



Airlines of Papua New Guinea Limited

PROSPECTUS

for a non-renounceable entitlement offer of shares and options to existing shareholders

Offer of:

- **5 new fully-paid ordinary shares for every 1 share held, at an offer price of K 0.10 per new share; and**
- **for every new share subscribed for, 2 free options each of which carries the right to subscribe for a new fully-paid ordinary share at K 0.02.**

This is an important document and requires your immediate attention. If you are in any doubt as to how to deal with this document, please consult your financial, legal, tax or other professional adviser immediately.

IMPORTANT NOTICES

About this Prospectus

This Prospectus relates to the Entitlement Offer by the Company of New Shares and New Options. This Prospectus is a concise prospectus under the Securities Act. This Prospectus is dated 20 June 2016 and was registered by the PNG Registrar of Companies on 20 June 2016.

This Prospectus expires on 30 September 2016. No New Shares or New Options will be issued on the basis of this Prospectus after that date.

The Company will, within 7 days after the date of this Prospectus, apply for admission of the New Shares and New Options to quotation on POMSoX.

This Prospectus has been prepared by the Company. The PNG Registrar of Companies, the Securities Commission of PNG and POMSoX take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Definitions

Capitalised terms used in this Prospectus are defined in section 9.

This Prospectus does not provide investment advice

This Prospectus is important and requires your immediate attention. You should read this Prospectus carefully and in its entirety before deciding whether to invest in New Shares and New Options. In particular, you should consider the risk factors that could affect the performance of the Company or the value of an investment in the Company, including those described in section 6. The information contained in this Prospectus is not investment or financial product advice and does not take into account the investment objectives, financial situation, tax position or particular needs of individual investors.

Before deciding whether to apply for New Shares and New Options, you should consider whether they are a suitable investment for you taking into account your own investment objectives and financial circumstances and having regard to the merits or risks involved. If you are in any doubt as to how to deal with this Prospectus, please consult your financial, legal, tax or other professional adviser immediately.

The potential tax implications of the Entitlement Offer will vary between investors. A summary of potential tax implications for investors resident in PNG is set out in section 7.

Future performance and forward looking statements

Except as required by law, and then only to the extent required, neither the Company nor any other person warrants or guarantees the future performance of the New Shares, New Options or any Shares issued upon the exercise of New Options or any return on any investment made pursuant to this Prospectus. Past performance is not indicative of future performance.

The pro-forma financial information provided or referred to in this Prospectus is for illustrative purposes only and is not represented as being indicative of the Company's views on its future financial condition and/or performance.

The forward-looking statements in this Prospectus are based on the Company's current expectations about future events. They are, however, subject to known and unknown risks (including but not limited to the risks described in section 6), uncertainties and assumptions, many of which are outside the control of the Company and its Directors, that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward-looking statements in this Prospectus.

No representations other than in this Prospectus

No person is authorised to provide any information to make any representation in connection with the Entitlement Offer which is not contained in this Prospectus. Any information or representations not contained in this Prospectus may not be relied upon as having been authorised by the Company in connection with the Entitlement Offer.

Prospectus availability

A copy of this Prospectus, together with a personalised Entitlement and Acceptance Form, will be mailed to each Eligible Shareholder. A copy of this Prospectus without an Entitlement and Acceptance Form will be made available on the Company's website at www.pngair.com.pg. No applications may be made pursuant to the electronic version of this Prospectus.

Offering restrictions

The distribution of this Prospectus (including an electronic copy) outside PNG is restricted by law. If you are outside of PNG and come into possession of this Prospectus, you should observe such restrictions and should seek your own advice on such restrictions. Any non-compliance with these restrictions may contravene applicable securities laws. Neither this Prospectus nor the accompanying Entitlement and Acceptance Form may be distributed to, or relied upon by, persons in the US or who are, or are acting for the account or benefit of, US Persons.

This Prospectus has been prepared to comply with the requirements of the securities laws in PNG. No action has been taken to register or qualify the Entitlement Offer in any jurisdiction other than PNG. The Entitlement Offer is being made to Eligible Shareholders in PNG and is not extended to any person outside of PNG.

The New Shares and New Options have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the US, and may not be offered or sold in the US or to, or for the account or benefit of, a US Person, except in a transaction exempt from the registration requirements of the US Securities Act and applicable US state securities laws.

Rounding

For convenience, all percentage figures in this Prospectus have been rounded to 2 decimal places.

Enquiries

If you would like more information or have any questions in relation to the Entitlement Offer, you may contact the Share Registry by phone on +675 321 6377.

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1. Key information and dates

1.1 Concise prospectus

This Prospectus is a concise prospectus under the Securities Act and in various places refers to information contained in the annual consolidated financial report of the Company and its subsidiaries for the year ended 31 December 2015 (the "**Annual Financial Report**") or to the Independent Auditor's Report by Deloitte Touche Tohmatsu in respect of the Annual Financial Report (the "**Auditor's Report**"). The Annual Financial Report and Auditor's Report are incorporated by reference in this Prospectus.

The Annual Financial Report and Auditor's Report were released to POMSoX on 12 May 2016. Each can be downloaded from the Company's website (www.pngair.com.pg). In addition, a copy of each document is available free of charge to any person on request and can also be inspected free of charge at the Company's registered office (see back page of this Prospectus) on week days during normal business hours.

The information contained in the Annual Financial Report and Auditor's Report will primarily be of interest to professional analysts, advisers and investors.

Deloitte Touche Tohmatsu ("**Deloitte**") is a registered auditor in PNG, and is the auditor of the Company. Deloitte is not intended to be a director, officer or employee of the Company but intends to continue being the Company's auditor.

Deloitte:

- has given and, at the time of submission of this Prospectus to the PNG Registrar of Companies for registration, has not withdrawn, its written consent to: (i) be named in this Prospectus as the auditor of the Company; (ii) the incorporation by reference into this Prospectus of the Auditor's Report; and (iii) the statements in the preceding paragraph;
- does not make the offer of securities under this Prospectus;
- has not authorised or caused the issue of this Prospectus (other than the Auditor's Report);
- does not make, or purport to make, any statement in this Prospectus (other than the Auditor's Report); and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than the Auditor's Report, references to its name and any other statements included in this Prospectus with its consent as set out above.

