan 2008	20	-	1,677	507	510	2,714

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8. Property Plant & Equipment (Cont.)

<i>PGK Thousands</i>	Land & Buildings	Aircraft	Plant & Equipment	Rotable Parts	Motor Vehicles	Total
Depreciation expense	21	6,295	564	4,661	257	11,798
Transferred to current assets	-	-	(18)	(1,495)	-	(1,495)
Disposal	-	-	(14)	-	-	-
Balance 1 Jan 2009	41	6,295	2,209	3,673	767	12,985
Depreciation expense	31	6,809	3,182	4,781	244	15,047
Transferred from current assets	-	-	18	1,495	-	1,513
Revaluation	-	(12,609)	-	28	-	(12,581)
Disposal	-	(495)	-	(709)	(7)	(1,211)
Balance 31 Dec 2009	72	-	5,409	9,269	1,004	15,754
Net book value						
31 December 2008	808	132,192	5,408	33,464	450	169,599
31 December 2009	1,081	122,073	12,030	39,599	273	175,055

COMPANY

Cost or valuation

Balance 1 Jan 2008	264	97,445	6,278	34,636	843	139,466
Valuation						
Additions	475	41,040	565	15,073	203	57,356
Transferred to current assets	-	-	(2,081)	(12,572)	-	(14,653)
Balance 1 Jan 2009	739	138,485	4,762	37,137	1,046	182,169
Additions	304	3,024	10,463	1,220	75	15,086
Revaluation	-	(13,187)	-	2,924	-	(10,263)
Impairment	-	-	-	(2,861)	-	(2,861)
Transferred from current assets	-	-	2,081	12,572	-	14,653
Disposal	-	(6,251)	-	(2,123)	(15)	(8,389)
Balance 31 Dec 2009	1,043	122,071	17,306	48,869	1,106	190,395

Accumulated depreciation

Balance 1 Jan 2008	15	-	1,640	507	382	2,544
Depreciation expense	17	6,295	546	4,661	225	11,744
Transfer to current assets	-	-	(19)	(1,495)	-	(1,514)
Balance 1 Jan 2009	32	6,295	2,167	3,673	607	12,774
Depreciation expense	28	6,809	3,026	4,781	233	14,877
Transferred from current assets	-	-	18	1,495	-	1,513
Revaluation	-	(12,609)	-	28	-	(12,581)
Disposal	-	(495)	-	(709)	(7)	(1,211)
Balance 31 Dec 2009	60	-	5,211	9,268	833	15,372

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8. Property Plant & Equipment (Cont.)

<i>PGK Thousands</i>	Land & Buildings	Aircraft	Plant & Equipment	Rotable Parts	Motor Vehicles	Total
Net book value						
31 December 2009	983	122,071	12,095	39,601	273	175,023
31 December 2008	707	132,190	2,595	33,464	439	169,395

Aircraft

As at 31 December 2009 aircraft with a carrying amount of K120,604,000 were revalued to K122,073,000. The revaluations were based on the current resale value of the aircraft. The valuations for the Group was undertaken by an Independent Aircraft valuer (Mr Chris Ching). Aircrafts were not revalued in 2008.

Aggregate depreciation recognised as an expense during the year:

<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
Land and buildings	31	21	28	17
Aircraft	6,809	6,295	6,809	6,295
Plant and equipment	3,182	564	3,026	546
Rotable Parts	4,781	4,661	4,781	4,661
Motor vehicles	244	257	233	225
	15,047	11,798	14,877	11,744

9. Income Taxes

<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
1. Tax Liability (Current)				
Income tax payable	212	200	(31)	116
2. Deferred Taxes				
a) Deferred Tax Assets Comprise				
Tax Losses (i)	11,192	3,321	11,192	3,269
Temporary Differences (ii)	2,662	1,715	2,650	1,715
	13,854	5,036	13,842	4,984
(i) Tax Losses				
Opening balances	3,269	91	3,269	-
Charged to income	7,923	3,230	7,923	3,269
Closing balance	11,192	3,321	11,192	3,269

