REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Air Kiribati Limited Financial Statements
For the Year Ended 31st December 2017

Kiribati Audit Office
November 2018

KIRIBATI AUDIT OFFICE

P.O BOX 63
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Kiribati

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INDEPENDENT AUDITOR'S REPORT

To the Readers of Air Kiribati Ltd Financial Statements for the year ended 31st December 2017

The Auditor-General, Mrs Matereta Raiman, is the auditor of the Air Kiribati Limited (AKL).

The audit covered the Company's compliance with the requirements of Part VII of the Public Finance (Control and Audit) Ordinance, 1976, the Companies Ordinance, 1979 and the SOE Act, 2013 that apply to the Financial Statement of the AKL for the year ended 31st December 2017.

AKL Board of Directors and Management's Responsibility

The Board of Directors and Management are responsible for the preparation and fair presentation of the Financial Statements in accordance with Generally Accepted Accounting Practice in Kiribati and for such internal control as management determines necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

It is my responsibility to express an independent opinion on this Financial Statement and reporting that opinion to you as required under the Public Finance (Control and Audit) Ordinance 1976. The audit was conducted in accordance with International Standards of Supreme Audit Institutions.

Unqualified Audit Opinion

In my opinion, the Financial Statements present fairly, in all material respects, the Financial Position of AKL for the year ended 31st Dec, 2017 and the results of its operations and its cashflows for the year then ended in accordance with Generally Accepted Accounting Practice in Kiribati.

The audit was completed on 14th September, 2018 and was the date at which our opinion was expressed.

Report on other Legal and Regulatory Requirements

AKL lodged its 2017 Financial Statements for audit on 20th June, 2018 therefore indicated AKL's non-compliance with Sec. 20 of SOE Act, 2013.

Independence

When carrying out the audit we followed the independence requirements stipulated under section 114 (4) of the Kiribati Constitution and the requirements of the International Standards of Supreme Audit Institutions.

Other than the audit, we have no relationship with or interest in AKL.

....

Mrs. Matereta. Raiman.
Auditor General.

Date: 14/9/18

AIR KIRIBATI LIMITED

ANNUAL ACCOUNTS FOR THE YEAR ENDED 31st of DECEMBER 2017

July 2018

Adj. Final Rec'd 13 Sept, 2018.

FINANCIAL PERFORMANCE

AIR KIRIBATI LIMITED
Profit & Loss Statement
For the year ended 31 December 2017

	Notes	2017 AUD	2016 AUD
Revenue			
Domestic	12	7,109,353	5,430,942
International	12	346,586	-
Governement subsidy	5	612,998	-
		8,068,937	5,430,942
Direct Operating Costs			
Domestic	13	3,983,877	2,807,760
International	13	958,701	-
		4,942,578	2,807,760
Gross Profit		**3,126,359**	**2,623,182**
Expenses	14	4,811,654	3,002,662
	14		
Operating Profit/(Loss)		**(1,685,295)**	**(379,480)**
Other Income	15	461,043	378,611
Other Expenses	16	271,032	152,206
Prior Year items	17	2,465,753	-
Net Profit/(Loss)		**(3,961,037)**	**(153,075)**

Signed by:
Chairman..............................

Date: 12/9/2018

Director:..............................

Date: 12/9/2018.

FINANCIAL POSTION

AIR KIRIBATI LIMITED

Balance Sheet

As of December 2017

	Notes	2017 AUD	2016 AUD
Current Assets			
Cash on hand and at bank	3	1,355,030	971,155
Trade debtors	4	660,964	223,848
Other debtors & deposits		303,184	28,076
Receivable from GoK	5	612,998	-
Total Current Assets		**2,932,176**	**1,223,079**
Current Liabilities			
Trade creditors	6	1,289,082	-
Other creditors & accruals	6	534,351	680,662
Lease liability - current	7	495,840	-
Loans - current	9	646,854	646,854
Total Current Liabilities		**2,966,127**	**1,327,516**
Working Capital		(33,951)	(104,437)
Fixed Assets	8	**13,839,326**	**7,416,567**
Long Term Liabilities			
Leases	7	2,328,718	-
Loans	9	1,252,909	1,379,887
KOIL prior years	10	2,552,542	-
Total Long Term Liabilities		**6,134,169**	**1,379,887**
Net Assets		**7,671,206**	**5,932,243**
Equity			
Share capital		500	500
Shareholder contributions	11	12,769,057	7,069,057
Retained earnings		(1,137,314)	(984,238)
Current Year Earnings		(3,961,037)	(153,076)
Total Equity		**7,671,206**	**5,932,243**

Signed by:

Chairman.............................. Director:..............................

