ALLIANCE AVIATION SERVICES LIMITED

ACN 153 361 525

ASX Code : AQZ

ANNUAL REPORT

For the year ended 30 June 2016

TABLE OF CONTENTS

Company Directory

Principal Registered Office in Australia	Street: Website: Phone: Fax: Email: ACN: ASX:	81 Pandanus Ave Brisbane Airport QLD 4009 www.allianceairlines.com.au 07 3212 1212 07 3212 1522 executive@allianceairlines.com.au 153 361 525 AQZ
Directors	S Padgett S McMillan P Housden D Crombie L Schofield	Non-executive chairman Managing director Independent non-executive director Independent non-executive director Executive Director
Secretary	M Dyer	
Senior Management	M Dyer S Edwards	Chief Financial Officer General Manager Commercial
Share Register	Link Market Services Limited 324 Queen Street Brisbane QLD 4000	
Auditor	PricewaterhouseCoopers 123 Eagle Street Brisbane QLD 4000	
Solicitors	Norton White 66 Hunter Street Sydney NSW 2000 Freehills Herbert Smith 101 Collins Street Melbourne VIC 3000	
Bankers	Australian and New Zealand Banking Group 111 Eagle Street Brisbane QLD 4000 Commonwealth Bank of Australia Limited 300 Murray Street, Perth, WA 6000 Fiduciary Services – Australian and New Zealand Banking Group	
Stock Exchange	Australian Securities Exchange Exchange Centre 20 Bridge Street Sydney NSW 2000	

An electronic copy of this Annual Report is available at www.allianceairlines.com.au

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the "group") consisting of Alliance Aviation Services Limited (the "Company" or "Alliance") and the entities it controlled at the end of, or during, the year ended 30 June 2016.

The following persons were directors of Alliance Aviation Services Limited during the financial year 2016:

Steve Padgett	Non-executive chairman
Scott McMillan	Managing director
Lee Schofield	Chief Executive Officer
Peter Housden	Independent non-executive director
David Crombie	Independent non-executive director

The key messages from this report are:

- Alliance has restructured the business and transitioned into a broad based aviation company. It operates across a range of industries and is focussed on continued revenue diversification. It has retained all contracts, won new work and continues to develop new revenue streams;
- Alliance is focussed on ongoing improvements to cash-flow. Free cash flow has allowed for continued debt reduction;
- Alliance derived an statutory profit before tax of $13.5 million. Cost control including a reduction in headcount from 457 to 426, has contributed to free cashflow;
- Favourable tax positioning with no cash tax payable for the next 4-5 years. Alliance has a large franking balance allowing future dividends to be fully franked;
- Capital expenditure during the year decreased by $17 million (46%) to $20.1 million as a result of the restructured engineering division. Alliance is able to maintain sustainable lower capital expenditure;
- Alliance established its European operation and will introduce a new revenue stream which will contribute in future reporting periods; and
- The Directors have declared a final fully franked dividend for the year ended 30 June 2016 of 2.0 cents per ordinary share.

Summary of Financial Results

Alliance Aviation Services Limited recorded a statutory net profit of $13.5 million for the financial year ended 30 June 2016 and delivered an underlying net profit before tax from ordinary operations of $15.8 million.

The results for the year ended 30 June 2016 have been summarised below to facilitate direct comparison with the 2015 results.

The "Actual" are the financial results in accordance with the audited Australian Accounting Standards. Adjustments have been made for one off and unusual items in determining the "Underlying" performance of the company.

In our view, the following presentations assist in assessing business performance and remove from the IFRS profit particular expenses to show a 'bottom line' non-IFRS profit.

Item	FY 2016 $m			FY 2015 $m		
	Actual	Adjusted	Underlying	Actual	Adjusted	Underlying
Revenue	182.6	-	182.6	199.4	-	199.4
EBITDA	42.5	1.1	43.6	41.7	4.5	46.2
EBIT	18.4	2.3[1]	20.7	(31.4)	58.1[2]	23.7
Finance Costs	(4.9)	-	(4.9)	(4.9)	-	(4.9)
EBT	13.5	2.3	15.8	(39.3)	58.1	18.8

Revenue

Revenue for the year was $182 million compared to $199 million in FY2015, a decrease of 9.3%. The reduction is predominantly the result of an overall reduction in the fuel price during the year. Fuel savings (and increases) are passed through to customers in the majority of the long term contracts.After normalising for the impact of fuel during the year, revenue from flying increased by 3.77% (2015: -9.7%).

During the year contracted flying hours were stable with a small decrease in wet lease hours. In May 2016 Alliance started flying contracted wet lease hours under a long term contract with Virgin Australia.

Flying hours	FY 2016	FY 2015	FY 2014
Contracted Flying Hours	23,485	23,395	22,811
Wet Lease Flying Hours	831	890	2,351
Total Flying Hours	24,317	24,285	25,162
Wet Lease Flying Hours as a percentage of total flying hours	3%	4%	9%

Alliance has retained all material contracts and continues to focus on its long term relationships with existing customers.

Capital Expenditure

Capital expenditure for the year was $20.1 million (2015: $37.7 million). This expenditure was for the heavy maintenance of the aircraft fleet.

Capital expenditure does not include the acquisition of the aircraft from Austrian Airlines AG. These aircraft are classified as inventory.

Operating Cash flow

Operating cash flow for the year was $25.4 million (2015: $11.9 million). The increase in operating cash flow is mainly a result of cost reductions.

[1] This adjustment is operating expenses which represent, the employee costs incurred with "once off" redundancy, termination and restructuring costs which were incurred during the period, foreign exchange adjustments attributable to overseas transactions and establishment costs of the Slovakian operation .
[2] This is the total of the adjustments for the year ended 30 June 2015 which is predominately the impairment charge recognised and a "one off" depreciation charge as a result

Key Metrics

A summary of the Company's key metrics is:

Detail	FY 2016	FY 2015	FY 2014	FY 2013
Aircraft in Service	27	25	27	25
Flight Hours	24,317	24,285	25,162	31,940
Total Flights	18,774	18,786	19,294	22,887
Average Staff Numbers	426	492	512	522
EBITDA* per aircraft	$1.6M	$1.6M	$1.5M	$2.3M
Revenue per employee	$401k	$399K	$392K	$447K
FIFO % of Total Revenue	82%	88%	82%	77%

*EBITDA excludes aircraft and part sales.

As at 30 June 2016 the total staff numbers were 426 which is a decrease of 7% from 30 June 2015.

Business Strategies and Outlook

Alliance will always have an emphasis on the highest level of safety, maintaining industry leading on time performance and outstanding customer service to support the delivery of sustainable shareholder returns.

Revenue and Diversification

Alliance's superior operating performance enables it to retain contracts over the long term.

During the past 12 months Alliance has continued with its strategy to increase the amount of non-resource related charter revenue Alliance has been successful in securing contracts in the tourism sector, particularly in the Australian inbound sector. This will continue to be a key part of the future growth of Alliance.

Fleet and Maintenance

Alliance is continuing to review its fleet strategy. This includes aircraft type, number and location as market conditions continue to change. Where opportunities present themselves, Alliance will use the resources within the European aircraft pool to promote its ability to service and expand its fleet in the most cost effective manner.

Alliance completed the restructure of the heavy maintenance program in August 2015. This resulted in substantial savings including significantly reduced capital expenditure for the year. This new program will lead to continued enhanced cash generation in future years.

Cash flow

The positive cash result confirms that the business has stabilised. Combined with the restructuring that has been completed, the Directors believe that positive cash flows will continue to be generated.

Alliance continues to focus on the cash flow of the business.

Outlook

The outlook for contract flying is stable. The focus is growing the tourism charter work and the wet and dry lease business.

Alliance has the opportunity to leverage significant value from the acquisition of the Austrian Airlines AG Fokker Fleet. Revenue will be earned from this transaction through aircraft sales, part sales and leases, a portion of which will be derived in FY17.

In summary, the financial outlook for Alliance for the year ended 30 June 2017 is one of opportunity. Whilst contract revenues remain stable, Alliance has continued to restructure its business, diversify its revenue and operate in news ways to grow the business.

Dividend

The Directors previously announced they would consider the reinstatement of the dividend. This would be done after, the revenue from flying had stabilised, the financing strategy was mature and the engineering restructure and the corresponding impact on cash flow were more certain.

This review has been completed and the Directors have declared a fully franked dividend in respect of the year ended 30 June 2016 of 2.0 cents per share. The focus of the Directors continues to be cash flow generation to strengthen the financial position of Alliance and provide sustainable returns to shareholders.

Impairment of Assets

In December 2014, the Directors determined to take a total impairment charge for property, plant and equipment and inventory of $44.9 million. There was a further write down of an intangible of $0.3 million bringing the total impairment charge to $45.3 million.

Further assessments for impairment were completed as at 30 June 2015, 31 December 2015 and 30 June 2016 and the Directors have determined there is no need for further impairment of assets.

Description of Operations

Alliance is a broad based aviation services provider. It continues to diversify its revenue with charter income, wet lease income, aircraft and part sales and engineering services.

It is the leading air charter operator in Australia and provides a service to a number of sectors including tourism, resources, education, government, corporate, sporting and entertainment. In the past two years, Alliance has further expanded the tourism sector and is continuing to develop new products and an expanded charter business. In May 2016 Alliance started long term contracted wet lease services for Virgin Australia in Queensland.

During the year Alliance completed the IATA operational safety audit and has received IOSA certification. This is a global recognition of the operational management and control of the airline. The company also has the Flight Safety Foundation “BARS Gold” status and received Wyvern accreditation.

The Australian company owns a fleet of 15 Fokker 100 (F100) and 8 Fokker 70LR (F70) jet aircraft and 5 Fokker 50 (F50) turboprops at industry leading on time performance.

Alliance has a footprint in Australia and New Zealand with operations and aircraft based in Brisbane, Townsville, Cairns, Adelaide, Melbourne, Perth, Darwin and Auckland.

In November 2015 Alliance announced the acquisition of the Austrian Airlines AG Fokker fleet of 21 aircraft. This resulted in the establishment of a Slovakian subsidiary which has started the European operations. This entity will sell and lease whole aircraft, provide a ready supply of parts to operators of Fokker aircraft and support the Alliance fleet through a continued, reliable and cost effective supply of parts.

Safety will always be the most important operational requirement for Alliance and is paramount to the groups' success.

Alliance has an enviable industry leading on time performance record with an average of 95% (2015: 94%) for the year ended 30 June 2016. This is what sets our performance apart from our competitors.

Aircraft

The total number of Alliance aircraft in service which are represented in the financial position of Alliance as at 30 June 2016 is as follows:

Aircraft	FY 2016	FY 2015	FY 2014
F50	5	5	5
F70	8	7	6
F100	14	13	17
	27	25	28

The low capital cost of the aircraft gives Alliance an organisational and competitive cost base advantage.

