

ALLIANCE AVIATION SERVICES LIMITED

ACN 153 361 525

ASX Code : AQZ

ANNUAL REPORT *For the year ended* *30 June 2014*

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Directors' Report

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Directors

S Padgett	Non executive chairman
S McMillan	Managing director
P Housden	Independent non-executive director
D Crombie	Independent non-executive director

Secretary

M Dyer	(Appointed 15 July 2013)
A J Childs	(Resigned 15 July 2013)

Senior Management

L Schofield	Operations
M Dyer	Financial

Share Register

Link Market Services Limited
123 Eagle 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
240 Queen Street Brisbane QLD 4000

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) and the entities it controlled at the end of, or during, the year ended 30 June 2014.

The following persons were directors of **Alliance** Aviation Services Limited during the financial year 2014:

Steve Padgett	Non-executive chairman
Scott McMillan	Managing director and CEO
Peter Housden	Independent non-executive director
David Crombie	Independent non-executive director

Principal Activities

During the year the principal activities of the group remained the provision of aircraft charter services, specialising in provision of fly-in fly-out services to mining and energy industries.

Dividends

Dividends amounting to \$9,709,898 were paid during the financial year. These were paid as follows:

A fully franked dividend of 5.6 cents per fully paid ordinary share was paid on 10 October 2013. The Dividend Reinvestment Plan (DRP) was suspended for this dividend.

A further final fully franked dividend of 3.6 cents per fully paid ordinary share was declared and paid on 25 June 2014, with a DRP at no discount.

The DRP was optional and offered shareholders the opportunity to acquire fully paid ordinary shares that rank equally with all other shares issued, without transaction costs, at the prevailing market value.

What is Alliance Aviation?

Alliance Aviation is Australia's leading provider of fly-in, fly-out ("FIFO") transportation. It is also one of the largest charter operators in Australia.

Alliance provides an essential service to the mining, energy and other industries – the safe and efficient air transportation of their employees and contractors to and from remote locations.

The company has the Flight Safety Foundation "BARS Gold" status.

The company operates a fleet of 18 Fokker 100 (F100) and seven Fokker 70LR (F70) jet aircraft and six Fokker 50 (F50) turboprops at industry leading dispatch reliability and on time performance.

Alliance flies workers to and from some of the largest operating mines in Australia for a predominantly "blue chip" mining and energy customer base, and also provides ad-hoc charter operations, wet lease, aviation engineering and spare parts trading services to a range of corporate and government customers.

Alliance has a national footprint with operations and aircraft based in Brisbane, Townsville, Cairns, Adelaide, Perth and Darwin. This national presence provides the flexibility of operations that many other operators do not have.

The Year in Review

The 2014 year was a true transitional year for the business. With a clear focus on the future and establishing a platform for a return to sustainable revenue numbers, the outcomes for 2014 can best be summarised in the following points:

- Revenue for 2014 was lower than a record 2013 year as income from wet lease flying transitioned to additional and more stable new longer term contracted income. This has come from two significant new contract wins during the year along with the ability to retain all other material existing contracts;
- Whilst looking to secure new contracts, Alliance elected to maintain an element of its fixed cost base and all operating aircraft to ensure that it could deliver on the awarded contracts. This did have an impact on 2014, however was essential to deliver the contract wins for which the financial benefit will be realised in 2015;
- The FIFO customer base for **Alliance** has again become broader with exposure to a wide range of commodities;
- With this wide range of customers and significant contracted income, **Alliance** has established a greater visibility of revenue for future years;
- The **Alliance** contracts are predominantly for mines that are in production;
- The **Alliance** Fleet is flexible and suited to the growing customer needs, particularly with the expanded F70 fleet; and
- Alliance looks to new opportunities for 2015 to expand on the platform that it established in 2014.

Operations

The **Alliance** corporate function is operated from Brisbane. Base (heavy) and line maintenance facilities are located in Brisbane and Adelaide with supporting line maintenance activities in Perth, Darwin, Townsville and Cairns.

Alliance has an enviable industry leading on time performance record with an average of 93% (2013: 90%) for the year ended 30 June 2014.

Safety will always be the most important operational requirement for **Alliance**.

Following the successful acquisition of F70 aircraft in previous years, **Alliance** continued with the successful integration of these units into the operations during 2014. The F70 aircraft provide **Alliance** with added flexibility with a unique product offering to our customers.

The key focus areas during the 2014 year included the following:

- Continuing to develop the operations in Perth which now represents our largest operational base;
- A greater focus on the utilisation of the F70 fleet; and
- The completion of a number of external audits (including from CASA) which confirm the strong compliance culture within the business.

Directors' Report

Financial Position

Revenue for the year was \$200.1 million compared to \$223.7 million in 2013, a decrease of 10.4%. The 2014 revenue reduced primarily as a result of a decline in the amount of wet lease income compared with the record 2013 year.

Profit after tax for the year was \$10.3 million compared to \$23.3 million in 2013, a decrease of 55.9%. A portion of the 2013 profit arose because of a prior year deferred tax asset correction of \$1.6 million.

The basic earnings per share was 9.72 cents.

Alliance invested \$29.3 million in capital projects during the year. This investment represents refurbishments of F70 aircraft, heavy maintenance on F100 and F50 aircraft and the implementation of internal system improvements.

Alliance continues to focus on its capital strategy. The on-going investment in aircraft during the year and low level of new net borrowings has resulted in a stable financial position.

The bank debt facility is with the Australian and New Zealand Banking Group (ANZ) and the Commonwealth Bank of Australia (CBA), both of which expire in October 2015. **Alliance** is considering the best capital management strategy for the future.

The relative gearing of **Alliance** has increased to 39% as at 30 June 2014 (30 June 2013: 37%). Net tangible assets increased to \$145.4 million (2013: \$143.4 million) following the continued investment in the aircraft.

Summary of Results (Non IFRS)

The results for the year ended 30 June 2014 have been summarised below to facilitate direct comparison with the 2013 financial results. In the previous year (2013) an adjustment was made to the results to remove the impact of a tax adjustment from previous periods.

The 'Actuals' are the financial results in accordance with the audited Australian Accounting Standards and the 'Underlying' represent the unaudited financial results after removing once off adjustments.

\$' millions	2014			2013		
	Actuals	Adj*	Underlying	Actuals	Adj	Underlying
Revenue	200.1		200.1	223.7		223.7
EBITDA	40.6	0.9	41.5	57.8		57.8
EBIT	18.7		19.6	35.1		35.1
Finance Costs	(4.2)		(4.2)	(4.7)		(4.7)
EBT	14.4		15.3	30.4		30.4
Tax	(4.2)	(0.2)	(4.4)	(7.1)	(1.6)	(8.7)
Profit after tax	10.3		10.9	23.3	(1.6)	21.7

*The adjustment in operating expenses above represent the employee costs incurred with "once off" redundancy, termination and restructuring costs which were incurred during the period. The 2013 adjustment was an income tax adjustment in respect of previous periods.

Directors' Report

The 2014 financial year was a year of 'transition' for **Alliance** compared with the record 2013 financial year.

There are three key reasons that demonstrate this 'transition' from a higher percentage of wet lease and ad-hoc charter income to a business that is currently principally driven by long-term contract income.

1. Wet Lease flying hours as a percentage of total flying hours over the past three years are as follows:

	FY14	FY13	FY12
Total Flying Hours	25,162	31,940	27,139
Wet Lease Flying Hours	2,351	6,827	5,176
Wet Lease Flying Hours as a percentage of total flying hours	9%	21%	19%

2. Despite a strong start to the year for charter income, ad-hoc charter income has reduced since October 2013 reflecting a softening in the economy; and
3. Alliance was successful in securing two new material long-term contracts and extending a number of others during the year.

Key Metrics

The key metrics below demonstrate this 'transition' for 2014 but as a result of continued investment in aircraft; **Alliance** has created a platform for sustainable growth in the future. As outlined in the 'Outlook' below, the forecast for FY15 is for a return to the long-term average revenue growth. This will result in an immediate improvement in the metrics for 2015.

	FY14	FY13	FY12	FY11
Average Aircraft in Service	27	25	21	16
Flight Hours	25,162	31,940	27,139	17,608
Total Flights	19,294	22,887	20,109	12,960
Average Staff Numbers	512	522	425	330
EBITDA per aircraft	\$1.5M	\$2.3M	\$2.3M	\$2.3M
Revenue per employee	\$392K	\$447K	\$433K	\$389K
FIFO % of Total Revenue	82%	77%	76%	73%

Capital Expenditure

Capital expenditure for the year was \$29.3 million. This expenditure was for the heavy maintenance of the aircraft fleet and enhancement to internal systems.

Operating Cash flow

Operating cash flow for the year was \$29.5 million (2013: \$41.2 million). This decrease in operating cash flow is consistent with the difference in the net profit after tax.