Date: 12/9/2018 Date: 12/9/18

CASHFLOW STATEMENT

AIR KIRIBATI LIMITED

Statement of Cash Flows

For the year ended 31 December 2017

	2017 AUD	2016 AUD
Cash Flow from Operating Activities		
Receipts from Customers	7,729,339	6,057,282
Payments to Suppliers	(11,107,576)	(5,418,701)
Net Cash Flows from Operating Activities	**(3,378,237)**	**638,581**
Cash Flow from Investing Activities		
Acquisition of property plant & equipment	(7,188,010)	(1,167,003)
Net Cash Flows from Investing Activities	**(7,188,010)**	**(1,167,003)**
Cash Flow from Financing Activities		
Interest plus Principal payment for KPF Loan	(126,978)	(250,040)
Government Grant/Subsidy	-	319,620
Government payment for Dash 8 acquisition	5,700,000	-
KFL Loan	-	304,694
KOIL prior years	2,552,542	-
Finance leases	2,824,558	-
Net Cash Flows from Financing Activities	**10,950,122**	**374,274**
Net Increase/Decrease for the period	383,875	(154,148)
Cash at the Beginning of the period	971,155	1,125,303
Cash at the End of the period	**1,355,030**	**971,155**

Signed by:
Chairman:..........

Date: 12/9/2018

Director:..........

Date: 12/9/18

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2017

1. GENERAL

Air Kiribati Limited formerly known as Air Tungaru is a State Owned Enterprise established for the purpose of providing airline services for the general public. It commenced operations on 1st April, 1995. Air Kiribati's primary business is the transportation of passengers and cargo on scheduled airline services as well as on a charter basis.

1.1 Use of accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. Areas involving higher degree of judgement or complexity , or areas where assumptions and estimates are significant to financial statements are disclosed within the specific accounting policy or note.

2. PRINCIPLE ACCOUNTING POLICIES

The financial statements are prepared in accordance with the Generally Accepted Accounting Practice and the applicable financial reporting standards. The financial statements have been prepared on the historical cost basis. The following is a summary of important accounting policies used by the company.

2.1 Depreciation

Depreciation is calculated on a straight line method to write off the costs of the Long Term Assets over their expected useful lives. The rates are as follows.

Aircraft Airframe	3-7%
Spare Engine	20%
Aircraft spares	20%
Computers & computer software	20%
Ground handling equipment	10-20%
Air Condition	20%
Tools	25%
Furniture & Fixtures	33.3%
Motor Vehicles	20%
Building improvements	5%

Where parts of an item of aircraft, property, plant and equipment have different useful lives, they are accounted for as separate items (major aircraft components including engine assets) of aircraft, property, plant and equipment.

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Date: 12/9/2018

Director:.............................

Date: 12/9/18.

2.2 Currency

The financial statement is expressed in Australian dollars. Assets and liabilities expressed in foreign currencies are converted into Australian dollars at the rate of exchange ruling at the date of purchasing foreign currencies.

2.3 Stock of Spare Parts

Spare parts stocks comprise rotables and expendables and consumables. They are stated at the lower cost or net realizable value. Spare parts are capitalised and are depreciated.

2.4 Property, plant and equipment

Items of property plant and equipment are stated at cost or deemed costs less accumulated depreciation. Costs include expenditure that is directly attributable to the acquisition of the items and in brining the asset to the location and working condition for its intended use.

2.5 Finance leased assets

Leases under which the Airline assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Upon initial recognition, assets held under finance leases are measured at the amounts equal to their lower of fair value and the present value of the minimum lease payments at the inception of the lease.

