

7th September 2011

Mr Cameron Bill
Adviser, Listings (Sydney)
ASX Compliance Pty Limited
20 Bridge Street
SYDNEY NSW 2000



By e-mail: Cameron.bill@asx.com.au

Dear Bill

Aircruising Australia Limited

I refer to your letter dated 31 August 2011.

1. The Directors are confident that the Company will continue to trade with sufficient cash resources.

The touring products of Aircruising are very seasonal, April to October are the busy months. As you will note from the Balance Sheet, Customers Deposits at June 2011 were \$1,360,725. Cash flow becomes tight from October through to February when advance deposits start flowing in. Our bank facilities will be fully utilised over that period of time. Our Major shareholder, Australian Pioneer Pty Limited have always advanced cash to the company during this period of time as and when required.

- In the 2001 financial year, Directors advanced seasonal support \$200,000. (Refer to page 18 of Annual Report).
- In the 2002 financial year, Directors advanced seasonal support \$318,750. (Refer to page 20 of Annual Report).
- In the 2010 financial year, Directors advanced seasonal support of \$250,000.
- The Directors will be providing financial support again on a seasonal basis during this current financial year.
- The funding of the 4 x two bedroom Villa's at the Bellinger River Tourist Park has been funded by Australian Pioneer Pty Limited, major shareholder of the company, and is associated with the chairman, Mr Guy Paynter. (Total Value \$629,284)
- In December 2010, the company's bankers, the ANZ Bank Limited revised the method of assessing exposure to valuation of assets; this required a reduction of \$815,000 in facilities which Australian Pioneer Pty Limited funded.
- The auditor to the company has requested that the Chairman issue a letter confirming his ongoing financial support to the company, which he has agreed to provide.
- Total value of loans as at 30th June 2011 from Australian Pioneer Pty Limited is \$1,444,284. This should be compared to total bank cash facilities of \$1,715,000.
- The loans from Australian Pioneer Pty Limited are treated in the Balance sheet as unsecured.

2. The company does not expect to report losses at the same level experienced in the last financial year. The **Touring** business has experienced a very difficult 3 years since the Global Financial crisis commenced and continues to place uncertainty on the business. The core touring product contains a very high level of fixed cost, being the aircraft used for the tours. If departures are not fully booked out, then reduction in margin occurs based on the number of passengers carried. Plans are in place to have less dependency upon high fixed cost programmes, and be replaced with tour costs with high variable cost content. This takes time, and we are currently in the middle of a three year programme to address this issue. For example, international tours grew by 21% in the last financial year. (A high variable cost programme). In the last 12 months, the continuing high Australian Dollar impacted on margins due to International touring being more price competitive. The profit performance of the **Bellinger River Tourist Park** has been a major disappointment. In June of this year, the employment of the onsite managers was terminated, and a more cost effective manner of managing the park has been put in place. Budgets for the 2012 year, based on the same rate of occupancy as experienced in the 2011 year, and a full 12 months of Villa's with reduced cost of labour will come in at break even. The park has a high % of repeat business, in an effort to attract more customers; an advertising programme has been put in place, particularly in the New England Area where the residents come to the Coffs Harbour area for annual holidays. This will include TV advertising. Industry experience tells us that the Villa's will operate at 70% occupancy for a full year, since January 2011, we have achieved 38% occupancy.

The Directors fully understand the importance of having a more balanced product range on offer to sustain economic events in both domestic and international markets. As mentioned before this is a three year plan, and will be in place for the 2014 financial year.

3. Variations to original budget are:

		Variation to budget	Deficit
Touring	Sales	\$-1,156,000	
	Gross Margin	\$ - 232,000	
	Overheads & Other	\$ -96,000	
	Deficit Touring		\$-328,000
Park	Sales	\$ - 288,000	
	Interest	\$ 37,000	
	Deficit Park		\$-251,000
	Total deficit		\$-579,000

4. The decline in revenue and resultant profit occurred in the later quarter of the financial year. Being a seasonal product range, June is usually the highest sales month of the year. We have experienced over the last few years a trend towards last minute bookings, and results in last minute sales with heavy discounting and marketing costs.

In the months of May and June 2011, sales revenue declined to plan by \$449,333 and margin by \$242,653. All departures were high fixed cost products. Reduction was due to lower than planned passenger numbers, and in one case, a departure cancelled due to lack of numbers.