Revenue Sources and Major Contracts

The primary revenue sources for Alliance are from flying activity for; long term charter contracts, charter revenue and contracted wet lease arrangements. More recently this has expanded to include aircraft and parts sales as the group leverages the Fokker fleet purchase.

Alliance has built its business over many years from the contracted FIFO operations for Australia's premier mining and resource companies with a particular focus on long term low cost production projects. This is a stable part of the Alliance business with limited exposure to any construction contracts.

With a unique aircraft mix, better capacity, together with its national footprint, Alliance has positioned itself to secure new opportunities in the future. This includes the opportunity in the high end tourism charter business. The F70 fleet provides a very flexible and efficient offering that can be configured to specific customer needs. Inbound tourism operations are an expanding part of the Alliance business.

Long term contracts provide good visibility of future revenues once secured. During the year there were a number of new or renewed contracts which include the win of the Santos operation and the renewals of the Olympic Dam contract in South Australia and the South 32 contract in North Queensland.

Continued investment and optimisation in fleet numbers and aircraft type has ensured that Alliance is well positioned with to secure new opportunities and meet current customers' needs at a competitive price.

Organisational Readiness

Alliance has demonstrated over the past two years that it has the ability to be able to respond to the changes in our industry and our client's needs. This includes the restructure of the engineering division in Australia, the establishment of the European operation and the acquisition of the Austrian Airlines Fokker fleet together with the adaption of the business model to expand into new markets.

As a result, Alliance is a restructured business, both in terms of diversified revenue and a lower cost base.

Environmental regulation

The group operations are subject to a range of Commonwealth, State, Territory and international environmental legislation. The group is committed to environmental sustainability with high standards for environmental performance. The Board places particular focus on the environmental aspects of its operations through the Executive Safety Action Group (ESAG) which is responsible for monitoring compliance with these regulations and reporting to the Directors.

Alliance has adequate systems for the management of the group's environmental exposure and performance. The Directors are not aware of any breaches of any environmental legislation or of any significant environmental incidents during the year which are material in nature.

Other Relevant Facts

Principal Activities

During the year the principal activities of the group was provision of aircraft charter services. The group also established a European subsidiary which will be responsible for the aircraft sales, parts sales and any leasing opportunities as a result of the purchase of the 21 Fokker aircraft from Austrian Airlines AG.

Earnings per Share

The basic earnings per share was 11.75 cents for the year ended 30 June 2016 (2015: (34.4) cents).

Bank Debt Facility

The group successfully completed a refinance of the existing debt facilities in June 2015.

The debt was refinanced with the current financers, ANZ and CBA for a further 3 years expiring 5 July 2018. The new debt facility is on principally the same terms and conditions as the previous facility. The debt was renewed at the same total cost. There is an opportunity to reduce this cost within the current financing document with continued cash flow enhancement.

The Directors continue to maintain the strategy to lower debt in the medium term.

Dividends

There was no interim dividend declared or paid for the half year ended 31 December 2015. Having regard to the current and future cash flow of the underlying flying business, the Directors have declared a final dividend for the year ended 30 June 2016 of 2.0 cents per share fully franked.

Likely developments and expected results of operations

There are no items that have not been separately disclosed in this report.

Significant Changes in the State of Affairs

Apart from the changes discussed above, there were no significant changes in the state of affairs of the Group during the period.

This report is made in accordance with a resolution of directors.

Information on Directors

The following information is current as at the date of this report.

S Padgett: ***Chairman and non-executive director***		
Experience and expertise	Mr Padgett was a founding shareholder and inaugural chairman of the entities formed in 2002 which were the predecessors of the group. He has extensive aviation experience formerly being the managing director and principal of Aeromil Pacific Pty Ltd an aviation business formed in 1980 involved in aircraft sales, corporate charter, aircraft maintenance, pilot training and aviation consultancy. Aeromil was sold in 2015 to Hawker Pacific.	
Other current directorships	Director of: ▪ Regional Aviation Association of Australia (Life Member).	
Former directorships in the last three years	Managing Director of Aeromil Pacific Pty Limited	
Special responsibilities	▪ Chairman of the board ▪ Member of nomination and remuneration committee ▪ Member of the audit and compliance committee	
Interests in shares and options	Ordinary Shares	9,962,303

P Housden: ***Independent non-executive director***		
Experience and expertise	Mr Housden has over 41 years' experience in accounting, finance and management across a range of industries, including 21 years as a director of ASX listed companies.	
Other current directorships	Director of ASX listed companies: ▪ Royal Wolf ▪ Graincorp ▪ Seeing Machines Limited	
Former directorships	▪ iSoft Group ▪ Calibre Ltd ▪ Sino Gold Mining ▪ Clean Seas Tuna ▪ Kaz Group	
Special responsibilities	▪ Member of the nomination and remuneration committee ▪ Chairman of the audit and compliance committee	
Interests in shares and options	Ordinary Shares	33,486

D Crombie: Independent non-executive director		
Experience and expertise	Mr Crombie has extensive experience in the agricultural industry founding GRM International a company managing development projects in Australia and overseas.	
Other current directorships	Director of ASX listed companies: ▪ Australian Agricultural Company Ltd ▪ Barrack St. Investments Director of: ▪ GRM Futures Group	
Former directorships	▪ Meat and Livestock Australia (Chairman) ▪ National Farmers Federation (President) ▪ Australian Rugby Union (President) ▪ Foodbank Queensland (Director) ▪ Export Finance and Insurance Corporation (Director) ▪ Rosewood Station Pty Ltd	
Special responsibilities	▪ Chairman of the nomination and remuneration committee. ▪ Member of the audit and compliance committee.	
Interests in shares and options	Ordinary Shares	144,424

S McMillan: *Managing director (executive director)*		
Experience and expertise	Mr McMillan was a founding shareholder and managing director of the entities formed in 2002 which were the predecessors of the group. He has extensive aviation experience prior to joining Alliance he held senior positions with Ansett Australia, Flight West and qualified as a chartered accountant with Peat Marwick Mitchell (now KPMG).	
Other current directorships	▪ Regional Aviation Association of Australia	
Former directorships	Nil	
Special responsibilities	Managing Director	
Interests in shares and options	Ordinary Shares	4,372,206

L Schofield: *Chief Executive Officer (executive director)*		
Experience and expertise	Mr Schofield has broad experience as a solicitor working in corporate, commercial and transport matters. His specific aviation experience includes legal and commercial roles with an international aircraft leasing company and he was a member of the executive team at an Australian based airline prior to joining alliance.	
Other current directorships	▪ Complete Aviation Solutions Pty Ltd	
Former directorships	▪ Australian Handball Federation ▪ VGS Bermuda Leasing One Ltd	
Special responsibilities	Chief Executive Officer	
Interests in shares and options	Ordinary Shares	2,222

Company Secretary

The Company Secretary as at 30 June 2016 was M Dyer. M Dyer was appointed company secretary on 15 July 2013. M Dyer is also the Chief Financial Officer.

Meetings of Directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2016, and the numbers of meetings attended by each director were:

Director			Meetings of Committees			
	Full meetings of directors		Audit and Compliance		Nomination and Remuneration	
	A	B	A	B	A	B
S Padgett	8	8	3	3	1	1
S McMillan	8	8	-	-	-	-
P Housden	8	8	3	3	1	1
D Crombie	8	8	3	3	1	1
L Schofield	8	8	-	-	-	-

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year

Remuneration Report

Role of the Nomination and Remuneration Committee

The nomination and remuneration committee is a committee of the board. Its key roles include making recommendations to the board on:

- Non-executive director fees;
- Remuneration levels of executive directors and other key management personnel;
- The executive remuneration framework and operation of the incentive plans, and
- Key performance indicators and performance hurdles for the executive team.

Their objective is to ensure that remuneration policies and structures are equitable and competitive and aligned with the long-term interests of the company and its shareholders.

The current members of the remuneration committee are Mr D Crombie (Chair), Mr P Housden and Mr S Padgett. The Corporate Governance Statement provides further information on the role of this committee.

Non-Executive Director Remuneration Policy

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the board.

Directors' Fees

An annual base fee has been set for the chairman and other directors. Additional fees are paid to non-executive directors who chair a committee. The Chairman's remuneration is inclusive of committee fees.

Non-Executive Directors' Fees

Non-executive directors' fees are determined within an aggregate directors' fee annual pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $700,000 per annum. This limit can only be changed by approval of shareholders at a general meeting.

There have been no changes to any non-executive fees during the current year.

The following fees have applied:

Fee type	FY 2016 $	FY 2015 $
Base Fees		
Chair	181,000	181,000
Other non-executive directors	76,000	76,000
Additional Fees		
Committee – chair	14,000	14,000

Superannuation contributions required under the Australian superannuation guarantee legislation will continue to be made and are inclusive to the directors' overall fee entitlements.

Alliance does not pay benefits (other than statutory entitlements) on retirement of directors.

Remuneration Report (continued)

Executive Remuneration Policy and Framework

Our remuneration committee is made up of non-executive directors. The committee reviews and determines our remuneration policy and structure annually to ensure it remains aligned to business needs, and meets our remuneration principles. From time to time, the committee also engages external remuneration consultants to assist with this review.

In particular, the board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the company to attract and retain key talent;
- aligned to the company's strategic and business objectives and the creation of shareholder value;
- transparent and easily understood, and
- acceptable to shareholders.

The board intends to have an executive remuneration and reward framework that has three components:

- Base pay and benefits, including superannuation;
- Short-term performance incentives, and
- Long-term incentives.

For the year ended 30 June 2016 the following remuneration practices were adopted for KMP:

Base Pay and Benefits

Executives receive their base pay as the fixed component of their remuneration. They can elect to salary sacrifice and receive non-monetary benefits. There is no guaranteed base pay increases included in any executives' contracts.

Balancing short-term and long-term performance

Annual incentives are set at a maximum of 20% of fixed remuneration, in order to drive performance without encouraging undue risk-taking.

Short-Term Incentives

In 2016, a short-term incentive bonus pool was provided for KMP following the completion of the 2015 financial year.

The relative proportions of remuneration that is linked to performance and those fixed are as follows:

Name	Fixed remuneration		At risk – STI		At risk – LTI	
	2016	2015	2016	2015	2016	2015
Other key management personnel						
Executive directors						
S McMillan	80%	80%	20%	20%	0%	0%
L Schofield	80%	80%	20%	20%	0%	0%
Other key management personnel						
M Dyer	80%	80%	20%	20%	0%	0%
S Edwards	80%	80%	20%	20%	0%	0%

Remuneration Report (continued)

Long-Term Incentives

Long-Term Incentives are aligned to long-term shareholder value.

The Company has adopted a framework for a Long Term Incentive Plan ("LTI Plan") to assist in the attraction, motivation and retention of employees (including executive directors) of Alliance. The framework authorises the grant of options, rights or restricted shares ("LTI Securities"). Eligibility to participate in the LTI plan, the number and type of LTI Securities offered to each individual participant, will be determined by the board as part of an overall remuneration strategy to be developed.

