

# Airlines PNG

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COME FLY OUR WAY

**Airlines of Papua New Guinea Limited**

## **Notice of General Meeting and Explanatory Memorandum**

**The General Meeting is to be held at 9:30am (Port Moresby time) on Thursday 18 December 2014 at Grand Papua Hotel, Mary Street, Port Moresby, Papua New Guinea**

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

6 November 2014

Dear Shareholders,

I am pleased to be writing to you today to confirm that Airlines of Papua New Guinea Limited (the "**Company**") has been successful in attracting subscriptions for PGK20 million in additional equity capital from its existing institutional Shareholders, the National Superannuation Fund ("**NasFund**") and the Mineral Resources Development group companies – MRDC itself, and the group companies associated with the Fly River Provincial Government and the Ok Tedi landowners (Mineral Resources Ok Tedi No 2 and Mineral Resources Star Mountains – for convenience, I will refer to the 3 MRDC group companies collectively as "**MRDC**"). The share issues to NasFund and MRDC will also be accompanied by the issue of options, as detailed in the Explanatory Memorandum forming part of this booklet.

Attracting that investment was only possible because my late father and the founder of the airline, Sir John Wild, agreed to the Company buying back from him approximately 54% of the Company's shares, essentially for nothing. My father viewed Airlines PNG as the family's legacy to Papua New Guinea, and as he said at the time of the announcement of the buy-back "In order to ensure the long term sustainability of Airlines PNG and facilitate further capital raising by the Company I am happy to gift a significant portion of my shares back to the airline. This fulfils a dream of mine to see the airline majority owned for the people of PNG and strongly positioned to carry on its services to the country".

If the buy-back and share and option issues are approved by Shareholders, that will result in NasFund and MRDC between them becoming the majority Shareholders in the Company.

All regulatory approvals for the buy-back and share and option issues have been obtained. That leaves the final decision on the buy-back and share and option issues to the Company's Shareholders. The Shareholders' meeting which this booklet invites you to attend will give Shareholders the opportunity to consider and vote on approving both the buy-back and the share and option issues to NasFund and MRDC.

The Board believes that these changes and the majority ownership by major national institutions that will result from them will set the Company up for future success, with a strengthened balance sheet and in a financial position to pursue its strategy for a sustainably profitable future. That strategy involves continuing the greater emphasis on regular passenger transport ("**RPT**") services within PNG begun in the past 2 years, and building on it through re-fleeting and rebranding.

Shareholders also have the opportunity at that meeting to approve an entitlement offer being made to all existing PNG resident Shareholders on terms similar to those agreed for the share and option issues to NasFund and MRDC – for each existing share in the Company they hold, a Shareholder will be able to subscribe for 5 new shares, at 10 toea per share. For each new share they subscribe for, Shareholders will receive 2 free options exercisable within 5 years of each, each allowing the issue of 1 new share in the Company at an exercise price of 2 toea per share.

Deloitte Corporate Finance Pty Limited has prepared an Independent Expert's Report in relation to the "Recapitalisation Proposal" (being the proposed share and option issue to NasFund and MRDC, and the entitlement offer), and has concluded that the Recapitalisation Proposal is fair and reasonable to the non-associated shareholders of APNG (being all shareholders other than NasFund, MRDC and their respective associates), and therefore in the best interests of the non-associated shareholders. The Independent Expert's Report accompanies this booklet and I encourage you to read it in full.

Full details of the buy-back, the proposed share and option issues and the entitlement offer to shareholders are set out in the Explanatory Memorandum, and I urge you to read through all that material carefully. The Board recommends that Shareholders approve each of the buy-back, share and option issues and the entitlement offer, as it considers them to be in the interests of Shareholders, for the reasons set out more fully in the Explanatory Memorandum.

I mentioned re-fleeting and rebranding previously. To successfully change its focus to the growing but competitive and lower margin RPT market the airline needs to lower its operating costs. Re-fleeting gives the airline capacity to service growth in the market, flying more routes at lower costs.