1.2 Key information

Securities being offered	<p>5 New Shares (at K0.10 each) for every 1 Share held by an Eligible Shareholder as at 5.00pm (Port Moresby time) on the Record Date of 4 July 2016.</p> <p>For every New Share subscribed for, an Eligible Shareholder will receive 2 free New Options, each of which carries the right to subscribe for a New Share at K0.02 each at any time during a 5 year period from the date of issue of the New Options.</p> <p>An "Eligible Shareholder" is a person who is registered as a Shareholder as at 5.00pm (Port Moresby time) on the Record Date of 4 July 2016 and whose address in the Company's share register is in PNG.</p>
Impact of Entitlement Offer on equity capital and shareholdings	As set out in section 4 of this Prospectus.
Impact of Entitlement Offer on Company's financial position	As set out in section 5 of this Prospectus.
Amount to be raised under the Entitlement Offer	<p>K28,750,000 will be raised if the maximum 287,500,000 New Shares are issued.</p> <p>An additional K11,500,000 will be raised if the maximum 575,000,000 New Options are issued and all are exercised..</p>
Proposed use of funds raised under the Entitlement Offer	Funds raised from the subscription for New Shares will be used for reduction of the Company's debts to existing lenders and, subject to the amounts raised, may also be applied towards expenses of acquiring ATR aircraft as previously announced to the market.

1.3 Key dates*

20 June 2016	Prospectus was registered by PNG Registrar of Companies Prospectus was provided to POMS0X
4 July 2016	Record Date for Entitlement Offer
7 July 2016	Completion of despatch of Prospectus and Entitlement and Acceptance Forms to Eligible Shareholders Entitlement Offer opens
28 July 2016	Entitlement Offer closes at 5.00pm (Port Moresby time)
29 July 2016	New Shares and New Options commence quotation on POMS0X on a deferred settlement basis

5 August 2016	Settlement of all applications for New Shares and New Options
8 August 2016	Issue of New Shares and New Options
9 August 2016	New Shares and New Options commence quotation on a normal settlement basis Despatch of holding statements for New Shares and New Options

* All dates after 7 July 2016 are indicative only and are subject to change. The Company reserves the right to change the above timetable including to extend the closing date for the Entitlement Offer. The Company also reserves the right to withdraw or cancel the Entitlement Offer at any time prior to the issue of New Shares and New Options.

2. Further details of Entitlement Offer

2.1 Offer of securities

The Company is offering Eligible Shareholders the opportunity to subscribe for New Shares and free New Options under the Entitlement Offer as described in section 1.2.

If you have received this Prospectus and there is an accompanying personalised Entitlement and Acceptance Form showing your name and entitlement to New Shares and New Options then you are considered an Eligible Shareholder.

2.2 Non-renounceable

Each Eligible Shareholder's Entitlement is non-renounceable and will not be tradeable on POMSoX or otherwise transferable. Eligible Shareholders who do not take up their Entitlements in full will not receive any value in respect of the Entitlements not taken up.

2.3 No underwriting

The Entitlement Offer is not underwritten. Therefore, to the extent that there is less than full take-up of Eligible Shareholders' Entitlements, the New Shares and New Options not subscribed for will not be issued.

2.4 Determination of Entitlements

The Entitlement Offer is being made to Shareholders who are Eligible Shareholders. In general terms, a Shareholder whose address in the Company's share register is in PNG will be an Eligible Shareholder.

Each Eligible Shareholder's Entitlement is shown on their personalised Entitlement and Acceptance Form. Entitlements were calculated on the basis of registered holdings of Shares as at 5.00pm (Port Moresby time) on the Record Date. Where fractions arose in the calculation of Entitlements, they were rounded down to the nearest whole number of New Shares and New Options.

The Directors determined not to extend the Entitlement Offer to Shareholders outside of PNG as it was determined that it would be unreasonable to do so, having regard to the small number of such Shareholders, the small number of and value of securities the holders would be offered and the cost of complying with foreign legal requirements. A letter has been sent to such Shareholders notifying them of their ineligibility.

2.5 Issue, quotation and trading of securities

New Shares and New Options will be issued to successful applicants in uncertificated form. Applicants who are existing Shareholders will have their New Shares added to their existing holding under their existing Shareholder Reference Number (SRN) and updated Issuer Sponsored Statements will be mailed to their address as shown in the Company's share register. Options will be allotted and Issuer Sponsored Statements will be produced under their same SRN and mailed to their address as shown in the Company's share register.

The Company will, within 7 days after the date of this Prospectus, apply for admission of the New Shares and New Options to quotation on POMSoX. While the Company is not aware of any reason why quotation would be denied, there is no assurance that the application will be granted. If quotation is not granted, New Shares and New Options will not be issued and Application Monies will be refunded to applicants without interest. There may be restrictions on off-market trading of New Options due to the operation of section 53 of the Securities Act.

The Company will also apply for admission of Shares issued from time to time upon the exercise of New Options to quotation on POMSoX. While the Company is not aware of any reason why quotation would be denied, there is no assurance that the application will be granted.

As noted above, Issuer Sponsored Statements for New Shares and New Options will be despatched following their issue. It is the responsibility of each applicant to confirm their holding before trading in New Shares or New Options. Any applicant who sells New Shares or New Options before receiving confirmation of their holding in the form of their holding statement will do so at their own risk. The Company disclaims all liability, whether in negligence or otherwise, to any person who trades in New Shares or New Options before receiving their holding statement.

2.6 Rights and restrictions attached to New Shares

The New Shares will be issued fully-paid and will rank equally with existing Shares.

The rights and restrictions attached to Shares are set out in the Constitution and the Companies Act and are subject to the Listing Rules and the general law.

The principal rights and restrictions attached to Shares as set out in the Constitution as at the date of this Prospectus are summarised below. The summary is not a definitive statement of those matters, which can involve complex questions arising from the interaction of the Constitution, legislation, general law and Listing Rule requirements. To obtain a definitive assessment, investors should seek their own advice.