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(ii) Temporary Differences

	Unrealised Currency Exchange Losses	Doubtful Debts	Leave Entitlements	Stock Obsolescence	Total
Group					
Balance 1 Jan 2008	-	372	982	555	1,909
Charged to Income	59	(113)	(120)	(20)	(194)
Balance 1 Jan 2009	59	259	862	535	1,715
Charged to Income	(59)	366	630	10	947
Balance 31 Dec 2009	-	625	1,492	545	2,662
Company					
Balance 1 Jan 2008	-	372	982	555	1,909
Charged to income	59	(113)	(120)	(20)	(194)
Balance 1 Jan 2009	59	259	862	535	1,715
Charged to income	(59)	366	630	(2)	935
Balance 31 Dec 2009	-	625	1,492	533	2,650

<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
b) Deferred tax liabilities comprise:				
Temporary differences	41,729	40,526	41,370	40,175

Temporary Differences	Capitalised expenses	Inventory	Fixed Assets	Asset revaluation	Unrealised currency losses	Total
Group						
01/01/2008	-	3,668	10,412	20,094	356	34,530
Charged to Equity	-	-	-	926	-	926
Charged to Income	813	(150)	4,783	-	(356)	5,070
31/12/2008	813	3,518	15,175	21,020	-	40,526
Charged to Equity	-	-	-	(1,383)	-	(1,383)
Charged to Revenue	1,751	(135)	515	-	455	2,586
31/12/2009	2,564	3,383	15,690	19,637	455	41,729
Company						
01/01/2008	-	3,597	9,837	20,669	356	34,459
Charged to Equity	-	-	-	-	-	-
Charged to Income	813	(79)	5,338	-	(356)	5,716
31/12/2008	813	3,518	15,175	20,669	-	40,175

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9. Income Taxes (Cont.)

Charged to Revenue	1,392	(135)	515	-	455	2,227
Charged to Equity	-	-	-	(1,032)	-	(1,032)
31/12/2009	2,205	3,383	15,690	19,637	455	41,370

10. Intangible Assets (Non-Current) Group & Company

	Airline License	Borrowing Costs	Capitalised Expenses	Total
Gross Carrying Amount				
1 January 2008	28,000	1,155	-	29,155
Cost Paid	(28,000)	-	493	(27,507)
31 December 2008	-	1,155	493	1,648
31 December 2009	-	1,155	493	1,648
Accumulated amortisation				
1 January 2008	19,600	1,155	-	20,755
Amortisation Expense	(19,600)	-	71	(19,529)
31 December 2008	-	1,155		1,226
Amortisation Expense	-		422	422
31 December 2009	-	1,155	493	1,648
Net book value				
As at 31 Dec 2008	-	-	422	422
As at 31 Dec 2009	-	-	-	-

11. Creditors & Accruals (Current)

<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
Trade Creditors	11,214	4,792	11,117	4,701
Accrued Expenses-Fuel	1,769	3,019	1,769	3,013
Accrued Expenses -Other	10,539	1,159	8,951	1,159
Salary and Wages tax	1,020	798	1,016	791
	24,502	9,768	22,853	9,664
Un-availed Revenue	12,978	11,460	12,978	11,460
	37,480	21,228	35,831	21,124

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12. Borrowings

<i>PGK Thousands</i>		Group		Company	
		2009	2008	2009	2008
a) Current					
Bank Overdraft	(i)				
Loan –Bank South Pacific	(i)	-	9,233	-	9,233
Secured Notes	(ii)	-	20,000	-	20,000
		-	29,233	-	29,233
b) Non Current					
Secured		-	-	-	-
Loan- Bank South Pacific	(i)	42,524	39,547	42,524	39,547
Secured Notes	(ii)	15,000	-	15,000	-
		57,524	39,547	57,524	39,547
Unsecured					
Amount owing to	(Note19)				
John R Wild Limited		-	-	-	-
Avstaff International Ltd		-	-	-	-
Total Borrowings		57,524	39,547	57,524	39,547

- i. The bank of South Pacific holds a registered first mortgage over the aircraft owned by the Group which are not otherwise secured to Custos as per (ii) and holds a floating charge over the whole of the company's assets and undertakings including: called, but unpaid capital; and uncalled capital
- ii. Custos as the trustee for the note holders holds a registered first mortgage over 4 of the aircraft owned by the Group.

Details concerning interest rates and repayments are included at note 18.