After thorough evaluation the Board and management have identified that the ATR 72-600 aircraft is the right aircraft for the Company. It is proposed that the Company will acquire 6 of these aircraft over a 3 year period. While some of the funds raised from NasFund and MRDC will go to paying initial commitment fees to ATR, most of the capital cost for the first 3 of the 6 aircraft will be paid by having a specialist aviation leasing company buy the aircraft, with the Company leasing the aircraft from that leasing company.

ATRs will decrease ongoing maintenance costs, fly more and improve OTP (on-time performance) – at similar per sector operating costs and much lower per seat operating costs than the airline's existing Dash 8 fleet. They also lower the age of the airline's fleet. The airline's future profitability is very much tied to these aircraft.

Acquiring the ATRs is a "major transaction" for the Company under the PNG Companies Act, and requires approval by a special resolution of Shareholders. That resolution will also go to the Shareholders for approval at the upcoming meeting. Again, the Board recommends that Shareholders approve that resolution.

Rebranding goes along with the re-fleeting proposal. The Company sees the renewal of its fleet as an opportunity to undertake a rebranding exercise to refresh the Company's presentation and breathe new life into the brand, thereby generating passenger loyalty and demand.

### **Looking ahead**

Recapitalisation of the Company through the share issues to NasFund and MRDC, re-fleeting with ATRs and rebranding the airline are all part of the Board and management's strategic plan for the airline, under which the airline continues to play an integral part in PNG aviation and linking many of the rural and regional centres to provincial and national capitals.

The Board sees many opportunities for the airline in the domestic market where the current level of service can be greatly improved. Through improved market focus and rebranding, new aircraft can support a strong domestic RPT business in a growing market. The domestic RPT focus, enhanced by re-fleeting, means the airline has a simplified business model that will be able to deliver services with added quality, reliability and safety from a reduced cost base, allowing the airline to be price competitive in the market.

I am therefore pleased to extend to you an invitation to participate in the general meeting of the Company to vote on resolutions to approve the buy-back, share and option issues, and issues of shares and options under the entitlement offer, as well as ATR acquisition.

Yours sincerely



Simon Wild, Chairman

**Airlines of Papua New Guinea Limited**

## NOTICE OF GENERAL MEETING

Airlines of Papua New Guinea Limited (the "**Company**" or "**APNG**") gives notices that a General Meeting of Shareholders will be held at **9:30am (Port Moresby time) on Thursday 18 December 2014 at Grand Papua Hotel, Mary Street, Port Moresby, Papua New Guinea.**

The Explanatory Memorandum accompanying this Notice of General Meeting provides additional information on matters to be considered at the General Meeting. The Explanatory Memorandum and Proxy Form form part of this Notice of General Meeting. Terms and abbreviations used in this Notice of General Meeting are defined in the Glossary to the Explanatory Memorandum.

### RESOLUTION 1: SHARE BUY-BACK AND INCREASES IN RELEVANT INTEREST PERCENTAGES

To consider and, if thought fit, to pass the following as an ordinary resolution:

*"That, subject to and conditional on Resolutions 2 and 3 in this Notice of General Meeting being passed and on a prospectus for the entitlement offer referred to in Resolution 3 being submitted by the Company to the Registrar of Companies within 7 days after the date this resolution is passed, for the purposes of an exemption that the Company has requested be granted by the Securities Commission of Papua New Guinea from Rule 4 of the Takeovers Code 1998 and, in respect of paragraph (a) below only, for the purposes of Rule 5(1)(a) of the Takeovers Code 1998, and for all other purposes, approval is given for:*

- (a) *the Company to buy-back 120,000,000 fully-paid ordinary shares held by the estate of Sir John Wild for an aggregate consideration of 1 kina; and*
- (b) *each of Mineral Resources Development Company Limited, Mineral Resources Star Mountains Limited, Mineral Resources Ok Tedi No 2 Limited and National Superannuation Fund of PNG to increase the percentage of their relevant interest in voting shares of the Company as a result of the Company completing the share buy-back referred to in paragraph (a) above,*