Directors were aware of the May trading results in late May, and the June results following preparation of final accounts for audit review on 16th August 2011.

5. Please refer to comments under item 2.

6. Over the years, we have experienced several tour operators copying the Bill Peach product. They tend to last for a short period of time, and move on.

Three years ago, a major tour operator purchased shares in the company, and attended the AGM asking questions about the touring products. This company is much larger than Aircruising Australia Limited.

Shortly after, they issued brochures duplicating our core product "The Great Australian Airruise". This product represented 38% of our total net touring sales for that year.

Departures over the ensuing two years by this operator have severely reduced the gross margin that we were achieving on this product line.

The competitor has the right to access information about Aircruising Australia Limited to determine marketing plans, but we are unable to have reciprocal rights to share information about them.

We are reticent to disclose information that assists them to compete against us and continue to attack our gross margin.

In addition, the company has reported losses of \$640,635 in the 2009 year and \$435,232 in the 2010 year. In the view of the directors, the recorded loss of \$601,646 was consistent with the last two years trading results, and hence, are further of the view that they have complied with listing rule 3.1.

7. As mentioned under item 1, Directors have demonstrated financial support to the company over the last 10 years, and will continue to do so. The Directors acknowledge that continual trading losses are not acceptable, or trading with a deficiency in share capital. As outlined in the above notes, plans are underway to address the issues, and the Directors will support the company financially until the plans come to fruition.

We would also like to reply to other matters raised in your letter.

Current Assets compared to current liabilities are mentioned every year in the Annual Report to shareholders. On page 11 of the 2010 Annual Report under "Going Concern", a contributing factor is the purchase of fixed assets from cash reserves totalling \$3,332,779.

Departure from accounting standard AASB 136.

Following on from lodgement of the accounts, the valuer of the Bellinger River Tourist Park has *Verbally* re assessed the valuation. It has been upgraded to \$2,000,000. This results in an amount of \$771,425 whereby book value of assets exceed valuation. We understand the valuer must take a picture at a point in time, but in the case of the Bellinger River Tourist Park, two things are not taken into account, substantial cost savings already put in place in June of this year need to be included, and the return on the investment in the Villa's take time, a full return does not eventuate in a 6 month time frame. With the plans put in place as mentioned in item 1 take effect, the next valuation will be far more favourable.

When we are in receipt of the written adjustment, we will advise the ASX immediately.

We hope the above response addresses all the concerns of the ASX, if any further clarification is required, please do not hesitate in contacting me.

Yours sincerely



Geoff Watson
Company Secretary.



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31 August 2011

Mr Geoffrey Watson
Company Secretary
Aircruising Australia Limited
Unit 20, 77 Bourke Road
ALEXANDRIA NSW 2015

By e-mail: geoffrey@aircruising.com.au

Dear Geoff,

Aircruising Australia Limited (the "Company")

I refer to the Company's unaudited Preliminary Final Report for the period ended 30 June 2011, released to ASX Limited ("ASX") today (the "Preliminary Final Report").

ASX notes that the Company has reported the following as at 30 June 2011:

1. Net profit (loss) for the period attributable to members of -\$601,646.
2. Total current assets of \$1,386,333.
3. Total current liabilities of \$5,278,649.
4. Net assets of -\$595,721.

ASX also notes the reference in the Preliminary Final Report to the departure from accounting standard AASB 136 and asset valuation matters.

ASX listing rule 12.2 provides, that an entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

The note to the listing rule states the composition of the balance sheet, relative size of liabilities to assets and access to funds are some of the indicators of an entity's financial condition.

In light of the information contained in the Preliminary Final Report, please respond to each of the following questions.

1. Is it possible to conclude on the basis of the information provided that the Company may not have sufficient cash to fund its activities in the near term? Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will report a consolidated loss similar to that reported in the Preliminary Final Report for the 2011 financial year and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?

3. To what extent have the Company's actual revenues and expenses in the financial year, as reported in the Preliminary Final Report, matched the Company's anticipated revenues and expenses for that reporting period?
4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.
5. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
6. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
7. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous Disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response will be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by email to cameron.bill@asx.com.au. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, **not later 5:00pm EST on Monday, 5 September 2011**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities. If you have any queries, please contact me on (02) 9227 0656.

Yours sincerely



Cameron Bill

Adviser, Listings (Sydney)