(a) Voting at general meetings

At a general meeting, every Shareholder present in person or by proxy, representative or attorney has:

- one vote on a vote by voice or a show of hands (unless a Shareholder has appointed more than one person as representative, proxy or attorney); and
- one vote on a poll for each fully paid Share held (with adjusted pro rata voting rights for partly paid Shares).

Unless a poll is demanded, voting at any meeting of shareholders is by voice or a show of hands as determined by the Chairman. In general terms, a poll may be demanded by at least 5 shareholders entitled to vote at the meeting, or by a shareholder or shareholders representing at least 10% of the total voting rights of all shareholders at the meeting.

If votes are equal on a proposed resolution, the Chairman can exercise a casting vote on a show of hands or on a poll (except where the Chairman is not entitled to vote on the resolution).

(b) **Dividends**

Subject to the Companies Act, the Board may, from time to time pay a dividend on Shares. Such dividends can be in the form of cash and/or assets, and are distributed among Shareholders in proportion to their shareholdings, at an equal rate per Share held, subject to pro rata adjustments for any Shares that are partly paid.

(c) **Issue of further shares**

Subject to the Listing Rules, the Board may issue, grant options in respect of, or otherwise dispose of further shares on terms and conditions as the Board sees fit. This includes the issue of preference shares in accordance with terms set out in the Constitution.

(d) **Transfers of Shares**

Shares are transferable by an instrument in writing which is in a form approved by POMSoX or the Board or is in any other usual or common form. However, the Board can refuse or delay registration of any transfer of Shares where:

- the Listing Rules or POMSoX business rules permit, and must do so if the transfer would be in contravention of the law, the Listing Rules or POMSoX business rules; or
- the transfer would cause foreign persons to have relevant interests in shares which, in aggregate, would exceed 49% of the Company's issued share capital.

(e) **Shareholder proposals**

Where a Shareholder gives notice to the Board of a matter proposed to be raised for discussion or resolution at the next meeting of shareholders and the notice is received by the Board not less than 7 days before the last day on which the notice of meeting must be given to shareholders, the Board must give notice of the proposal to all shareholders entitled to receive that notice of meeting. The Company will bear the expense of giving such notice except where the Shareholder gives the notice less than 1 month before the last day on which the notice of meeting must be given, in which case the shareholder bears the expense.

(f) **Variation of rights**

If at any time the shares are divided into different classes, the rights attached to any class of shares (unless the terms of issue of that class otherwise provide) may only be varied or abrogated with either:

- the consent in writing of the holders of 75% of the issued shares of that class; or

-
- the sanction of a special resolution passed at a separate meeting of the holders of shares of that class.

(g) **Liquidation**

If the Company is in liquidation and the assets available for distribution among the shareholders (in that capacity) are insufficient to repay all the paid up capital, those assets will be distributed so that, to the greatest possible extent, the amount distributed to a shareholder in respect of each share is proportional to the amount paid up (or which at the commencement of the liquidation ought to have been paid up) on that share compared with the total paid up capital of the Company.

2.7 Rights and restrictions attached to New Options

The New Options will have the following terms.

1. Entitlement

Each option entitles the optionholder to subscribe for 1 fully paid ordinary share in the capital of the Company.

2. Issue price

No amount is payable on issue of the options.

3. Exercise price

The exercise price of each option is K0.02.

4. Option period

Each option may be exercised in whole or in part at any time before 5 years after the date of issue. An option not exercised automatically expires at the end of that 5 year period.

5. Certificate

The Company must give each optionholder a certificate or holding statement stating:

- (a) the number of options issued to the optionholder;
- (b) the exercise price of the options; and
- (c) the date of issue of the options.

6. Participation rights, bonus issues, rights issues and reorganisations

6.1 Participation

An optionholder is not entitled to participate in any new issue to existing shareholders of securities in the Company unless they have exercised their options before the record date for determining entitlements to the new issue of securities and participate as a result of holding shares.

6.2 Bonus issues

If the Company makes a bonus issue of shares or other securities to shareholders (except an issue in lieu of dividends or by way of dividend reinvestment) and no

share has been issued in respect of the option before the record date for determining entitlements to the issue, then the number of underlying shares over which the option is exercisable is increased by the number of shares which the optionholder would have received if the optionholder had exercised the option before the record date for determining entitlements to the issue.

6.3 Reorganisations

If there is a reorganisation of the capital of the Company, the rights of an optionholder will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

7. Method of exercise of options

7.1 Method and payment

To exercise options, the optionholder must give the Company or its share registry, at the same time:

- (a) a written exercise notice (in the form approved by the board of the Company from time to time) specifying the number of options being exercised and shares to be issued;
- (b) payment of the exercise price for the shares the subject of the exercise notice by way of bank cheque or by other means of payment approved by the Company; and
- (c) the certificate for the options.

7.2 Exercise all or some options

- (a) An optionholder may only exercise options in multiples of 1,000,000 unless the optionholder exercises all options held by the optionholder.
- (b) Options will be deemed to have been exercised on the date the application is lodged with the directors of the Company.

7.3 Option certificates

If an optionholder exercises less than the total number of options registered in the optionholder's name:

- (a) the optionholder must surrender their option certificate (if any); and
- (b) the Company must cancel the option certificate (if any) and issue the optionholder a new option certificate or holding statement stating the remaining number of options held by the optionholder.

7.4 Issue of shares

Within 10 days after receiving an application for exercise of options and payment by an optionholder of the exercise price, the Company must issue the optionholder the number of fully paid ordinary shares in the capital of the Company specified in the application.

8. Ranking of shares issued on exercise of options

Subject to the Company's constitution, all shares issued on the exercise of options rank in all respects (including rights relating to dividends) pari passu with the existing ordinary shares of the Company at the date of issue.

9. Quotation

The Company will apply to POMSIX for official quotation of the options, as well as for official quotation of the shares issued on exercise of options.

10. Governing law

These terms and the rights and obligations of optionholders are governed by the laws of Papua New Guinea.

The terms of issue of the New Options do not impose any restrictions on their transfer.