*in each case on the terms summarised in the Explanatory Memorandum accompanying this Notice of General Meeting."*

### RESOLUTION 2: ISSUE OF SECURITIES TO MRDC ENTITIES AND NasFUND

To consider and, if thought fit, to pass the following as an ordinary resolution:

*"That, subject to and conditional on Resolutions 1 and 3 in this Notice of General Meeting being passed and on a prospectus for the entitlement offer referred to in Resolution 3 being submitted by the Company to the Registrar of Companies within 7 days after the date this resolution is passed, for the purposes of Rule 5(1)(a) of the Takeovers Code 1998, POMSoX Listing Rule 7.1, various waivers of the POMSoX Listing Rules granted by POMSoX and for all other purposes, approval is given for:*

- (a) *the Company to issue to Mineral Resources Development Company Limited:*
  - (i) *33,000,000 fully-paid ordinary shares in the Company at a subscription price of 10 toea per share;*
  - (ii) *66,000,000 options, each allowing the subscription for 1 fully-paid ordinary share in the Company at a subscription price of 2 toea per share; and*
  - (iii) *fully-paid ordinary shares upon the exercise of options referred to in sub-paragraph (ii) above;*
- (b) *the Company to issue to Mineral Resources Ok Tedi No 2 Limited:*
  - (i) *40,000,000 fully-paid ordinary shares in the Company at a subscription price of 10 toea per share;*

- (ii) 80,000,000 options, each allowing the subscription for 1 fully-paid ordinary share in the Company at a subscription price of 2 toea per share; and
- (iii) fully-paid ordinary shares upon the exercise of options referred to in sub-paragraph (ii) above;
- (c) the Company to issue to Mineral Resources Star Mountains Limited:
  - (i) 27,000,000 fully-paid ordinary shares in the Company at a subscription price of 10 toea per share;
  - (ii) 54,000,000 options, each allowing the subscription for 1 fully-paid ordinary share in the Company at a subscription price of 2 toea per share; and
  - (iii) fully-paid ordinary shares upon the exercise of options referred to in sub-paragraph (ii) above;
- (d) the Company to issue to National Superannuation Fund of PNG:
  - (i) 100,000,000 fully-paid ordinary shares in the Company at a subscription price of 10 toea per share;
  - (ii) 200,000,000 options to subscribe for 200,000,000 fully-paid ordinary shares in the Company at a subscription price of 2 toea per share; and
  - (iii) fully-paid ordinary shares upon the exercise of options referred to in sub-paragraph (ii) above; and
- (e) each of the following:
  - (i) each entity referred to in paragraphs (a), (b), (c) and (d) above to obtain a relevant interest in the fully-paid ordinary shares in the Company held by each other such entity; and
  - (ii) the Company to obtain a relevant interest in the fully-paid ordinary shares in the Company held by each entity referred to in paragraphs (a), (b), (c) and (d) above ,

in each case on the terms summarised in the Explanatory Memorandum accompanying this Notice of General Meeting."

### **RESOLUTION 3: ENTITLEMENT OFFER**

To consider and, if thought fit, to pass the following as an ordinary resolution:

*"That, subject to and conditional on Resolutions 1 and 2 in this Notice of General Meeting being passed, for the purposes of various waivers of the POMS0X Listing Rules granted by POMS0X and for all other purposes, approval is given for the Company to:*

- (a) issue fully-paid ordinary shares in the Company and options to subscribe for fully-paid ordinary shares under an entitlement offer on the basis of:
  - (i) 5 new fully-paid ordinary shares in the Company for every 1 share held on the entitlement offer record date, at a subscription price of 10 toea per new share; and
  - (ii) for each new fully-paid ordinary share that is subscribed for, 2 free attaching options, each allowing the subscription for 1 fully-paid ordinary share in the Company at a subscription price of 2 toea per share; and
- (b) issue fully-paid ordinary shares in the Company upon the exercise of options referred to in sub-paragraph (a)(ii) above,