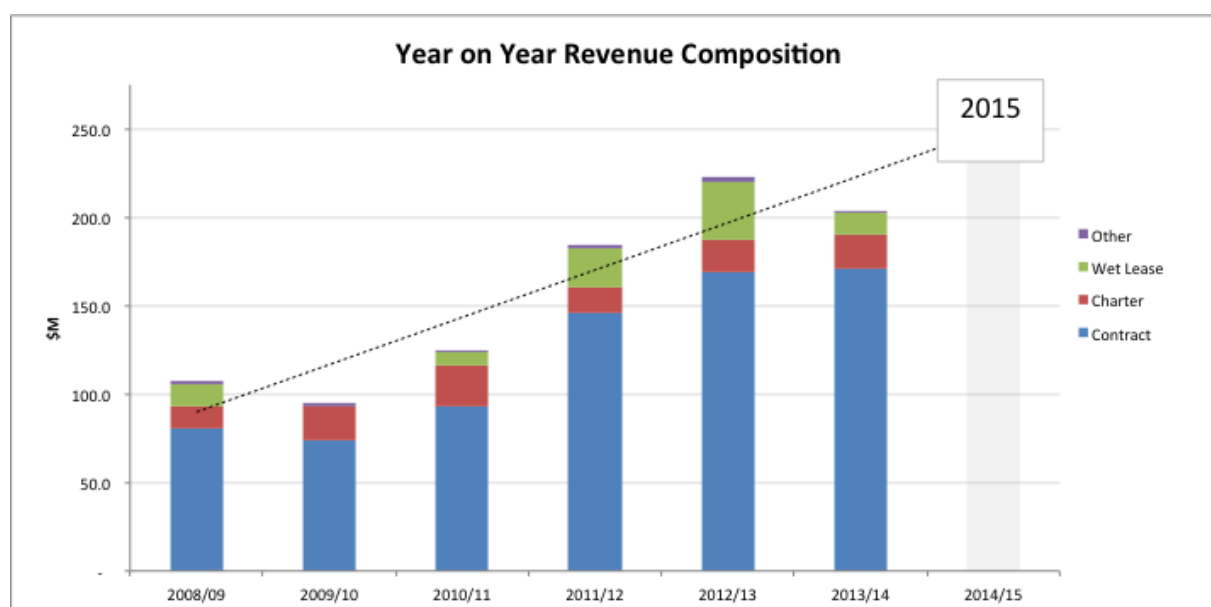
Business Strategies and Future Prospects

Outlook

As with previous years, there will be a continued 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.

The financial outlook for **Alliance** for the year ending 30 June 2015 is to return to a sustainable revenue growth. This will come from revenue from existing contracts, new FIFO opportunities, increased efficiency and fleet usage and a lower unit cost base.

The change in revenue mix has had a continued impact on the cost structure of **Alliance**. This means that **Alliance** forecasts a net profit after tax for the 2015 year to be comparable to the 2013 year.



Alliance has the contracts and a plan in place to deliver this additional revenue.

The proportion of wet lease income continues to diminish as a percentage of total income. Only a small amount of this income is forecast for 2015.

There is continued growth in long-term contract income, a large percentage which originates from the two material contract wins in 2014 which will be realised in 2015. New opportunities continue to be identified for long-term contract revenue.

The continued investment over the past 12 months and the mix of aircraft will allow **Alliance** to respond to the needs of its customers and secure new opportunities as and when they arise. Alliance has sufficient aircraft to meet the forecast in future years with some additional capacity to secure any new opportunities.

Directors' Report

Aircraft

As at 30 June 2014, there were 28 aircraft in service (2013: 29). The previous leased Boeing 737 was returned to the lessor in December 2013.

A further F70 will be brought into service in September 2014. 13 aircraft underwent heavy maintenance checks at our Brisbane and Adelaide facilities during 2014.

The total number of **Alliance** aircraft in service which are represented in the financial position of **Alliance** as at 30 June 2014 is as follows:

	2014	2013	2012
F50	5	6	5
F70	6	5	2
F100	17	17	16
	28	28	23

All aircraft are owned and maintained by **Alliance**.

The long range capability of the F70 not only enhances the product offering for existing customers, it allows **Alliance** to explore new opportunities.

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; contracted fly-in, fly-out services (FIFO), ad-hoc charter revenue and contracted wet lease arrangements.

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.

In more recent times with the increasing fleet size and flexibility, **Alliance** has been able to secure short term opportunities to wet lease aircraft whilst continuing to secure long term contracts to secure future revenue.

With a unique aircraft mix, increased 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 unique offering that can be configured to offer what the customer wants.

Long term contracts provide good visibility of future revenues once secured. During the year there were a number of new or renewed contracts which further enhanced this visibility of revenue for **Alliance** including:

- A contract with Serco Australia Pty Ltd to support the QCLNG Upstream Project;
- A new (3+1+1) contract with BHP Billiton Iron Ore from June 2014;
- An extension to the contract with BHP Nickel West for a further 3 years; and
- Other smaller extensions and renewals which continue to demonstrate the outstanding operational performance of **Alliance**.

Directors' Report

Approximately 74% of the FY15 forecast revenue is secured by existing contracts. The above new long term contracts and contract extensions have provided for an excellent platform for the future.

The continued investment over the past 3 years in fleet has ensured that **Alliance** is well positioned with available fleet units to secure new opportunities. As a result increased flexibility and capacity allows **Alliance** to meet customers' needs at a cost competitive price.

Organisational Readiness

Following the organisational review in late 2013, Alliance has continued to develop further competencies and mature during the 2014 year to deliver future opportunities.

2014 has seen a strong focus on enhancing existing tools and resources and positioning **Alliance** for the next stage of its development.

The Directors and Management of **Alliance** continue to take the decisions necessary to ensure that **Alliance** is prepared and positioned for ongoing market challenges.

Significant Changes in the State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group which occurred during the year.

Matters subsequent to the end of the financial year

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

Directors' Report

Information on directors

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 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. He is a director and life member of the Regional Aviation Association of Australia.

Special Responsibilities

Chairman of the board.

Member of nomination and remuneration committee.

Member of the audit and compliance committee.

Interests in Shares and Options

9,962,303 ordinary shares in **Alliance** Aviation Services Limited.

P Housden: *Independent non executive director*

Experience and Expertise

Mr Housden has over 40 years experience in accounting, finance and management across a range of industries, including 20 years as a director of ASX listed companies. He is currently a director of ASX listed companies Royal Wolf, GrainCorp and Calibre Ltd. He has previously served as a director of listed companies' iSoft Group, Sino Gold Mining, Clean Seas Tuna and Kaz Group. In his executive career has served in senior roles with MIA Ltd, RGC Ltd, Australian Chemicals Holdings, Metal Manufactures, Esso Australia and BHP.

Special responsibilities

Member of the nomination and remuneration committee.

Chairman of the audit and compliance committee.

Interests in shares and options

31,976 ordinary shares in **Alliance** Aviation Services Limited.

Directors' Report

Information on Directors (continued)

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. He is currently a director of ASX listed Australian Agricultural Company Ltd and GRM International, Rosewood (NT Beef) and Foodbank Queensland. He is also the President of the Australian Rugby Union. He has previously been chairman of Meat and Livestock Australia and president of the National Farmers' Foundation.

Special Responsibilities

Chairman of the nomination and remuneration committee.

Member of the audit and compliance committee.

Interests in Shares and Options

33,901 ordinary shares in **Alliance** Aviation Services Limited.

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).

He is currently a director of the Regional Aviation Association of Australia.

Interests in shares and options

3,494,406 ordinary shares in **Alliance** Aviation Services Limited.

Company secretary

The Company Secretary as at 30 June 2014 was M Dyer. M Dyer was appointed company secretary on 15 July 2013. M Dyer is also the Chief Financial Officer.

Directors' Report

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 2014, and the numbers of meetings attended by each director were:

			Meetings of Committees			
	Full meetings of directors		Audit and Compliance		Nomination and Remuneration	
	A	B	A	B	A	B
S Padgett	9	9	4	4	2	2
S McMillan	8	9	4	4	-	-
P Housden	9	9	4	4	2	2
D Crombie	9	9	4	4	2	2

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

Directors' Report

Remuneration Report

The remuneration report sets out remuneration information for **Alliance** Aviation Services Limited's non-executive directors, executive directors and other key management personnel (KMP).

Directors and key management personnel disclosed in this report

Name	Position
Non-Executive and Executive Directors	
S Padgett	Non-executive chairman
P Housden	Non-executive director
D Crombie	Non-executive director
S McMillan	Managing Director (Executive Director)
Other Key Management Personnel	
M Dyer	Chief Financial Officer
L Schofield	Chief Operating Officer
K Crawford	General Manager – Commercial (resigned 31 December 2013)

Changes since the last reporting period

As a result of organisational changes, the nature of the roles of General Manager Engineering, Flight Operations Manager and General Manager Human Resources and Development are no longer considered key management personnel as defined in AASB124(9).

The role of General Manager – Commercial has not yet been filled.

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

Directors' Report

Remuneration Report (continued)

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.

Director's Fees

The current annual fees set out below were approved as part of the listing process. 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 Director 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.

The following fees have applied:

	2014 \$	2013 \$
<u>Base Fees</u>		
Chair	181,000	190,000
Other non-executive directors	76,000	80,000
<u>Additional Fees</u>		
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.

