

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF



Air Kiribati Limited
Financial Statements for the year ended 31st
December 2020

Kiribati Audit Office
December 2022

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF



AIR KIRIBATI LIMITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2020

KIRIBATI AUDIT OFFICE

DECEMBER 2022

KIRIBATI AUDIT OFFICE



P.O BOX 63
Bairiki, Tarawa
Kiribati

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Audit for an impact for the public

INDEPENDENT AUDITOR'S REPORT

**To the Readers of
Air Kiribati limited Financial Statements
for the years ended 31st December 2020**

I have audited the Financial Statements of Air Kiribati limited Company Ltd (AKL) for the year ended 31st December, 2020 in accordance with sec 114 (2) of the Constitution, Part VII, Sec 42(4) of the Public Finances (Control and Audit) 1981, Sec 22(1) of the Kiribati Audit Act, 2017. The Financial Statements comprise of the following:

- Statement of Financial Performance.
- Statement of Financial Position.
- Statement of Changes in Equity.
- Statement of Cash Flow.
- Notes to the Accounts.

Disclaimer of Opinion

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion:

The following issues has been agreed with AKL management thus formed the basis of our Disclaimer Audit Opinion:

- The issues of account brought forwarded balance from audited account (closing balance 2019 become opening balance 2020) still cannot be solved as the audit identified discrepancies in the financial statement. Further details of the analysis can be available upon request.
- Audit noted that the closing balance in the Cash at the end of the period of \$1,039,669 did not match with the balance disclosed in the Balance Sheet under Cash and Cash Equivalent \$170,101 generating a variance of \$869k.
- Audit note an improvement in the collection of the debtors from 2019 \$1.2m to 2020 \$770k amounted to \$521k. However, the audit did not satisfy with debt collection as there was no increase in the revenue reflected in the Statement of financial Performance thus required management to provide clarifications.
- No breakdown details of the Provision for doubtful debts \$150k after reviewing the GL as this amount has been carry forward from previous 2019 to 2020 annual account.
- Outstanding debts totaled to \$532k.
- As confirmed through testing, the audit notes a variance of \$1,876.64 in respect of the depreciation charge for the year. As confirm, the balance per Trial balance was \$1,372,778.64 the same amount reflected in the financial statement (Financial Performance) whereas the balance as per Fixed Asset per schedule state \$1,370,902.00.
- After extracting the total payroll from the General Journal spreadsheet and compare with the total payroll in the General Ledger. The audit ascertains deviations of \$635k which required management to rationalize for such variance.

| Abstract from the Payroll- GJ | |
|-------------------------------|-----------------|
| Audit Figure | \$ 1,680,114.52 |
| F.Stm | \$ 2,316,046.00 |
| Variance | \$ 635,931.48 |

- The audit has expressed a concern over the closing balance in 2019 of \$3.45m (audited account) which carry forward as zero opening balance in 2020, but also appeared as a closing balance in 2020 as \$3.45m.

- Given the steady amount depict the previous years (2019) as well as (2020) it appears that the company lack in paying obligation as they fall due hence the need for management to justify the causes in delaying the payment.
- The auditor has raised a query on the presentation of financial report regard to some balances disclosed in 2020 brought forward from audited account report (2019) not so consistent with the exhibition disclosed in the note as appended below.
- The EBITDA not disclosed 2019 audited account of \$1,327,207 but instead disclosed in the 2020 report (under 2019 comparative year).
- Interest and Depreciation had not been disclosed in 2019 audited report (\$183,854 and \$1,363,694 respectively) nevertheless appeared in 2020 as well as 2019(comparative year).
- PPI breakdown 2019 is differ with note disclosed 2020 annual report (refer note 14).
- Audit query on the Gross Profit (\$55,424) and Net Profit (\$380,630) in 2020 as how this figure calculated.
- The following documents have not been available for audit scrutiny such as no fixed Asset Register, No Board Minutes, No Times Sheet for Pilot Allowance, No fraud Policy, Absence of Capitalization Policy, No approved Budget 2020
- The audit had check and revealed the discrepancies of \$24k after comparing the General ledger and Bank Statement via Bank Rec Report.

| Bank Account No. 239877 | | | |
|----------------------------|----------------|-----------------|--------------|
| Balance per Bank Statement | General Ledger | Bank Rec Report | Variance |
| -\$ 93,363.11 | \$68,949.33 | -\$93,363.11 | -\$24,413.78 |

- The audit had conduct analytical procedure based on the Employment expenses (Note11 FS) and note an increase in the wages and salary the bulk of the excess spending in the employment cost. Therefore, management sought to specify for the increase in the employment cost. The information for the analysis can be available when requested.

I have conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). My responsibilities under those standards are described in the Auditor's Responsibilities paragraph of my report. I am independent of the Company in accordance with the Ethical requirements that are relevant to my audit of the financial statements of the Company, and I have fulfilled my other responsibilities in accordance with these requirements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Board's and Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion as required under the Public Finance (Control and Audit) Ordinance 1976 and Kiribati Audit Act, 2017. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA/ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs & ISSAI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to

continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

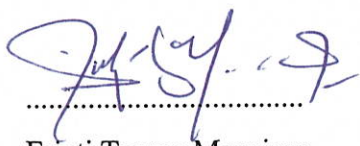
Report on other Legal and Regulatory Requirements

AKL lodged its 2020 Financial Statements for audit on 14th December 2021, therefore indicated that AKL had fail to comply with Section 20 of SOE Act 2013.