*on the terms summarised in the Explanatory Memorandum accompanying this Notice of General Meeting."*

### **RESOLUTION 4: MAJOR TRANSACTION**

To consider and, if thought fit, to pass the following as a special resolution:

*"That, for the purposes of section 110 of the Companies Act 1997 and for all other purposes, approval is given for the Company to:*

- (a) enter into an agreement with Avions de Transport Regional G.I.E. to purchase 6 ATR 72-600 aircraft and to complete those purchases; and*
- (b) enter into agreements to sell and lease-back a maximum of 3 of the 6 ATR 72-600 aircraft and to perform the Company's obligations under those agreements,*

*on the terms summarised in the Explanatory Memorandum accompanying this Notice of Meeting."*

#### **RESOLUTION 5: REAPPOINTMENT OF SIMON DAVID WOOLCOTT AS A DIRECTOR**

To consider and, if thought fit, to pass the following as an ordinary resolution:

*"That Mr Simon David Woolcott, who was appointed as an additional Director of the Company in accordance with clause 15.6 of the Company's constitution and, being eligible, offers himself for reappointment, be reappointed as a Director of the Company."*

#### **VOTING EXCLUSION STATEMENT**

The Company will disregard any votes cast on Resolution 1 by: (i) Mineral Resources Development Company Limited, Mineral Resources Star Mountains Limited, Mineral Resources Ok Tedi No 2 Limited (collectively the "**MRDC entities**") and National Superannuation Fund of PNG ("**NasFUND**") and their respective associates (within the meaning of the *Takeovers Code 1998*); and (ii) the estate of Sir John Wild, the Company and their respective associates (within the meaning of the *Takeovers Code 1998*).

The Company will disregard any votes cast on Resolutions 2 and 3 by the MRDC entities, NasFUND and their respective associates (within the meaning of the POMSx Listing Rules or, in the case of Resolution 2 only, the *Takeovers Code 1998*).

DATED: 6 November 2014

By order of the Board.



**John Biddle**  
**Company Secretary**

## **NOTES TO NOTICE OF GENERAL MEETING**

### **Explanatory Memorandum**

This Notice of General Meeting should be read in conjunction with the accompanying Explanatory Memorandum.

### **Eligibility to vote**

A person's entitlement to vote at the General Meeting will be determined by reference to the number of Shares registered in the name of that person (reflected in the register of members) as at 7.00pm (Port Moresby time) on Tuesday 16 December 2014.

### **Approval thresholds**

Each of Resolutions 1, 2, 3 and 5 will be proposed as an ordinary resolution – in order for each such Resolution to be passed, more than 50% of the votes cast by Shareholders entitled to vote on the Resolution must be in favour of the Resolution. Resolutions 1, 2 and 3 are inter-conditional, meaning that each is conditional on both of the other Resolutions being passed.

Resolution 4 will be proposed as a special resolution – in order for such Resolution to be passed, at least 75% of the votes cast by Shareholder entitled to vote on the Resolution must be in favour of the Resolution.

### **Proxy votes**

A Shareholder entitled to attend and vote is entitled to appoint not more than two (2) proxies to attend and vote in their place. Where more than one (1) proxy is appointed, the appointment may specify the proportion or number of votes that the proxy may exercise, otherwise each may exercise half of the votes.

A proxy need not be a Shareholder.

A form of proxy must be signed by the Shareholder or the Shareholder's attorney.

Proxies must reach the Company by no later than 9:30am (Port Moresby time) on Tuesday 16 December 2014. Proxies received after this time will not be valid.

Proxies may be lodged in person, by post or by fax. The address and fax number details for lodgement of proxies is:

Delivery Address:	Postal Address:	Fax Number:
PNG Registries Limited, Level 2, AON Haus, PORT MORESBY, NCD, PNG.	PNG Registries Limited, PO Box 1265, PORT MORESBY, NCD, PNG	(675) 321-6379

### **Undirected proxies**

The Chairman of the General Meeting will vote undirected proxies on, and in favour of, all of the proposed Resolutions.