An option, right or restricted share will vest and become exercisable (if applicable) to the extent that the applicable performance, service or other vesting conditions specified at the time of the grant are satisfied. The LTI framework provides the board with the discretion to set the terms and conditions on which it will offer LTI Securities under the LTI Plan, including the vesting conditions and waiver of the terms and conditions.

Upon the satisfaction of the vesting conditions, each right issued under the LTI Plan will convert to a share on a one-for-one basis; each option will entitle the holder to receive one share upon the payment of the applicable exercise price; and each restricted share will cease to be restricted.

Shares issued under the LTI Plan, including on vesting and exercise of rights and options will rank equally with the other issued shares.

Any rights and options issued do not carry any voting or dividend rights. Restricted shares and shares allocated on vesting or exercise of a right or option carry the same rights and entitlements of ordinary fully paid shares, including dividend and voting rights.

To the extent permitted by the Listing Rules, the board retains the discretion to vary the terms and conditions of the LTI Plan. This includes varying the exercise price for options, the number of rights and options or the number of shares to which a plan participant is entitled upon a reorganisation of capital of the Company.

Without the prior approval of the board, LTI securities may not be sold, transferred, mortgaged, charged or otherwise dealt with or encumbered.

LTI Securities will lapse or be forfeited if the applicable vesting conditions are not met during the prescribed period.

Rights and options will not be quoted on the ASX. The company will apply for official quotation of any shares issued under the LTI Plan, in accordance with the Listing Rules.

The LTI Plan contains provisions concerning the treatment of vested and unvested LTI Securities in the event a plan participant ceases employment.

Unless the board determines otherwise, if a plan participant ceases employment by reason of resignation, termination for poor performance or termination for cause, all LTI Securities held by the plan participant will lapse or be forfeited (as the case may be).

Unless the board determines otherwise, if a plan participant ceases employment for any other reason, including by reason of death, disability, redundancy, retirement or by agreement, all LTI Securities for which the applicable vesting conditions have not been satisfied as at the date of cessation of employment will remain 'on foot', subject to the original vesting conditions (except that any continuous service condition will be deemed to have been waived).

The board has the discretion to accelerate vesting of LTI Securities in the event of a change of control. Any other unvested LTI Securities will lapse or be forfeited (as applicable) unless the board determines otherwise.

Remuneration Report (continued)

The company will pay all costs of issuing shares, brokerage on acquisitions of shares and all costs of administering the LTI Plan. These costs are not expected to be material.

The LTI Plan also contains customary and usual terms having regard to Australian law for dealing with winding up, administration, variation, suspension and termination of the LTI Plan.

Any issues pursuant to the LTI plan will be made as part of the overall remuneration and reward framework.

There was no issue pursuant to the LTI plan in the current year. It is forecast that a future issue will be considered during the 2017 financial year.

Issue of Rights

There were no shares issued as part of this rights issue during 30 June 2016.

Rights holdings

There are no rights over ordinary shares in the company held by any director of Alliance Aviation Services Limited and other key management personnel of the group, including their personally related parties for year ended 30 June 2016.

Details of Remuneration

The following tables show details of the remuneration received by the directors and the key management personnel of the group for the current and previous financial year.

2016	**Short-term employee benefits**			**Post-employment benefits**	**Long term benefits**	**Termination benefits**	**Share based payments**	
	Cash salary and allowances $	**Cash Bonus $**	**Cash Annual leave $**	**Super-annuation $**	**Long services leave $**	**Termination benefits $**	**Options $**	**Total $**
Non-executive directors								
S Padgett	165,675	-	-	15,739	-	-	-	181,414
D Crombie	82,192	-	-	7,808	-	-	-	90,000
P Housden	90,000	-	-	-	-	-	-	90,000
Sub-total non-executive directors	**337,867**	**-**	**-**	**23,547**	**-**	**-**	**-**	**361,414**
Executive directors								
S McMillan	455,218	53,946	84,246	35,000	9,957	-	-	638,367
L Schofield	340,065	31,615	32,377	19,308	4,258	-	-	427,623
Other key management personnel								
M Dyer	209,506	30,138	19,210	21,728	1,909	-	-	282,491
S Edwards	252,511	10,046	16,389	25,546	1,097	-	-	305,589
Total key management personnel compensation (group)	**1,595,167**	**125,745**	**152,222**	**125,129**	**17,221**	**-**	**-**	**2,015,484**

Remuneration Report (continued)

The right to receive an STI or LTI is generally considered by the Remuneration Committee and the Board after the signing the financial accounts for the year and in advance of the Annual General Meeting. This review considers the financial performance of the immediately preceding year compared with forecast, specified key performance indicators for each KMP for the preceding year and the performance of the share price.

2015	Short-term employee benefits			Post-employment benefits	Long term benefits	Termination benefits	Share based payments	
	Cash salary and allowances $	Cash Bonus $	Cash Annual leave $	Super-annuation $	Long services leave $	Termination benefits $	Options $	Total $
Non-executive directors								
S Padgett	165,675	-	-	15,739	-	-	-	181,414
D Crombie	82,380	-	-	7,826	-	-	-	90,206
P Housden	90,000	-	-	-	-	-	-	90,000
Sub-total non-executive directors	**338,055**	**-**	**-**	**23,565**	**-**	**-**	**-**	**361,620**
Executive directors								
S McMillan	489,626	53,946	14,837	35,000	13,303	-	-	606,712
L Schofield	284,394	27,523	15,484	18,753	3,876	-	-	350,030
Other key management personnel								
M Dyer	241,102	30,138	22,619	25,053	1,494	-	-	320,406
K Crawford (Resigned 31/12/13)	-	-	-	-	-	200,000	-	200,000
S Edwards (Appointed 16/02/15)	103,210	-	-	9,805	340	-	-	113,355
Total key management personnel compensation (group)	**1,456,387**	**111,607**	**52,940**	**112,176**	**19,013**	**200,000**	**-**	**1,952,123**

Service Agreements

On appointment to the board, all non-executive directors enter into a service agreement with the company in the form of a letter of appointment.

Remuneration and other terms of employment for the managing director and the other key management personnel are formalised in employment agreements. These agreements provide for remuneration in the form of base salary plus superannuation. The service agreements are summarised below:

Name	Commencement date	Term of employment contract	Base salary and allowances including super-annuation	Termination benefits
S McMillan Managing director	05-Apr-02	On-going	$574.464	Nil
L Schofield Chief Executive Officer	12-Jun-12	On-going	$394,200	Nil
S Edward General Manager – Commercial	16-Feb-15	On-going	$301,376	Nil
M Dyer Chief Financial Officer / Company Secretary	06-May-13	On-going	$180,826	Nil

Remuneration Report (continued)

Share Based Compensation

There are no rights or grants on issue affect remuneration in the current or a future reporting period.

Details of Remuneration: Bonuses and Share Based Compensation Benefits

As the bonuses paid and the rights granted during the year were completely at the discretion of the directors without specific service or performance targets for individuals it is not possible to identify amounts forfeited for not meeting targets.

Loans to Directors and Executives

There have been no loans to directors and executives during the year.

Share holdings by Directors

The numbers of shares in the company held during the financial year by each director of Alliance Aviation Services Limited and other key management personnel of the group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

FY 2016					
Name	Balance at start of the year	Disposal during the year	Received during the year on the exercise of options	Other changes	Balance at the end of the year
Directors of Alliance Aviation Services limited					
Ordinary Shares					
S Padgett	9,962,303	-	-	-	9,962,303
D Crombie	144,424	-	-	-	144,424
P Housden	33,486	-	-	-	33,486
S McMillan	4,012,206	-	-	360,000	4,372,206
L Schofield	2,222	-	-	-	2,222

FY 2015					
Name	Balance at start of the year	Disposal during the year	Received during the year on the exercise of options	Other changes	Balance at the end of the year
Directors of Alliance Aviation Services limited					
Ordinary Shares					
S Padgett	9,962,303	-	-	-	9,962,303
D Crombie	33,901	-	-	110,523	144,424
P Housden	32,977	-	-	509	33,486
S McMillan	3,494,406	-	-	517,800	4,012,206
L Schofield	-	-	-	2,222	2,222

Shares under option

There were no ordinary shares of Alliance Aviation Services Limited under option at the date of the report.

Remuneration Report (continued)

Insurance of Officers

The company has indemnified the directors for costs incurred, in their capacity as a director, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, Alliance Aviation Services Limited and its controlled entities paid a premium of $192,463 to insure the directors and secretary of the group companies.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001.*

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20.

Rounding of Amounts

The group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PwC continues in office in accordance with section 327 of the *Corporations Act 2001*.

Non-Audit Services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the group are important.
Details of the amounts paid or payable to the auditor (PwC) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit and compliance committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*

During the year the following fees were paid or payable for non-audit services provided by the auditor of the group, its related practices and non-related audit firms:

	2016 $	2015 $
Taxation Services		
PwC		
Tax consulting and compliance services	**71,931**	65,613
Total remuneration for taxation services	**71,931**	65,613
Total remuneration for non-audit services	**71,931**	65,613

This report is made in accordance with a resolution of directors.

S Padgett

Chairman
Sydney
10 August 2016

Auditor's Independence Declaration

As lead auditor for the audit of Alliance Aviation Services Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Alliance Aviation Services Limited and entities it controlled during the year.