Independence

Section 114 (4) of the Kiribati Constitution stipulates that the Auditor General shall not be subject to the direction or control of any other person or authority.

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



Eriati Tauma Manaima

Auditor General

Date: 13/12/22

File Ref:

Date: 9th December 2022

Auditor General
KNAO, Bairiki

Dear Sir,

Subject: AKL Management Report to Auditor Report 2020

1. Please find attached to this covering letter the document on the abovementioned matter for your perusal and further advise.
2. AKL Management apologizes for the belated response to the Audit Report for the year 2020. There had been issues to clarify and check before a formal response is submitted.
3. AKL Management is sad to note of the missing records for the year 2022 and feels that is it the culminating result of non-cooperation of former Managements.
4. AKL Management is keen to see that these findings are corrected and to enforce and place policies that will ensure such events will never happen again.



Tomwa Baiifika TEHUMU
Chief Executive Officer

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KIRIBATI AUDIT OFFICE



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Audit for an impact for the public

File Ref: SOE 01

13/12/2022

CEO
AKL
Bonriki, Tarawa

Attention: Finance Manager

Dear Sir,

Confirmation of Final Exit Meeting on AKL Annual Account 2020 audit issues.

This is to confirm that following the last exit meeting held at the AKL Board room 30/11/2022, 11.00am regarding the AKL Annual Account 2020 between the Audit office and AKL management. It has been agreed that the audit issues raised in the audit as noted below will formed the basis of the audit opinion as stated in the Audit report.

- The issues of account brought forwarded balance from audited account (closing balance 2019 become opening balance 2020) still cannot be solved as the audit identified discrepancies in the financial statement. Further details of the analysis can be available upon request.
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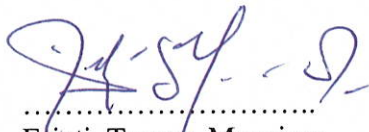
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Thank you for cooperation and looking forward in our next auditing.

Date signed document.....13th December 2022.....

Yours sincerely,



Eriati. Tauma. Manaima

Auditor General.



Tomwa. Baihika. Tehumu.

Chief Executive Officer



FINANCIAL STATEMENTS

CONFIDENTIAL

For the Period FY2020

Rec'd 14/12/2021

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Signed by:

Chairman



Date: 25/10/21

Board Director:



Date: 25/10/21

1.0 Statement of Financial Performance

FOR THE YEAR ENDED 31ST DECEMBER 2020

| | Notes | 2020 AUD | 2019 AUD |
|-------------------------------------|-------|--------------------|--------------------|
| Revenue | | | |
| Ticket Sales | 7 | \$3,767,357 | \$5,686,659 |
| Cargo Sales | 7 | \$780,300 | \$903,603 |
| Charter Sales | 7 | \$482,846 | \$739,392 |
| Ground Handling Revenue | 7 | \$93,271 | \$455,563 |
| Other income | 7 | \$143,398 | \$186,603 |
| Regional Sales | 7 | \$355,849 | \$1,204,317 |
| Total Revenue | | \$5,623,021 | \$9,176,138 |
| Direct Operating Costs | | | |
| Fuel & Cartage | 8 | \$1,788,407 | \$2,863,804 |
| Maintenance | 8 | \$1,409,738 | \$1,801,150 |
| Insurance | 8 | \$136,680 | \$550,000 |
| Aircraft and Engine leases | 8 | \$1,204,982 | \$1,264,891 |
| Other DOC | 8 | \$316,902 | \$191,027 |
| Regional | 8 | \$710,888 | \$2,736,588 |
| Total Direct Operating Costs | | \$5,567,597 | \$9,407,460 |
| Gross Profit | | (\$55,424) | (\$231,322) |
| General and Administrative | 9 | \$2,215,665 | \$2,147,505 |
| Marketing and Promotions | 10 | \$22,063 | \$20,741 |
| Employment Expenses | 11 | \$3,441,439 | \$2,722,755 |
| Occupancy Costs | 12 | \$171,268 | \$143,080 |
| Total Expenses | | \$5,850,435 | \$5,034,080 |
| Other Income | 13 | \$533,457 | \$903,512 |
| Other Expenses | 14 | \$444,092 | \$981,175 |
| Government contributions | 15 | \$7,594,271 | \$6,670,273 |
| EBITDA | | \$1,888,625 | \$1,327,207 |
| Interest | | \$135,216 | \$183,854 |
| Depreciation | 5 | \$1,372,779 | \$1,363,694 |
| Net Profit / (Loss) | | \$380,630 | (\$220,341) |

Signed by:

Chairman



Date: 25/10/21

Board Director:



Date: 25/10/21

2.0 Statement of Financial Position

AS AT 31ST DECEMBER 2020

| | Notes | 2020 AUD | 2019 AUD |
|------------------------------------|-------|----------------------|----------------------|
| Current Assets | | | |
| Cash on hand and at bank | 1 | \$170,101 | \$103,846 |
| Trade debtors | 2 | \$620,334 | \$1,142,056 |
| Other debtors & receivables | 2 | \$249,235 | \$269,915 |
| Receivable from GoK | 3 | \$0 | \$444,092 |
| Total Current Assets | | \$1,039,669 | \$1,959,910 |
| Current Liabilities | | | |
| Trade creditors | 4 | \$425,951 | \$2,509,237 |
| Other creditors & accruals | 4 | \$82,837 | \$3,745,395 |
| Total Current Liabilities | | \$508,788 | \$6,254,632 |
| Working Capital | | \$530,881 | (\$4,294,722) |
| Fixed Assets | 5 | \$11,065,538 | \$12,310,103 |
| Long Term Liabilities | | | |
| Loan - KFL (GSE Equipment) | 6 | \$190,930 | \$205,975 |
| Loan - KPF (Twin Otter T3-AKL) | 6 | \$1,487,949 | \$1,063,919 |
| KOIL Outstanding | 6 | \$3,459,282 | \$0 |
| Dash 8 - Aircraft Lease | 6 | \$860,618 | \$1,294,271 |
| Dash 8 - Spares Lease | 6 | \$476,765 | \$710,973 |
| Total Long-Term Liabilities | | \$6,475,544 | \$3,275,137 |
| Net Assets | | \$5,120,875 | \$4,740,244 |
| Equity | | | |
| Share capital | | \$500 | \$500 |
| Shareholder contributions | | \$12,769,057 | \$12,769,057 |
| Retained earnings | | (\$8,029,313) | (\$7,808,971) |
| Current Year Earnings | | \$380,630 | (\$220,341) |
| Total Equity | | \$5,120,875 | \$4,740,244 |

Signed by:

Chairman



Date: 25/10/24

Board Director:



Date: 25/10/24

3.0 Statement of Cash Flow

FOR THE YEAR ENDED 31ST DECEMBER 2020

| | 2020 | 2019 |
|---|----------------------|----------------------|
| | AUD | AUD |
| Cash Flow from Operating Activities | | |
| Receipts from Customers & CSO | \$16,848,378 | \$15,559,397 |
| Payments to Suppliers | (\$15,453,406) | (\$14,533,407) |
| Net Cash Flows from Operating Activities | \$1,394,972 | \$1,025,990 |
| Cash Flow from Investing Activities | | |
| Acquisition of property plant & equipment | (\$127,616) | (\$147,372) |
| Net Cash Flows from Investing Activities | (\$127,616) | (\$147,372) |
| Cash Flow from Financing Activities | | |
| Loan - KFL (GSE Equipment) | (\$15,000) | (\$355,339) |
| Loan - KPF (Twin Otter T3-AKL) | (\$164,500) | - |
| Dash 8 - Aircraft and Spares Lease | (\$656,579) | (\$961,305) |
| Net Cash Flows from Financing Activities | (\$836,079) | (\$1,316,644) |
| Net Increase/Decrease for the period | \$431,277 | (\$438,026) |
| Cash at the Beginning of the period | \$608,392 ? | \$1,046,419 |
| Cash at the End of the period | \$1,039,669 ? | \$608,393 |

4.0 Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER 2020

| | Share capital | Shareholder contributions | Retained Earnings | Total |
|---|---------------|---------------------------|----------------------|--------------------|
| Balance at the beginning of the year | \$500 | \$12,769,057 | (\$8,029,313) | \$4,740,244 |
| Operating profit/(loss) for the year | \$0 | \$0 | \$380,630 | \$380,630 |
| Other comprehensive income | \$0 | \$0 | \$0 | \$0 |
| GoK contributions | \$0 | \$0 | \$0 | \$0 |
| Other items | \$0 | \$0 | \$0 | \$0 |
| | \$0 | \$0 | \$380,630 | \$380,630 |
| Balance at the end of the year | \$500 | \$12,769,057 | (\$7,648,682) | \$5,120,875 |

Signed by:

Chairman



Date: 25/10/21

Board Director:



Date: 25/10/21

5.0 Statement of Accounting Policies

Reporting Entity

Air Kiribati Limited's primary business is the transportation of passengers and cargo on scheduled airline services. Its secondary services are ground handling and baggage services on SGHA and ad hoc basis. The financial statements presented are consolidated with Air Kiribati as the only reporting legally registered entity.

Statutory Base

Air Kiribati Limited is a state-owned enterprise providing essential air services to the people of Kiribati. The fare prices are controlled by the Government of Kiribati whereby GoK provides fare subsidy and Community Service Obligation (CSO) to support the operations for the shortfall in revenue.

AKL is domiciled in the Republic of Kiribati, registered company no. 80. The statutory reporting is under the Public Finance Act and Generally Accepted Accounting Practice.

Basis of Preparation

Air Kiribati Limited prepares its financial statements in accordance with the New Zealand Generally Accepted Accounting Practice (NZ GAAP). NZ GAAP consists of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate to profit-oriented entities. These financial statements comply with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on 8th September 2021.

Forecast Liquidity

From March 2020, AKL faced reduction in revenue by 60% following border closures and international travel restrictions as a result of the Covid-19 pandemic. This reduction was a combination of international services and grounding of AKL's fleet due to engineering overruns, suspension of part 121 AOC due to noncompliance and aircrafts reaching a beyond economic repair status.