### **Power of attorney**

If a proxy is signed by a Shareholder's attorney, the Shareholder's attorney confirms that they have received no revocation of authority under which the proxy is executed and the authorities under which the appointment was signed or a certified copy thereof must also be received by no later than 9:30am (Port Moresby time) on Tuesday 16 December 2014.

### **Bodies corporate**

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of the Shareholders. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

### **Enquiries**

Shareholders may contact the Company Secretary, John Biddle, on +(675) 302 3234 during office hours if they have any queries in respect of the matters set out in this document.

## **EXPLANATORY MEMORANDUM**

### **Purpose of this Explanatory Memorandum**

This Explanatory Memorandum has been prepared for Shareholders in connection with the General Meeting. The purpose of this Explanatory Memorandum is to provide Shareholders with information that the Board believes to be material to Shareholders in deciding whether or not to approve the Resolutions detailed in the Notice of General Meeting.

This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Shareholders or any other person. Accordingly, it should not be relied on solely in determining how to vote on the Resolutions.

This Explanatory Memorandum is dated 6 November 2014.

### **Forward looking statements**

Certain statements in this Explanatory Memorandum relate to the future. These statements reflect views only as of the date of this Explanatory Memorandum. While the Company believes that the expectations reflected in the forward looking statements are reasonable, neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of an event expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur.

### **Notice to persons outside PNG**

This Explanatory Memorandum has been prepared in accordance with PNG laws and disclosure requirements, which may be different to those in other countries.

### **Disclaimer**

No person is authorised to give any information or make any representation in connection with the Resolutions which is not contained in this Explanatory Memorandum. Any information or representation not contained in this Explanatory Memorandum may not be relied on as having been authorised by the Company or the Board in connection with the Resolutions.

### **Responsibility for information**

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) ("**Deloitte**" or the "**Independent Expert**") has prepared the Independent Expert's Report and has consented to the report accompanying this Explanatory Memorandum. Deloitte takes responsibility for that report, and for references to that report in this Explanatory Memorandum, but is not responsible for any other information contained within this Explanatory Memorandum. Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

### **POMSoX involvement**

A copy of the Notice of General Meeting and Explanatory Memorandum has been lodged with POMSoX pursuant to the POMSoX Listing Rules. Neither POMSoX nor any of its officers take any responsibility for the contents of the Notice of General Meeting and Explanatory Memorandum.

### **Rounding**

For convenience, shareholding and relevant interest percentage figures in this Explanatory Memorandum have been rounded to 2 decimal places.

### **Definitions**

Capitalised terms used in this Explanatory Memorandum are defined in section 11.

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## 1. Overview

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### 1.1 Introduction

On 9 October 2014, the Company announced a proposed capital restructuring to raise K20 million (the "**Capital Restructuring**") and a follow-on entitlement offer of securities to all PNG resident Shareholders (the "**Entitlement Offer**").

On 29 October 2014, the Company announced entry into a Letter of Intent to acquire (on a firm basis) 6 ATR 72-600 aircraft (the "**ATR Acquisition**"), subject to final Board and Shareholder approvals and entry into an agreement with the seller.

The funds raised from the Capital Restructuring will provide the Company with working capital as it continues to provide safe, high quality and competitive regular air services to the people of PNG. The funds will also be used in relation to a commitment fee for the ATR Acquisition and to pay expenses of rebranding Airlines PNG associated with the ATR Acquisition. Funds raised from the Entitlement Offer will be used for reduction of the Company's debts to existing lenders, and, subject to the amounts raised, may also be applied towards expenses of the ATR Acquisition and associated rebranding process.

The Capital Restructuring and Entitlement Offer are subject to Shareholders approving Resolutions 1, 2 and 3. The ATR Acquisition is subject to Shareholders approving Resolution 4.

### 1.2 Description of Capital Restructuring

Assuming Shareholders approve Resolutions 1, 2 and 3, the Capital Restructuring will involve the following key steps.