Timothy J Allman
Partner
PricewaterhouseCoopers

Brisbane
10 August 2016

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Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Financial Statements

Alliance Aviation Services Limited - ACN 153 361 525 (ASX Code AQZ)

Financial Statements

These financial statements are consolidated financial statements for the group consisting of Alliance Aviation Services Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Alliance Aviation Services Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is

Alliance Aviation Services Limited
81 Pandanus Avenue
Brisbane Airport QLD 4009

The financial statements were authorised for issue by the directors on 10 August 2016. The directors have the power to amend and reissue the financial statements

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial statements, corporate governance statements and other information are available on our website: www.allianceairlines.com.au

Consolidated income statement

Revenue and income	Notes	2016 $'000	2015 $'000
Revenue from continuing operations	6	**182,649**	199,456
Other income	7	**4**	36
Net foreign exchange (losses)/gains		**(1,143)**	244
		181,510	199,736
Expenses			
Flight and operations costs	8	**(68,848)**	(82,856)
Engineering and maintenance costs	8	**(11,064)**	(15,213)
Selling and marketing expenses		**(482)**	(1,165)
Office and general administration costs	8	**(9,034)**	(8,953)
Finance costs	8	**(4,910)**	(4,935)
Employee costs	8	**(50,681)**	(46,606)
Depreciation	13	**(22,986)**	(27,880)
Foreign exchange reserve release	3	**-**	(2,942)
Loss on disposal of property, plant and equipment	8	**-**	(3,243)
Impairment of non-current assets	5,8	**-**	(45,266)
		(168,005)	(239,059)
Profit/(Loss) before income tax for the period		**13,505**	(39,323)
Income tax (expense) / benefit	9	**(16)**	2,740
Profit/(Loss) for the period		**13,489**	(36,583)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company	33	**Cents**	Cents
Basic earnings per share		**11.75**	(34.41)
Diluted earnings per share		**11.75**	(34.41)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Financial Statements

Consolidated statement of comprehensive income

	Notes	2016 $'000	2015 $'000
Profit for the period		**13,489**	(36,583)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Change in the fair value of cash flow hedges	23	**(142)**	(1,574)
Income tax relating to these items	9	**43**	472
Other comprehensive income for the year, net of tax		**(99)**	(1,102)
Total comprehensive income for the period		**13,390**	(37,685)
Total comprehensive income for the period is attributable to:			
Owners of Alliance Aviation Services Limited		**13,390**	(37,685)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Financial Statements

Consolidated balance sheet

	Notes	2016 $'000	2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	10	**2,096**	600
Receivables	11	**28,738**	24,528
Inventories	12	**37,066**	24,699
Total current assets		**67,900**	49,827
Non-current assets			
Property, plant & equipment	13	**168,518**	170,719
Deferred tax asset	14	**31**	-
Total non-current assets		**168,549**	170,719
Total assets		**236,449**	220,546
LIABILITIES			
Current liabilities			
Trade and other payables	15	**22,878**	22,978
Derivative financial instrument		**171**	-
Borrowings	16	**11,295**	9,798
Current tax liabilities		**65**	18
Provisions	17	**5,026**	4,845
Total current liabilities		**39,435**	37,639
Non-current liabilities			
Borrowings	18	**68,541**	75,342
Provisions	21	**1,488**	1,616
Total non-current liabilities		**70,029**	76,958
Total liabilities		**109,464**	114,597
Net assets		**126,985**	105,949
EQUITY			
Contributed equity	22	**180,483**	172,837
Reserves	23	**(113,031)**	(112,932)
Retained earnings	23	**59,533**	46,044
Total equity		**126,985**	105,949

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2014		**172,366**	**(111,830)**	**84,854**	**145,390**
Profit for the period	23	-	-	(36,583)	(36,583)
Other comprehensive income	23	-	(1,102)	-	(1,102)
Total comprehensive income for the period		-	(1,102)	(36,583)	(37,685)
Transactions with owners in their capacity as owners:					
Contributions of equity		162	-	-	162
Dividends paid	24	-	-	(1,918)	(1,918)
Dividend reinvestment plan	24	309	-	(309)	-
		471	-	(2,227)	(1,756)
Balance at 30 June 2015		**172,837**	**(112,932)**	**46,044**	**105,949**
Balance at 1 July 2015		**172,837**	**(112,932)**	**46,044**	**105,949**
Profit for the period	23	-	-	13,489	13,489
Other comprehensive income	23	-	(99)	-	(99)
Total comprehensive income for the period		-	(99)	13,489	13,390
Transactions with owners in their capacity as owners:					
Contributions of equity		7,646	-	-	7,646
Dividends paid	24	-	-	-	-
Dividend reinvestment plan	24	-	-	-	-
		7,646	-	-	7,646
Balance at 30 June 2016		**180,483**	**(113,031)**	**59,533**	**126,985**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**208,606**	213,841
Payments to suppliers (inclusive of goods and services tax)		**(178,289)**	(196,735)
Interest received		**4**	35
Interest paid		**(4,835)**	(5,217)
Income tax paid		**-**	-
Net cash inflow (outflow) from operating activities	32	**25,486**	11,924
Cash flows from investing activities			
Payments for property, plant and equipment		**(18,715)**	(7,081)
Proceeds from sale of property, plant & equipment		**215**	12,429
Net cash inflow (outflow) from investing activities		**(18,500)**	5,348
Cash flows from financing activities			
Proceeds from borrowings		**9,608**	88,000
Repayment of borrowings		**(15,100)**	(102,400)
Payments for borrowing costs		**-**	(593)
Dividends paid		**-**	(1,918)
Net cash inflow (outflow) from financing activities		**(5,492)**	(16,911)
Net increase (decrease) in cash and cash equivalents		**1,494**	361
Cash and cash equivalents at the beginning of the year		**602**	239
Cash and cash equivalents at the end of the year	10	**2,096**	600

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Financial Statements

Index of Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Alliance Aviation Services Limited and its subsidiaries.

1(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001.* Alliance Aviation Services Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS
The consolidated financial statements of the Alliance Aviation Services Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the group
None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 affected any of the amounts recognised in the current period or any prior period and is not likely to affect future periods.

(iii) Historical cost convention
These financial statements have been prepared under the historical cost convention.

(iv) Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

1(b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of Alliance Aviation Services Limited ('company' or 'parent entity') and its subsidiaries as at 30 June 2016.

(i) Subsidiaries
Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. Alliance Aviation Services Limited and its subsidiaries together are referred to in these financial statements as the group or the consolidated entity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

1(c) Segment reporting.

The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Alliance Aviation Limited board of directors.

Summary of Significant Accounting Policies (continued)

1(d) Foreign currency translation

(i) Functional and Presentation Currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Alliance Aviation Services Limited's functional and presentation currency.

(ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges.

The group has elected to designate their foreign currency borrowings as a hedge of the foreign currency risk associated with the future cash proceeds from the sale of aircraft (cash flow hedge), thereby removing the foreign exchange volatility in the profit and loss in relation to the US Dollar loan where it is effective. There were no foreign currency borrowings at 30 June 2016.

The effective portion of the gains or losses on borrowings that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity will be reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place).

When the foreign currency borrowings (being the hedging instrument) are repaid or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

1(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Contract FIFO services

Alliance Aviation Services Limited's primary business is the air transportation of workers and contractors to and from remote projects of major mining and energy companies. FIFO services are subject to contracts with companies. Revenue is derived in accordance with an agreed flight schedule based on completed flights.

Revenue is generally calculated on a variable price paid on a 'per round trip' basis. Alliance's customer contracts generally include cost pass-through mechanisms which provide for the price per trip to be adjusted (upwards and downwards) for movements in foreign currency exchange rates (A$:US$), fuel prices and CPI. These cost pass-through mechanisms are invoiced on a monthly or quarterly basis and enable Alliance to pass increases and decreases in certain costs, which vary from contract to contract, through to customers.

Summary of Significant Accounting Policies (continued)

1(e) Revenue Recognition (continued)

(ii) Charter services
Alliance Aviation Services Limited also utilises its fleet to provide charter services to a range of corporate and government customers predominantly through surplus capacity. Revenue is derived in accordance with an agreed flight schedule based on completed flights.

(iii) ACMI (wet leasing services)
The group also utilises its fleet for wet lease or ACMI contracts. A wet lease of an aircraft is an arrangement whereby the group provides an aircraft, crew, maintenance and insurance (also referred to as ACMI) to a third party. This differs from a charter, under which Alliance Aviation Services Limited retains complete responsibility for operating its aircraft and provides services and is paid for, on a per flight basis. Revenue is derived in accordance with an agreed flight schedule based on completed flights.

(iv) Interest income
Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

1(f) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Summary of Significant Accounting Policies (continued)

1(f) Income Tax (continued)

Alliance Aviation Services Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1(g) Leases

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term. There were no finance leases in place at 30 June 2016.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1(h) Impairment of Assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1(i) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

1(j) Trade Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis and where appropriate an allowance for doubtful debts is raised to reduce the carrying amount of trade receivables. The allowance for doubtful debts is based on historical trends and management's assessment of general economic conditions. An allowance for doubtful debts is raised when management considers there is a credit risk, an insolvency risk or an incapacity to pay a legally recoverable debt.

Summary of Significant Accounting Policies (continued)

1(j) Trade Receivables (continued)

The amount of the allowance for doubtful debt is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against flight and operations costs in profit or loss.

1(k) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs have been assigned to inventory quantities on hand at reporting date using the first-in-first-out basis. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Inventories consist of spare parts for aircraft and engines, spare engines and whole aircraft where the intent of acquisition or a change in use has been to part out the aircraft.

Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1(l) Derivatives and Hedging Activities

Alliance Aviation Services Limited has elected to designate their foreign currency borrowings as a hedge of the foreign currency risk associated with the future cash proceeds from the sale of aircraft (cash flow hedge), thereby removing the foreign exchange volatility in the profit and loss in relation to the US Dollar loan where it is effective

The effective portion of the gains or losses on borrowings that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place).

When the foreign currency borrowings (being the hedging instrument) are repaid or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

1(m) Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using both straight-line and unit of usage method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

▪ Leasehold improvements	5-18 years
▪ Aircraft assets (subject to time based depreciation)	5-12 years
▪ Aircraft assets (subject to usage based depreciation)	Remaining flight cycles/hours
▪ Vehicles	5-8 years

Summary of Significant Accounting Policies (continued)

1(m) Property, Plant and Equipment (continued)

- Furniture, fittings & equipment 3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

1(n) Rolls Royce Total Care Agreement

On 27 March 2012, Alliance Airlines entered in to a 10 year total care agreement with Rolls Royce to maintain F100 aircraft (Tay 650-15) engines. Rolls Royce supply spare aircraft engines, parts and for the granting of warranties and guarantees in exchange of a monthly fee calculated by multiplying a contract rate to the total engine hours under the agreement.

All of the F100 engines (Tay 650-15) are recognised as a single ‘pool of engines’ and recognised as part of the property plant and equipment.

The monthly payments are capitalised to this single pool of engines as they are incurred to increase the net book value.

The pool of engines are amortised using a unit of usage basis considering the current net book value and the number of remaining flight cycles.

1(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are initially recognised at their fair value, and subsequently measured at amortised cost using the effective interest method.

1(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised and deducted from the Borrowing loans and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

1(q) Provisions

Provisions are recognised when

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Summary of Significant Accounting Policies (continued)

1(q) Provisions

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

1(r) Employee Benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the reporting period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Share-based payments

Share-based compensation benefits may be provided to employees via the Alliance Aviation Services Limited Long Term Incentive plan (LTI).

The fair value of rights granted under the LTI are recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

1(s) Contributed Equity

Ordinary shares are classified as equity (note 22).

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Summary of Significant Accounting Policies (continued)

1(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

1(u) Earnings per Share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

1(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

1(w) Rounding of Amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Summary of Significant Accounting Policies (continued)

1(x) New Accounting Standards and Interpretations

(i) The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2015:

- AASB 2014-1 Amendments to Australian Accounting Standards

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

New accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods.

The group's assessment of the impact of these new standards and interpretations is set out below.