3. CASH & CASH EQUIVALENT

Cash and cash equivalents include cash on hand, demand deposit, current accounts in bank and other short term highly liquid investments that are rapidly convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise:

	2017 AUD	2016 AUD
Cash balances	525,019	155,399
Other short-tern deposits and short-term bills	830,011	815,755
Total cash and cash equivalents	**1,355,030**	**971,154**

4. TRADE DEBTORS & OTHER RECEIVABLES

Trade and other receivables are recognised at cost less any provision for impairment. Bad debts are written off when they are considered to have become uncollectable. Other deposits comprise deposits provided goods or service and are fully refundable.

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Date: 12/9/2018

Director:..................................

Date: 12/9/18-

Trade debtors comprises:

	2017 AUD	2016 AUD
Trade debtors	810,964	223,846
Less: provision for doubtful debts	(150,000)	-
Balance at 31 December	**660,964**	**223,846**

5 RECEIVABLE FROM GOVERNMENT OF KIRIBATI

The Government of Kiribati provided an underwrite to cover for losses arising from the operation of an Airbus A320 aircraft between Tarawa and Honiara. The service was provided by Solomon Airlines on an ACMI basis as a step towards commencement of international services. The Government has subsequently approved to release the unpaid amounts. The services commenced on 30 August 2017 and the results to 31 December is set out below:

	2017 AUD	2016 AUD
Passenger revenue	286,258	-
Cargo revenue	59,445	-
	345,703	-
Operating expenditure	958,701	-
Operating loss	**(612,998)**	**-**

6 TRADE CREDITORS

Trade creditors comprise amounts payable in respect to goods or services received by the Airline which remained unpaid as at balance date. These accounts are payable in the normal course of business at the terms of trade offered by the suppliers. Any amounts deferred and not considered payable within 12 months are classified as non-current. Balance remain at balance date are:

	2017 AUD	2016 AUD
Trade creditors	1,289,082	-
Other creditors and accruals	534,351	680,668

In 2016 financial year a major supplier account was not accounted for due to inability to substantiate the liability and lack of documentation from the supplier.

Signed by:
Chairman.................................... Director:....................................

Date: 12/9/2018 Date: 12/9/18.

Other trade creditor balances were classified as other creditors and accruals. In 2017 however, the major supplier account was revived, and prior year amounts outstanding were recorded.

7 FINANCE LEASE LIABILITIES

Finance leases relate to financing options taken by the airline in respect to:

1. Final payment due in respect to acquisition of Dash 8 aircraft. This amounted to US$1,427,500.
2. Purchase of aircraft spare parts required for the Dash 8 aircraft

The above leases are for the period of 60 months.

	2017 AUD	2018 AUD
Repayable as follows:		
Not later than 1 year	702,684	-
Later than 1 year and not later than 5 years	2,712,616	-
Later than 5 years	-	
Less future finance costs	(590,742)	-
Present value of future rentals	2,824,558	-
Made up of principle amounts as follows:		
Not later than 1 year	495,840	-
Later than 1 year and not later than 5 years	2,328,718	-
Later than 5 years	-	
	2,824,558	-
Finance leases comprised of:		
Dash 8	1,809,029	-
Aircraft spares	1,015,529	-
	2,824,558	-

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Chairman...............................

Date: 12/9/2018

Director:...............................

Date: 12/9/18

8. Fixed Assets and Depreciation Schedule

2016

2016	Aircraft	Spares parts	Spare engines	Ground handling & other	Computers & software	Airconditioning	Fixtures & fittings	Tools	Motor vehicles	Building improvements	Total
COST											
Balance 1/01/16	6,454,480	-	554,544	42,490	66,625	11,861	18,602	73,345	151,065	-	7,373,012
Additions	-	-	1,032,033	353,218	11,597	7,690	35	17,587	10,578	163,879	1,596,617
Balance 31/12/16	6,454,480	-	1,586,577	395,708	78,222	19,551	18,637	90,932	161,643	163,879	8,969,629
DEPRECIATION											
Balance 1/01/16	587,813	-	28,487	73,906	72,817	10,745	28,388	73,345	129,977	-	1,005,478
Additions	333,205	-	156,176	19,934	2,319	3,910	(315)	5,856	26,499	-	547,584
Balance 31/12/16	921,018	-	184,663	93,840	75,136	14,655	28,073	79,201	156,476	-	1,553,062
NBV 31/12/16	5,533,462	-	1,401,914	301,868	3,086	4,896	(9,436)	11,731	5,167	163,879	7,416,567