Executive Remuneration Policy and Framework

In determining executive remuneration, the board aims to ensure that remuneration practices are

- Competitive and equitable;
- Aligned with the long-term interests of the group;
- Incentives are challenging and linked to the creation of sustainable shareholder returns, and
- Termination benefits are justified and appropriate.

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.

Remuneration Report (continued)

In the 2012 financial year, the board engaged Godfrey Remuneration Group to advise on remuneration structures and levels for KMP for future periods. No advice or recommendations were obtained during the year ended 30 June 2014. These recommendations continue to be adopted.

The Directors are satisfied with the contents of the report.

For the year ended 30 June 2014 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.

Short-Term Incentives

In 2014, a short-term incentive bonus pool was provided for KMP following the completion of the 2013 financial year.

Long-Term Incentives

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.

Remuneration Report (continued)

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.

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.

To date there have been no issues pursuant to the LTI plan. It is forecast that a future issue will be considered.

Issue of Rights

An initial grant of rights was made in connection with the IPO to the Managing Director in 2012. The board have reviewed the vesting conditions as at 30 June 2014.

There were two tranches of rights with vesting conditions set by the board for tranche 1 based on relative total shareholder return and tranche 2 based on the **Alliance** earnings per share performance over the period up to 30 June 2014.

As neither of the conditions of this right issue has been satisfied the board have determined that the rights lapsed as at 30 June 2014. There were no shares issues as part of this rights issue.

There are no other rights on issue by **Alliance**.

Voting and comments made at the company's 2013 Annual General Meeting (Monday 14 October 2013)

Alliance Aviation Services Limited received more than 99% of "yes" votes on its remuneration report for the 2013 financial year. The company did not receive any feedback at the AGM or throughout the year on its remuneration practices.

Directors' Report

Remuneration Report (continued)

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.

2014	Short-term employee benefits			Post-employment benefits	Long term benefits		Share based payments	
	Cash salary and allowances \$	Cash Bonus \$	Non monetary benefit \$	Super-annuation \$	Long services leave \$	Termination benefits \$	Options \$	Total \$
<u>Non-executive directors</u>								
S Padgett	165,675	-	-	15,325	-	-	-	181,000
D Crombie	82,380	-	-	7,620	-	-	-	90,000
P Housden	90,000	-	-	-	-	-	-	90,000
Sub-total non-executive directors	338,055	-	-	22,945	-	-	-	361,000
<u>Executive directors</u>								
S McMillan	468,919	97,689	-	52,411	50,450	-	-	669,469
<u>Other key management personnel</u>								
M Dyer	275,229	-	-	25,459	-	-	-	300,688
L Schofield	274,673	48,480	-	29,892	-	-	-	353,045
K Crawford (Resigned 31/12/13)	117,617	48,480	-	15,364	-	80,423	-	261,884
A J Childs (Resigned 15/07/13)	-	-	-	-	-	266,000	-	266,000
Total key management personnel compensation (group)	1,474,493	194,649	-	146,071	50,450	346,423	-	2,212,086

The role of General Manager – Commercial has not yet been filled. Refer to note 24 for related party payments to K Crawford.

The right to receive an STI or LTI is 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.

Directors' Report

Remuneration Report (continued)

2013	Short-term employee benefits			Post-employment benefits	Long term benefits		Share based payments	
	Cash salary and allowances \$	Cash Bonus \$	Non monetary benefit \$	Super-annuation \$	Long services leave \$	Termination benefits \$	Options \$	Total \$
<u>Non-executive directors</u>								
S Padgett	174,312	-	-	15,688	-	-	-	190,000
H Jones	67,836	-	-	-	-	-	-	67,836
D Crombie	86,238	-	-	7,761	-	-	-	94,000
P Housden	90,000	-	-	-	-	-	-	90,000
Sub-total non-executive directors	418,386			23,449				441,836
<u>Executive directors</u>								
S McMillan	492,661	-	-	44,339	-	-	-	537,000
<u>Other key management personnel</u>								
L Schofield	244,495	-	-	22,005	-	-	-	266,500
K Crawford	291,910	-	-	26,272	-	-	-	318,182
P James	229,408	-	-	20,071	-	-	-	249,479
T West	218,948	-	-	19,705	-	-	-	238,654
M Dyer	42,880	-	-	3,859	-	-	-	46,739
J Childs	300,726	-	-	24,605	-	-	-	325,331
M Hobson	239,865	-	-	21,588	-	-	-	261,453
Total key management personnel compensation (group)	2,479,279			205,893				2,685,174

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*	
	2014	2013	2014	2013	2014	2013
Other key management personnel						
<u>Executive directors</u>						
S McMillan	100%	100%	20%	0%	0%	0%
<u>Other key management personnel</u>						
L Schofield	100%	100%	20%	0%	0%	0%
K Crawford (Resigned 31/12/13)	100%	100%	20%	0%	0%	0%
P James	-	100%	-	0%	-	0%
T West	-	100%	-	0%	-	0%
M Dyer	100%	100%	0%	0%	0%	0%
A J Childs (Resigned 15/7/13)	-	100%	-	0%	0%	0%

Directors' Report

Remuneration Report (continued)

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.

Service agreements are summarised below:

Name	Commencement date	Term of employment contract	Base salary and allowances including superannuation	Termination benefits
S McMillan Managing director	05-Apr-02	On-going	\$539,463	Nil
L Schofield Chief Operating Officer	12-Jun-12	On-going	\$301,376	Nil
K Crawford General Manager – Commercial	19-Apr-04	31-Dec-13	-	-
M Dyer Chief Financial Officer / Company Secretary	06-May-13	On-going	\$301,376	Nil
A J Childs Chief Financial Officer / Company Secretary	29-Oct-07	15-Jul-13	-	-

Share Based Compensation

The terms and conditions of each grant of rights affecting remuneration in the current or a future reporting period are as follows:

Grant date	Vesting and Exercise Date	Expiry date	Exercise Price	Number of Rights Issued	Value per Rights at grant date*	Performance Achieved
20 December 2011	30 June 2014	30 June 2014	\$nil	132,353	\$1.46	Lapsed 30 June 2014
20 December 2011	30 June 2014	30 June 2014	\$nil	132,353	\$0.73	Lapsed 30 June 2014

* refer page 15 for the details of the performance conditions for each tranche

No rights vested or were exercised during the year ended 30 June 2014.

Rights granted under the LTI plan carry no dividend or voting rights. When exercisable, each right is convertible into one ordinary share.

Directors' Report

Remuneration Report (continued)

Details of rights over ordinary shares in the company provided as remuneration to each director and each of the key management personnel of the parent entity and the group are set out below. When exercisable, each right is convertible into one ordinary share of **Alliance** Aviation Services Limited. Further information on the rights is set out in note 23 to the financial statements.

Name	Number of Rights Granted at Grant Date	Value of Rights at Grant Date *	Number of Rights Vested during the Year	Number of Rights Lapsed during the Year	Value at Lapse Date
<i>Other key management personnel of the group:</i>					
S McMillan	264,706	\$289,032	-	264,706	\$ Nil

* The value at grant date calculated in accordance with AASB 2 Share based Payment of rights granted during the year as part of remuneration.

The assessed fair value at grant date of rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the rights.

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.

Directors' Report

Shares Under Option

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

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 \$163,948 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 23.

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.

Directors' Report

Auditor (continued)

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:

	2014	2013
	\$	\$
Other assurance services		
PwC Australian firm		
Corporate Advisory Services	167,890	-
Total remuneration for other assurance services	167,890	-
 Taxation Services		
PwC Australian firm		
Tax consulting and compliance services	134,631	112,143
Total remuneration for taxation services	134,631	112,143
 Total remuneration for non-audit services	302,521	112,143

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



S Padgett

Chairman
Sydney
14 August 2014



Auditor's Independence Declaration

As lead auditor for the audit of Alliance Aviation Services Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) 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 the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Allman', enclosed within a large, loopy oval stroke.

Timothy J Allman
Partner
PricewaterhouseCoopers

Brisbane
14 August 2014

Financial Statements

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

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These financial statements are the consolidated financial statements of the consolidated entity 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

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on Page 3 both of which are not part of these financial statements.