(ii) New standards and interpretations not yet adopted

Title of standard	Nature of impact	Impact	Mandatory application date/Date of adoption by group
AASB 9 Financial Instruments	AASB address the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rule for hedge accounting and a new impairment model for financial assets.	Following the changes approved by the AASB in December 2014, the group no longer expects any impact from the new classification, measurement and derecognition rules on the group's financial assets and financial liabilities. There will also be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The new hedging rules align hedge accounting more closely with the group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. The group has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules.	Must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The group is currently assessing whether it should adopt AASB 9 before its mandatory date.

Summary of Significant Accounting Policies (continued)

Title of standard	Nature of impact	Impact	Mandatory application date/Date of adoption by group
AASB 15 Revenue from Contracts with Customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	At this stage, the group is yet to undertake an assessment of the impact of the new rules on the group's financial statements. The group will make more detailed assessments of the impact over the next twelve months.	Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the group: 1 July 2018.

Summary of Significant Accounting Policies (continued)

There are no other standards that are not yet effective and that are expected to have a material impact on the group in the current or future reporting periods and on foreseeable future transactions.

1(y) Parent Entity Financial Information

The financial information for the parent entity, Alliance Aviation Services Limited, disclosed in note 35 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(i) *Investments in subsidiaries, associates and joint venture entities*
Investments in subsidiaries are accounted for at cost in the financial statements of Alliance Aviation Services Limited.

(ii) Tax consolidation legislation
Alliance Aviation Services Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Alliance Aviation Services Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Alliance Aviation Services Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Alliance Aviation Services Limited for any current tax payable assumed and are compensated by Alliance Aviation Services Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Alliance Aviation Services Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

2. Financial Risk Management

The group's activities expose it to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange rate risk and aging analysis for credit risk. The group holds the following financial instruments:

	2016 $'000	2015 $'000
Financial assets		
Cash and cash equivalents	**2,096**	600
Trade and other receivables	**28,738**	24,528
	30,834	25,128
Financial liabilities		
Trade and other payables	**22,878**	22,978
Borrowings*	**79,836**	85,140
	102,714	108,118

* Refer Note 1(p) – Borrowings are initially recognised at fair value, net of transaction costs incurred.

2(a) Foreign Exchange Risk

The group has transactional currency risks arising from sales receivable and purchases payable in currencies other than the group's functional currency. The currencies giving rise to this risk are primarily US dollar and the Euro. Where possible, the risk is managed by forecasting and structuring of receipt and payment timings. Management utilise foreign exchange hedging to manage its risk to market volatility.

The group's exposure to foreign currency risk in the foreign currency at the end of the reporting period, expressed in Australian dollar, was as follows:

	2016		2015	
	USD $'000	EURO $'000	USD $'000	EURO $'000
Trade payables	**(1,234)**	**(673)**	(1,384)	(1,028)

Sensitivity
At 30 June 2016, if the Australian dollar had strengthened or weakened against other currencies by 5% and all other variables held constant post tax profit for the year would have been higher/lower by $142k (2015: +/- $126k).

2(b) Interest Rate Risk

The group's main interest rate risk arises from long-term borrowings with variable rates, which expose the group to cash flow interest rate risk.

Financial Risk Management (continued)

As at the end of the reporting period, the group had the following variable rate borrowings outstanding:

	2016		2015	
	Weighted Average Interest rate	Balance	Weighted Average Interest rate	Balance
	%	$'000	%	$'000
Bank loans	**3.9%**	**80,250**	3.2%	85,750
Net exposure to cash flow interest rate risk		**80,250**		85,750

An analysis by maturities is provided in note 2(d) below.

Sensitivity
At 30 June 2016, if the interest rates had been higher or lower by 5 basis points and all other variables held constant post tax profit for the year would have been higher/lower by $33k (2015: +/- $35k).

2(c) Credit Risk

(i) Risk Management

Credit risk arises from cash and cash equivalents, held to maturity investments, favourable derivative financial instruments and deposits with banks and financial instruments, as well as credits exposures to customers, including outstanding receivables. All available cash is held in financial institutions with a credit rating of A- or higher.

Credit risk is managed on a group basis by assessing the credit quality of counterparties by taking into account their financial position, past experience, credit rating and other factors. Counterparty information sourced from credit rating agencies is also utilised to support the management of credit risk. The group's customers are principally focused on the resources industry, albeit over a range of commodities.

(ii) Impairment of trade receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment.

The group considers that there is evidence of impairment if any of the following indicators are present:
- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses. See note 11 for information about how impairment losses are calculated.

Financial Risk Management (continued)

2(d) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the group held no deposits at call. (2015 – nil) Due to the dynamic nature of the underlying businesses, management maintains flexibility in funding by maintaining availability under committed credit lines.

Management manages liquidity risk through the monitoring of rolling forecasts of the group's liquidity reserve using the following mechanisms:

- preparing forward-looking cash-flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- managing credit risk relating to financial assets;
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

(i) Financing arrangements

The group successfully completed a refinance of the existing debt facilities in June 2015. The following undrawn borrowing facilities were available to the group at the end of the reporting period:

	2016 $'000	2015 $'000
Floating rate		
- Expiring within one year	**12,250**	16,750
- Expiring beyond one year	**-**	-
	12,250	16,750

The type of borrowing facilities available and utilised as at 30 June 2016 is shown below:

Funding Mechanism	Financier Limit		Current Available	Utilisation
	ANZ	CBA		
	$'000	$,000	$,000	$,000
Term loan	39,000	43,000	75,750	75,750
Revolving capital expenditure facility	9,000	-	9,000	-
Working capital multi option facility	7,750	-	7,750	4,500
Total	**55,750**	**43,000**	**92,500**	**80,250**

The term loans are amortising loans with repayments due each quarter. Repayments (both amortising and voluntary) may not be redrawn. The term loans have an expiration date of 5 July 2018.

The capital expenditure facility is to be used for heavy maintenance services and spare parts acquisitions. There are minimum repayments required each quarter being the lesser of $3,000k or the balance of the amount owing under the facility. This facility can be drawn at any time subject to certain conditions being met and has an expiry date of 5 July 2018.

The working capital multi option facility may be drawn at any time to its limit of $7,750k and is subject to annual review in February. The bank can withdraw the facility with 60 days written notice.

(ii) Maturities of financial Liabilities

The tables below analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows since the fair values are not materially different to their carrying amounts and amortisations payments (fixed repayments of principal) are scheduled quarterly until the expiration of the facilities. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Financial Risk Management (continued)

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 & 2 yrs	Between 2 & 5 yrs	Over 5 yrs	Total contractual cash flows	Carrying amount (Assets) /liabilities
As at 30 June 2016	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives							
Trade payables	22,605	-	-	-	-	22,605	22,605
Borrowings	5,073	9,476	10,752	60,785	-	86,086	79,836*
Total non-derivatives	**27,678**	**9,476**	**10,752**	**60,785**	**-**	**108,691**	**102,441**

As at 30 June 2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives							
Trade payables	22,978	-	-	-	-	22,978	22,978
Borrowings	4,106	9,031	9,919	71,536	-	94,592	85,140*
Total non-derivatives	**27,084**	**9,031**	**9,919**	**71,536**	**-**	**117,571**	**108,118**

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

* Refer Note 1(p) – Borrowings are initially recognised at fair value, net of transaction costs incurred.

2(e) Price Risk

The group is not exposed to any specific material commodity price risk.

3. Critical Estimates, Judgements and Errors

The preparation of financial statements requires the use of accounting estimates which, by definition will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in notes 4 to 35. In addition this note also explains where there have been actual adjustments this year as a result of any changes to policy and changes to previous estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Aircraft useful life

The aircraft useful life is based on estimates and assumptions which are based on best practice and historical experience in the industry.

There are four principle groups of components of each aircraft which assist with the determination of the useful lives:

- The airframe;
- Major components including the engines, landing gears and other significant value items which by their nature also have a maintenance constraint which affects the useful life.
- Other significant components are also tracked individually which may also have a maintenance constraint; and
- Other Assets of each aircraft which are normally 'pooled' for which an effective life of 5 years is generally applied.

As the aircraft represent a significant portion of the assets of the group, the aircraft useful life's assumptions and estimates will impact the depreciation expense, the written down value of the aircraft and the deferred income tax assets and liabilities.

Overhead allocation

Aircraft refurbishment and major cyclical maintenance are capitalised to the carrying value of the aircraft and depreciated using the appropriate methodology depending on which component group it belongs.

The capitalised value includes the actual time allocated to these activities and also comprises of an allocation of engineering overheads. This allocation is apportioned using the activities sourced from employee timesheets.

Depreciation

Management estimates the useful lives, depreciation method and residual values of property, plant and equipment based on the expected period of time over which economic benefits from use of the asset will be derived. Management reviews useful life assumptions on an annual basis, given consideration to variables, including historical and forecast usage rates, technological advancements and changes in legal and economic conditions.

Refer to note 1(m) for details of current depreciation method and rates used.

Critical Estimates, Judgements and Errors (continued)

Management continue to reflect the carrying value of all aircraft and across four component groups:

(i) Airframe;

(ii) Major components including engines, landing gears and other high value components;

(iii) Components which are readily identified and which a maintenance constraint which should determine the effective life and depreciation; and

(iv) All other assets of the aircraft.

Management assesses the most appropriate depreciation method for each of the individual assets identified in component groups (i), (ii) and (iii). The balance of other assets in component group (iv) have been pooled.

Hedge Accounting

In accordance with Note 1(l) Alliance has previously recognised accumulated foreign currency exchange gains and losses in a reserve in equity. The foreign currency USD loans were recognised as a designated hedge in respect of the future cash proceeds from the sale of aircraft. The original hedge documentation provided that the instrument was in respect of the first USD20 million of the proceeds from the sale of the aircraft.

No aircraft have been sold during the year. As assessment of the hedging treatment has been undertaken by management and no changes are required to be disclosed.

Deferred Tax Assets

The group has incurred $8.5 million of income tax losses for the period ended 30 June 2016.

During the current year the outright deduction of the ongoing capital maintenance program has resulted in a net deferred tax liability whereas it has been a net deferred tax asset in previous years.

The group has elected to recognise deferred tax asset from tax losses previously not recognise to the extent of deferred tax liability.

The group does expect to realise the full amount of tax losses in future years.

Critical Estimates, Judgements and Errors (continued)

Revenue recognition

The group recognises revenue once it can be reasonably estimated. The measurement of revenue is based on the percentage of services performed, which is mainly on a per flight basis.

Indicators of impairment of assets

The group follows the guidance of AASB 136 *Impairment of Assets* each year to determine whether any indicators of Impairment exist i.e. whether assets are carried at amounts in excess of their recoverable value. Recoverable amount of an asset or cash generating unit (CGU) is defined as the higher of its fair value less costs to sell or its value in use. This determination requires significant judgement and is outlined further in Note 5.

4. Segment Information

The Board of Directors have determined the operating segment based on the reports reviewed.