2017

2017	Aircraft	Spares parts	Spare engines	Ground handling & other equiment	Computers & software	Airconditioning	Fixtures & fittings	Tools	Motor vehicles	Building improvements	Total
COST											
Balance 1/01/17	6,454,480	-	1,586,577	395,708	78,222	19,551	18,952	90,932	135,526	163,879	8,943,827
Additions	5,439,958	1,059,508	39,268	223,858	117,324	16,710	28,040	138,386	100,310	24,648	7,188,010
Balance 31/12/17	11,894,438	1,059,508	1,625,845	619,566	195,546	36,261	46,992	229,318	235,836	188,527	16,131,837
DEPRECIATION											
Balance 1/01/17	921,018	-	184,663	62,072	75,136	14,655	18,952	79,201	130,360	-	1,486,057
Additions	332,846	-	325,169	87,851	13,416	7,252	5,609	15,739	10,173	8,399	806,454
Balance 31/12/17	1,253,864	-	509,832	149,923	88,552	21,907	24,561	94,940	140,533	8,399	2,292,511
NBV 31/12/17	10,640,574	1,059,508	1,116,013	469,643	106,994	14,354	22,431	134,378	95,303	180,128	13,839,326

Signed by:
Chairman..................

Date: 12/9/2018

Director:..................

Date: 12/9/18

9. LOANS

Loans comprise:

1. borrowings from KFL in respect to acquisition of ground support equipment required to facilitate the freight of fish exports for other ground handling service requirements.
2. Borrowing from Kiribati Provident Fund for acquisition of aircraft.

Interest applicable is at a rate of 8.5%

	2017 AUD	2016 AUD
Loans		
Current	**646,854**	**646,854**
Non-current	**1,252,909**	**1,379,887**
Total	**1,899,763**	**2,026,741**

10. OWING TO KOIL

KOIL supplies aircraft fuel to the airline. In prior years this account was not properly maintained and reconciled by the airline as well as the supplier. As at 2016 the liability could not be substantiated, and no liability was recorded. Subsequently it was identified that the liability does exist and needs to be accounted for. However, reconciliations are still being carried out and final amounts owed is yet to be agreed upon as these liabilities relate to 2013 to 2016. The corresponding entry is made to Profit & loss account and is disclosed as prior period items. Due to the nature of the debt and the financial constraints of the Airline any payment of this debt is deferred and is recorded as non-current.

11. SHAREHOLDER CONTRIBUTIONS

The Airline is owned by the Government of the Republic of Kiribati. The Government has been proactively supporting the airline for both its operational finance as well as its developments. During 2017 the airline acquired a Dash 8 aircraft and the Government contributed $5.7 million towards this. Of this approximately $4.5 million was paid for the aircraft and its modifications and payments for certain tooling and support equipment. The Airline also paid for training crew and engineering staff, establishment of appropriate facility for this development, travels and related cost for acquisition, ferry of aircraft and performing proving flights to obtain

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Date: 12/9/2018

Director:..................................

Date: 12/9/18

certification, certification of the aircraft, engaging consultants for the aircraft acquisition and its certification, obtain airlines Part 121 certification to enable operations of Dash 8 aircraft and larger aircraft types.

Shareholder contributions	2017 AUD	2016 AUD
Balance at beginning of the year	7,069,057	7,069,057
Contributions during the year	5,700,000	-
Closing balance	**12,769,057**	**7,069,057**

Subsequent to balance date the Government also approved to pay the Airline the CSO in respect to the losses made by the airline for the Line Island Group operations. Total amount for 2016 and 2017 amounted to $778,295.

12. REVENUE

	2017 AUD	2016 AUD
Passenger revenue	5,296,903	4,011,407
Cargo revenue	841,783	661,550
Ground handling services	263,069	181,411
Charter income	770,869	398,101
Government subsidy - Honiara services	612,998	-
Fare subsidy - domestic services	134,438	57,189
Fees and other ancillary income	148,877	121,284
Total revenue	**8,068,937**	**5,430,942**

13. DIRECT OPERATING EXPENSES

	2017 AUD	2016 AUD
Fuel	2,467,428	1,317,582
Aircraft maintenance	1,053,309	1,199,771
Insurance	277,365	281,079
Costs for Honiara services	958,701	-
Other items	185,776	9,328
Total direct operating costs	**4,942,578**	**2,807,760**

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Date: 12/9/2018

Director:..............................