The financial statements were authorised for issue by the directors on 14 August 2014. 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 and other information are available on our website: www.allianceairlines.com.au

Financial Statements

Consolidated Income Statement

	Notes	2014 \$'000	2013 Restated \$'000
Revenue	6	200,237	223,217
Other income	7	288	525
Expenses			
Flight and operations costs		(120,575)	(129,428)
Engineering and maintenance costs		(23,099)	(23,014)
Selling and marketing expenses		(1,746)	(1,746)
Office and general administration costs		(14,494)	(11,749)
Finance costs	8	(4,231)	(4,710)
Depreciation	13	(21,959)	(22,715)
Profit before income tax		14,421	30,380
Income tax benefit / (expense)	9	(4,157)	(7,109)
Profit for the year		10,264	23,271
Earnings per share based on earnings attributable to the ordinary equity holders of the company	32	Cents per share	Cents per share
Basic earnings per share		9.72	23.33
Diluted earnings per share		9.72	23.27

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

Financial Statements

Consolidated Statement of Comprehensive Income

		2014	2013
	Notes	\$'000	Restated \$'000
Profit for the year		10,264	23,271
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedge	22	1,233	(1,671)
Income tax relating to these items		(370)	501
Other comprehensive income for the year, net of tax		863	(1,170)
Total comprehensive income for the year		11,127	22,101
Total comprehensive income for the year is attributable to:			
Owners of Alliance Aviation Services Limited		11,127	22,101

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

Financial Statements

Consolidated balance sheet

	Notes	2014 \$'000	2013 Restated \$'000	2012 Restated \$'000
ASSETS				
Current Assets				
Cash and cash equivalents	10	239	1,238	372
Receivables	11	23,867	29,104	26,577
Inventories	12	24,379	8,234	8,205
Total current assets		48,485	38,576	35,153
Non-current assets				
Property, plant & equipment	13	218,158	216,282	180,248
Deferred tax assets	14	-	3,433	1,908
Total non-current assets		218,158	219,715	182,156
Total assets		266,643	258,291	217,310
LIABILITIES				
Current liabilities				
Trade and other payables	15	22,016	18,354	24,248
Borrowings	16	18,000	11,850	15,728
Current tax liabilities		(4,266)	2,771	2,633
Provisions	17	4,513	5,054	4,093
Total current liabilities		40,263	38,029	46,702
Non-current liabilities				
Borrowings	18	76,836	75,735	67,043
Deferred tax liabilities	19	2,612	-	-
Provisions	20	1,541	1,154	664
Total non-current liabilities		80,989	76,889	67,707
Total liabilities		121,252	114,918	114,409
Net assets		145,391	143,373	102,899
EQUITY				
Contributed equity	21	172,367	171,767	143,371
Reserves	22	(111,830)	(112,694)	(111,567)
Retained earnings	22	84,854	84,300	71,095
Total equity		145,391	143,373	102,899

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

Financial Statements

Consolidated statement of changes in equity

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2012		143,371	(111,567)	71,261	103,065
Policy change adjustment (Net of Tax)	3			(155)	(155)
Correction of error (Net of Tax)	4			(11)	(11)
Restated total equity at the beginning of financial year		143,371	(111,567)	71,095	102,899
Profit for the year as reported in the 2013 financial statements		-		23,338	23,338
Policy change adjustment (Net of Tax)	3			52	52
Correction of error (Net of Tax)	4			(119)	(119)
Restated profit for the period				23,271	23,271
Other comprehensive income	22	-	(1,170)	-	(1,170)
Restated Total comprehensive income for the year			(1,170)	23,271	22,101
Contributions of equity		25,160	-	-	25,160
Dividends paid		-	-	(6,129)	(6,129)
Dividend reinvestment plan		3,938		(3,938)	0
Transaction costs arising on share issue		(702)	-	-	(702)
Share-based reserve		-	43	-	43
		28,396	43	(10,067)	18,372
Balance at 30 June 2013		171,767	(112,694)	84,300	143,373
Balance at 1 July 2013		171,767	(112,694)	84,300	143,373
Profit for the year		-		10,264	10,264
Other comprehensive income	22	-	863	-	863
Total comprehensive income for the year		0	863	10,264	11,127
Contributions of equity					-
Dividends paid				(9,109)	(9,109)
Dividend reinvestment plan		601		(601)	-
	21	601	-	(9,710)	(9,109)
Balance at 30 June 2014		172,367	(111,830)	84,854	145,391

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

Financial Statements

Consolidated statement of cash flows

	Notes	2014 \$'000	2013 Restated \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		229,074	246,126
Payments to suppliers (inclusive of goods and services tax)		(190,123)	(192,109)
Interest received		41	88
Interest paid		(4,262)	(4,429)
Income tax paid		(5,245)	(8,496)
Net cash inflow (outflow) from operating activities	31	29,485	41,180
Cash flows from investing activities			
Payments for aircraft, property, plant and equipment		(29,396)	(60,989)
Payments for other assets		-	-
Proceeds from sale of property, plant & equipment		5	955
Net cash inflow (outflow) from investing activities		(29,391)	(60,034)
Cash flows from financing activities			
Proceeds from issue of shares		-	25,160
Transaction costs arising on share issue		-	(1,003)
Payments to existing shareholders for companies		-	-
Proceeds from borrowings		14,891	87,930
Repayment of borrowings		(6,025)	(86,711)
Dividends paid		(9,109)	(6,129)
Net cash inflow (outflow) from financing activities		(243)	19,247
Net increase (decrease) in cash and cash equivalents		(149)	393
Cash and cash equivalents at the beginning of the year		388	(5)
Cash and cash equivalents at the end of the year		239	388

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

Financial Statements

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1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. 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.

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 2013 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 4.

b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of **Alliance** Aviation Services Limited ('company' or 'parent entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended. **Alliance** Aviation Services Limited and its subsidiaries together are referred to in these financial statements as the group or the consolidated entity.

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Summary of Significant Accounting Policies (continued)

c) Segment reporting

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 board of directors

d) Foreign currency translation

(ii) *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.

(iii) *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 at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

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 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.

Summary of Significant Accounting Policies (continued)

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.

(ii) Ad hoc charter services

While the focus of the group is primarily dedicated to FIFO services, **Alliance** Aviation Services Limited also utilises its fleet to provide ad hoc 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 or 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.

Summary of Significant Accounting Policies (continued)

(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 also 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 either accounting nor 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.

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.

Summary of Significant Accounting Policies (continued)

(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.

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 27). 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.

(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 other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(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.

(j) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and

Summary of Significant Accounting Policies (continued)

the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss 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 other expenses in profit or loss.

(k) Inventories

Consumables / Inventories are valued 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.

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.

(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.

(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.

Summary of Significant Accounting Policies (continued)

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
▪ 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.

(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 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.

(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.

(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 as a prepayment for liquidity services 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.

Summary of Significant Accounting Policies (continued)

(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 will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

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.

(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 are provided to employees via the **Alliance** Aviation Services Limited Long Term Incentive plan (LTI). Information relating to these schemes is set out in note 24.

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.

Summary of Significant Accounting Policies (continued)

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. 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 rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(iv) *Bonus plans*

The group recognises a liability and an expense for bonuses. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(s) Contributed Equity

Ordinary shares are classified as equity (note 21).

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

(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.

(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.

Summary of Significant Accounting Policies (continued)

(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.

(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.

(x) Changes to presentation-classification of expenses

Alliance Aviation Services Limited has in the current financial year changed the classification of its expenses in the income statement from a classification by type of expenditure to a functional classification. This will provide more relevant information to our stakeholders as it is more in line with common practice in the industries Alliance Aviation Services Limited is operating in. The comparative information has been reclassified accordingly.

(y) New Accounting Standards and Interpretations

The Group is in compliant with the following new accounting standards and amendments applicable for their annual reporting period commencing 1 July 2013:

- AASB 10 Consolidated Financial Statements, AAS 11 Joint Arrangements, AASB 12 Disclosure of Interest in Other Entities, AASB 128 Investments in Associate and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards;
- AASB 13 Fair Value Measurements and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13;
- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011);
- AASB 2012-5 Amendments to Australian Accounting Standards arising Annual Improvements 2009-2011 Cycle; and
- AASB 2012-2 Amendments to Australian Accounting Standards-Disclosures-Offsetting Financial Assets and Financial Liabilities.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

Summary of Significant Accounting Policies (continued)

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption.

There will 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 derecognition rules have been transferred from AASB 139 Financial Instruments:

Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

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.

(z) Parent Entity Financial Information

The financial information for the parent entity, **Alliance** Aviation Services Limited, disclosed in note 34 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.

Summary of Significant Accounting Policies (continued)

The amounts receivable/payable under the tax funding agreement are 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 currency 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, foreign exchange and aging analysis for credit risk.

The group holds the following financial instruments:

	2014 \$'000	2013 \$'000
Financial assets		
Cash and cash equivalents	239	1,238
Trade and other receivables	23,867	29,104
	24,106	30,342
Financial liabilities		
Trade and other payables	22,016	18,354
Borrowings	93,510	85,878
	115,527	104,232

(a) Foreign Exchange Risk

The group has transactional currency risks arising from sales, purchases and loans 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, the group has not used derivative products.

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Summary of Significant Accounting Policies (continued)

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

	2014		2013	
	USD	EURO	USD	EURO
	\$'000	\$'000	\$'000	\$'000
Trade receivables	-	-	-	-
Bank loans	(20,000)	-	(20,000)	-
Trade payables	(1,819)	(804)	(949)	(1,116)

Financial Risk Management (continued)

Sensitivity

At 30 June 2014, 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 \$105k (2013: +/- \$188k).

(b) Interest Rate Risk

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

The risk is managed by monitoring and selecting fixed interest rate periods; the group has not used derivative products.

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

	2014		2013	
	Weighted Average Interest rate	Balance	Weighted Average Interest rate	Balance
	%	\$'000	%	\$'000
Bank loans	3.2%	93,510	3.3%	85,028
Net exposure to cash flow interest rate risk		93,510		85,028

*An analysis by maturities is provided in (c) below.

Sensitivity

At 30 June 2014, if 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 \$31k (2013: +/- \$130k).

(c) Credit risk

Credit risk arises from financial assets from potential non-performance by counter parties of contractual obligations that could lend to a financial loss to the group.