In response to the significant reduction in operations and identification of a Domestic Reset Program, the following actions to manage the operations and liquidity were undertaken:

- On 4th June 2020, it was presented and approved in cabinet the amended cashflow support for domestic operations to account for effects of Covid-19 and Engineering Overruns. The total funding approved for the year was \$10,204,540 of which only \$7,594,271.14 was allocated by the end of 2020 leaving an unallocated balance of \$2,610,268.86. The consequence of this is it is more difficult for AKL to meet its payroll demands making the need for payroll reductions even more urgent.
- It was presented to cabinet the insolvent status of AKL due to the large portions of carried forward un-serviced debts from prior periods. Due reductions in operations, servicing the debts would have been an added constraint on the cashflow therefore cabinet had approved (file

Signed by:

Chairman



Date: 25/10/21

Board Director:



Date: 25/10/21

reference 3/44) \$14 million to service all of AKL's outstanding debts. This fund was never allocated and the debts still remain outstanding.

- A hiring freeze was implemented and voluntary leave options undertaken with restructuring and position movements from within the entity.
- Reductions were made across all other areas of the airlines cost base including cancellation of all non-essential spend, reduction in leasing costs by 50%. The effects of these reductions will present itself in the following year.
- The existing fleet of AKL was reviewed and was presented to the cabinet to acquire Tecnam P2012 Traveler. This assessment was undertaken with the assumptions of routes, runway size and status, profitability, efficiency in schedule and robustness.

During the pandemic, AKL undertook the domestic reset program in terms of type of AOC, operational and departmental structure, systems requirements, compliance with regulations and provisions of safety.

Naturally AOC application and processing takes 18 months. The structure is to have the nominated fit and proper persons who are then appointed by the regulator, manuals on operations, systems to support operations, fleet type determines type of AOC and maintenance requirement and demonstrate the ability to operate safely with sufficient funding.

In the 2020 year, AKL whilst resetting the domestic operations and battling effects of Covid-19, undertook an AOC process and is reaching the stage of acquiring the first unrestricted AOC. The systems, manuals, and reset cost was \$186,212.19.

Basis of Measurement

The financial statements have been prepared on the historical cost basis with the exception of certain items as identified in specific accounting policies and are presented in Australian Dollars which is the AKL's functional currency.

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.

Significant 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.

➤ 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%

Signed by:

Chairman



Board Director:



Date:

25/10/21

Date:

25/10/21

| | |
|-------------------------------|--------|
| Spare Engine | 20% |
| Aircraft spare | 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.

➤ 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 capitalized and are depreciated.

➤ 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 bringing the asset to the location and working condition for its intended use.

➤ 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.

Signed by:

Chairman



Date: 25/10/21

Board Director:



Date: 25/10/21

6.0 Notes to the Financial Statements

1 Cash and 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:

| | 2020 | 2019 |
|-------------------------------|------------------|------------------|
| | AUD | AUD |
| Air Kiribati Limited- 239877 | (\$68,949) | \$14,032 |
| AKL CXI - 816290 | \$4,174 | \$4,174 |
| Staff Debtors | \$0 | \$223 |
| Dishonoured Cheque Receivable | \$0 | \$1,340 |
| Undeposited Funds | \$23,416 | \$54,079 |
| Electronic Clearing - Fuel | \$211,460 | \$30,000 |
| Total Cash on Hand | \$170,101 | \$103,846 |

The bank balance is negative due to the following reasons:

1. COVID 19 lead to border closures which caused decrease in revenue, increase in costs of spares acquisition and delay in ability to receive the AOG spares to make aircrafts airworthy.
2. Upon audit and review of the engineering department and maintenance logs, it was discovered the aircrafts were operating with engineering overruns on most of the components which was a safety concern therefore the aircrafts had to be grounded until rectified.
3. The CSO request for the year was amended to cater for the above-mentioned increased costs as AKL was dependent on revenue. The funding had been approved in cabinet however there was a delay in the release and all of the approved funding was not allocated.

2 Trade Debtors and Other Receivables

Trade and other receivables are recognized 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.

| | 2020 | 2019 |
|--------------------------------|------------------|--------------------|
| | AUD | AUD |
| Trade Debtors | \$770,334 | \$1,292,056 |
| Less Prov'n for Doubtful Debts | (\$150,000) | (\$150,000) |
| Total Trade Debtors | \$620,334 | \$1,142,056 |

Signed by:

Chairman

Date:



25/10/21

Board Director:

Date:



25/10/21

| | | |
|--|------------------|------------------|
| Imprest Account | \$1,000 | \$1,000 |
| Air Tickets Prepaid (Int Ops) | \$35,000 | \$35,000 |
| Prepaid - House Rent Bond | \$9,550 | \$7,500 |
| Prepayment - Skytec | \$203,685 | \$226,415 |
| Total Other Debtors and Receivables | \$249,235 | \$269,915 |

3 Receivable from GoK

Receivables from the Government of Kiribati represents payments made by Air Kiribati Limited relating to set up of the Jet Project on behalf of the Government. These have been written off to prior year expenses as the costs are to be undertaken by AKL and will not be reimbursed by GoK.