(a) **Share buy-back**

The Company will buy-back 120 million existing Shares from the estate of the Company's founder and current major Shareholder, the late Sir John Wild, for a nominal price of 1 kina in total. On completion of the buy-back those Shares will be cancelled by the Company. Completion of the buy-back is expected to occur on the first business day after Shareholder approval.

(b) **Issue of Shares and Options to the MRDC entities**

On the same day as, and shortly after, the Share buy-back is completed, Mineral Resources Development Company Limited, Mineral Resources Star Mountains Limited and Mineral Resources Ok Tedi No 2 Limited (collectively, the "**MRDC entities**") will in aggregate:

- subscribe for 100 million new Shares at 10 toea per Share, to raise K10 million; and
- be granted 200 million free Options (each exercisable into 1 new Share), with each Option being exercisable at any time during a 5 year period after the General Meeting at 2 toea per new Share.

The Company will apply for POMSoX quotation of all Shares and Options issued to the MRDC entities.

(c) **Issue of Shares and Options to NasFUND**

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On the same day as, and shortly after, the Share buy-back is completed, National Superannuation Fund of PNG ("**NasFUND**") will:

- subscribe for 100 million new Shares at 10 toea per Share, to raise K10 million; and
- be granted 200 million free Options (each exerciseable into 1 new Share), with each Option being exerciseable at any time during a 5 year period after the General Meeting at 2 toea per new Share.

The Company will apply for POMSoX quotation of all Shares and Options issued to NasFUND.

Following completion of the above-mentioned Share buy-back from the estate of Sir John Wild and securities issues to the MRDC entities and NasFUND:

- the estate of Sir John Wild's percentage shareholding interest in the Company will reduce from its current 60.87% to approximately 5.20%;
- the MRDC entities' aggregate percentage shareholding interest will increase from their current 10.99% to approximately 41.09%<sup>1</sup>; and
- NasFUND's percentage shareholding interest will increase from its current 9.42% to approximately 39.93%.

### **1.3 Description of Entitlement Offer**

Subject to and following completion of the Share buy-back and securities issues described in section 1.2, and assuming Shareholders approve Resolutions 1, 2 and 3, the Company will undertake an Entitlement Offer whereby:

- all PNG resident Shareholders in the Company will be offered the opportunity to subscribe for 5 new Shares for each existing Share they hold the specified record date (see section 1.4 below), at an issue price of 10 toea per new Share; and
- for each new Share subscribed for, an existing Shareholder will receive 2 free Options, with each of those Options allowing for the issue of 1 new Share at a price of 2 toea per Share payable on exercise of the Option, and such Options will be exercisable at any time within 5 years after the issue date.

Each MRDC entity and NasFUND have undertaken not to participate in the Entitlement Offer.

The Entitlement Offer will allow other existing Shareholders the opportunity to choose to make further investments in the Company on substantially the same terms to those agreed for the securities issues to the MRDC entities and NasFUND.

Rights to subscribe under the Entitlement Offer will be non-renounceable, meaning that they cannot be transferred. The Entitlement Offer will not be underwritten - meaning that rights to subscribe that are not exercised will lapse.

The Company will apply for POMSoX quotation of all Shares and Options issued under the Entitlement Offer.

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<sup>1</sup> Mineral Resources Development Company Limited will increase from 3.14% to 13.20%, Mineral Resources Star Mountains Limited will increase from 3.14% to 15.51%, and Mineral Resources Ok Tedi No 2 Limited will increase from 4.71% to 12.38%.

Note: this document does not constitute an offer of securities. The Entitlement Offer will only be made pursuant to a prospectus, following registration under the Securities Act. Allotments of securities under the Entitlement Offer will only be made on receipt by the Company of the application form, which will accompany the prospectus. The prospectus will be sent to PNG resident Shareholders or made available to eligible Shareholders at the Company's registered office following registration.