3. Actions required by Eligible Shareholders

3.1 Choices available to you

If you are an Eligible Shareholder you can choose to:

- take up your Entitlement in full – in other words, you can subscribe for all of that number of New Shares and New Options to which you are entitled as shown on your personalised Entitlement and Acceptance Form (see section 3.2);
- take up your Entitlement in part – in other words, you can subscribe for some (but not all) of that number of New Shares and New Options to which you are entitled as shown on your personalised Entitlement and Acceptance Form (see section 3.2); or
- not take up any of your Entitlement, in which case you should do nothing.

If you have received this Prospectus and there is an accompanying personalised Entitlement and Acceptance Form showing your name and entitlement to New Shares and New Options then you are considered an Eligible Shareholder.

Eligible Shareholders are under no obligation to take up all or any of their entitlement. However, Eligible Shareholders who do not take up their full entitlement will have their shareholding interest in the Company diluted (ie. reduced) compared to Eligible Shareholders who do not take up their full Entitlement. Shareholders who are not Eligible Shareholders will be automatically diluted compared to Eligible Shareholders who do not take up their full Entitlement.

3.2 How to take up your Entitlement in full or part

If you are an Eligible Shareholder and wish to take up your Entitlement in full or part, you should do the following.

Step 1	Complete the personalised Entitlement and Acceptance Form accompanying this Prospectus in accordance with the instructions on the form.
Step 2	Decide how you wish to pay the Application Monies (being K0.10 for each New Share subscribed for – note that you need only pay for the New Shares, as the New Options are free). You may pay by bank cheque or direct deposit – see the personalised Entitlement and Acceptance Form for details.
Step 3	Sign and date the Entitlement and Acceptance Form.
Step 4	Return the completed and signed Entitlement and Acceptance Form, together with payment for or evidence of payment of the full Application Monies, in accordance with the instructions on the Entitlement and Acceptance Form. Your completed and signed form, together with your payment or evidence of payment, must be received by the Share Registry no later than 5.00pm (Port Moresby time) on 28 July 2016. Where the payment is made by direct deposit, the funds must be received by this time in the Share Registry's nominated bank account.

3.3 Dealings with Application Monies

Application Monies received from Eligible Shareholders will be held in bank accounts established and kept by the Company or the Share Registry solely for the purpose of holding the Application Monies.

The Company also reserves the right to withdraw or cancel the Entitlement Offer at any time prior to the issue of New Shares and New Options. If it does so, all Application Monies will be refunded to applicants without interest.

4. Impact of Entitlement Offer on equity capital and shareholdings

4.1 Current position

As at the date of this Prospectus there are 303,000,000 issued Shares and 400,000,000 issued Options. The table below summarises the position as at the date of this Prospectus.

Name	Options held	Shares held	% of total issued Shares
National Superannuation Fund Limited (ie. NasFund)	200,000,000	121,000,000	39.934%
Mineral Resources Ok Tedi No 2 Limited	80,000,000	50,500,000	16.667%
Mineral Resources Development Company Limited	66,000,000	40,000,000	13.201%
Mineral Resources Star Mountains Limited	54,000,000	34,000,000	11.221%
Others	0	57,500,000	18.977%
Total	400,000,000	303,000,000	100.000%

4.2 Post-Entitlement Offer position

Each of the MRDC entities and NasFund (which are the Company's largest shareholders) have undertaken not to accept an offer of New Shares and New Options under the Entitlement Offer.

Assuming 100% take-up under the Entitlement Offer, ie. all Shareholders (other than the MRDC entities and NasFund who will not participate) subscribe for their full entitlements, a total of 287,500,000 Shares and 575,000,000 Options will be issued under the Entitlement Offer. This will result in there being 590,500,000 issued Shares and 975,000,000 issued Options, as described below.

Name	Options held	Shares held	% of total issued Shares
National Superannuation Fund Limited	200,000,000	121,000,000	20.491%
Mineral Resources Ok Tedi No 2 Limited	80,000,000	50,500,000	8.552%
Mineral Resources Development Company Limited	66,000,000	40,000,000	6.774%
Mineral Resources Star Mountains Limited	54,000,000	34,000,000	5.758%
Others	575,000,000	345,000,000	58.425%
Total	975,000,000	590,500,000	100.000%

Note: the actual take-up of the Entitlement Offer will be less than 100% as the Entitlement Offer does not extend to Shareholders outside of PNG. The Company estimates that about 1% (or less) of the issued Shares are currently held by Shareholders outside of PNG, so for convenience a 100% take-up has been assumed. Also, the table does not include any Shares (expected to total a maximum of 1,620,000 Shares) that the Company might issue prior to the date of this Prospectus under the Company's employee incentive scheme approved by Shareholders at the 2015 annual general meeting.

The Company will continue to investigate the most appropriate funding sources to develop its business. This may include placements of further Shares to existing Shareholders or new investors, which will be put to Shareholders for approval if required.

5. Impact of Entitlement Offer on Company's financial position

Below are pro forma consolidated balance sheets of the Company (unaudited) which illustrate the effect of the Entitlement Offer (as if all of the Shares and Options proposed to be issued under the Entitlement Offer had been issued on 31 December 2015) in two scenarios:

- **Scenario 1:** there is 100% take-up under the Entitlement Offer (ie. all Shareholders other than the MRDC entities and NasFund subscribe) and no Options are exercised; and
- **Scenario 2:** there is 100% take-up under the Entitlement Offer (ie. all Shareholders other than the MRDC entities and NasFund subscribe) and the MRDC entities, NasFund and all other Shareholders immediately exercise all of their Options (975 million Options in aggregate).

Note: the actual take-up of the Entitlement Offer will be less than 100% as the Entitlement Offer does not extend to Shareholders outside of PNG. The Company estimates that about 1% (or less) of the issued Shares are currently held by Shareholders outside of PNG, so for convenience a 100% take-up has been assumed for Scenarios 1 and 2.

The below pro forma balance sheets are indicative only, and are based on the audited financial statements for the financial year ended 31 December 2015 as contained in the Annual Financial Report.