Credit risk is managed by assessing the credit quality of counterparties taking into account their financial position, past experience and other factors. Generally the Group only transacts with entities with a high credit quality as evidenced by the absence of material defaults. The group's customers are principally focused on the resources industry, albeit over a range of commodities. Two customers, both of which have investment grade credit ratings, represent 42% of contract revenue. Refer to note 11 for details of impaired receivables.

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Notes to the consolidated financial statements

Financial Risk Management (continued)

(d) Liquidity risk

At the end of the reporting period the group held deposits at call of Nil (2013 \$504k).

	2014 \$'000	2013 \$'000
Floating Rate		
Expiring within one year (bank overdraft and bill facility)	18,000	6,850
Expiring beyond one year (bank loans)	75,520	79,028
	93,510	85,878

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. The unsecured bill acceptance facility may be drawn at any time and is subject to annual review. Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time in Australian dollars and have an average maturity of 2 years (2013 - 3 years).

Liquidity risk arises from the possibility that the group might encounter difficulty in settling its debts or otherwise meeting its obligations relating to financial liabilities. The group manages this risk through 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.

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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

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 2014	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivates							
Trade payables	13,704					13,704	13,704
Borrowings	15,500	2,500	75,510	-	-	93,510	93,510
Total non-derivatives	29,204	2,500	75,510	-	-	107,214	107,214
As at 30 June 2013	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivates							
Trade payables	12,864	-	-	-	-	12,864	12,864
Borrowings	9,350	2,500	5,000	69,028	-	85,878	85,878
Total non-derivatives	22,214	2,500	5,000	69,028	-	98,742	98,742

Financial Risk Management (continued)

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

(e) Price Risk

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

3. Change in Accounting Policy

(a) Change in Policy for Property Plant and Equipment

The financial statements have been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to the recognition of payments for the Rolls Royce Total Care (RRTC) agreement for F100 engines maintenance.

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.

In previous financial reports payments pursuant to the RRTC agreement were capitalised and identified as other assets. On the event of an engine exchange an amount identified as payments in respect of that engine were transferred from other assets to aircraft assets as part of property plant and equipment and subsequently amortised.

A complete review of this policy was completed during 2014 and it was identified that whilst the original policy was correct, it was considered appropriate that this policy was amended to change the treatment of the RRTC payments to provide better disclosure. This was identified as the pattern of exchanges became evident since the start of the contract on 27 March 2012.

As a result of this review, the accounting policy for the recognition of payments pursuant to the RRTC agreement and the amortisation of the engines has been amended and retrospectively applied back to the start of the contract, 27 March 2012.

The new accounting policy which has been applied has the effect of:

- Recognising a single pool of engines being a single asset which is the subject of the RRTC agreement;
- Any payments are capitalised to this single pool of engines as they are incurred to increase the net book value; and
- 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.

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Change in accounting policy (continued)

Consolidation balance sheet (extract)

	30 June 2013		30 June 2013	30 June 2012		30 June 2012
	\$'000	Increase / (Decrease)	Restated \$'000	\$'000	Increase / (Decrease)	Restated \$'000
Property, plant & equipment	210,596	5,686	216,282	178,937	1,311	180,248
Other assets	5,833	(5,833)	-	1,532	(1,532)	-
Deferred tax assets	3,334	44	3,378	1,837	66	1,903
Net Assets	143,605	(103)	143,502	103,065	(155)	102,910
Retained Earnings	84,532	(103)	84,429	71,261	(155)	71,106
Total equity	143,605	(103)	143,502	103,065	(155)	102,910

Balance sheet items, other than those mentioned above, were not affected by the change in accounting policy.

	2013	Profit	2013
	\$'000	Increase / (Decrease)	Restated \$'000
Consolidated income statement			
Depreciation	(22,790)	74	(22,715)
Profit before income tax	30,475	74	30,550
Income tax benefit / (expense)	(7,137)	(22)	(7,160)
Profit for the year	23,338	52	23,390

Basic and diluted earnings per share for the prior year have also been restated. The amount of the adjustment for both basic and diluted earnings per share was an increase of 0.05 cents per share.

The amounts disclosed above for the 2013 reporting period, and for the balance sheets as at 1 July 2012 and 30 June 2013, are after restatement for the changes in accounting.

4. 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 5 to 34. 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.

(a) Critical Accounting Estimates and Assumptions

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. These are determined individually;
- 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.

Critical Estimates, Judgements and Errors (continued)

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, having 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.

During the 2014 year Management completed a comprehensive review of the entire property plant and equipment asset register. This review included the following:

- A complete review of the carrying value of all aircraft and to reflect this carrying value across the 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.
- An assessment of 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; and
- An assessment of the 'core' value or 'residual' value of each of the assets in component groups (i), (ii) and (iii).

All of the above required significant experienced Management judgement.

As a result of this review, there has been a change of estimate of useful lives and depreciation method of plant and equipment.

This change in estimate has been applied with effect from 01 July 2013.

The net effect of these changes for the year ended 30 June 2014 was a decrease in depreciation expense for the group of \$1.76m. This reduction in the depreciation charge was mainly due to lower asset usage during the financial year 2014.

It is difficult to estimate the impact on future years as the depreciation charge in future years will reflect both the future utilisation of the aircraft and the cyclical nature of the maintenance.

The revised useful lives and depreciation method has been adopted following a detailed review and the analysis of current fleet, taking in to consideration current and forecast operating statistics, detailed history of maintenance cost and overhaul values.

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Critical Estimates, Judgements and Errors (continued)

(i) 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.

(ii) 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.

(b) Correction of error in accounting for leasing contract

During the financial year 2014 management undertook a detailed review of its leasing contracts and discovered that interest element and currency exchange gains/losses related to finance lease were inaccurately recorded.

The error has been corrected by restating each of the affected financial line items for the prior periods as follows:

	30 June 2013		30 June 2013	30 June 2012		30 June 2012
	\$'000	Increase / (Decrease)	Restated \$'000	\$'000	Increase / (Decrease)	Restated \$'000
Consolidation balance sheet (extract)						
Deferred tax assets	3,378	56	3,433	11,484	5	11,489
Borrowings	(75,550)	(185)	(75,735)	(67,028)	(15)	(67,043)
Net Assets	143,502	(130)	143,373	102,910	(11)	102,899
Retained Earnings	84,429	(130)	84,300	71,106	(11)	71,096
Total equity	143,502	(130)	143,373	102,910	(11)	102,899

	2013	Profit	2013
	\$'000	Increase / (Decrease)	Restated \$'000
Consolidated income statement			
Other Income	661	(136)	525
Finance Costs	(4,676)	(34)	(4,710)
Profit before income tax	30,550	(170)	30,380
Income tax benefit / (expense)	(7,160)	51	(7,109)
Profit for the year	23,390	(119)	23,271

Correction of error in accounting for leasing contract (continued)

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for both basic and diluted earnings per share was a decrease of \$0.12 cents per share.

The amounts disclosed above for the 2013 reporting period, and for the balance sheets as at 1 July 2012 and 30 June 2013, are after restatement for the changes in accounting policy disclosed in note 3.

5. 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. 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.

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6. Revenue

	2014 \$'000	2013 \$'000
From continuing operations		
Contract revenue	167,422	170,854
Charter / Wet leasing revenue	29,120	49,122
Other revenue	3,695	3,241
	200,237	223,217

7. Other Income

	2014 \$'000	2013 (1) \$'000
Net gain (loss) on disposal of property, plant and equipment	(27)	170
Foreign exchange gains (net)	315	355
	288	525

8. Expenses

Profit before tax includes the following specific expenses:

	2014 \$'000	2013 (1) \$'000
Total employee benefits expenses	(58,705)	(58,945)
<i>Finance costs</i>		
Interest expense	(4,231)	(4,710)
Amortisation of discount on shareholder loan	-	-
Finance costs expensed	(4,231)	(4,710)
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	(3,269)	(7,523)
Impairment losses - financial assets		
Trade receivables	-	-
Net foreign exchange (gains) / losses included in other income (note 6) / other expenses and recognised in profit before income tax for the year (as either other income or expense)	(315)	(355)

1. Refer to note 4(b) for explanation of retrospective adjustments recognised as a result of a correction of error. The amounts disclosed in these notes are after these adjustments.