#### 1.4 Indicative key dates relating to the Recapitalisation Proposal

Below are the indicative key dates relating to the Capital Restructuring and Entitlement Offer (together the "**Recapitalisation Proposal**"), assuming Shareholders approve Resolutions 1, 2 and 3.

Date	Event
9:30am (Port Moresby time) on Tuesday 16 December 2014	Deadline for submission of proxies for General Meeting
9:30am (Port Moresby time) on Thursday 18 December 2014	General Meeting
Friday 19 December 2014	Completion of: <ul style="list-style-type: none"> <li>Share buy-back from estate of Sir John Wild; and</li> <li>issues of securities to the MRDC entities and NasFUND.</li> </ul>
Monday 22 December 2014	Entitlement Offer prospectus is submitted to PNG Registrar of Companies.  (Note: Prospectus cannot be despatched until the Registrar registers the prospectus – this timetable assumes registration occurs 1 week after submission.)
Tuesday 13 January 2015	Record date for Entitlement Offer (which must be at least 9 business days after registration of the prospectus and announcement of the record date)
Friday 16 January 2015	Prospectus is despatched and Entitlement Offer opens.
Friday 6 February 2015	Entitlement Offer closes.
Tuesday 17 February 2015	Shares are issued under the Entitlement Offer.

#### 1.5 Independent Expert's Report

To assist Shareholders in assessing the Recapitalisation Proposal, and as required by the Takeovers Code, the Company appointed Deloitte as Independent Expert to prepare an Independent Expert's Report which, amongst other considerations, assesses the issues of Shares and Options to NasFUND and to the MRDC entities and provides a report expressing the Independent Expert's opinion as to the merits of the Recapitalisation Proposal having regard to the interests of those persons who may vote to approve the allotments or acquisitions of Shares and Options.

The Independent Expert has concluded that the Recapitalisation Proposal is fair and reasonable to the non-associated Shareholders (being all Shareholders other than NasFund, the MRDC entities and their respective associates), and therefore in the best interests of the non-associated shareholders. In reaching this conclusion the Independent Expert noted that the Recapitalisation Proposal offers:

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- substantial new capital for the Company;
  - anti-dilution protection for the non-associated Shareholders (being all Shareholders other than NasFUND, the MRDC entities and their respective associates);
  - favourable funding terms with respect to existing lenders (Bank of South Pacific, National Airports Corporation and NasFund concessions); and
  - the opportunity to restructure the Company's fleet so as to improve safety standards and profitability.

This is set out in further detail in the Independent Expert's Report, a copy of which accompanies this document.

## 1.6 Description of ATR Acquisition

### (a) Parties to and subject matter of proposed agreement

The Company proposes entering into an agreement with Avions de Transport Regional G.I.E. (“**ATR**”) for the purchase of 6 ATR-72-600 aircraft on a firm basis (“**firm aircraft**”), with the right (but with no obligation) to purchase up to a further 14 aircraft (“**purchase rights aircraft**”) on the same terms and conditions.

### (b) Time for entry into agreement

Airlines PNG has signed a letter of intent with ATR. This lapses and the offer from ATR to sell the firm aircraft and offer the purchase rights aircraft on the terms proposed lapses if a binding agreement (conditional on Shareholder approval under Resolution 4) is not executed on or before 30 November 2014.

### (c) Delivery dates for firm aircraft

The aircraft are scheduled to be delivered:

- #1 September 2015
- #2 November 2015
- #3 May 2016
- #4 August 2016
- #5 May 2017
- #6 November 2017

### (d) Timing relating to purchase rights aircraft

The purchase rights aircraft may be upgraded to firm orders with 21 months' notice to ATR, and subject to ATR having production slots available for the requested month. The purchase rights are able to be exercised at any time up to 31 December 2025.

### (e) Price

The ATR-72-600 aircraft has a catalogue price in August 2013 of USD 24,100,000 each (and therefore USD 144,000,000 in aggregate for 6 aircraft).