13. Provisions

<i>PGK Thousands</i>		Group		Company	
		2009	2008	2009	2008
Provision for annual Leave	(i)	2,496	1,544	2,496	1,544
Provision for Long Service Leave	(ii)	2,478	1,329	2,478	1,329
Provision for other entitlements		-	1,455	-	1,455
		4,974	4,328	4,974	4,328
(i) Movement in provision for annual leave					
Balance at the start of the year		1,544	874	1,544	874
Amount Used		-	(544)	-	(544)
Additional provision recognised		952	1,214	952	1,214
Balance at the end of the year		2,496	1,544	2,496	1,544
(ii) Movement in provision for long service leave					
Balance at the start of the year		1,329	2,397	1,329	2,397

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13. Provisions (Cont.)

<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
Amount Used	1,465	(662)	1,465	(662)
Additional provision recognised	2,614	-	2,614	-
Decrease in provision	-	(406)	-	(406)
Balance at the end of the year	2,478	1,329	2,478	1,329

14. Earnings Per Share

<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
Basic Earnings per share	Toea per share		Toea per share	
From continuing operations	(7.822)		(7.33)	
Total basic earnings per share	(7.822)		(7.33)	

Basic Earnings per share

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

Net loss	(17,444)	(16,347)
Earnings used in the calculation of basic EPS from continuing operations	(17,444)	(16,347)
Weighted average number if ordinary shares for the purpose of basic earnings per share	No. '000 223,000	No. '000 223,000

15. Share Capital

<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
Issued Ordinary Shares				
Balance as at 1 January	57,271	34,271	57,271	34,271
Additional Issued Shares	-	23,000	-	23,000
Balance as at 31 December 2009	57,271	57,271	57,271	57,271
Issued pursuant to share split	-	165,729	-	165,729
Balance as at 31 December 2009	223,000	223,000	223,000	223,000

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16. Reserves - Asset Revaluation

<i>PGK Thousands</i>	Group		Company	
	2009	2008	2009	2008
Balance as at 1 January	48,227	48,227	48,227	48,227
Revaluation of aircraft	3,660	-	3,660	-
Aircraft disposed	(5,446)	-	(5,446)	-
Deferred tax on revaluation	(1,098)	-	(1,098)	-
Deferred tax on Aircraft disposed	1,634	-	1,634	-
	-	-	-	-
Balance as at 31 December	46,977	48,227	46,977	48,227

17. Related Party Disclosures

Subsidiary	Place of Incorporation	Ownership Interest	
		2009	2008
Galatoire Ltd	Papua New Guinea	100%	100%
PNG Ground Services Ltd	Papua New Guinea	100%	100%
Pacrim Leasing Ltd	Papua New Guinea	100%	100%

Transactions

The following transactions with related parties occurred on normal trading items during the year. The amounts recoverable refer to note 6

2009				
Related Party	Relationship	Nature of transaction	Value K'000's	Balance
			To/(from)	Receivable/ (payable)
John R. Wild	Affiliated person	Loan no fixed repayment	(525)	
		Loan repayments	(367)	
				525
Skytrans Pty Ltd	Affiliated Company	Loan no fixed repayment	388	
		Sale of aircraft parts	282	
		Maintenance and turn around service	(25)	
		Management Service	(1,262)	
		Lease of aircraft and air parts	1,514	
				388
Avstaff International Pty Ltd	Affiliated Company	Supply of International Aircrew	(11,879)	
				-
Galatoire Limited	Subsidiary Company	Loan no fixed repayments	941	
		Rental charges	(300)	
				941

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17. Related Party Disclosures (Cont.)

PNG Ground Services Limited	Subsidiary Company	Loan on fixed repayments	1,573	
		Fuel Sales	(15,618)	
		Fuel COGS	15,070	1,573
Pacrim Leasing Limited	Subsidiary Company	Loan no fixed repayment	13,257	
		Aircraft and Rotable parts lease	13,257	-
2008				
Related Party	Relationship	Nature of transaction	Value K'000's	Balance
			To/(from)	Receivable/ (payable)
John R. Wild	Affiliated person	Loan no fixed repayment	893	
		Loan repayments	1,535	893
Skytrans Pty Ltd	Affiliated Company	Loan no fixed repayment	4,860	
		Sale of aircraft parts	2,339	
		Maintenance and turn around service	(894)	
		Management Service	(2,535)	
		Purchase of aircraft	(5,586)	
		Lease of aircraft and air parts	(4,150)	
		Loan Interest Paid	(1,245)	889
Avstaff International Pty Ltd	Affiliated Company	Supply of International Aircrew	(2,903)	-
Galatoire Limited	Subsidiary Company	Loan no fixed repayments	1,031	
		Rental charges	(270)	1,031
PNG Ground Services Limited	Subsidiary Company	Loan on fixed repayments	1,415	
		Fuel Sales	(18,020)	
		Fuel COGS	17,757	1,415
PacrimLeasing Limited	Subsidiary Company	Loan no fixed repayment	3,682	
		Aircraft and Rotable parts lease	3,682	3,584