All Amounts in K'000					
Item	Base Balance Sheet 31 December 2015 (audited)	Movement between Base & Scenario 1 Balance Sheet	Scenario 1 Balance Sheet	Movement between Scenario 1 & Scenario 2 Balance Sheet	Scenario 2 Balance Sheet
Property, Plant & Equipment	147,605	-	147,605	-	147,605
Property & Other	13,321	-	13,321	-	13,321
Deferred Tax Assets	37,708	-	37,708	-	37,708
Total Non Current Assets	198,634	-	198,634	-	198,634
Inventory	11,835	-	11,835	-	11,835
Trade	14,162	-	14,162	-	14,162
Other	26,720	-	26,720	-	26,720
Cash	2,440	3,000	5,440	-	5,440
Total Current Assets	55,157	3,000	58,157	-	58,157
Total Assets	253,791	3,000	256,791	-	256,791
Equity & Liabilities					
Total Equity	34,675	28,750	63,425	19,500	82,925
Borrowings	33,420	-	33,420	-	33,420
Deferred Tax Liability	37,708	-	37,708	-	37,708
Provisions	15,018	-	15,018	-	15,018
Total Non Current Liabilities	86,146	-	86,146	-	86,146
Trade Creditors	73,752	-13,140	60,612	-12,000	48,612
Borrowings	34,540	-12,610	21,930	-7,500	14,430
Other	24,678	-	24,678	-	24,678
Total Current Liabilities	132,970	-25,750	107,220	-19,500	87,720
Total Liabilities	219,116	-25,750	193,366	-19,500	173,866
Equity & Liabilities	253,791	3,000	256,791	-	256,791

Notes and assumptions

- The above pro forma balance sheets for Scenarios 1 and 2 have been prepared considering only the impacts of the Entitlement Offer against the 31 December 2015 (base) balance sheet. All other actual or likely operational movements have not been considered or reflected in the pro forma balance sheets.
- Under Scenario 1, it is assumed that the equity amount of K28.75 million raised under the Entitlement Offer is utilised to pay Trade Creditors in amount of K13.14 million, current borrowings in amount of K12.61 million and the balance of K3 million is held in cash to be utilised for payment to upgrade some infrastructure to support the re-fleeting and re-branding.
- Under Scenario 2, it is assumed that an equity amount of K19.5 million is raised through the exercising of Options, in addition to the equity amount of K28.75 million raised under the Entitlement Offer. It is assumed that the additional K19.5 million has been utilised to pay off K7.5 million in borrowings bearing high interest costs, while the balance K12.0 million is utilised towards paying off additional Trade Creditors.

6. Risk factors

6.1 Introduction

Before applying for New Shares and New Options, you should closely read all of this Prospectus and consider whether the New Shares and New Options are a suitable investment for you. You should also closely read all of the Annual Financial Report and Auditor's Report.

Participating in the Entitlement Offer and investing in New Shares and New Options involves a degree of risk. Some of these risks are specific to an investment in the Company, while others relate generally to any investment in the equity markets. The occurrence of any of the events described as risks could have an adverse impact on the Company's business, its results or financial condition and performance, or its Share or Option price.

This section 6 discusses some of the key risks associated with an investment in the Company. The risks are not listed in order of importance and do not necessarily constitute an exhaustive list of all the risks involved in an investment in the Company. Many of the risks are difficult to predict and outside the control of the Company and its Directors. You should also closely read all of the Annual Financial Report and Auditor's Report.

6.2 Risks associated with the Company's business

(a) Exchange rate volatility

In addition to affecting the Company's cost structure, exchange rate volatility risks may affect prices generally in PNG and the ability of members of the public to afford air travel thereby affecting the size of the travelling public. The Company has sought to mitigate the effect of currency fluctuations on its costs by implementing strategies to divide the currency of earning of revenue between the USD and PGK. Certain Company expenses are directly referable to USD and AUD. The Directors are not able to give any assurance as to how effective the Company's natural hedges against currency movements would be in the event of extreme currency instability, or as to the Company's ongoing ability to implement its strategies to divide the currencies in which earnings are generated. The Company does not otherwise use financial hedge instruments.

(b) Interest rates

Interest rate rises or a reduction in credit availability may adversely impact on the ability of passengers to afford air travel and may increase the cost of air travel.

The Company seeks to mitigate interest rate risk by keeping low gearing and by caps and floors provided in the issue terms of the majority of longer term notes that the Company issues under its secured note program. The Company's ability to mitigate interest rate risks may not be completely successful and the airline may be exposed to higher interest rates or reduced credit availability which reduce its profitability or growth potential.

(c) **Fuel and other input price risks**

The airline industry has both high fixed and variable operating costs. The most significant operating costs for the Company are fuel prices and engineering costs. While fuel prices have fallen recently, in periods before those falls they had risen significantly and they may rise further in the future. Engineering costs are also significant because of the high cost of the base metals contained in special metal alloys used in aircraft parts, lack of alternative manufacturers of many parts and the need to use highly qualified engineering staff.

The Company cannot control all input price risks and must pass these on to consumers in the form of higher airfares. The sensitivity of passenger traffic to increased prices is difficult to model but is understood to be significant. The Company can manage the risk to an extent by such mechanisms as imposing fuel surcharges on passengers and in the case of certain mining and petroleum industry customers, passing the cost of fuel on as a disbursement which is met directly by those customers.

If the Company is unable to pass the increased cost of fuel, insurance, engineering or crewing on to passengers in the form of increased ticket prices, this will affect the Company's profit position.

(d) **Acquisitions of ATR-72-600 aircraft**

Consistent with previous announcements to the market, the Company is in the process of acquiring new ATR-72-600 aircraft. As at the date of this Prospectus 2016 the Company has 3 new ATR-72-600 aircraft operating in its fleet. Each of these aircraft is held under leases (each for a term of 12 years from the date of commencement). The Company is committed to have 2 more new ATR-72-600 aircraft operating by the end of 2016. Those aircraft will also be leased, for 12 year terms. The Company is committed to buy a further 2 more new ATR-72-600 aircraft from the manufacturer during 2017. The financing of these 2 aircraft is subject to negotiation. The following risks relate to the Company's acquisitions of new ATR-72-600 aircraft:

- (i) *Financial risk:* Ordering new aircraft (ATR-72-600s or any other new type) requires the Company to incur significant financial obligations. The capital ownership and/or lease costs associated with any new aircraft are substantially more than with those associated with the present fleet.
- (ii) *Operational and induction risk:* The Company has extensive corporate and operational experience with the DHC-8-100 series aircraft. The introduction of a new type of aircraft in the ATR-72-600 commencing in late 2015 saw the organisation have to invest in some operational staff with prior experience on type and incur additional associated costs such as requiring more flight crew to operate the DHC-8-100 series aircraft, while present crew convert onto the new type. Those potential additional costs and potential requirements for more crew continue as further ATR-72-600 aircraft are added to the Company's fleet.

