

**Liquidators' Statutory
Report to Creditors pursuant
to Section 44 (1) of the
Companies (Insolvency and
Receivership) Act No. of
2013 ("the Act")**

**Air Vanuatu (Operations) Limited
(In Liquidation)**

("the Company" or "Air Vanuatu")

**Date of issue of report
Matter contact person
Contact email
Postal Address**

15 May 2024
Dylan Wetmore
Creditors.AirVanuatu@au.ey.com
Level 34, 200 George Street, Sydney NSW 2000



Table of contents

1.	Introduction & Disclaimer	3
1.1	Introduction	3
1.2	Company Overview	3
1.3	Disclaimer	5
2.	Statement of Affairs	5
2.1	Assets & Liabilities	5
2.2	Cash and cash equivalents	6
2.3	Trade and other receivables	6
2.4	Prepayments	6
2.5	Other Current Assets	7
2.6	Inventory	7
2.7	Aircraft	7
2.8	Property, Plant and Equipment	8
2.9	Shares held in subsidiary	8
2.10	Secured Creditors	8
2.11	Employee Entitlements	8
2.12	Non Financier Loans	8
2.13	Pension Contributions	8
2.14	Government Loans	8
2.15	Unsecured Creditors	8
2.16	Unearned Income	9
3.	Proposals for Conducting Liquidation	9
4.	Estimated Date of Completion	9
Appendix A	Notice of meeting of the creditors	10
Appendix B	Appointment of Proxy	12
Appendix C	Creditor Portal Instructions	13

1. Introduction & Disclaimer

1.1 Introduction

I advise that Morgan Kelly, Andrew Hanson, and Justin Walsh were appointed as Joint and Several Liquidators (“the Liquidators”) of Air Vanuatu (Operations) Limited (“AVOL” or “the Company”) on Thursday, 9 May 2024, pursuant to a special resolution of shareholders of the Company made on 2 May 2024. During the liquidation process, the Liquidators can exercise all or any of the powers conferred upon them as liquidators by the *Companies (Insolvency and Receivership) Act No. 3 of 2013* (“the Act”).

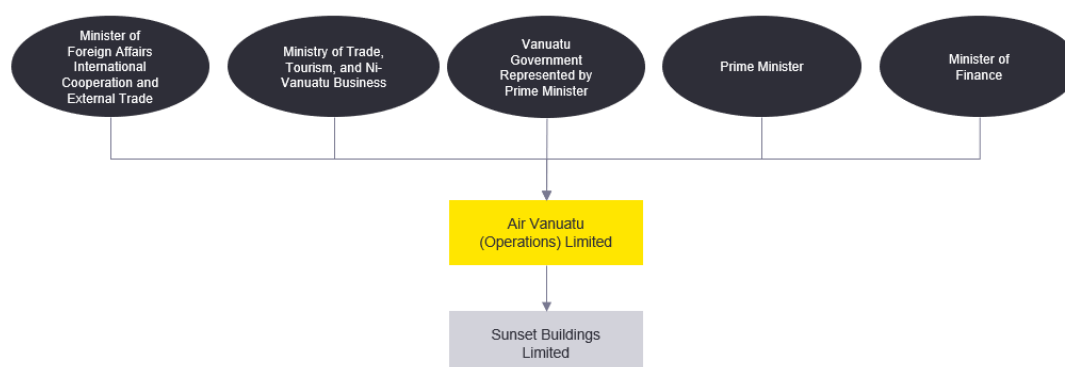
The purpose of this report is to provide creditors with a written account of the Company’s affairs, the proposals for conducting the liquidation and the estimated date of its completion, in accordance with section 44(1) of the Act.

The contents of this report include the following in accordance with the Act:

- ▶ Company overview;
- ▶ Statement of the Company’s affairs;
- ▶ Proposals for conducting the liquidation; and
- ▶ The estimated date of its completion.