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17. Related Party Disclosures (cont.)

Key management personnel compensation

The directors and other members of key management personnel of the Group during the year were:

2009

Simon Woolcott	Gary Toomey	Craig Chapple
Allen Tyson	David Plumpton	
Bruce Alabaster		

2008

John Fitzgerald	Domingo Balingit	Craig Chapple
Allen Tyson	Mark Craig	Eric Previtt
Bruce Alabaster		

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

	Group		Company	
	2009	2008	2009	2008
Short term benefits	1,161	1,136	1,161	1,136

Details of Board Remuneration

The following table shows the level of Remuneration received by the Non-Executive Directors in the 2009 Financial year.

Director	Date of Appointment	2009 Payments PGK	2008 Payments PGK
John Jeffery	23/06/2008	49,250	49,250
Kostas Constantinou	23/06/2008	46,750	46,750
Michael Koissen	15/07/2008	46,750	46,750
Paul McLaren	23/06/2008	47,250	47,250
Simon Wild	23/06/2008	60,000	60,000
Total		250,000	250,000

18. Financial Instruments

a) Recognised financial instruments

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

b) Significant accounting policies

Details of significant accounting policies and methods adapted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

c) Foreign currency risk management

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

d) Credit risk management

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

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

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

In the normal course of its business the Group incurs credit risk from unsecured loans advanced to other corporations.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The maximum credit risk exposure to the entity in unsecured loans at balance date was K28,742,000 (2008- K18,297,000).

e) Liquidity risk management

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

f) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating borrowings.

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18. Financial Instruments (cont.)

	Weighted average effective interest rate %	Variable interest rate K '000's	Less than 1 year K '000's	Fixed maturity dates					Non interest bearing K '000's	Total K '000's
				1-2 years K '000's	2-3 years K '000's	3-4 years K '000's	4-5 years K '000's	5+ years K '000's		
Group As at 31 December 2009										
Financial assets										
Cash & cash equivalents	-	4,862	-	-	-	-	-	-	-	4,862
Trade receivables	-	-	-	-	-	-	-	-	18,401	18,401
Other receivables	-	-	-	-	-	-	-	-	10,341	10,341
Related party loans (Kina)	-	-	-	-	-	-	-	-	-	-
Related party loans (AUD)	-	-	-	-	-	-	-	-	525	525
		<u>4,862</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,267</u>	<u>34,129</u>
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	11,214	11,214
Other payables	-	-	-	-	-	-	-	-	26,529	26,529
Current tax liabilities	-	-	-	-	-	-	-	-	212	212
Bank overdraft	-	-	-	-	-	-	-	-	-	-
Related party loans	-	-	-	-	-	-	-	-	-	-
Bank loans	7.68%	-	-	-	6,316	-	17,634	18,574	-	42,524
Secured notes	6.88%	-	-	15,000	-	-	-	-	-	15,000
		<u>-</u>	<u>-</u>	<u>15,000</u>	<u>6,316</u>	<u>-</u>	<u>17,634</u>	<u>18,574</u>	<u>37,950</u>	<u>95,479</u>
Group As at 31 December 2008										
Financial assets										
Cash & cash equivalents	-	17,799	-	-	-	-	-	-	-	17,799
Trade receivables	-	-	-	-	-	-	-	-	14,402	14,402
Other receivables	-	-	-	-	-	-	-	-	3,895	3,895
Related party loans	-	-	-	-	-	-	-	-	11	11
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,860</u>	<u>4,860</u>
Financial liabilities		<u>17,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,168</u>	<u>40,967</u>
Trade payables	-	-	-	-	-	-	-	-	-	-
Other payables	-	-	-	-	-	-	-	-	4,792	4,792
Current tax liabilities	-	-	-	-	-	-	-	-	16,436	16,436
Bank overdraft	-	-	-	-	-	-	-	-	201	201
Related party loans	-	-	-	-	-	-	-	-	-	-
Bank loans	-	-	-	-	-	-	-	-	-	-
Bank Loans	7.68%	-	5,497	7,363	7,905	8,487	9,111	10,417	-	48,780
Secured notes	6.88%	-	20,000	-	-	-	-	-	-	20,000
		<u>-</u>	<u>25,497</u>	<u>7,363</u>	<u>7,905</u>	<u>8,487</u>	<u>9,111</u>	<u>10,417</u>	<u>21,429</u>	<u>90,209</u>