4 Trade Creditors and Other Creditors & Accruals

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:

| | 2020 AUD | 2019 AUD |
|---|------------------|--------------------|
| Trade Creditors | \$425,951 | \$2,509,237 |
| Cash Remittance | \$0 | \$2,164 |
| Accrued Expense Payable | \$0 | \$3,515,300 |
| Payroll Liabilities | | |
| Payroll Liability - Tax | \$31,945 | \$61,654 |
| Payroll Liability-KPF | \$33,151 | \$35,531 |
| Payroll Liability BO Deduction | \$0 | \$308 |
| Payroll Liability - Contribution | \$0 | \$844 |
| Passenger Taxes | | |
| Tuvalu airport taxes | \$0 | \$2,942 |
| Majuro airport taxes | \$0 | \$1,575 |
| Kiribati pax taxes domestic | \$17,741 | \$78,506 |
| Landing Tax | \$0 | \$0 |
| Suspense | \$0 | \$46,571 |
| Total Other Creditors and Accruals | \$82,837 | \$3,745,395 |

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Chairman



Date: 25/10/21

Board Director:



Date: 25/10/21

5 Fixed Assets and Depreciation Schedule

| 2020 | Aircraft | Spare parts | Spare engines | Ground handling & other equipment | Computers & software | Air conditioning | Fixtures & fittings | Tools | Motor vehicles | Building improvements | Total |
|---------------------|--------------|-------------|---------------|-----------------------------------|----------------------|------------------|---------------------|-----------|----------------|-----------------------|--------------|
| COST | | | | | | | | | | | |
| Balance 1/01/20 | \$12,708,724 | \$1,059,508 | 1625845 | \$712,417 | \$242,409 | 47422 | \$55,947 | \$319,333 | 257886 | \$188,527 | \$17,218,018 |
| Additions | \$0 | \$0 | 0 | \$12,699 | \$81,270 | 14980 | \$13,042 | \$5,625 | 0 | \$0 | \$127,616 |
| Balance 31/12/20 | \$12,708,724 | \$1,059,508 | 1625845 | \$725,116 | \$323,679 | 62402 | \$68,989 | \$324,958 | 257886 | \$188,527 | \$17,345,634 |
| DEPRECIATION | | | | | | | | | | | |
| Balance 1/01/20 | \$2,544,980 | \$211,902 | 1160170 | \$392,732 | \$147,912 | 31334 | \$37,137 | \$169,699 | 184201.617 | \$27,251 | \$4,907,319 |
| Additions | \$686,272 | \$105,951 | 302978.8 | \$132,957 | \$49,091 | 14961.2 | \$8,222 | \$37,275 | 22739.5 | \$10,453 | \$1,370,902 |
| Balance 31/12/20 | \$3,231,252 | \$317,852 | 1463148.8 | \$525,690 | \$197,003 | 46295.2 | \$45,359 | \$206,975 | 206941.117 | \$37,704 | \$6,278,221 |
| NBV 31/12/20 | \$9,477,472 | \$741,656 | 162696.2 | \$199,426 | \$126,676 | 16106.8 | \$23,630 | \$117,983 | 50944.8833 | \$150,823 | \$11,067,414 |

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Chairman

Date: 25/10/21

Board Director:

Date: 25/10/21

7 Revenue

| | 2020 AUD | 2019 AUD |
|--------------------------------|--------------------|--------------------|
| Ticket Sales | | |
| Tickets Bairiki | \$1,758,750 | \$3,081,774 |
| Ticket Bonriki | \$214,074 | \$170,244 |
| PTA Received | \$125,770 | \$147,100 |
| Ticket Kiritimati | \$148,358 | \$316,047 |
| Air Ticket- O/I Agents | \$1,413,859 | \$1,855,341 |
| International RPT Income | \$6,122 | \$270,978 |
| Funafuti Ticket sales | \$9,630 | \$172,181 |
| Hahn Air Sales International | \$6,313 | \$49,224 |
| Hahn Air Payments | \$0 | (\$173) |
| Air Tickets Australia Sales | \$76,131 | \$191,535 |
| Air Tickets Payments | \$0 | (\$516,707) |
| Nauru Airlines Agency income | \$8,350 | \$149,966 |
| Nauru Airlines payments | \$0 | (\$200,851) |
| Total Ticket Sales | \$3,767,357 | \$5,686,659 |
| Cargo Sales | | |
| Cargo Funafuti | \$833 | \$480 |
| Excess Funafuti | \$102 | \$3,744 |
| Bonriki Freight | \$434,858 | \$471,186 |
| O/I Agents- Freight | \$115,490 | \$145,482 |
| Bonriki Excess Freight | \$178,396 | \$195,985 |
| O/I Excess Freight | \$18,393 | \$14,781 |
| Kiritimati Freight | \$9,672 | \$23,839 |
| Kiritimati Excess Freight | \$3,646 | \$9,295 |
| Post Mail | \$10,724 | \$5,392 |
| Wrapping Service Income | \$8,185 | \$33,419 |
| Total Cargo Sales | \$780,300 | \$903,603 |
| Charter Sales | | |
| Jet Operations - Charters | \$97,313 | \$0 |
| Domestic Charter Tarawa | \$378,508 | \$711,170 |
| Domestic Charter Kiritimati | \$7,025 | \$28,222 |
| Total Charter Sales | \$482,846 | \$739,392 |
| Ground Handling Revenue | | |
| Ground Handling Bonriki | \$65,300 | \$315,220 |
| Ground Handling Kiritimati | \$27,971 | \$140,344 |