1.2 Company Overview

The Company was registered on 17 December 1987. A summary of the Company’s corporate structure is provided below:



Note: The above shareholder structure is from the Vanuatu Financial Services Commission. We understand there may be some inaccuracies in this information.

The Company has both international and domestic operations. International flight routes include routes to Brisbane, Sydney, Melbourne, Auckland, Nadi and La Tontouta. The Company also operates a small domestic fleet, which flies between 26 islands across Vanuatu. Although the domestic flights are predominately customer flights, the flights also provided essential services and transported cargo, as required.

AVOL encountered several operational challenges in recent years (such as, travel restrictions associated with the COVID-19 pandemic, natural disasters such as, the double cyclone event in 2023, and disruptions to the availability of its fleet, due to global aviation parts shortages). As a

consequence, we understand the business has been underperforming for a significant period of time. During this time AVOL's operations have been financially supported by its majority shareholder, the Government of Vanuatu ("the Government").

On 24 April 2024, a winding up application was commenced against the Company to wind up its operations. In response, the shareholders took steps to place the Company into liquidation. On 9 May 2024, Morgan Kelly, Andrew Hanson, and Justin Walsh of EY were appointed as Liquidators of the Company.

At the time of their appointment, the Liquidators took immediate steps to ground the Company's fleet, whilst safety and airworthiness checks of the airline's fleet could be completed, insurance cover could be confirmed, and adequate funding could be obtained.

Since the Liquidators' appointment, we have undertaken a preliminary assessment of the Company's financial and operational position. This assessment has confirmed that the Company is in significant financial distress, and its operations are being hampered by its financial constraints. The Liquidators are working closely with the Government, and other key stakeholders, to stabilise the operations, whilst the Liquidators can assess outcomes for the Company's business.

Before our appointment, the Company's poor financial position had meant aircraft had been repossessed and it was unable to pay its debts. It was clearly not in a position to meet its financial commitments from its own resources.

We provide the following key details of the Company's business:

- ▶ The Company has a high-cost base for the size of the Company's operations. The Company also has a significant level of debt.
- ▶ Air Vanuatu employs 441 staff across Vanuatu, Australia and New Zealand (the Company also has contractors in Fiji and New Caledonia). This is a high number of staff for an operation of the Company's size and nature. We understand a portion of the Company's staff perform as ground staff and undertake duties at Port Vila, Santo-Pekoa and Tenmaru airports, which are essential to these airports' operations.
- ▶ Prior to our appointment, the Company was unable to meet the costs of parts critical to the fleet's operation (resulting in aircraft being grounded for extended periods of time), and encountered issues, such as defaulting under supplier arrangements and the Company's insurance policies.
- ▶ The Company's fleet consists of six aircraft.
- ▶ The Company has an Air Operator's Certificate ("AOC"), valid until 15 April 2025. Since our appointment, we have engaged with the Civil Aviation Authority Vanuatu ("CAAV") to confirm the current status of the AOC, and the Liquidators' plan moving forward.
- ▶ The Liquidators have engaged aviation safety experts to undertake safety and airworthiness checks of the aircraft, with an initial focus on the domestic aircraft that are said to be flight ready, to get these aircraft in an operational state as soon as possible.

We are conscious that grounding of the domestic fleet is significantly disruptive to travel in Vanuatu and the Liquidators are working to confirm an outcome as quickly as possible.

The Liquidators are grateful for the Government's statement of financial support which is required to stabilise the operations of the Company. If not for this financial support, the Liquidators have no other choice than to cease operations and wind down the Company. The Company's financial position is dire and it clearly cannot fund its own operations.

1.3 Disclaimer

This report has been prepared following our preliminary investigation and review of the available books and records of the Company and other information provided to us to date. Whilst we have endeavoured to determine the accuracy or otherwise of the information provided, we are unable to warrant the accuracy, completeness or reliability of the same.

We reserve the right to alter any conclusion or recommendation in this report on the basis of further information that may become available in the future.