-
- (iii) *General operational risk*: National Airports Corporation is planning to upgrade a number of PNG runways over the next five years. Associated with this work it is possible runway lengths may be shortened to distances that the DHC-8-100 series aircraft could have still operated from, but the ATR-72-600 could not. The same result could arise because of changes to aviation regulations or because of other runway repair work. However the DHC-8-100 series fleet will continue in the Company's operations for some more years (albeit in reducing numbers) which in this period will mitigate this risk.
- (iv) *Jacksons Airport redevelopment in association with APEC*: National Airports Corporation may seek to redevelop Jacksons Airport in association with the 2018 Asia Pacific Economic Co-operation summit to be held in Port Moresby. While no firm plans have been put forward, redevelopment of the airport may involve the Company being required to shift its existing offices, maintenance hangar and freight hangar to new and yet to be identified alternative premises, as well as moving its existing domestic and international terminal operations. Such moves would cause indirect costs to the Company from the disruption of moving operations and direct costs of physically moving and potentially establishing alternative premises.

(e) **Global hostilities and terrorism**

There is a risk that global hostilities and terrorism activities may lead to a general downturn in the aviation industry and to passenger confidence in flying. Increased knowledge of, or experience with terrorism may result in increased security measures needing to be taken by the Company which may be more costly and increase ground handling times for aircraft. The cost and availability of insurance may also be affected by such matters and the Company may be unable to mitigate these risks.

(f) **Regulatory risk**

The Company is exposed to a risk that it might not be able to maintain in effect, on current terms or at all, all or any one or more of its existing regulatory approvals, including its Air Operator's Certificate.

This risk may arise because of a change in regulatory position by PNG CASA or any other regulatory authority which the Company is required to comply with, or because the Company's management fails to follow the system of operation for the airline or because the Company at some point in future no longer employs sufficient competent persons.

There may be a negative impact on the ability of the Company to earn revenue if any rights of PNG under a bilateral air service agreement or an international convention are denied to airlines or aircraft of PNG because of an act or omission of the PNG government or some other person.

There is a risk to the Company that regulatory requirements may be changed thereby leading to higher capital or operating costs.

(g) **Government subsidies**

The Company is exposed to a risk that the Company's key competitor, Air Niugini, or the regional off-shoot of that airline, Link PNG, may seek and obtain from the PNG government, as the owner or ultimate owner of those airlines, explicit subsidies or implicit benefits which are not available to the Company, thereby distorting the competitive market.

Examples of subsidies or implicit benefits may include:

- (i) appropriating government grants from the consolidated revenue fund to finance directly or indirectly engaging in unprofitable activities in an anti-competitive way or to finance the acquisition of capital assets which may be operated at lower than commercial rates;
- (ii) seeking government guarantees to support financial transactions which would not otherwise be maintainable on a state-owned entity's balance sheet; or
- (iii) requesting the changing of laws to allow a state entity specific exemptions from laws it would otherwise have to comply with.

(h) **Charter contracts**

A substantial amount of revenue is derived from the Company's fixed wing charter operations which serve the needs of multi-national resources companies based in PNG. From time to time new charter contracts offered by potential customers, and by existing customers where existing charter contracts have expired, are put out to tender. There is a risk that the Company may not win these contracts, for reasons including competition particularly from its key competitor Air Niugini and/or its off-shoot Link PNG. For instance, in October 2015 the Company announced to POMSoX that its Exxon Mobil PNG (EMPNG) charter contract will not be renewed after its expiry at the end of October 2015, as the contract will be given to the Company's key competitor. The Company had been undertaking the EMPNG charter work for 5 years. The loss of the charter contract will have a negative impact on revenue.

(i) **Aircraft type grounding risks**

The Company is exposed to a risk that other airlines that use Dash 8 aircraft and, once they are acquired, ATR-72-600 aircraft, may operate or maintain their aircraft in a manner which leads to a fatal accident and grounding of all aircraft of that type. The Company mitigates this 'type grounding' risk by using only mature aircraft designs in its fleet, however design defects may still materialise in mature designs.

(j) **Failure of telecommunications services**

The Company relies on telecommunications services to sell and distribute tickets, maintain airline operations, validate sold tickets and board passengers. The possibility of failure of the telecommunications carrier infrastructure in PNG is a significant risk. While the Company can fall back on non-electronic processes to deal with short service interruptions, these processes cannot be run for a sustained

period of time and are not a viable alternative in the event of a sustained outage caused by general telecommunications carrier failure.

(k) **Work permits and staffing risks**

The Company employs approximately 130 expatriate staff each of whom requires a work permit and working resident visa in order to work in PNG. While the Company has an excellent relationship with the PNG Department of Labour, there is a risk that if the Company were unable to maintain position approvals for the expatriate positions or there were delays in processing either work permits or visas, there would be a material adverse effect on the Company. Further, if the Company were unable to fill the required statutory roles with competent persons, there is a risk that the Company's operating approvals may be suspended or revoked.

(l) **Airport and navigational infrastructure failure**

The Company relies on certain common user facilities and specific infrastructure provided by PNG CASA and other service providers in order to operate. These items include airport terminals, air traffic control services, airport security, runway certifications, firefighting services and navigational beacons.

The Company is exposed to a risk that if a service provider ceases to provide operational infrastructure for the Company to use there would be a direct impact on the Company's ability to earn revenue or there would be an increase in its cost of operation.

The Company has identified that its operations are most vulnerable to vandalism or unavailability of navigational beacons and other aids. The Company has sought to mitigate this risk by the navigational instrument upgrades (introducing equipment that does not rely on ground based navigational aids to undertake future flights) it has undertaken and is continuing to undertake to its Dash 8 aircraft, and by ensuring this equipment is installed in the ATR-72-600 aircraft as they are delivered into service.