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9. Income Tax Expense

	Notes	2014 \$'000	2013 (1) \$'000
(a) Income tax expense:			
Current tax		4,352	8,005
Adjustments for current tax of prior periods		(195)	(171)
Deferred tax			(724)
		<u>4,157</u>	<u>7,109</u>
Deferred income tax (revenue) expense included in the income tax expense comprises:			
Decrease/(increase) in deferred tax assets	14	(154)	3,677
(Decrease)/increase in deferred tax liabilities	19	6,569	(4,405)
		<u>6,415</u>	<u>(728)</u>
Income tax (benefit) / expense on profit from continuing operations		<u>4,157</u>	<u>7,109</u>
Tax effective rate		28.8%	23.4%
(b) Numerical reconciliation of income tax (benefit) / expense to prima facie tax payable			
Profit / (loss) before income tax expense		<u>14,421</u>	<u>30,380</u>
Tax at the Australian Corporate tax rate of 30% (2013: 30%)		4,326	9,114
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Impairment			-
Sundry		26	118
		<u>4,352</u>	<u>9,232</u>
Prior year deferred tax expense adjustment			(1,950)
Prior year current tax expense adjustment		(195)	(173)
AASL Tax Consolidated Group adjustment			-
Income tax (benefit) / expense		<u>4,157</u>	<u>7,109</u>
(c) Amounts recognised directly in equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:			
Net deferred tax - debited (credited) directly to equity	14, 21	-	(301)
		<u>-</u>	<u>(301)</u>
(d) Tax expense (income) relating to items of other comprehensive income			
Changes in the fair value of cash flow hedges	19, 22	(370)	501

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Notes to the consolidated financial statements

1. Refer to note 3 and 4(b) for explanations of retrospective adjustments recognised as a result of a change in accounting policy and correction of errors. The amounts disclosed in this notes are after these adjustments.

10. Current assets – Cash and Cash Equivalents

	2014 \$'000	2013 \$'000
Cash at bank and in hand	239	1,238
	239	1,238

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the consolidated statement of cash flows as follows

	2014 \$'000	2013 \$'000
Balances as above	239	1,238
Bank overdrafts (note 16)	-	(850)
Balances per consolidated statement of cash flows	239	388

(b) 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

	2014 \$'000	2013 \$'000
Trade receivables	20,243	20,209
Provision for impairment of receivables (a)	-	-
	20,243	20,209
Other receivables (c)	1,911	2,814
Prepayments	1,713	6,081
	3,624	8,895
	23,867	29,104

(a) Impaired trade receivables

As at 30 June 2014 no current trade receivables of the group were impaired, hence no provision was taken up (2013 - \$0k).

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Current assets – Trade and other Receivables (continued)

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

	2014 \$'000	2013 \$'000
At 1 July 2013	-	209
Provision for impairment recognised during the year	-	(209)
Receivables written off during the year as uncollectible	-	-
Unused amount reversed	-	-
At 1 July 2014	-	-

The creation and release of the provision for impaired receivables has been included in 'other expenses' in profit or loss. Amounts charged to the provision account are written off where there is no expectation of recovering additional cash.

(b) Past due but not impaired

As at 30 June 2014, trade receivables of \$5,587k (2013 - \$9,513k) 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:

	2014 \$'000	2013 \$'000
Up to 3 months	5,157	9,432
3 to 6 months	430	81
	5,587	9,513

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(b)).

(c) Other Receivables

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

(d) Foreign exchange and interest rate risk

Information about the group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

(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

	2014 \$'000	2013 \$'000
Inventory	24,378	8,234
	24,378	8,234

The increase in inventory in 2014 is attributable to the asset reclassification described in note 4 and the acquisition of parts to support future maintenance activities.

Inventory Expense

Inventory expensed in operations during the year ended 30 June 2014 were \$3,514k (2013: \$2,335k), are included in engineering expenses.

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2014 amounted to \$873k (2013 : \$165k). The expense has been included in the engineering and maintenance expenses in profit or loss.

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13. Non-current assets – Property, Plant and Equipment

(a) Property, plant and equipment ⁽¹⁾

	Aircraft Assets	Property, plant and equipment	Total
At 30 June 2012			
Cost	221,211	11,142	232,353
Accumulated depreciation	(45,569)	(6,536)	(52,105)
Restated net book value as on 30 June 2012	175,642	4,606	180,248
Year ended 30 June 2013			
Opening net book amount	179,943	4,606	184,549
Additions	50,864	4,368	55,232
Transfers	3	(3)	0
Disposals - cost	(1,101)	(28)	(1,129)
Disposals - accumulated depreciation	322	22	345
Depreciation charge	(21,035)	(1,679)	(22,714)
Restated net book value as on 30 June 2013	208,995	7,286	216,282
At 30 June 2013			
Cost	275,266	15,479	290,745
Accumulated depreciation	(66,271)	(8,193)	(74,464)
Net book value	208,995	7,286	216,282
Year ended 30 June 2014			
Opening net book amount	208,995	7,286	216,282
Additions	42,455	1,831	44,286
Transfers	(17,685)	-	(17,685)
Disposals - cost	(3,543)	(1,247)	(4,790)
Disposals - accumulated depreciation	785	1,239	2,025
Depreciation charge	(19,963)	(1,996)	(21,959)
Closing net book value	211,044	7,113	218,158

Aircraft and APUs includes the following amounts where the group is a lessee under a finance lease:

	2014 \$'000	2013 \$'000
Aircraft		
Capitalised Lease	1,948	1,948
Accumulated depreciation	(318)	(65)
Net book value	1,630	1,883

1. Refer to note 3 for explanations of retrospective adjustments recognised as a result of a change in accounting policy.

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Notes to the consolidated financial statements

14. Non-current assets – Deferred Tax Assets

	2014 \$'000	2013 (1) \$'000
The balance comprises temporary differences attributable to:		
Tax losses	3,357	114
Employee benefits	1,821	1,863
Property, plant and equipment	1,903	4,803
	7,080	6,780
<i>Other</i>		
Doubtful debts		-
Cash flow hedges	3	162
Accruals	485	52
Provision for warranties and legal costs	24	82
Share issue expenses	670	1,032
Sub-total other	1,182	1,328
Total deferred tax assets	8,262	8,108
Set-off of deferred tax liabilities pursuant to set-off provisions	8,262	4,675
Net deferred tax assets	-	3,434
Deferred tax assets expected to be recovered within 12 months	937	1,915
Deferred tax assets expected to be recovered after more than 12 months	7,325	6,194
	8,262	8,108

Movements	Tax losses \$'000	Employee benefits \$'000	Property, plant and equipment \$'000	Other \$'000	Total \$'000
At 30 June 2012 restated	122	1,965	8,008	1,389	11,484
(Charged)/credited					
-to profit or loss	(8)	(103)	(3,205)	(362)	(3,677)
-to other comprehensive income				301	301
-directly to equity					-
At 30 June 2013 restated	114	1,863	4,803	1,328	8,108
(Charged)/credited					-
-to profit or loss	3,243	(42)	(2,901)	(146)	154
-to other comprehensive income					
-directly to equity					-
At 30 June 2014	3,357	1,821	1,903	1,182	8,262

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Notes to the consolidated financial statements

1. Refer to note 3 and 4(b) for explanations of retrospective adjustments recognised as a result of a change in accounting policy and correction of errors. The amounts disclosed in this notes are after these adjustments.

15. Current Liabilities – Trade and other Payables

	2014 \$'000	2013 \$'000
Trade payables	13,704	12,863
Other payable	8,312	5,491
	22,016	18,354

(a) Risk exposure

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

16. Current Liabilities – Borrowings

	2014 \$'000	2013 \$'000
Secured		
Bank overdrafts	-	850
Bank Loans	18,000	11,000
Total current borrowings	18,000	11,850

(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 17.

(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

	2014 \$'000	2013 \$'000
Employee benefits	4,513	5,054
	4,513	5,054

(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,

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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

	2014 \$'000	2013 Restated \$'000
Secured		
Bank loans	75,510	74,028
Finance lease liabilities	1,326	1,522
Total non-current borrowings	76,836	75,550

Refer to note 4 (b) for details about the restatement.

(a) Secured liabilities and assets pledged as security

	2014 \$'000	2013 \$'000
Bank overdrafts and bank loans	93,510	85,878
Total secured liabilities	93,510	85,878

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 over lenders.

There are also a range of financial covenants normally associated with this type of debt. As at 30 June 2014 all covenants had been complied with.

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

	2014 \$'000	2013 \$'000
Current		
<i>Floating charge</i>		
Cash and cash equivalents	239	1,238
Receivables	23,867	29,106
Total current assets pledged as security	24,106	30,344
Non-current		
<i>First mortgage</i>		
Aircraft	177,560	184,786
<i>Floating charge</i>		
Plant and equipment	7,113	7,286
	7,113	7,286
Total Non-current assets pledged as security	184,673	192,072
Total assets pledged as security	208,779	222,416

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Non-Current Liabilities – Borrowings (Continued)

(b) Fair value

For all the 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. The carrying amounts and fair values of borrowings at the end of reporting period are:

	2014		2013	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial liabilities				
Bank overdrafts	-	-	850	850
Bank loans	80,510	80,510	79,028	79,028
Bills payable	13,000	13,000	6,000	6,000
Other loans	1,326	1,326	1,522	1,522
	94,836	94,836	87,400	87,400

(c) Risk exposures

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

19. Non-current liabilities – Deferred Tax Liabilities

	2014 \$'000	2013 Restated \$'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	10,742	5,061
Prepayments	80	240
Cash flow hedges	53	(626)
Sub-total other	10,874	4,675
Total deferred tax liabilities	10,874	4,675
Set-off of deferred tax liabilities pursuant to set-off provisions (note 22)	8,262	4,675
Net deferred tax liabilities	2,612	-
Deferred tax liabilities expected to be recovered within 12 months	256	240
Deferred tax liabilities expected to be recovered after more than 12 months	8,006	4,436
	8,262	4,675

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Non-current liabilities – Deferred tax liabilities (continued)

Movements	Property, plant and equipment \$'000	Prepayments \$'000	Other \$'000	Total \$'000
At 30 June 2012 restated	7,432	741	1,409	9,581
(Charged)/credited				
-to profit or loss	(2,371)	(501)	(1,534)	(4,405)
-to other comprehensive income			(501)	(501)
At 30 June 2013 restated	5,061	240	(626)	4,675
(Charged)/credited				
-to profit or loss	5,680	(160)	1,049	6,569
-to other comprehensive income			(370)	(370)
At 30 June 2014	10,742	80	53	10,874

1. Refer to note 3 and 4(b) for explanations of retrospective adjustments recognised as a result of a change in accounting policy and correction of errors. The amounts disclosed in this notes are after these adjustments.