The Board considers the business has one reportable segment being the provision of aircraft charter services for the reporting period ended 30 June 2016. In November 2015, Alliance Aviation Services Limited established Alliance Aviation Slovakia s.r.o. (AASL). AASL will conduct a business of the re-sale of aircraft and aircraft parts. It is intended that this new business will represent a separate operating segment in future reporting periods. The current operations do not meet the thresholds in AASB 8 to be recognised in the financial reports for the year ended 30 June 2016.

The revenue from external parties reported to the board of directors is measured in a manner consistent with that in the income statement.

The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

5. Impairment of Specific Assets

Management had previously assessed impairment at 31 December 2014.

On the 22nd December 2014, the Board of Directors approved the impairment of value of the cash generating unit by $45,266K across the following asset classes:

As at 30 June 2015	$'000	Allocation
Inventory	3,563	Inventory
Airframes (excl. F100 engines)	30,600	Aircraft Assets
Pool of F100 engines	10,800	Aircraft Assets
Other intangibles	303	Aircraft Assets
Total	**45,266**	

This impairment was a result of a material change in the financial outlook of the company as a result of a variation of three contracts which was disclosed in December 2014. The carrying value of the assets was adjusted to $185 million. The impairment loss was recognised in December 2014, and as expected there was only a small difference between the carrying value of assets and the net present value based on a value in use assessment.

Historically the carrying value of aircraft has been a representation of the cost to acquire the aircraft and the capital cost incurred to introduce these aircraft into service in Australia. Also included have been subsequent capital maintenance costs. With the reported changes in external factors, the Directors formed the view that a detailed impairment calculation based on a value in use model was required in accordance with the accounting standards.

Impairment of specific assets (continued)

In accordance with the accounting standard, this review was conducted as follows:

- The calculation used the operating cash flows of FY15 and FY16 as the base with a growth rate of 2.5%;
- The discount rate applied was a post-tax rate of 10.5%;
- An adjustment for working capital has been included; and
- Forecast capital expenditure as a product of the amended maintenance program.

As Alliance operates a fleet of aircraft and the fleet is substantially interchangeable between contracts and locations, maintains the fleet centrally and does not measure the profitability of geographical locations, the Directors consider that Alliance Airlines only has one CGU in respect of the Australian operations and one for its European operations.

In considering the carrying value of property plant and equipment, the Directors also reviewed the carrying value of inventory. Inventory is required to be carried at the lower of cost and net realisable value.

Impairment assessments following the same methodology as prior years were also carried out at 30 June 2015, 31 December 2015 and 30 June 2016. There were no indicators of any change to the financial performance or outlook of the group that would require an impairment charge to be recognised in these reporting periods.

6. Revenue from continuing operations

	2016 $'000	2015 $'000
Contract revenue	**150,230**	173,502
Charter / Wet leasing revenue	**28,501**	18,219
Other revenue *	**3,918**	7,735
	182,649	199,456

*Other revenue includes supplier rebates totalling $2.8 million (2015: $2.1million)

7. Other income

	2016 $'000	2015 $'000
Interest income	**4**	36
	4	36

8. Expenses

	2016 $'000	2015 $'000
Profit before tax includes the following specific expenses:		
Flight and operations costs		
Flight and operating costs	**(68,848)**	(82,856)
Engineering and Maintenance costs		
General engineering and maintenance costs	**(11,064)**	(15,213)
Office and General Administration costs		
General administration costs	**(9,034)**	(8,953)

Expenses (continued)

	2016 $'000	2015 $'000
Profit before tax includes the following specific expenses:		
Loss on disposal of property, plant and equipment	**-**	(3,243)
Finance costs		
Interest expense	**(4,910)**	(4,935)
Employee costs		
Flight and operations costs	**(7,714)**	(8,364)
Engineering and maintenance	**(13,351)**	(7,894)
Office and General Administration	**(5,766)**	(5,829)
Flight crew	**(23,594)**	(24,320)
Sales	**(256)**	(199)
	(50,681)	(46,606)
Rental expenses relating to operating leases		
Minimum lease payments	**(1,466)**	(2,163)
Impairment losses		
Property, Plant and Equipment (refer note 5)	**-**	(45,266)
Hedge Reserve		
FX reserve release (refer note 23)	**-**	(2,942)

9. Income Tax Expense

		2016 $'000	2015 $'000
(a) Income tax expense:			
Current tax		**16**	(2,740)
		18	(2,740)
Deferred income tax (revenue) expense included in the income tax expense comprises:			
Decrease/(increase) in deferred tax assets		**(6,545)**	4,315
(Decrease)/increase in deferred tax liabilities		**6,545**	(6,927)
		-	(2,612)
Income tax (benefit) / expense on profit from continuing operations		**16**	(2,740)
Effective tax rate		**0.1%**	7.0%
(b) Numerical reconciliation of income tax (benefit) / expense to prima facie tax payable			
Profit / (loss) before income tax expense		**13,505**	(39,323)
Tax at the Australian Corporate tax rate of 30% (2015: 30%)		**4,051**	(11,796)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Sundry		**39**	20
		4,091	(11,796)
De-recognition of DTA of carry forward tax losses		**-**	9,036
Deferred tax asset on tax losses re-recognised		**(4,075)**	-
Income tax (benefit) / expense		**18**	(2,740)

During the current year the following DTA has been derecognised:	Tax Losses $'000	DTA $'000
Previous years tax losses re-recognised	**13,584**	4,075
2016 Income Tax Losses not recognised	**8,127**	2,438
	21,711	6,513

(c) Tax expense (income) relating to items of other comprehensive income

		2016 $'000	2015 $'000
Changes in the fair value of cash flow hedges	19,22	**99**	472

10. Current Assets – Cash and Cash Equivalents

	2016 $'000	2015 $'000
Cash at bank and on hand	**2,096**	600
	2,096	600

Current Assets – Cash and Cash Equivalents (continued)

10(a) Risk exposure

The group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

11. Current Assets – Trade and Other Receivables

	2016 $'000	2015 $'000
Trade receivables	**22,702**	20,531
Provision for impairment of receivables – refer note 11(a)	**-**	(536)
	22,702	19,995
Other receivables	**4,820**	3,291
Prepayments	**1,217**	1,242
	6,037	4,533
	28,739	24,528

11(a) Impaired trade receivables

As at 30 June 2016 there was no impairment of trade receivables recognised by the group. (2015: $536k)

Movements in the provision for impairment of receivables are as follows:

	2016 $'000	2015 $'000
At 1 July 2015	**536**	-
Provision for impairment recognised during the year	**-**	536
Unused amount reversed	**(536)**	-
At 30 June 2016	**-**	536

11(b) Past due but not impaired

As at 30 June 2016, trade receivables of $13,282k (2015 - $8,922k) were past due but not impaired. These relate to number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016 $'000	2015 $'000
Up to 3 months	**6,862**	6,890
3 to 6 months	**1,267**	2,032
	8,129	8,922

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The group does not hold any collateral in relation to these receivables (see note 2(c)).

11(c) Other Receivables

These are generally sundry debtors, deposits and accrued revenue held which arise during the normal course of business.

Current Assets – Trade and Other Receivables (continued)

11(d) Foreign exchange and interest rate risk

The group does not have any exposure to foreign currency risk and interest rate risk in relation to trade and other receivables.

11(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above.

There are no securities held over the receivables.

12. Current Assets – Inventories

	2016 $'000	2015 $'000
Inventory – Aircraft and Engines	**25,976**	14,582
Inventory – Spares and consumables	**11,090**	10,116
	37,066	24,698

Amounts recognised in profit or loss

Inventory recognised as an expense during the year ended 30 June 2016 amounted to $582k (2015: $1,050k), and is included in engineering expenses.

No write-down of inventories to net realisable value needed to be recognised as an impairment loss during the year ended 30 June 2016. (2015: $222k).

13. Non-Current Assets – Property, Plant and Equipment

13(a) Property, plant and equipment

	Aircraft Assets $’000	Property, plant and equipment $’000	Total $’000
At 30 June 2014			
Cost	296,493	16,063	312,556
Accumulated depreciation	(85,449)	(8,950)	(94,399)
Net book value	**211,044**	**7,113**	**218,157**
Year ended 30 June 2015			
Opening net book amount	211,044	7,113	218,157
Additions	48,300	1,940	50,240
Transfers	(12,136)	-	(12,136)
Disposals – cost	(26,534)	(37)	(26,571)
Disposals - accumulated depreciation	10,593	19	10,612
Depreciation charge	(25,594)	(2,286)	(27,880)
Impairment charge	(41,703)	-	(41,703)
Closing net book value as on 30 June 2015	**163,970**	**6,749**	**170,719**
At 30 June 2015			
Cost	264,420	17,966	282,386
Accumulated depreciation	(100,450)	(11,217)	(111,667)
Net book value	**163,970**	**6,749**	**170,719**
Year ended 30 June 2016			
Opening net book amount	163,970	6,749	170,719
Additions (i)	23,259	616	23,875
Transfers	(3,090)	-	(3,090)
Depreciation charge	(20,757)	(2,229)	(22,986)
Impairment charge	-	-	-
Closing net book value as on 30 June 2016	**163,382**	**5,136**	**168,518**

(i) Additions and transfers – 2016

Additions to the property plant and equipment register for year ended 30 June 2016 includes all aircraft heavy maintenance and the addition of any major and significant components. Transfers relate to the removal of rotable parts from the aircraft which are transferred to inventory.

Non-current assets pledged as security

Refer to note 18(a) for information on non-current assets pledged as security by the group.

14. Non-Current Assets – Deferred Tax Assets

	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:		
Tax losses	**6,665**	-
Employee benefits	**2,004**	1,938
Property, plant and equipment	**1,320**	1,289
	9,989	3,227
Other		
Cash flow hedges	**221**	95
Accruals	**61**	56
Provision for warranties and legal costs	**-**	4
Share issue expenses	**61**	356
Prepayments	**37**	55
Sub-total other	**380**	566
Total deferred tax assets	**10,371**	3,793
Set-off of deferred tax liabilities pursuant to set-off provisions	**10,338**	3,793
Net deferred tax assets	**31**	-
Deferred tax assets expected to be recovered within 12 months	**1,618**	1,210
Deferred tax assets expected to be recovered after more than 12 months	**8,720**	2,583
	10,338	3,793

Movements	Tax losses $'000	Employee benefits $'000	Property, plant and equipment $'000	Other $'000	Total $'000
At 30 June 2014	**3,227**	**1,816**	**1,890**	**1,175**	**8,108**
(Charged)/credited					
- to profit or loss	(3,227)	122	(601)	(609)	(4,315)
- to other comprehensive income	-	-	-	-	-
- directly to equity	-	-	-	-	-
At 30 June 2015	-	1,938	1,289	566	3,793
(Charged)/credited					
- to profit or loss	6,634	65	31	(185)	6,545
- to other comprehensive income	-	-	-	-	-
- directly to equity	-	-	-	-	-
At 30 June 2016	**6,634**	**2,003**	**1,320**	**381**	**10,338**

15. Current Liabilities – Trade and Other Payables

	2016 $'000	2015 $'000
Trade payables	**14,253**	17,374
Other payables	**8,625**	5,604
	22,878	22,978

15(a) Risk exposure

Information about the group's exposure to foreign exchange risk is provided in note 2.