The steps the Company has taken to mitigate failure of public aviation infrastructure might not be sufficient to prevent a loss of revenue or an increase in operating costs.

(m) **Political and social risks**

As a PNG airline and a company incorporated in PNG, the Company may be affected by political and social issues unique to PNG. The PNG government might not be able to implement legal or policy reforms to address those social or political issues which could have a detrimental effect on the Company.

(n) **Environment**

The Company may be impacted by implementation of global policies to reduce CO₂ and greenhouse gas emissions. The Company is a producer of CO₂, as that gas is a product of the burning of kerosene-based jet A1 fuel in aircraft engines. The Company may also be impacted by noise constraints imposed on airport operations from time to time.

(o) **Insurance**

The Company's aircraft operations are predicated on the Company being able to insure the risks associated with operating the aircraft and the capital invested in the aircraft hulls and engines. If the Company is unable to obtain insurance, the Company's operations are likely to be negatively impacted.

(p) **Ability to attract personnel**

The Company's success in part depends on its ability to identify, attract, motivate and retain appropriate staff. If the Company is not able to maintain appropriately skilled and motivated staff, that may affect the Company's operations and in turn its revenue and profit position. The Company might be subject to poaching of staff by other airlines thereby resulting in the Company being unable to fill positions.

(q) **Dependence on mining and petroleum industries**

A significant amount of the Company's revenue is derived from flying passengers engaged by the mining and petroleum industries. Any downturn in these industries may have a flow on effect to the Company.

6.3 Other risks

(a) **Absence of dividends**

The re-fleeting and rebranding undertaken by the Company will require significant capital investment by the Company over the first 5 years of those processes with residual funds continually invested back into the Company. The Company's new strategic direction will take time to mature and deliver cash returns for investors.

(b) **Stock market fluctuations**

There are general risks associated with investments in equity capital. The trading price of Shares and Options may fluctuate with movements in equity capital markets in PNG and internationally. This may result in Shareholders receiving a market price for their New Shares, New Options or any Shares issued upon the exercise of New Options that is less or more than the price that Shareholders paid or pay for those New Shares or Shares issued upon the exercise of New Options. No assurances can be given that the New Shares will trade at or above the offer price of K0.10. None of the Company, any of its officers, nor any of its tax or other advisers, guarantees the market performance of New Shares, New Options or any Shares issued upon the exercise of New Options.

(c) **Liquidity and realisation**

Despite being listed on POMSoX, trading in Shares has been virtually non-existent to date, largely because of the illiquid nature of the PNG investment market. Accordingly, there may be relatively few potential buyers or sellers of Shares or Options on POMSoX at any time. This may affect or cause volatility in the market price of Shares or Options. It may also affect the prevailing price at which Shareholders are able to sell their Shares or Options.

7. PNG tax implications

7.1 Introduction

This section 7 sets out the general PNG tax implications of the Entitlement Offer for Eligible Shareholders who are PNG residents for tax purposes and who hold their Shares on capital account. They do not apply to Shareholders who are banks or insurance companies, or to taxpayers carrying on a business of trading in shares.

These comments are general in nature and are based on the laws in force in PNG at the time of issue of this Prospectus. The precise tax implications will depend upon each Shareholder's specific circumstances.

All persons should seek their own independent tax advice before reaching conclusions as to the possible tax consequences of the Entitlement Offer for them. None of the Company, any of its officers, or any of its tax or other advisers, accepts any liability or responsibility in respect of any statement concerning the tax consequences of the Entitlement Offer.

7.2 Granting of an Entitlement

On the grant of an Entitlement you should not derive any assessable income for PNG income tax. The grant of the Entitlement should not be regarded as a dividend.

7.3 If you take up your Entitlement

Upon taking up your Entitlement in full or in part you should not derive any assessable income for PNG income tax purposes. The amount paid to acquire your New Shares will not be deductible for PNG income tax purposes because it is of a capital nature.

As there is no PNG capital gains tax, the amount you pay to acquire the New Shares and New Options will not be relevant for PNG income tax purposes (provided that you have not acquired the New Shares and New Options for the purpose of profit-making by sale or as part of a profit-making undertaking or scheme).

7.4 Disposal of New Shares and New Options

If you dispose of your New Shares and New Options you will only derive assessable income for PNG income tax purposes if you acquired the New Shares and New Options for the purpose of profit-making by sale or as part of a profit-making undertaking or scheme. There is no capital gains tax as such in PNG.

7.5 Stamp duty

No stamp duty will be payable on the grant or exercise of an Entitlement.

Transfers of any marketable securities listed on POMSoX are exempt from stamp duty in PNG where the transfer is effected through a licensed broker. New Shares and New Options are expected to be listed on POMSoX.

Apart from the exemption stated above, transfers of New Shares and New Options will be liable to stamp duty at the rate of 1% of the consideration for or value of the securities, whichever is greater.

7.6 Goods and services tax

PNG goods and services tax will not apply to any Application Monies you pay in consideration for New Shares issued on exercise of your Entitlement.

7.7 Dividend withholding tax

PNG dividend withholding tax will generally apply to dividends paid by the Company (a PNG resident company) to its Shareholders regardless of whether the Shareholder is resident in PNG or not. The current rate of PNG dividend withholding tax is 17%.

If you are a PNG resident company, PNG dividend withholding tax deducted from dividends received by you will be credited against dividend withholding tax payable when those dividends are on-paid by you to your shareholders so long as the dividends are on-paid within 7 years.

If you are an approved superannuation fund resident in PNG or a non-resident fund, dividends paid to you are exempt from dividend withholding tax.

If you are an individual who is resident in PNG or a resident trust estate, the dividend withholding tax is a final PNG tax on your dividends.

If you are not resident in PNG, the dividend withholding tax is a final PNG tax on your dividends and the applicable rate of dividend withholding tax can be limited by PNG's Double Tax Agreements with other countries. However, the relevant agreements with Australia, Canada and the United Kingdom do not currently have the effect of lowering the applicable dividend withholding tax rate.

8. Additional information

8.1 Interests of Directors

As at the date of this Prospectus, the Director had the following relevant interests in Shares and no Director has any interest in any Options.