20. Non-Current Liabilities'- Provisions

Employee benefits – long service leave

2014 \$'000	2013 \$'000
1,541	1,154
1,541	1,154

21. Contributed Equity

	2014 No. of shares	2013 No. of shares	2014 \$'000	2013 \$'000
Notes				
Issued ordinary shares - fully paid	90,000,000	90,000,000		171,767
(a) Movement in ordinary share capital:				
At the beginning of the financial period	105,542,373	90,000,000	171,766	143,371
Elimination of shares of Alliance entities	-	-		-
Issue of shares - employee share offer	-	-		-
Issue of shares - initial public offering	-	-		-
Capital reorganisation of group	-	-		-
Share placement issue	-	13,600,000		25,160
Transaction costs arising on share issue	-	-		(1,003)
Dividend reinvestment plan	522,432	1,942,373	601	3,938
Deferred tax	-	-		301
At the end of the financial period	106,064,805	105,542,373	172,367	171,766

Contributed Equity (continued)

(b) 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 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.

(c) Dividend reinvestment plan

The company has implemented 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.

(d) Rights

Information relating to the **Alliance** Aviation Services Limited's LTI, including details of rights issued, exercised and lapsed during the financial year and rights outstanding at the end of the reporting period, is set out in note 24.

(e) 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.

Alliance Aviation Services Limited has complied with the financial covenants of its borrowing facilities during the 2014 and 2013 reporting periods.

22. Reserves and Retained Earnings

	Notes	2014 \$'000	2013 \$'000
(a) Reserves			
Reorganisation		(111,083)	(111,083)
Cash flow hedge reserve		(1,079)	(1,943)
Share-based payment reserve		332	332
		<u>(111,830)</u>	<u>(112,694)</u>
Movements:			
<i>Reorganisation</i>			
Balance - 1 July 2013		(111,083)	(111,083)
Capital reorganisation of group		-	-
Balance - 30 June 2014		<u>(111,083)</u>	<u>(111,083)</u>
Movements:			
<i>Cash flow hedge reserve</i>			
Balance - 1 July 2013		(1,943)	(773)
Currency translation		1,233	(1,671)
Deferred tax	9, 19	<u>(370)</u>	<u>501</u>
		863	(1,170)
Balance - 30 June 2014		<u>(1,080)</u>	<u>(1,943)</u>

(b) Retained earnings

Movement in retained earnings were as follows:

Balance - 1 July 2013 restated	84,300	71,096
Ordinary dividends paid	(9,710)	(10,067)
Net profit for the year	<u>10,264</u>	<u>23,271</u>
Balance - 30 June 2014	<u>84,854</u>	<u>84,300</u>

1. Refer to note 3 and 4(b) for explanations of retrospective adjustments recognised as a result of a change in accounting policy and correction of errors. The amounts disclosed in this notes are after these adjustments.

(a) 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.

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23. Dividends

	2014 \$'000	2013 \$'000
(a) Ordinary shares		
In respect of FY ended 30 June 2012, a fully franked dividend of 5.6 cents per fully paid ordinary shares was paid on 18 October 2012 out of retained earnings.		5,040
In respect of FY ended 30 June 2012, a further fully franked dividend of 4.8 cents per fully paid ordinary shares was paid out of retained earnings on 8 April 2013.		5,027
In respect of FY ended 30 June 2013, a fully franked dividend of 5.6 cents per fully paid ordinary shares was paid out of retained earnings on 08 October 2013.	5,910	
In respect of FY ended 30 June 2014, a further fully franked dividend of 3.6 cents per fully paid ordinary shares was paid out of retained earnings on 25 June 2014.	3,800	
(b) Franked credits		
Franking credits available for subsequent reporting based on a tax rate of 30% (2012: 30%)	29,137	27,779

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.

24. Key Management Personnel Disclosures

(a) Key management personnel compensation

	2014 \$'000	2013 \$'000
Short-term employee benefits	1,669,142	2,060,894
Post-employment benefits	146,071	182,444
Long-term benefits	50,450	-
Termination benefits	346,423	-
Share-based payments	-	-
	2,212,086	2,243,338

Detailed remuneration disclosures are provided in the remuneration report on pages 13 to 20.

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Key Management Personnel Disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel

(i) Rights provided as remuneration

Details of share rights provided as remuneration and shares issued on the exercise of such rights, together with terms and conditions of the rights can be found in the remuneration report on page 19.

(ii) Rights holdings

The numbers of rights over ordinary 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.

2013							
Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at the end of the year	Vested and exercisable	Unvested
Directors of Alliance Aviation Services limited							
S McMillan	264,706	-	-	-	264,706	-	264,706
2014							
Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at the end of the year	Vested and exercisable	Unvested
Directors of Alliance Aviation Services limited							
S McMillan	264,706	-	-	(264,706)	-	-	-

During the year the above rights lapsed. Further details about the rights can be found in the remuneration report on page 16.

(iii) Share holdings

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.

2013					
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	9,690,957	-	-	271,346	9,962,303
D Crombie	31,250	-	-	1,621	32,871
P Housden	31,250	-	-	726	31,976
S McMillan	3,230,319	-	-	146,644	3,373,963

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Key Management Personnel Disclosures (continued)

2014					
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 <i>Alliance</i> Aviation Services Limited					
Ordinary Shares					
S Padgett	9,962,303	-	-	-	9,962,303
D Crombie	32,781	-	-	1,030	33,901
P Housden	31,976	-	-	1,001	32,977
S McMillan	3,373,963	-	-	120,443	3,494,406

(c) Loans to key management personnel

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

(d) Other transactions with key management personnel

Former director, Mr Hugh Jones (resigned 6th May 2013), is a director and shareholder of Airwork Group of companies. ***Alliance*** Aviation Services Limited entered into a contract with Airwork Flight Operations Pty Ltd last the year for the lease of a Boeing 737. The contract was based on normal commercial terms and conditions.

This lease expired in December 2013 and the aircraft was returned to Airwork Flight Operations Pty Ltd.

The Chairman and director, Mr Steve Padgett, is a director and shareholder of Aeromil Pacific Pty Ltd. ***Alliance*** Aviation Services Limited has a contract with Aeromil Pacific Pty Ltd for the lease of premises and purchase of parts and engineering services. The contracts were based on normal commercial terms and conditions.

Former General Manager – Commercial, Ken Crawford was been retained on a consulting basis during the period 1 January 2014 to 30 June 2014 to provide specialist marketing and business development services. The contract for the provision of services was based on monthly retainer and daily rate.

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Key Management Personnel Disclosures (continued)

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

	2014 \$	2013 \$
Lease of aircraft from Airwork Flight Operations Pty Ltd	1,259,250	7,809,815
Lease of premises from Aeromil Pacific Pty Ltd	-	7,688
Purchase of engineering services from Aeromil Pacific Pty Ltd	7,500	7,500
Payment of Consulting Services to Kenneth Burns Crawford	268,371	-
	1,535,121	7,828,003

	2014 \$	2013 \$
Current payables		
Airworks Flight Operations Pty Ltd	-	606,675
Kenneth Burns Crawford	38,500	-
	38,500	606,675

25. 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:

	2014 \$	2013 \$
(a) PWC Australia		
▪ Audit and other assurance services		
Audit and review of financial statements	169,996	184,092
Other assurance services	33,704	5,452
Corporate Advisory Services	167,889	-
Total remuneration for audit and other assurance services	371,589	189,544
Taxation services		
Tax advice and compliance services	134,631	112,143
Total remuneration for taxation services	134,631	112,143
Total auditor's remuneration	506,220	301,687

Remuneration of Auditors (continued)

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.

Financial Statements

Notes to the consolidated financial statements

26. Contingencies

Contingent liabilities

The group had no contingent liabilities at 30 June 2014 (2013: \$NIL).

27. Commitments

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.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2014 \$'000	2013 \$'000
Within one year	1,456	2,012
Later than one year but not older than five years	2,100	2,519
Later than five years	2,379	4,358
	5,935	8,889

Finance leases

Commitments in relation to finance leases are payable as follows:

Within one year	331	332
Later than one year but not older than five years	-	1,190
Later than five years	-	-
	331	1,522

Representing lease liabilities:

Current	331	332
Later than five years	-	1,190
	331	1,522

The present value of finance lease liabilities is as follows:

Within one year	331	332
Later than one year but not older than five years	-	1,190
Later than five years	-	-
	331	1,522

Financial Statements

Notes to the consolidated financial statements

28. Related Party Transactions

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 29.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 23.