16. Current Liabilities – Borrowings

	2016 $'000	2015 $'000
Secured		
Bank Loans	**11,500**	10,000
Borrowing costs	**(205)**	(202)
Total current borrowings	**11,295**	9,798

16(a) Security and Fair Value Disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 18.

16(b) Risk Exposures

Details of the group's exposure to risks arising from current and non-current borrowings are set out in note 2.

17. Current Liabilities – Provisions

	2016 $'000	2015 $'000
Employee benefits – Annual Leave	**3,741**	3,846
Employee benefits – Long Service Leave	**1,285**	999
	5,026	4,845

17(a) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

18. Non-Current Liabilities – Borrowings

	2016 $'000	2015 $'000
Secured		
Bank loans	**68,750**	75,750
Borrowing costs	**(209)**	(408)
	68,541	75,342

Non-Current Liabilities – Borrowings (continued)

18(a) Secured liabilities and assets pledged as security

	2016 $'000	2015 $'000
Bank overdrafts and bank loans	**80,250**	85,750
Total secured liabilities	**80,250**	85,750

The bank loans and overdraft are secured by a fixed and floating charge over the group's assets with specific charges over the aircraft and engines. In addition there is a negative pledge that imposes certain covenants on the group including, subject to certain conditions, restrictions on the provision of security over assets to lenders.

Under the terms of the bank loans, the group is required to comply with the following financial covenants:

- To maintain a debt service cover ratio which exceeds 1.10 times;
- To maintain a leverage ratio for each 12 month period of less than 2.50 times;
- A loan value ratio where the value of the total debt does not exceed 85% of the independent valuation of the aircraft; and
- A borrowing base ratio where the working capital facility does not exceed 60% of the total trade debtors.

Alliance Aviation Services Limited has complied with the financial covenants of its borrowing facilities during the 2016 and 2015 reporting periods.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	2016 $'000	2015 $'000
Current		
Floating charge		
Cash and cash equivalents	**2,096**	600
Receivables	**28,738**	24,528
Inventories	**37,066**	24,699
Total current assets pledged as security	**67,900**	49,827
Non-current		
First mortgage		
Aircraft	**163,382**	163,970
Floating charge		
Plant and equipment	**5,135**	6,749
Total Non-current assets pledged as security	**168,517**	170,719
Total assets pledged as security	**236,417**	220,546

19. Fair value measurement of financial instruments

a) Fair value of the borrowings

The fair value of borrowings at the end of the reporting period is as follows:

	2016		2015	
	Carrying amount $'000	Fair Value $'000	Carrying amount $'000	Fair Value $'000
Financial liabilities	**-**	**-**	-	-
Bank loans	**79,836**	**79,836**	85,140	85,140
	79,836	**79,836**	85,140	85,140

For all borrowings, the fair values are the same as their carrying amounts, since the interest payable on these borrowings is either close to the market rates or the borrowings are of a short term nature.

b) Valuation hierarchy of financial instruments carried at fair value on a recurring basis

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Forward exchange contracts

i. Fair value hierarchy

Financial instruments carried at fair value may be grouped into three valuation categories:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

ii. Recognised fair value measurements

All of the Group's financial instruments measured at fair value are categorised as Level 2. There were no transfers between Levels 1, 2 and 3 fair value hierarchies during the current or prior six month period.

c) Valuation techniques used to derive fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

The fair value of forward exchange contracts has been determined as the unrealised gain / loss at balance date by reference to market rates.

20. Non-Current Liabilities – Deferred Tax Liabilities

	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**10,286**	3,740
Prepayments	**-**	-
Cash flow hedges	**53**	53
Sub-total other	**10,339**	3,793
Total deferred tax liabilities	**10,339**	3,793
Set-off of deferred tax assets pursuant to set-off provisions	**10,339**	3,793
Net deferred tax liabilities	**-**	-
Deferred tax liabilities expected to be recovered within 12 months	**-**	256
Deferred tax liabilities expected to be recovered after more than 12 months	**10,339**	3,537
	10,339	3,793

Movements	Property, plant and equipment $'000	Prepayments $'000	Other $'000	Total $'000
At 30 June 2014	**10,587**	**80**	**53**	**10,720**
(Charged)/credited				
- to profit or loss	(6,847)	(80)	-	**(6,927)**
- to other comprehensive income	-	-	-	**-**
At 30 June 2015	**3,740**	**-**	**53**	**3,793**
(Charged)/credited				
- to profit or loss	6,545	-	-	**6,545**
- to other comprehensive income	-	-	-	**-**
At 30 June 2016	**10,285**	**-**	**53**	**10,338**

21. Non-Current Liabilities – Provisions

	2016 $'000	2015 $'000
Employee benefits – long service leave	**1,488**	1,616
	1,488	1,616

22. Contributed Equity

	Notes	2016 No. of shares	2016 $'000	2015 No. of shares	2015 $'000
a) Share capital					
Ordinary shares - fully paid		**120,994,812**	**180,483**	106,429,638	172,837
Total contributed equity		**120,994,812**	**180,483**	106,429,638	172,837
b) Movement in ordinary share capital issued and fully paid ordinary shares:					
At the beginning of the financial period		106,429,638	172,837	106,064,805	172,366
Share placement issue		14,565,174	7,646	-	-
Dividend reinvestment plan issues		-	-	364,833	471
Deferred tax credit recognised in equity	9, 14	-	-	-	-
Balance at the end of the financial year		**120,994,812**	**180,483**	106,429,638	172,837

22(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

22(b) Dividend reinvestment plan

The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash.

22(c) Capital risk management

The group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

22(d) Share buy-back

There is no current on-market buy-back.

23. Reserves and Retained Earnings

	Notes	2016 $'000	2015 $'000
(a) Reserves			
Reorganisation reserve *(i)*		**(111,083)**	(111,083)
Cash flow hedge reserve *(ii)*		**(2,280)**	(2,181)
Share-based payment reserve *(iii)*		**332**	332
		(113,031)	(112,932)
Movements:			
Reorganisation (i)			
Balance - 1 July 2015		**(111,083)**	(111,083)
Balance - 30 June 2016		**(111,083)**	(111,083)
Movements:			
Cash flow hedge reserve (ii)			
Balance - 1 July 2015		**(2,181)**	(1,080)
Currency translation		**(142)**	(1,573)
Deferred tax	9, 19	**43**	472
		(99)	(1,101)
Balance - 30 June 2016		**(2,280)**	(2,181)

(b) Retained earnings

Movement in retained earnings were as follows:

	2016 $'000	2015 $'000
Balance - 1 July 2015	**46,044**	84,854
Dividends paid	**-**	(2,227)
Net profit/(loss) for the year	**13,489**	(36,583)
Balance - 30 June 2016	**59,533**	46,044

(c) Nature and purpose of other reserves

(i) Reorganisation
This reserve is used to record the difference between the recognised equity of the parent entity and the net assets of the acquired controlled entities.

(ii) Cash flow hedge
The cash flow hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as describe in note 1(l). Amounts are reclassified to the profit or loss when the associated hedge transaction affects profit or loss.

(iii) Share based payment
The share-based payment reserve is used to recognise the grant date fair value of options issued to employees but not exercised.

24. Dividends

	2016 $'000	2015 $'000
(a) Ordinary shares		
In respect of financial year ended 30 June 2015, a fully franked dividend of 2.1 cents per fully paid ordinary shares was paid out of retained earnings on 9 October 2014.	**-**	2,227
(b) Franked credits		
Franking credits available for subsequent reporting based on a tax rate of 30% (2015: 30%)	**22,356**	22,356

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax
- franking debits that will arise from the payment of dividends recognised as a liability at the end of each reporting period, and
- franking credits that will arise from the receipt of dividends recognised as receivables at the end of each reporting period.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

25. Key Management Personnel Disclosures

25(a) Key management personnel compensation

	2016 $	2015 $
Short-term employee benefits	**1,973,612**	1,636,418
Post-employment benefits	**125,129**	112,176
Long-term benefits	**24,149**	19,013
Termination benefits	**-**	200,000
	2,122,890	1,967,607

Detailed remuneration disclosures are provided in the remuneration report on page 12.

25(b) Loans to key management personnel

There have been no loans made to key management personnel of Alliance Aviation Services Limited.

25(c) Other transactions with key management personnel

The Chairman and director, Mr Steve Padgett, is a director and shareholder of Eternitie Pty Ltd and was previously a director and shareholder of Aeromil Pacific Pty Ltd. Alliance Aviation Services Limited had a contract with Aeromil Pacific Pty Ltd for the lease of premises and supply of flight permit services. Alliance Aviation Services Limited currently has a contract with Eternitie Pty Ltd for the lease of premises. All these contracts were based on normal commercial terms and conditions.

Key Management Personnel Disclosures (continued)

Aggregate amounts of each of the above types of other transactions with key management personnel are as follows:

	2016 $	2015 $
Lease of premises from Aeromil Pacific Pty Ltd	**-**	8,108
Lease of premises from Eterntie Pty Ltd	**18,333**	-
Purchase of flight permit services from Aeromil Pacific Pty Ltd	**4,200**	-
	22,533	8,108

There were no amounts due to Aeromil Pacific Pty Ltd or Eternitie Pty Ltd as at 30 June 2016.

26. Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2016 $	2015 $
26(a) PWC		
Audit and other assurance services		
Audit and review of financial statements	**258,082**	222,640
Total remuneration for audit and other assurance services	**258,082**	222,640
Taxation services		
Tax advice and compliance services	**71,931**	65,613
Total remuneration for taxation services	**71,931**	65,613
Total auditor's remuneration	**330,013**	288,253

It is the group's policy to employ PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the group are important. PwC will not be used where it could affect their independence.

27. Contingencies

Contingent liabilities

Alliance has on issue four bank guarantees relating to existing leases, totalling $0.34 million (2015: $0.5 million).

28. Commitments

Capital commitments

Alliance has no capital commitments at 30 June 2016 (2015: $NIL). The group is party to a Totalcare Services Agreement with Rolls-Royce Tay for the maintenance of 650-15 engines. The agreement is based on engine operating hours only.

Purchase commitments

In November 2015 the group signed a commitment to acquire 21 Fokker Aircraft from Austrian Airlines AG for a total transaction value of USD15.0 million. As at 30 June 2016, 5 of these aircraft have been delivered and are recognised as inventory in the financial statements (see note 1k).

Commitments (continued)

The Group has a remaining commitment of USD$12.5 million which is payable progressively between 1 July 2016 and 4 December 2017.