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Date: 25/10/21

Board Director:



Date: 25/10/21

| | | |
|--------------------------------------|------------------|--------------------|
| Total Ground Handling Revenue | \$93,271 | \$455,563 |
| Other Income | | |
| Sundry - PTA/REMIT Fees | \$7,208 | \$9,387 |
| Administrative and Other Fees | \$132,603 | \$172,113 |
| Late Fees Collected | \$100 | \$0 |
| Ticket Commissions/Booking Fee | \$3,487 | \$5,103 |
| Total Other Income | \$143,398 | \$186,603 |
| Reginal Sales | | |
| Solomon Ticket Sales | \$0 | (\$174,670) |
| Solomon Pax Revenue | \$309,300 | \$1,201,831 |
| Solomon Cargo Revenue | \$44,539 | \$177,264 |
| Solomon Excess Baggage | \$1,066 | \$0 |
| Solomon Cargo Sales | \$0 | (\$11,541) |
| Solomon Excess Cargo Sales | \$944 | \$11,433 |
| Total Regional Sales | \$355,849 | \$1,204,317 |

8 Direct Operating Costs

| | 2020 AUD | 2019 AUD |
|-----------------------------------|-------------|-------------|
| Fuel & Cartage | | |
| Fuel Oil Aircraft | \$1,759,131 | \$2,830,504 |
| Cartage - for Fuel | \$29,276 | \$33,300 |
| Maintenance | | |
| Aircraft Inhouse Repair | \$1,409,738 | \$1,566,322 |
| Aircraft Major Overhaul | \$0 | \$234,828 |
| Insurance | | |
| Aircraft Insurance | \$136,680 | \$550,000 |
| Aircraft and Engine leases | | |
| Engine Lease rental | \$30,861 | \$134,178 |
| Aircraft Lease | \$1,174,121 | \$1,130,713 |
| Other DOC | | |
| Porters Outer Island Wages | \$25,892 | \$37,589 |
| Catering | \$3,594 | \$20,508 |

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Date: 25/10/21

Board Director:

Date: 25/10/21

| | | |
|-------------------------------------|--------------------|--------------------|
| Passenger Disruption Charges | \$45,844 | \$44,388 |
| Freight for Spare Parts | \$0 | \$1,006 |
| Ground Handling Charges Dash 8 | \$2,297 | \$81,929 |
| Air Navigation Fee | \$4,991 | \$5,607 |
| Landing Fees | \$234,284 | \$0 |
| Regional | | |
| Solomon Air ACMI | \$402,362 | \$1,649,612 |
| Fuel HIR Services | \$239,591 | \$802,234 |
| Ground Handling HIR Services | \$13,054 | \$53,510 |
| Catering HIR Services | \$20,562 | \$74,443 |
| Landing HIR Services | \$11,913 | \$48,555 |
| Navigation HIR Services | \$9,083 | \$40,224 |
| Immigration HIR Services | \$883 | \$3,651 |
| Disinfection HIR Services | \$462 | \$2,054 |
| Bio Security HIR Services | \$3,756 | \$15,611 |
| Crew Allowance HIR Services | \$9,222 | \$46,694 |
| Total Direct Operating Costs | \$5,567,597 | \$9,407,460 |

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Date: 25/10/21

Board Director:



Date: 25/10/21

9 General and Administrative

| | 2020 AUD | 2019 AUD |
|---|--------------------|--------------------|
| General and Administrative | | |
| Hire of Services | \$303,210 | \$220,006 |
| Accounting & Audit Fees | \$0 | \$175 |
| Technical Assistance | \$323,652 | \$123,840 |
| Professional Fees | \$169,812 | \$100,931 |
| Cleaning | \$11,920 | \$7,113 |
| Bank Charges | \$45,132 | \$20,713 |
| Local Travel & Accommodation | \$52,082 | \$51,553 |
| Local Training/Workshop | \$0 | \$6,465 |
| Telephone/Internet/Fax | \$201,416 | \$176,550 |
| Office Supplies | \$86,419 | \$114,151 |
| Overseas Travelling | \$233,644 | \$552,170 |
| Overseas Training/Workshop | \$12,300 | \$89,732 |
| Freight Paid | \$299,008 | \$181,447 |
| Late Fees Paid | \$1,131 | \$556 |
| Repairs & Maint. - Furn/OE | \$12,705 | \$8,145 |
| MV Repairs & Maintenance | \$30,056 | \$22,943 |
| MV Fuel | \$54,090 | \$61,098 |
| Car rental | \$23,252 | \$29,413 |
| Subscriptions, software, license | \$107,714 | \$91,222 |
| Board Allowance | \$16,077 | \$15,793 |
| Board Sundry Expenses | \$1,809 | \$937 |
| Agents Commission | \$111,362 | \$158,398 |
| Refund Ticket and Airway Bill | \$106,002 | \$68,093 |
| Custom VAT expenses | \$5,896 | \$7,762 |
| AKL CXI Hangar | \$0 | \$23,344 |
| Security Services | \$6,977 | \$14,958 |
| Total General and Administrative | \$2,215,665 | \$2,147,505 |