Date: 12/9/18.

14. OTHER OPERATIONAL EXPENSES & DEPRECIATION

	2017 AUD	2016 AUD
General and administrative expenses	1,921,073	1,066,269
Marketing and promotions	38,798	60,774
Employee expenses	1,771,706	1,366,343
Occupancy costs	123,623	117,555
Doubtful debts provision	150,000	-
Depreciation	806,454	391,721
Total Other expenses	**4,811,654**	**3,002,662**

15. OTHER INCOME

	2017 AUD	2016 AUD
Interest income	7,974	9,754
Exchange difference	7,478	-
Ground handling equipment fund	304,774	-
Expert aviation team fund	125,800	-
Other Government subsidies	-	319,620
Sundry income	15,017	49,237
Total Other Income	**461,043**	**378,611**

16. OTHER EXPENSES

	2017 AUD	2016 AUD
Interest expense - loans	154,365	152,206
Other items	116,667	-
Total Other Expenses	**271,032**	**152,206**

17. PRIOR YEAR ITEMS

	2017 AUD	2016 AUD
Liabilty to KOIL for prior years (refer note 8)	2,552,542	-
Over-depreciation of assets in prior years, other items	(86,789)	-
Total Prior Year Items	**2,465,753**	-

Signed by:
Chairman..............................

Date: 12/9/2018

Director:..............................

Date: 12/9/18

18. EVENTS SUBSEQUENT TO BALANCE DATE

The Government of the Republic of Kiribati approved the Airline to pursue with acquisition of Jet Aircraft and establish its own international operations. The Government has committed to provide the necessary financial support.

19. CONTINGENT LIABILITIES

The Airline entered into a loan agreement with the Kiribati Provident Fund to borrow $4,640,000 to acquire a Twin Otter aircraft in 2013. However, this aircraft was never received. The Government of Kiribati pursued legal action against the supplier, however no recourse was provided. There is no chance of recovering the aircraft or the monies paid.

The Airline is pursuing the matter with the management and Board of the lender which is also owned by the Government. On the basis of the deliberations the amount was written off previously. However, any resolutions are not formalised or endorsed by the Government and the lender.

Signed by:
Chairman.................................... Director:....................................