Further, this report may be relied upon for the purpose of providing information to creditors of the Company. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of this report, the provision of this report to the other party or the reliance upon this report by the other party.

2. Statement of Affairs

2.1 Assets & Liabilities

Please see the summary below of the Company's affairs. We note that the Company's available financial information is significantly out of date. Therefore, this statement represents the Liquidators' best estimates only, based on the Company's books and records, and the information available. As our investigations continue, it is almost certain this estimate will change. In particular, it is likely the value of liabilities will increase materially.

	Report Section	Book Value USD
Current Assets		
Cash and cash equivalents	2.2.2	808,964
Trade and other receivables	2.2.3	1,162,788
Prepayments	2.2.4	338,027
Other Current Assets	2.2.5	20,212,287
Inventory	2.2.6	1,915,978
Total Current Assets		24,438,044
Non-Current Assets		
Aircraft	2.2.7	7,149,947
Property, Plant and Equipment	2.2.8	473,262
Shares held in subsidiary	2.2.9	Unknown
Total Non-Current Assets		7,623,209
Liabilities		

	Report Section	Book Value USD
Secured Creditors	2.2.10	10,656,165
Employee Entitlements	2.2.11	Unknown at this time and continuing to be investigated
Non Financier Loans	2.2.12	12,210,147
Pension contributions	2.2.13	600,000
Government Loans	2.2.14	21,812,326
Unsecured Creditors	2.2.15	26,626,609
Unearned Income	2.2.16	1,600,000
Total Liabilities (Known balances)		73,505,247
Estimated surplus / (deficiency) (Known balances)		(65,882,038)

The Liquidators make no representation in relation to the accuracy of the above information. The Liquidators reserve the right to update the position as new information becomes available to them.

2.2 Cash and cash equivalents

At the date of the Liquidators' appointment, the Company operated 19 bank accounts held in the various jurisdictions in which the Company operates (Vanuatu, Australia, New Zealand, New Caledonia, and Fiji).

Upon their appointment, the Liquidators immediately contacted the banks to advise of their appointment and cease withdrawals from these accounts and allow deposits only.

The Liquidators are in the process of securing the balance of funds held in these accounts, net of any legally enforceable rights of set off for debts owed to the respective financiers. No monies have been recovered to date.

2.3 Trade and other receivables

The table below provides a summary of the accounts receivable balances:

	Book Value (USD)	Recoveries to date (USD)	Estimated to be received (USD)	Liquidators' comment
Vanuatu Government (various departments)	1,046,509	Nil	Unknown	The Vanuatu Government has provided extensive financial support to the Company and is a significant creditor of the Company.
Other Third Parties	116,279	Nil	Unknown	These debtors are made up of smaller third-party debtors. The recoverability of these funds based on discussions with management is unknown at this time. The Liquidators intend to issue demands on these parties to collect these funds.
	1,162,789	Nil	Unknown	

2.4 Prepayments

The table below provides a summary of the prepayments' balances:

	Book Value (USD)	Recoveries to date (USD)	Estimated to be received (USD)	Liquidators' comment
Deposits	338,027	Nil	Unknown	During the maintenance of AVOL's Boeing 737, the Company entered into codeshare arrangements with various alternative airline carriers. This is deposit held by these airline carriers, which will likely be claimed by these parties due to the Company's insolvency.
	338,027	Nil	Unknown	

2.5 Other Current Assets

In February 2019, the Company entered into a purchase agreement for the manufacture of an A220 aircraft. We understand at the time the Company entered into the transaction that a deposit was paid by the Company to the manufacturer in the amount of USD20m.

The Company subsequently cancelled the order in 2019, as the Company no longer required this aircraft. The deposit has never been released by the manufacturer, and the Company maintains that these funds are owed to it. The Liquidators will undertake further enquiries to understand the position and any potential recoveries for the benefit of the Company.