10 Marketing and Promotions

| | 2020 AUD | 2019 AUD |
|---------------------------------|-------------|-------------|
| Marketing and Promotions | | |
| Advertising | \$14,084 | \$12,281 |
| Marketing | \$0 | \$1,145 |
| Training and Seminars | \$7,979 | \$0 |

Signed by:

Chairman

Date:



25/10/21

Board Director:

Date:



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| | | |
|---------------------------------------|-----------------|-----------------|
| Website development and fees | \$0 | \$7,315 |
| Total Marketing and Promotions | \$22,063 | \$20,741 |

11 Employment Expenses

| | 2020 AUD | 2019 AUD |
|----------------------------------|--------------------|--------------------|
| Employment Expenses | | |
| Wages and Salary | \$2,316,046 | \$1,898,509 |
| KPF Employer Contribution | \$118,124 | \$96,710 |
| Allowance - Uniform/Safety ware | \$20,236 | \$16,879 |
| Allowance - Acting/Other | \$388,205 | \$226,583 |
| Allowance - Telephone/Internet | \$5,323 | \$36 |
| Allowance - Meal | \$8,406 | \$6,856 |
| Overtime | \$85,031 | \$89,983 |
| Leave Grants | \$123,062 | \$113,650 |
| Visa Costs | \$10,697 | \$15,447 |
| Accommodation/Rental | \$341,546 | \$245,613 |
| Staff welfare | \$23,861 | \$11,048 |
| ID Cards | \$900 | \$1,440 |
| Total Employment Expenses | \$3,441,439 | \$2,722,755 |

12 Occupancy Costs

| | 2020 AUD | 2019 AUD |
|-----------------------------------|------------------|------------------|
| Occupancy Costs | | |
| Electricity & Water | \$92,578 | \$75,393 |
| Permits and Licenses | \$0 | \$11,655 |
| Rent | \$20,093 | \$20,489 |
| Buildingg Repairs and Maintenance | \$58,597 | \$35,543 |
| Total Occupancy Costs | \$171,268 | \$143,080 |

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Chairman

Date:



25/10/21

Board Director:

Date:



25/10/21

13 Other Income

| | 2020 | 2019 |
|------------------------|-----------|-------------|
| | AUD | AUD |
| Other Income | | |
| Exchange difference | \$15,167 | (\$116,197) |
| Sundry Income | \$3,662 | \$1,882 |
| Jet - Gok Contribution | \$514,627 | \$1,017,826 |
| Total Other Income | \$533,457 | \$903,512 |

Signed by:

Chairman

Date:



25/10/21

Board Director:

Date:



25/10/21

14 Other Expenses

| | 2020 AUD | 2019 AUD |
|-------------------------------|------------------|------------------|
| Other Expenses | | |
| MISC Miscellaneous | \$0 | (\$150,000) |
| Prior year items | \$444,092 | \$113,349 |
| Jet Operations | \$0 | \$0 |
| Jet - Travel & Accommodation | \$0 | \$260,179 |
| Jet - Technical Assistance | \$0 | \$667,307 |
| Jet - Bank Charges | \$0 | \$3,000 |
| Jet - Stock | \$0 | \$8,373 |
| Jet - Legal Fees | \$0 | \$1,874 |
| Jet - Allowance | \$0 | \$54,342 |
| Jet - Office Expenses | \$0 | \$2,918 |
| Jet - Marketing & Advertising | \$0 | \$8,135 |
| Jet - Permits & Licenses | \$0 | \$1,258 |
| Jet - Payroll Costs | \$0 | \$10,440 |
| Total Other Expenses | \$444,092 | \$981,175 |

15 Government Contributions

The total CSO requested for 2020 was \$10,560,218.34 as per below table.

| | \$ |
|---|----------------------|
| Original CSO requested according to the 2020 Budget | 6,308,048.00 |
| Impact of COVID-19 | 1,633,219.00 |
| Deferred Maintenance | 3,158,605.76 |
| Total CSO required for 2020 | 11,099,872.76 |
| Less: CSO paid | (4,000,000.00) |
| Less: Solomons Airlines CSO not required for Apr-Jun 20 | (330,000.00) |
| Less: deferred maintenance already incurred | (209,654.42) |
| CSO remaining requested | 6,560,218.34 |

Extracted from cabinet paper: "Air Kiribati Ltd – Cashflow Support for Domestic and Regional Operations"

On the basis of this amended request, the cabinet approved funding of \$6,204,540 on 10th June 2020 additional to the \$4,000,000 already allocated till that date as per the cabinet extract reference 3/44. From the total approved funding of \$10,204,540, only \$7,594,271.14 was allocated as at 31st December 2020 therefore leading to negative bank balance and deferring of costs to the next year. At the end of the year, there is an approved unallocated amount of \$2,610,268.86.

| CSO Received Date | Amount |
|-------------------|----------------|
| 18/02/2020 | (2,000,000.00) |
| 24/04/2020 | (1,000,000.00) |