(d) Loan to / from related parties;

	2014 \$	2013 \$
Beginning of the year	59,631,760	28,503,026
Loans advanced		31,128,734
Loans repayments received	(6,903,921)	-
Interest charged		-
Interest received		-
End of year	52,727,839	59,631,760

(e) Terms and Conditions:

Loans between the parent entity and subsidiaries do not attract interest and are payable / callable on demand.

29. 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 **	
			2014 %	2013 %
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

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

30. Events Occurring after the Reporting Period

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

31. Reconciliation of Profit after Income Tax to Net Cash Inflow from Operating Activities

	2014 \$'000	2013 restated \$'000
Profit for the year	10,264	23,271
Depreciation and amortisation	22,833	22,715
Non-cash employee benefits expense - share-based payments	-	-
Net (gain)/loss on sale of non-current assets	27	(170)
Amortisation of discount on shareholders loans	-	(242)
Net exchange differences	(315)	-
Change in operating assets and liabilities,	-	-
(Increase)/decrease in trade debtors and bills of exchange	(3,598)	(1,184)
(Increase)/decrease in inventories	(7,511)	(29)
(Increase)/decrease in prepayments	5,271	(1,133)
(Increase)/decrease in deferred tax assets	(154)	3,538
(Decrease)/increase in trade creditors	841	(2,071)
(Decrease)/increase in other operating liabilities	2,822	1,621
(Decrease)/increase in provision for income taxes payable	(7,037)	138
(Decrease)/increase in deferred tax liabilities	6,199	(5,064)
(Decrease)/increase in other provisions	(155)	(210)
Net cash inflow (outflow) from operating activities	29,485	41,180

1. Refer to note 3 and 4(b) for explanations of retrospective adjustments recognised as a result of a change in accounting policy and correction of errors. The amounts disclosed in this notes are after these adjustments.

32. Earnings per share

(a) Basic Earnings per share

Total basic earnings per share attributable to the ordinary equity holders of the company.

2014 Cents	2013 (1) Cents
9.72	23.33

(b) Diluted earnings per share

Total diluted earnings per share attributable to the ordinary equity holders of the company

9.72	23.27
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(c) Reconciliations of earnings used in calculating earnings per share

Basic earnings per share

Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share

2014 \$'000	2013 \$'000
10,264	23,271

Diluted earnings per share

Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating diluted earnings per share

10,264	23,271
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(d) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share
Adjustments for calculation of diluted earnings per share rights

105,549,530	99,729,571
-	264,706

Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share

105,549,530	99,994,277
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1. Refer to note 4 for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this notes are after these adjustments.

(e) Information concerning the classification of securities

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 2014. Details relating to the rights are set out in note 33.

Financial Statements

Notes to the consolidated financial statements

33. Share- Based Payments

(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).

The LTI was implemented on 20 December 2011 with an initial grant of rights to the Managing Director.

In respect of the initial grant of rights to the managing director, vesting conditions have been set by the Board. For tranche 1, they relate to Relative Total Shareholder Return ("Relative TSR") and for tranche 2 growth in earnings per share.

The board have reviewed the vesting conditions as at 30 June 2014. As neither of the conditions of this right issue has been satisfied the board have determined that the rights lapsed as at 30 June 2014. There were no shares issues as part of this rights issue.

Set out below are summaries of rights granted under the plan:

Grant Date	Expiry Date	Exercise price	Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at the end of the year
		\$	Number	Number	Number	Number	Number	Number

At 30 June 2014

At 30 June 2014	-	264,706	-	-	(264,706)	-	-
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(b) Employee share offer

In 2012, as part of the IPO process the company offered shares to employees for no cash consideration. All permanent employees (excluding executive directors and other key management personnel of the group) who had been continuously employed by the group for a period of at least eight months were eligible to participate in the offer. Employees could elect not to participate in the offer.

Under the offer, eligible employees were granted \$1,000 worth of fully paid ordinary shares in **Alliance** Aviation Services Limited for no cash consideration. The shares were valued using the IPO offer price of \$1.60 per share.

Shares issued under the offer may not be sold until the earlier of three years after issue or cessation of employment by the group. In all other respects the shares rank equally with other fully-paid ordinary shares on issue (refer to note 20(d)).

	2014	2013
Number of shares issued under the offer to participating employees on December 2011	-	-

No shares were issued in 2014 (2013: Nil)

Financial Statements

Notes to the consolidated financial statements

(c) Expenses arising from share-based payment transactions

There were no expenses arising from share-based payment transactions recognised during the period.

34. Parent Entity Financial Information

Summary Financial Information

The individual financial statements for the parent entity show the following aggregate amounts:

	2014 \$000	2013 \$000
Balance sheet		
Current assets	2	0
Non Current Assets	52,431	60,681
Total assets	52,433	60,681
Current liabilities	(4,266)	2,771
Non Current liabilities	2,710	-
Total liabilities	(1,556)	2,771
Net Assets	53,989	57,910
<i>Shareholders' equity</i>		
Issued capital	172,443	171,842
Reserves	(111,626)	(111,256)
Share-based payments	332	332
Retained earnings	(7,160)	(3,008)
	53,989	57,910
Profit or loss for the year	(353)	(445)

(b) Guarantees entered into by the parent entity

	2014 \$ 000's	2013 \$ 000's
<i>Carrying amount included in current liabilities</i>	-	-
	-	-

Financial Statements

Directors' declaration

In the directors' opinion:

- The financial statements and notes set out on pages 36 to 85 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 2014 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: 14 August 2014
Sydney



Independent auditor's report to the members of Alliance Aviation Services Limited

Report on the financial report

We have audited the accompanying financial report of Alliance Aviation Services Limited (the company), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Alliance Aviation Services Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Financial Statements

Independent auditor's report to the members

Auditor's opinion

In our opinion, the financial report of Alliance Aviation Services Limited is in accordance with the

Corporations Act 2001, including:

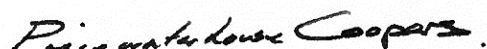
- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards including the Australian Accounting Interpretations and the *Corporations Regulations 2001*.

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 20 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Alliance Aviation Services Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Timothy J Allman
Partner

Brisbane
14 August 2014

PricewaterhouseCoopers, ABN 52 780 433 757

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Corporate Information

The shareholder information set out below was applicable as at 25 July 2014.

Distribution of equity securities

Analysis of number of equity security holders by size of holding

Holding	Ordinary share
1 - 1,000	131
1,001 - 5,000	235
5,001 - 10,000	86
10,001 - 100,000	134
100,001 And over	26
	612

There were 9 holders of less than a marketable parcel or ordinary share.

Equity security holders

Twenty largest quote equity security holders

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

NAME	Ordinary Shares	
	Number held	% of issued shares
HSBC Custody Nominees (Australia) Ltd	15,941,615	15.03%
National Nominees Limited	12,773,949	12.04%
Airlift Holdings Limited	11,314,476	10.67%
Citicorp Nominees Pty Limited	11,193,774	10.55%
Airline Investments Australia Pty Limited	9,962,303	9.39%
Mount Craigie Holdings Pty Limited	8,294,898	7.82%
RBC Investor Services Australia Nominees Pty Ltd (PI POOLED A/c)	7,882,296	7.43%
J P Morgan Nominees Australia Limited	7,776,114	7.33%
BNP Paribas Noms Pty Ltd (DRP)	3,629,260	3.42%
Lochleven Investments Pty Ltd (McMillan Family)	2,968,242	2.80%
RBC Investor Services Australia Nominees Pty Ltd (PICREDIT)	2,310,655	2.18%
AMP Life Limited	2,181,097	2.06%
RBC Investor Services Australia Nominees Pty Ltd (PISELECT)	977,643	0.92%
Citicorp Nominees Pty Ltd (Colonial First State Inv A/C)	954,381	0.90%
HSBC Custody Nominees (Australia) Ltd (NT-Comnwlth Super Corp A/C)	711,039	0.67%
RBC Investor Services Australia Nominees Pty Ltd (BKCust A/C)	600,338	0.57%
Ballista Investments Pty Ltd (Morgan Family A/C)	319,107	0.30%
Scott Alexander Mcmillan & Kerrie Louise Mcmillan	205,993	0.19%
Stanbox Pty Limited (The Salem Family Account)	200,000	0.19%
Pacific Custodians Pty Limited	175,894	0.17%
	100,373,074	94.63%

Substantial holders

Substantial holders in the company are set out below

NAME	Ordinary Shares	
	Number held	% of issued shares
HSBC Custody Nominees (Australia) Ltd	15,941,615	15.03%
National Nominees Limited	12,773,949	12.04%
Airlift Holdings Limited	11,314,476	10.67%
Citicorp Nominees Pty Limited	11,193,774	10.55%
Airline Investments Australia Pty Limited	9,962,303	9.39%
Mount Craigie Holdings Pty Limited	8,294,898	7.82%
RBC Investor Services Australia Nominees Pty Ltd (PI POOLED A/c)	7,882,296	7.43%
J P Morgan Nominees Australia Limited	7,776,114	7.33%

Voting Rights

The voting rights attaching to each ordinary share are on a show of hands 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.