2.6 Inventory

The Company's books and records currently report the inventory balance to be USD1,915,980. We report that 90% of this balance is made up of aircraft parts, whereas the remaining 10% of this balance relates to items classified as general inventories, alcohol and food.

We note that due to the poor state of the Company's financial records, we are unable to verify whether this information is accurate. The Liquidators intend to arrange a stock count of inventory in due course.

2.7 Aircraft

Upon our appointment, the Company's fleet consisted of six aircraft:

Registration	Type	MSN	Location	Category	Lessor	Status
YJ - AV8	Boeing 737-8SH (WL)	1358	Melbourne	Leased	<i>Withheld</i>	Repossessed
YJ - AV73	ATR 72-600	42052	Port Vila	Leased	<i>Withheld</i>	Maintenance Required
YJ-AV14	Bombardier DHC - 6-300 Twin Otter	527	Port Vila	Leased	<i>Withheld</i>	Flight ready
YJ-AV11	Bombardier DHC - 6-300 Twin Otter	564	Port Vila	Financier	<i>Withheld</i>	Maintenance Required
YJ-RV10	Bombardier DHC- 6-300 Twin Otter	679	Port Vila	Owned	<i>Withheld</i>	Flight ready
YJ-008	BNI	N/A	Port Vila	Owned	<i>Withheld</i>	Maintenance Required

The Company's books and records currently report the aircraft asset balance to be USD7,149,947. The Liquidators intend to engage a specialist aircraft valuer to provide valuations of the aircraft.

2.8 Property, Plant and Equipment (“PPE”)

The Company’s books and records currently report PPE to the value of \$473,262. The PPE consisted of computer and communications equipment for offices, furniture and fittings, ground equipment and motor vehicles.

We note that due to the poor state of the Company’s financial records, we are unable to verify whether this information is accurate. We intend to engage a valuer of assets in due course.

2.9 Shares held in subsidiary

We understand the Company hold shares in a subsidiary entity, Sunset Buildings Limited. We understand the subsidiary entity holds property utilised by the Company.

2.10 Secured Creditors

The Liquidators understand that there is a security registration by a financier over the entirety of the assets and undertakings of the Company. The Liquidators have engaged with the secured creditor in relation to the conduct of the liquidation. We understand that the balance of the secured creditors’ claim is significant.

2.11 Employee Entitlements

As at the date of the Liquidators’ appointment, the Company employed 441 staff. The balance of employee entitlements is currently unknown and is continuing to be investigated. The Liquidators are working to ascertain this position.

2.12 Non Financier Loans

The Company’s books and records report that there are several loans owed from the Company to third parties. We have been unable to verify the accuracy of these outstanding amounts.

2.13 Pension Contributions

The Company’s books and records report that there is money owed by the Company in respect of employees’ pension. We have been unable to verify the accuracy of this outstanding amount.

2.14 Government Loans

The Company’s books and records report that there are Government loans totalling USD21,812,326. The Liquidators understand that prior to the Liquidators’ appointment, the Government had been providing continual financial support to assist the airline and its operations through the financial challenges.

2.15 Unsecured Creditors

The Company’s books and records report trade and other creditors totalling USD26,600,377. The Liquidators are yet to receive particulars of creditors’ claims from all unsecured creditors.

2.16 Unearned Income

The Liquidators are aware from the information provided by management that there were in excess of 4,000 ticket holders with unused flights at the date of the Liquidators' appointment. The Liquidators were required to ground all flights effective immediately upon appointment.

We have estimated this position based on the average price of ticket sales.

3. Proposals for Conducting Liquidation

On the basis that the Liquidators can secure adequate funding, and maintain key stakeholder support, it is the Liquidators' intention to attempt to continue to trade the operations of the Company whilst going concern options for the Company's business can be explored. Potential going concern outcomes include a recapitalisation of the current business, or the sale of the Company's business and assets.