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Chairman



Date: 25/10/21

Board Director:



Date: 25/10/21

| | |
|---|-----------------------|
| 18/06/2020 | (1,000,000.00) |
| 28/08/2020 | (92,813.90) |
| 15/09/2020 | (301,457.24) |
| 28/09/2020 | (1,000,000.00) |
| 14/10/2020 | (1,000,000.00) |
| 24/11/2020 | (700,000.00) |
| 03/12/2020 | (500,000.00) |
| Total CSO received as at 31st December 2020 | (7,594,271.14) |

Regional Services Reconciliation

AIR KIRIBATI LIMITED
SOLOMON AIRLINES HIR/TRW/HIR
For the Year Ended 31st December 2020

| | Jan-20 | Feb-20 | Mar-20 | Total |
|----------------------------------|------------------|------------------|------------------|------------------|
| Income | | | | |
| Passenger | 187,277 | 84,509 | 34,210 | 305,094 |
| Cargo | 32,103 | - | 12,356 | 44,459 |
| Excess baggage | 1,052 | - | 14 | 1,066 |
| Total Income | 220,432 | 84,509 | 46,579 | 351,521 |
| Expenditure | | | | |
| ACMI | 187,979 | 111,621 | 102,762 | 402,362 |
| Fuel | 120,031 | 72,965 | 44,795 | 237,791 |
| Ground handling | 6,100 | 3,621 | 3,333 | 13,054 |
| Catering | 11,672 | 6,047 | 2,843 | 20,562 |
| Landing | 5,561 | 3,309 | 3,043 | 11,913 |
| Navigation | 4,444 | 2,560 | 2,079 | 9,083 |
| Immigration | 413 | 245 | 225 | 883 |
| Disinfection | 226 | 131 | 105 | 462 |
| Bio Security | 1,754 | 1,043 | 959 | 3,756 |
| Crew allowance and accommodation | 6,229 | 2,992 | - | 9,222 |
| Sundry | 600 | 600 | 600 | 1,800 |
| Total Expenditure | 345,009 | 205,134 | 160,744 | 710,888 |
| Operating Profit/(Loss) | (124,577) | (120,625) | (114,165) | (359,367) |

Signed by:

Chairman



Date: 25/10/21

Board Director:



Date: 25/10/21

6 Finance Lease and Loan Liabilities

A cabinet paper title 'Air Kiribati Ltd – Cashflow Support for Domestic and Regional Operations' (MICTTD Memo Paper 155/20) presented to the cabinet the options pertaining to the outstanding debts of AKL. The cabinet approved option 2 which was to clear all debts of AKL amounting to \$14 million including \$7.2 million owing to KPF for the second loan.

| Loans | Original Amount | Interest Rate % | Repayments Approx monthly (AUD) | Current Balance Approx (AUD) |
|---|-----------------|-----------------|---------------------------------|------------------------------|
| KPF Loan 1 (Purchase of 3 Twin Otter Aircraft) | 1,160,000.00 | 0.085 | 18503.33 | 898,408.61 |
| KPF Loan 2 (Aircraft not received) - refer note 1 below | 1,550,000.00 | 0.085 | 0 | 7,100,000.00 |
| KFL Loan - Ground Handling Equipment | 304,694.33 | 0 | 16,000.00 | 190,930.00 |
| Avmax Dash 8 Aircraft Finance Lease (approx AUD) | 1,009,331.31 | 0.0795 | 40,698.95 | 1,085,600.55 |
| Avmax Dash 8 Spares Finance Lease (approx AUD) | 1,357,836.17 | 0.0795 | 11,090.61 | 997,600.61 |
| KOIL (Prior period fuel charges) | 3,459,381.00 | 0 | - | 3,459,180.00 |
| Total Debts | | | | \$13,433,205.71 |
| Notes | | | | |
| 1. KPF Loan 2 for \$7.1 million is written off and is passed to the Government to handle. However this is still not resolved. KPF is claiming this from Air Kiribati. | | | | |
| 2. In addition to the above, AKL pays for lease of Twin Otter. Monthly lease payments are approx 365,000.00 | | | | |

Extracted from cabinet paper: "Air Kiribati Ltd – Cashflow Support for Domestic and Regional Operations"

The Airline entered into a second loan agreement with the Kiribati Provident Fund to borrow USD\$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. This loan was never recorded in the books of AKL and is now passed onto the government for payment and resolution as per the cabinet paper approval.

The below debts still remain as outstanding in the books of AKL as at 31st December 2020:

| | 2020 AUD | 2019 AUD |
|------------------------------------|--------------------|--------------------|
| Loan - KFL (GSE Equipment) | \$190,930 | \$205,975 |
| Loan - KPF (Twin Otter T3-AKL) | \$1,487,949 | \$1,063,919 |
| KOIL Outstanding | \$3,459,282 | \$0 |
| Dash 8 - Aircraft Lease | \$860,618 | \$1,294,271 |
| Dash 8 - Spares Lease | \$476,765 | \$710,973 |
| Total Long-Term Liabilities | \$6,475,544 | \$3,275,137 |

Signed by:

Chairman



Date: 25/10/21

Board Director:



Date: 25/10/21