Date: 12/9/2018 Date: 12/9/18

Air Kiribati Limited
PO Box 274
BairikiTarawa
Republic of Kiribati

Balance Sheet

As of December 2017

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Assets		
Current Assets		
Cash On Hand		
Air Kiribati Limited- 239877	$465,300.73	
Salary Advance - Payment	$17,473.10	
Outstanding Deposits Receivabl	$178,902.14	
Dishonored Cheque Receivable	$206.00	
Petty Cash	$607.70	
IBD 711059-Air Kiribati	$30,133.89	
789729-IBD Air Kiribati	$799,877.41	
One World Quarantee	$9,700.00	
Undeposited Funds	$58,903.99	
Total Cash On Hand		$1,561,104.96
Trade Debtors		$810,964.21
Short-Agencies		$7,633.57
Air Pacific-Lost Baggage Claim		$100.00
Staff Recovery Account		$6,748.01
Less Prov'n for Doubtful Debts		-$150,000.00
Receivable from GOK		$612,998.00
Imprest Account		$33,627.90
Prepaid Insurance		$10,000.00
Air Tickets Prepaid (Int Ops)		$35,000.00
Prepaid - Houe Rent Bond		$4,000.00
Total Current Assets		$2,932,176.65
Fixed Assets		
Spare Engines		
Spare Engine - Twin Otter A/c	$669,929.03	
Acc Deprn - Twin Otter Spare E	-$290,162.00	
Spare Engine Y12 - PG0106	$486,370.51	
Acc Deprn -Spare Engine PG0106	-$125,761.00	
Spare Engine -ESN 41755	$469,546.05	
Acc Depr - SpareEngine 41755	-$93,909.00	
Air Crafts		
Y12 Aircraft- AV4/AKS	$1,150,422.21	
Accumu Depr - Y12 AV4/AKS	-$235,844.32	
Y12 Aicraft - AV5/AKG	$1,088,766.11	
Acc Depr - Y12 AV5/AKG	-$221,592.00	
Y12 Aircraft - Y12 AV6/AKP	$1,398,476.44	
Accum Depr - Y12 AV6/AKP	-$288,307.16	
Twin Otter I at Cost - AKL	$2,816,815.90	
Twin Otter I Accum Depr - AKL	-$508,120.48	
Dash8-100s	$5,195,169.40	
Dash 8 Modifications & upgrade	$244,788.82	
Life Raft	$99,538.97	
Life Raft - Acc Depreciation	-$16,021.00	
Spare parts Dash 8 rotables	$1,015,528.25	
Spare parts Dash 8 expendable	$43,979.84	
Total Air Crafts		$11,783,600.98
Office Equipment		
Computer Cost	$107,979.57	
Computer Accm Deprn	-$84,174.00	
AM Radio at Cost	$42,140.00	
AM Radio Accm Deprn	-$42,140.00	
Air Condition at Cost	$36,261.00	
Aircon-Accm Deprn	-$21,907.00	
Furniture & Fixtures at Cost	$46,992.19	
Furniture & Fixtures Accum Dep	-$24,560.00	
Total Office Equipment		$60,591.76
Tools & Machinerie		
Ground Handling Equipment	$304,694.23	
Accumulated Depr - GH Equipmnt	-$71,095.47	
Trolleys	$44,827.59	
Accump Depreciation -Trolleys	-$12,431.00	

Air Kiribati Limited

Balance Sheet

As of December 2017

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Tools at cost	$197,253.34			
Accum Depn Tools	-$94,940.00			
Forward Stairs Airbus	$30,800.00			
Acc Deprn - Forward Stirs	-$3,080.00			
Power Generator Unit	$92,000.00			
Accumulated Depr - Generator	-$4,600.00			
Manual Dash8	$32,063.61			
Container storage	$5,565.39			
Accumu Dep Container	-$557.00			
Motor Vehicles				
Saloon Cars at cost	$75,892.95			
Saloon Cars - Accum Depreciat	-$30,815.06			
Bus at Cost	$159,943.60			
Bus- Accm Deprn	-$109,718.12			
Computerized System				
Vidcome Reservation System	$87,566.49			
Accum Dep Software	-$4,378.00			
Buildings & Improvements				
Total Fixed Assets			$13,659,198.88	
Building			$188,527.21	
Accum Depreciation - Building			-$8,399.00	
Total Assets				$16,771,503.74
Liabilities				
Current Liabilities				
Payables				
Cash Remittance		$331.50		
Fiji Airways Tkt Sales		$1,494.00		
Fiji Airways Excess		$2,225.15		
Trade Creditors		$1,289,082.30		
Outstanding Chq Payable		$110,948.68		
Sundry Creditors		$48,733.96		
Accrued Expense Payabal		$2,759,281.88		
Payroll Liabilities				
Payroll Liability -Tax	$13,847.58			
Payroll Liability-KPF	$12,940.91			
Total Payroll Liabilities		$26,788.49		
Customer Deposits		-$5,259.06		
Total Current Liabilities			$4,233,626.90	
Long Term Liabilities				
KFL Loan -GH Equipment		$304,694.23		
Kpf Loan- Twin Otter		$1,595,068.61		
Dash 8 lease liability		$1,809,029.56		
Spare parts lease		$1,015,528.25		
Total Long Term Liabilities			$4,724,320.65	
Development Project Fund				
AKL Commercial Manager		$125,012.63		
Suspense			$17,337.87	
Total Liabilities				$9,100,298.05
Net Assets				$7,671,205.69
Equity				
Owner/Shareholder's Equity				
Owner/Sharehldr Capital		$500.00		
Government Grant/Subsidy		$12,769,057.00		
Total Owner/Shareholder's Equity			$12,769,557.00	
Retained Earnings			-$1,137,314.16	
Current Year Earnings			-$3,961,037.15	
Total Equity				$7,671,205.69