Director	Number of Shares	Nature of relevant interest
Murray Woo	Nil	N/A
Augustine Mano	Nil	N/A
Simon Woolcott	Nil	N/A
Edward Matane	Nil	N/A
Watt Kil Kiddie	Nil	N/A

Each Director is entitled to be paid Directors' fees in the form of cash, subject to an aggregate cap for all non-executive Directors.

Each Director will be entitled to participate in the Entitlement Offer to the extent that the Director holds Shares as at 5.00pm (Port Moresby) on the Record Date.

Except as set out above:

- no Director or proposed Director holds as at the date of this Prospectus, nor has held in the 2 years before the date of this Prospectus, an interest in:
 - the formation or promotion of the Company;
 - any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Entitlement Offer; or
 - the Entitlement Offer; and
- no Director or proposed Director has been paid or agreed to be paid any amount, nor has any benefit been given or agreed to be given to any Director or proposed Director to induce them to become or qualify them as a Director, or for services provided by them in connection with the formation or promotion of the Company or with the Entitlement Offer.

8.2 Interests of advisers

Except as set out below, no:

- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- stockbroker to the Entitlement Offer,

holds at the time of lodgement of this Prospectus the PNG Registrar of Companies, or has held in the 2 years before lodgement of this Prospectus with the Registrar of Companies in PNG, an interest in:

- the formation or promotion of the Company;
- any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Entitlement Offer; or
- the Entitlement Offer.

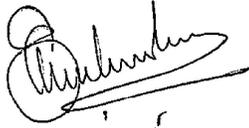
Allens has acted as PNG legal adviser to the Company in connection with the Entitlement Offer. In aggregate, the Company has paid or agreed to pay Allens approximately K 180,000 (excluding disbursements and goods and services tax) for these services to the date of this Prospectus. Further amounts may be paid to the Company in accordance with Allens' usual hourly charge-out rates.

8.3 POMSoX waivers

POMSoX has granted various waivers of the Listing Rules in respect of the capital restructuring undertaken following the Special Meeting of the Shareholders on 18 December 2014 and the approvals given by Shareholders at that meeting (the "**Capital Restructuring**") and the Entitlement Offer, summarised as follows.

Listing Rule waived	Event	Conditions attached (note that all of these conditions have been satisfied)
6.14	Issue of Options under the Capital Restructuring and Entitlement Offer with exercise price of less than 20 toea	No conditions attached
7.16	Issue of Options under the Capital Restructuring and Entitlement Offer resulting in more options being on issue than underlying securities (ie. shares).	<ul style="list-style-type: none"> • As per Listing Rule 7.1, Shareholders approve the placement of Shares and Options to the MRDC entities and NasFund. • The notice of meeting seeking Shareholder approval for the placement of Shares and Options to the MRDC entities and NasFund contains a voting exclusion statement that excludes the votes of the MRDC entities and NasFund. • No further options be issued or granted by the Company outside the proposed capital raising until such time as the number of issued securities (ie. shares) is greater than the number of issued options. • The Company release details of this waiver at the time that full details of the capital raising is announced to the market.
Listing Rule 7.11.3	Pro rata issue of securities on a ratio greater than 1:1 (ie. under the Entitlement Offer)	<ul style="list-style-type: none"> • Seek Shareholder approval.. • Same as 2nd, 3rd and 4th conditions of the waiver of Listing Rule 7.16.

This Prospectus is signed by Muralee Siva, as agent for (and who has been authorised in writing by) each of Murray Woo, Augustine Mano, Simon Woolcott, Edward Matane and Watt Kil Kiddie, each of whom is a Director as at the date of this Prospectus and as at the time this Prospectus was submitted to the PNG Registrar of Companies for registration.

A handwritten signature in black ink, appearing to read 'Muralee Siva', written over a horizontal line.

Muralee Siva

9. Glossary

The meanings of the terms used in this Prospectus are set out below.

Term	Meaning
Annual Financial Report	the meaning given in section 1.1
Application Monies	monies equal to K0.10 multiplied by the number of New Shares applied for by an Eligible Shareholder
Auditor's Report	the meaning given in section 1.1
Companies Act	the PNG <i>Companies Act 1997</i>
Company	Airlines of Papua New Guinea Limited, a company incorporated in PNG
Constitution	the constitution of the Company
Director	a director of the Company
Eligible Shareholder	the meaning given in section 1.2
Entitlement and Acceptance Form	the personalised Entitlement and Acceptance Form accompanying this Prospectus upon which an application for New Shares and New Options may be made
Entitlement	the entitlement of an Eligible Shareholder to subscribe for: <ul style="list-style-type: none">• 5 New Shares (at K0.10 each) for every 1 Share held by the Eligible Shareholder as at 5.00pm (Port Moresby time) on the Record Date; and• in respect of every New Share subscribed for, 2 free New Options each of which carries the right to subscribe for a New Share at K0.02 each at any time during a 5 year period.
Entitlement Offer	the offer of New Shares and New Options under this Prospectus
K	kina
Listing Rules	the listing rules of POMS0X
MRDC entities	Mineral Resources Development Company Limited, Mineral Resources Star Mountains Limited and Mineral Resources Ok Tedi No 2 Limited
NasFund	National Superannuation Fund of PNG (otherwise known as National Superannuation Fund Limited)
New Options	the Options offered under this Prospectus

Term	Meaning
New Shares	the Shares offered under this Prospectus
Option	an option to subscribe for a Share
PNG	the Independent State of Papua New Guinea
POMSoX	Port Moresby Stock Exchange Limited and the exchange operated by it
Prospectus	this prospectus (which includes the Annual Financial Report and Auditor's Report), as well as any supplementary or replacement prospectus
Record Date	4 July 2016
Securities Act	the PNG <i>Securities Act 1997</i>
Share	a fully paid ordinary share issued in the capital of the Company
Shareholder	a person registered as the holder of one or more Shares
Share Registry	the Company's share registry, PNG Registries Limited
US	the United States of America
US Person	the meaning given to "US Person" in Regulation S of the US Securities Act
US Securities Act	the US Securities Act of 1933, as amended

Corporate directory

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