At this stage, the Liquidators are still in the process of stabilising the Company's operations and completing their preliminary assessment of the Company's financial and operational position. Given the degree of the Company's financial distress, however, the Liquidators are simultaneously also engaging with potential recapitalisation partners and other interested parties to explore future solutions.

Trading the operations in liquidation to implement a going concern outcome is estimated to be a highly costly strategy. Therefore, it will only be pursued in the event it is commercially appropriate to do so.

In the absence of funding, or if the Liquidators are unable to secure the support of all the Company's key stakeholders to maintain the business, the Liquidators will have no other choice but to close the business and wind up the Company.

4. Estimated Date of Completion

It is currently difficult to accurately estimate the date of the completion of the liquidation given the uncertainty regarding the future of the Company. The estimated date of completion will become clearer once an outcome for the Company is confirmed. The Liquidators will continue to update creditors in accordance with their statutory obligations.

NOTICE OF MEETING OF THE CREDITORS

Air Vanuatu (Operations) Limited (In Liquidation) ("AVOL" or "the Company")

Pursuant to section 35 of the *Companies (Insolvency and Receivership) Act No. 3 of 2013 ("the Act")*, notice is given that a meeting of the creditors of AVOL (In Liquidation) will be held as follows:

Date: Wednesday, 22 May 2024
Time: 3.00PM (Vanuatu standard time); 4:00PM (NZST); 2:00PM (AEST)
Address: By video/teleconference (Microsoft Teams)

Agenda

The purpose of the meeting is to provide to creditors:

- ▶ Company overview;
- ▶ To confirm the appointment of the liquidators or to appoint another liquidator/s in their place;
- ▶ Statement of the Company's affairs;
- ▶ Proposals for conducting the liquidation; and
- ▶ The estimated date of its completion.

Attending and Voting at the Meetings

Creditors are invited to attend virtually via teleconference; however, they are not entitled to participate and vote at a meeting unless:

- ▶ **Proxies or attendance:** They are present virtually via teleconference or validly represented by proxy, attorney or an authorised person under the Act. A proxy is only valid for a particular meeting and will need to be resubmitted even if previously provided.

To enable sufficient time to review the appointment of proxy forms, creditors should ensure they submit forms to our office by email to creditors.airvanuatu@au.ey.com by no later than 4:00PM (Vanuatu standard time) on 24 May 2024.

Electronic Facilities

As the Creditors meeting will be held virtually, a conference call facility will be available. If you wish to vote or participate, you must attend virtually or by proxy. Creditors are not entitled to vote at the meeting unless they lodge particulars of the debt or claim via the Creditors' Portal before the meeting. Please contact EY by email creditors.airvanuatu@au.ey.com at least one business day prior to the meeting to advise that you will be using the conference facilities and to be provided with the conference call code.

The Liquidators will be using the Creditors' Portal to allow creditors to vote for resolutions put forward. Creditors who will be attending will be required to log in via the Creditors' Portal and attend the meeting via the teleconference facilities.

Please contact Mr Dylan Wetmore of my office on creditors.airvanuatu@au.ey.com should you require further information.

Dated this 15th day of May 2024

A handwritten signature in black ink, appearing to be 'MK', on a light-colored background.

Morgan Kelly
Joint and Several Liquidator
Air Vanuatu (Operations) Limited (In Liquidation)

Appendix B

Appointment of Proxy <i>Companies (Insolvency and Receivership) Act No. 3 of 2013</i> <i>Schedule 1 Meeting of Creditors</i> <i>Part 5 Proxies</i>	Return to no later than 4pm Vanuatu Standard Time, Tuesday, 21 May 2024 by email or by post to: Ernst & Young: Level 34, 200 George Street, Sydney NSW 2000, or c/- Hurley Lawyers, Coral Sea House, P.O. Box 166, Kumul Highway, Port Vila, Vanuatu Tel: (03) 3857 56285 Email: Creditors.AirVanuatu@au.ey.cpm
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Indebted Company:

Air Vanuatu (Operations) Limited (In Liquidation)
("the Company")

Date of Appointment: 9 May 2024

Name and Contact Details of Person or Entity Entitled to Attend Meeting

¹

(if entitled in a personal capacity, given name and surname; if a corporate entity, full name of company, etc)

² of

(address)

³ Tel:

⁴ Email:

Appointment of Person to Act as Proxy

Note: You may nominate "the Chairperson of the meeting" as your proxy (or your alternate proxy in the event that the first-named proxy is not in attendance).