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18. Financial Instruments (cont.)

	Weighted average effective interest rate %	Variable interest rate K '000's	Less than 1 year K '000's	Fixed maturity dates					Non interest bearing K '000's	Total K '000's
				1-2 years K '000's	2-3 years K '000's	3-4 years K '000's	4-5 years K '000's	5+ years K '000's		
Company As at 31 December 2009										
Financial assets										
Cash & cash equivalents	-	4,566	-	-	-	-	-	-	-	4,566
Trade receivables	-	-	-	-	-	-	-	-	17,576	17,576
Other receivables	-	-	-	-	-	-	-	-	3,685	3,685
Related party loans (Kina)	-	-	-	-	-	-	-	-	525	525
Related party loans (AUD)	-	-	-	-	-	-	-	-	-	-
		4,566	-	-	-	-	-	-	21,786	26,325
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	11,117	11,117
Other payables	-	-	-	-	-	-	-	-	26,510	26,510
Current tax liabilities	-	-	-	-	-	-	-	-	(31)	(31)
Bank overdraft	-	-	-	-	-	-	-	-	-	-
Related party loans (Kina)	-	-	-	-	-	-	-	-	-	-
Related party loans (AUD)	-	-	-	-	-	-	-	-	-	-
Bank loans	7.68%	-	-	-	6,316	-	17,634	18,574	-	42,524
Secured notes	6.88%	-	15,000	-	-	-	-	-	-	15,000
		-	15,000	-	6,316	-	17,634	18,574	37,950	95,479
Company As at 31 December 2008										
Financial assets										
Cash & cash equivalents	-	17,439	-	-	-	-	-	-	-	17,439
Trade receivables	-	-	-	-	-	-	-	-	13,866	13,866
Other receivables	-	-	-	-	-	-	-	-	3,685	3,685
Related party loans (Kina)	-	-	-	-	-	-	-	-	2,446	2,446
Related party loans (AUD)	-	-	-	-	-	-	-	-	4,473	4,473
		17,439	-	-	-	-	-	-	24,470	41,909
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	4,701	4,701
Other payables	-	-	-	-	-	-	-	-	16,436	16,436
Current tax liabilities	-	-	-	-	-	-	-	-	116	116
Bank overdraft	-	-	-	-	-	-	-	-	-	-
Related party loans	-	-	-	-	-	-	-	-	-	-
Bank Loans	-	-	-	-	-	-	-	-	-	-
Bank loans	7.68%	-	5,495	7,363	7,905	8,487	9,111	10,417	-	48,778
Secured notes	6.88%	-	20,000	-	-	-	-	-	-	20,000
		-	25,495	7,363	7,905	8,487	9,111	10,417	21,253	90,031

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19. Notes to Statement of Cash Flow

(a) Reconciliation to operating profit

The net cash flows from operating activities as shown on the Statement of Cash Flows reconciles to the operating profit after income tax as shown on the Income Statement as follows:

	Group		Company	
	2009 K000's	2008 K000's	2009 K000's	2008 K000's
Operating (loss)/profit after income tax	(17,444)	(10,189)	(16,347)	(10,538)
Non-cash items				
Intangible asset write off	-	8,400	-	8,400
Amortization of capitalized costs	422	71	422	71
Unrealised exchange loss	1,621	-	1,621	-
Impairment loss	2,861	-	2,861	-
Depreciation of fixed assets	15,047	11,798	14,877	11,744
Loss on sale of fixed assets	(319)	(117)	(319)	-
Increase in non current tax assets	(8,818)	(3,037)	(8,858)	(3,076)
(Decrease)/Increase in current tax liability	(12)	5,646	116	5,716
Increase / (decrease) in non current tax liability	1,203	(620)	1,195	(736)
	(5,439)	11,952	(4,432)	11,581
Changes is net Assets and Liabilities				
(Increase) / decrease in current receivables	(5,217)	(1,120)	(4,840)	(1,121)
(Increase) / decrease in current inventories	(617)	(142)	(126)	6
Increase) / decrease in current other financial assets	5,228			
Increase / (decrease) in current creditors	14,734	(3,267)	13,189	(3,225)
Increase / (decrease) in current provisions	2,446	(399)	2,177	(398)
Net cash flow from operating activities	5,907	7,024	5,968	6,843

(b) Financing facilities

Unsecured bank overdraft facility, reviewed annually and payable at call

Amount used	-	-	-	-
Amount unused	-	-	-	-
	6,000	6,000	6,000	6,000

Secured bank loan facilities with various maturity dates through to 31 December 2015 and which may be extended by mutual agreement

Amount used	57,253	48,780	57,253	48,780
Amount unused	11,447	-	11,447	-
	68,700	48,780	68,700	48,780

20. Subsequent Events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the Group in future financial years.

21. Contingent Liabilities

- The Group has given a guarantee of K250,000 to the ANZ Banking Corporation in respect of corporate credit cards;
- The Group has negotiated for the Bank of South Pacific to provide guarantees covering contracts with a number of the companies commercial suppliers. These guarantees total K3,550,000; and
- The Bank of South Pacific holds an unlimited cross guarantee from the Group and other associated entities as security for the facilities provided by the bank.

22. Other Company Information

Number of Employees

As at 31 December 2008 the total number of employees at APNG was:

	Group		Company	
	2009	2008	2009	2008
National employees	429	488	429	488
Expatriate employees	105	65	105	65
	534	553	534	553

All other information is disclosed in the Director's Report on page 3.

23. Segment Information

The Group has adopted IFRS 8 "Operating Segments" with effect from 1st January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. There has been no change to the Group's reporting segments as a result of adopting IFRS 8.

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

-
- Regular Passenger Travel (RPT)
- Aircraft Charters
- Other – comprising fuel sales

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of IFRS 8. The accounting policies of the new reportable segments are the same as the Group's accounting policies.

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23. Segment Information (Cont.)

<i>PGK Thousands</i>	Segment Revenue 2009	Segment Revenue 2008	Segment Profit 2009	Segment Profit 2008
Segment revenues				
Revenue from passengers and cargo	79,284	80,570	22,187	23,926
Revenue from charters	66,458	61,212	31,310	28,001
Other	2,736	2,163	1,222	993
Total	148,878	143,944	54,719	52,920
Other revenue	2(b)		11,757	11,948
Amortization of borrowing costs and capitalized expenses			(422)	(296)
Interest expense			(5,322)	(4,851)
Intangible assets write-off				(8,400)
Unallocated central and administration costs			(85,394)	(58,786)
Loss before tax			(24,662)	(7,465)

Revenue reported above represents revenue generated from external customers. Intersegment sales have been eliminated. The Chief operating decision maker reviews the profitability of each of the above segments up to gross profit level. The same aircraft is used for charter and passengers and cargo hence the bulk of the aircraft and personnel related costs are unallocated and presented as central and administration costs above.

No separate disclosure has been made for segment assets, liabilities since the Group uses the same Group of aircraft to generate the three segment revenue noted above.

24. Auditors Remuneration

Auditors Remuneration

Audit fee (Deloitte Touche Tomatsu)	260	259	238	226
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AIRLINES OF PAPUA NEW GUINEA LIMITED AND ITS SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Airlines of Papua New Guinea Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Companies Act 1997 and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Audit Opinion

In our opinion,

(a) the consolidated financial statements give a true and fair view of the financial position of Airlines of Papua New Guinea Limited and its subsidiaries as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act 1997 and other mandatory professional reporting requirements in Papua New Guinea

(b) proper accounting records have been kept by the company.

Other Information

In addition to providing auditing services, we also provide Airlines of Papua New Guinea Limited with taxation compliance and advisory services.

Port Moresby, this 31st day of March 2010


DELOITTE TOUCHE TOHMATSU



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By: Suzaan Theron

Partner

Registered under the accountants act 1996