Lease commitments: group as lessee

Non-cancellable operating leases

The group leases various offices and warehouses under non-cancellable operating leases expiring within two to fifteen years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	2016 $'000	2015 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,150**	1,466
Later than one year buy not older than five years	**2,974**	4,506
Later than five years	**2,252**	2,801
	6,376	8,773

29. Related Party Transactions

29(a) Parent entities

The parent entity within the group is Alliance Aviation Services Limited.

29(b) Subsidiaries

Interests in subsidiaries are set out in note 30.

29(c) Key management personnel

Disclosures relating to key management personnel are set out in note 25.

30. Subsidiaries

Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b).

Name of entity	Country of incorporation	Class of Shares	Equity holding *	
			2016 %	2015 %
Alliance Airlines Pty Ltd	Australia	**Ordinary**	**100**	100
Alliance Leasing No.1 Pty Ltd	Australia	**Ordinary**	**100**	100
Alliance Leasing No.2 Pty Ltd	Australia	**Ordinary**	**100**	100
Alliance Leasing No.3 Pty Ltd	Australia	**Ordinary**	**100**	100
Jet Engine Leasing Pty Ltd	Australia	**Ordinary**	**100**	100
Avoco Pty Ltd	Australia	**Ordinary**	**100**	100
Alliance Aviation Slovakia s.r.o.	Slovakia	**Ordinary**	**100**	-

* The proportion of ownership interest is equal to the proportion of voting power held.

31. Events Occurring After the Reporting Period

There have been no matters subsequent to the end of the financial year which the Directors are required to disclose.

32. Reconciliation of Profit After Income Tax to Net Cash Inflow from Operating Activities

	2016 $'000	2015 $'000
Profit for the year	**13,489**	(36,583)
Depreciation and amortisation	**22,986**	27,880
Costs incurred as part of heavy maintenance program	**3,532**	14,321
Non-cash impairment loss	**-**	45,266
Net (gain)/loss on sale of inventory	**-**	(3,410)
Net (gain)/loss on sale of non-current assets	**-**	3,243
Release of FX Reserve	**99**	2,246
Net (gain)/loss on foreign exchange differences	**1,134**	(244)
Non-cash share issue	**7,645**	-
Change in operating assets and liabilities,		
(Increase)/decrease in trade debtors and bills of exchange	**(2,033)**	(2,661)
(Increase)/decrease in inventories and property, plant and equipment	**(18,843)**	(34,606)
(Increase)/decrease in prepayments	**(2,179)**	2,000
(Increase)/decrease in deferred tax assets	**-**	-
(Decrease)/increase in trade creditors	**(3,604)**	3,668
(Decrease)/increase in other operating liabilities	**3,192**	(2,707)
(Decrease)/increase in provision for income taxes payable	**46**	(4,285)
(Decrease)/increase in deferred tax liabilities	**(31)**	(2,612)
(Decrease)/increase in other provisions	**53**	408
Net cash inflow (outflow) from operating activities	**25,486**	11,924

33. Earnings Per Share

	2016 Cents	2015 Cents
33(a) Basic Earnings per share		
Total basic earnings per share attributable to the ordinary equity holders of the company.	**11.75**	(34.41)
33(b) Diluted earnings per share		
Total diluted earnings per share attributable to the ordinary equity holders of the company	**11.75**	(34.41)

33(c) Reconciliations of earnings used in calculating earnings per share

	2016 $'000	2015 $'000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**13,489**	(36,583)
Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**13,489**	(36,583)

33(d) Weighted average number of shares used as the denominator

	2016 $'000	2015 $'000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**114,826,501**	106,328,684
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**114,826,501**	106,328,684

33(e) Information concerning the classification of securities

(i) Rights

Rights granted to employees under the Alliance Aviation Services Limited LTI are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The rights have not been included in the determination of basic earnings per share. There are no rights outstanding as at 30 June 2016. Details relating to the rights are set out in note 34.

34. Share – Based Payments

34(a) Long term incentive plan

The company has established a long term incentive (LTI) plan to assist with the attraction, motivation and retention of employees (including executive directors).

There were no long term incentives issued during the year and any previous rights issues have expired.

35. Parent Entity Financial Information

Restatement of previously disclosed Parent Entity Financial Information

The parent entity financial information as disclosed in the group Financial Statements for year ended 30 June 2015 were misstated. The Parent Entity information as disclosed did not reflect the final tax effect accounting position of the parent entity. This misstatement only affects this note and no other part of the Financial Statements for year ended 30 June 2015. The parent entity financial information as disclosed below reflects the restated amounts for reporting period ended 30 June 2015.

The individual financial statements for the parent entity shows the following aggregate amounts for the reporting period ended 30 June 2016.

	2016 $'000	2015 Restated $'000
Balance sheet		
Current assets	**2**	2
Non Current Assets	**65,458**	58,194
Total assets	**65,460**	59,196
Current liabilities	**66**	20
Non Current liabilities	**(363)**	-
Total liabilities	**(297)**	20
Net Assets	**65,757**	58,176
Shareholders' equity		
Issued capital	**180,560**	172,914
Reserves	**(110,691)**	(110,691)
Share-based payments	**332**	332
Retained earnings	**(4,379)**	(9,388)
Retained earnings – current year	**(65)**	5,008
	65,757	58,176
Profit or loss for the year	**(65)**	5,008

Directors' Declaration

In the directors' opinion:

- The financial statements and notes set out on pages 22 to 65 are in accordance with the *Corporations Act 2001,* including
- complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
- giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date, and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

S Padgett
Chairman
Date: 10 August 2016
Sydney

Independent Auditor's Report to the Members

The Audit Committee
Alliance Aviation Services Limited
81 Pandanus Avenue
BRISBANE AIRPORT QLD 4009

Dear Audit Committee members

Auditor's Independence

We have been engaged to audit the consolidated financial statements of Alliance Aviation Services Limited for the year ended 30 June 2016.

Auditing Standard ASA 260 Communication of Audit Matters with Those Charged with Governance requires us to communicate with you about:

- our compliance with relevant ethical requirements regarding independence; and
- all relationships and other matters between ourselves and Alliance Aviation Services Limited that, in our professional judgement, may reasonably be thought to bear on our independence as auditors. This includes total fees charged for audit and non-audit services provided and also any related safeguards that have been applied to the relationships and other matters.

Statement of compliance

We confirm that for the audit of the financial statements of Alliance Aviation Services Limited and its controlled entities for the year ending 30 June 2016, we have complied with the following relevant ethical requirements regarding independence:

- the applicable provisions of APES 110 – *Code of Ethics for Professional Accountants*
- the applicable provisions of the Corporations Act 2001.

Relationships and other matters

A list of audit and non-audit services we have provided to Alliance Aviation Services Limited and its controlled entities during the year ended 30 June 2016, including total fees charged for those services, is included as Table A below.

Some of the safeguards we applied in relation to the provision of the non-audit services to eliminate identified threats to independence, or reduce them to an acceptable level, included ensuring that:

- the services did not involve partners or staff acting in a managerial or decision-making capacity, or being involved in the processing or originating of transactions;

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- the services were only provided where we were satisfied that the related function or process would not have a material impact on our planned audit procedures and would not involve us auditing our own work;
- the services did not place us in a position of being an advocate for Alliance Aviation Services Limited;
- the services did not create a mutual or conflicting interest between ourselves and Alliance Aviation Services Limited; and
- the partners and staff involved in the provision of non-audit services did not participate in Alliance Aviation Services Limited's associated approval or authorisation processes.

As a result of the above safeguards, we are satisfied that, in our professional judgement, we have not carried out any engagements for Alliance Aviation Services Limited or its controlled entities which may have impaired our independence.

We are not aware of any other relationships or other matters between PwC and Alliance Aviation Services Limited that, in our professional judgement, may reasonably be thought to bear on our independence as at the date of this letter.

This letter is intended solely for the use of the Audit Committee and the Board of Directors and should not be used for any other purpose or by any other party.

We look forward to discussing the matters addressed in this letter, as well as other matters that may be of interest to you, at the forthcoming Audit Committee meeting.

Tim Allman
Partner
PricewaterhouseCoopers

Brisbane
10 August 2016

Shareholder Information

The shareholder information set out below was applicable as at 30 June 2016.

Distribution of equity securities

Analysis of number of equity security holders by size of holding

Size of equity holder	No. of holders
1- 1,000	546
1,001 – 5,000	190
5,001– 10,000	95
10,001 – 100,000	161
>100,000	34
Total	**1026**

There were 526 holders of less than a marketable parcel of ordinary share.

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quote equity securities are listed below:

	Ordinary Shares	
Equity Holder	**Number held**	**% of issued shares**
HSBC Custody Nominees (Australia) Limited	20,019,870	16.55
RBC Investor Services Australia Nominees Pty Ltd (PICREDIT)	14,957,230	12.36
Austrian Airlines AG	14,565,174	12.04
Citicorp Nominees Pty limited	11,741,549	9.70
Airlift Holdings Limited	11,314,476	9.35
Airline Investments Australia Pty Limited	9,962,303	8.23
Mount Craigie Holdings Pty Limited	8,422,981	6.96
Aust Executor Trustees Ltd	5,345,897	4.42
National Nominees Limited	4,376,179	3.62
BNP Paribas Nominees Pty Ltd	3,771,475	3.12
J P Morgan Nominees Australia Limited	2,859,434	2.36
RBC Investor Services Australia Nominees Pty Ltd (BKCUST A/C)	1,297,994	1.07
RBC Investor Services Australia Nominees Pty Ltd (PISELECT)	1,139,666	0.94
Investment Custodial Services Limited	591,600	0.49
Mrs Wanda Susan Drennan & Mr Geoffrey John Drennan	458,000	0.38
Citicorp Nominees Pty Limited	398,963	0.33
NSR Investments Pty Ltd	390,000	0.32
Catapult Partners Pty Ltd	319,107	0.26
Mrs Lilian Jeanette Warmbrand	282,962	0.23
L X X X I X Pty Ltd	252,380	0.21
Total	**112,467,240**	**92.94%**
Balance of register	**8,527,572**	**7.06%**
Total equity security holding	**120,994,812**	**100%**

Corporate Information

Substantial holders

Substantial holders in the company are set out below

	Ordinary Shares	
NAME	Number held	% of issued shares
HSBC Custody Nominees (Australia) Limited	20,019,870	16.55
RBC Investor Services Australia Nominees Pty Ltd (PICREDIT)	14,957,230	12.36
Austrian Airlines ag	14,565,174	12.04
Citicorp Nominees Pty limited	11,741,549	9.70
Airlift Holdings Limited	11,314,476	9.35
Airline Investments Australia Pty Limited	9,962,303	8.23
Mount Craigie Holdings Pty Limited	8,422,981	6.96

Voting Rights

The voting rights attaching to each ordinary share are on a show of hands and every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.