¹ I/We, as named in Section A above, a creditor/employee/contributory/member of the Company, appoint

²

(name of person appointed as proxy)

³

(address of person appointed as proxy)

⁵

(name of person appointed as alternate proxy)

⁶

(address of person appointed as alternate proxy)

⁴ or in his / her absence

⁷ as *my / *our proxy

Signature

¹ Dated:

² Signature:

³ Name / Capacity:

Creditor Portal Instructions

Appendix C

We are using the Creditors' Portal to communicate with creditors and manage creditor claims. Creditors are not required to submit an additional claim if they have previously done so during either the administration or liquidation periods.

Please note:

- ▶ You should have previously received an email containing your unique creditor code from the Liquidators to assist with your registration process
- ▶ You will only need to register as a user once using your relevant email address
- ▶ If you have already registered, please proceed to Step 3
- ▶ The email used to register a claim on the Creditors' Portal will receive all notifications including circulars and reports issued by the Liquidators

Please refer to the following link for further instructions on how to register, submit and manage a claim: [Help for the EY Creditors' Portal](#)

Step	Description
1. Register	<ul style="list-style-type: none"> ▶ Using chrome, edge or firefox, register as a user at this link: Log in - EY Creditors Portal ▶ You will only need to register as a user once using your relevant email address ▶ Please ensure you register using the unique creditor code provided to you (if provided). ▶ Already registered: Please go to Step 3.
2. Verification	<ul style="list-style-type: none"> ▶ A confirmation email will be sent to the email you have registered with (verify within 24 hours). ▶ Once verified, you will be able to login. Continue to Step 3.
3. Log in	<ul style="list-style-type: none"> ▶ Log in using your username and password. ▶ You will be promoted to: <ul style="list-style-type: none"> ▶ Individual creditor - input first and last name ▶ Company creditor - insert ABN ▶ You will be redirected to a screen make a declaration to confirm that you are authorised to act on behalf of the company or individual and agree on how you wish to receive future correspondence.
4. Link claim	<ul style="list-style-type: none"> ▶ Once you login, you should be able to view the relevant company under "Debtors" on your landing page or click "Debtors" at the top and the relevant company should be under "My Debtors". ▶ If you are unable to view the relevant company on the above, you will need a unique creditor code to link your claim. You will receive a separate email with your unique creditor code in the subsequent days. ▶ Once you receive your creditor code, log in and click on your username in the top right-hand side and click on "Creditor Admin" and input your code and click "Link" ▶ There will be an option to provide an ABN (if relevant) for company creditors, click "I do not have an ABN" (individuals) and then click "continue" ▶ Follow the prompts.
5. Submit your claim	<ul style="list-style-type: none"> ▶ You will be able to view the relevant company on the landing page or under the "Debtors" tab and click "My debtors". Click on the "Company" or "Details" to be directed to the relevant company. ▶ Click on the POD tab. ▶ Click on the "Submit" button and start completing the POD form. ▶ Tick "No" to the question "Is your POD informal". If you are an employee creditor, this will not be an option. ▶ Upload any supporting documentation for consideration. ▶ Press "Next" and "Submit".
6. Documents	<ul style="list-style-type: none"> ▶ You will be able to view any documents uploaded by the Liquidators on the relevant company page, next to the "POD" tab. ▶ There are additional resources that you can also access under the "Resources" tab.

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