The Company has been successful in negotiating the inclusion of significant levels of training, induction support, and associated support equipment as part of the agreement. In addition the Company has also been able to negotiate a significant discount on the catalogue price, but due to commercial-in-confidence restrictions is

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unable to publicly identify these. The purchase price is based as at August 2013, and the contract does include a price escalation formula based on the input costs the aircraft manufacturer is subject to and the time of delivery of the relevant aircraft.

(f) **Performance guarantees**

The proposed agreement also includes performance guarantees (and associated remedies) by ATR covering areas such as:

- fuel burn;
- aector flight times;
- aircraft performance such as take-off and landing runway lengths;
- aircraft empty weight upon delivery;
- interior cabin noise; and
- despatch reliability.

(g) **Payment terms**

The proposed agreement requires a series of progress payments based on each aircraft's scheduled delivery date. These payments are scheduled as follows.

- An initial commitment fee of USD 150,000 per firm aircraft (therefore USD 900,000 in total), which the Company paid on signing the Letter of Intent. (The funds were provided by NasFUND and the MRDC entities as unsecured loans, and it is expected that the Share subscription amounts payable by NasFUND and the MRDC entities to the Company will be off-set in full by the loan amounts (see section 7.1(b)).
- Progress payments at 24, 15, 9 and 4 months prior to scheduled aircraft delivery.
- Payment of the remaining outstanding upon aircraft delivery.

(h) **Sale and lease-back**

The Company proposes to complete a sale and lease-back of the first 3 of the firm aircraft to a specialist aircraft leasing company. That lessor company would then make the progress and final payments required in respect of the relevant firm aircraft on behalf of the Company.

The Company has conducted a tender process with potential lessors. A preferred lessor has been identified and that entity has expressed agreement to proceed with the sale and lease-back of the first 3 firm aircraft (on operating lease terms, for a term of 12 years), subject to entry into an agreement by the Company with ATR for the purchase of those aircraft. The lease payment amounts are expected to be based on a percentage of the capital cost of the ATR per hull package, at the time of delivery. Depending on the agreement reached with the lessor, there may be a purchase option at the end of the lease terms.

## 1.7 Recommendation of Directors

The Directors unanimously recommend that Shareholders vote in favour of Resolutions 1, 2, 3 and 4, in the absence of a superior proposal. In addition, each Director will vote (or

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procure the voting of) all Shares held or controlled by him in favour of Resolutions 1, 2, 3 and 4, in the absence of a superior proposal.

The Directors (with Mr Woolcott abstaining) recommend that you vote in favour of Resolution 5.

The reasons for the Directors' recommendation in relation to Resolutions 1, 2, 3 and 4 are set out in section 2 ('Key reasons to vote in favour of the Recapitalisation Proposal and ATR Acquisition').

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## **2. Key reasons to vote in favour of the Recapitalisation Proposal and ATR Acquisition**

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For the reasons given below, the Directors unanimously recommend that Shareholders vote in favour of the Recapitalisation Proposal and ATR Acquisition (by voting in favour of Resolutions 1, 2, 3 and 4), in the absence of a superior proposal.

### **2.1 Recapitalisation Proposal**

#### **Funding for working capital, ATR Acquisition and associated rebranding, and debt reduction**

The majority of the funds raised from the Capital Restructuring will provide the Company with working capital as it continues to provide safe, high quality and competitive regular air services to the people of PNG. Approximately PGK4.3 million from those funds will be used to pay initial deposits and project costs in respect of the ATR Acquisition and associated rebranding works, with the remainder to be used for other induction costs and working capital.

Funds raised from the Entitlement Offer will be used for reduction of the Company's debts to existing lenders.

#### **Capital Restructuring terms are favourable in the circumstances**

The Company's net assets/equity position has been deteriorating over recent years, following losses sustained due, among other reasons, to unfavourable trading and operating conditions including higher costs associated with the maintenance of an aging fleet of aircraft. It became obvious that the Company required additional funding to re-capitalise its balance sheet to enable it to embark on a recovery and growth strategy that would include re-fleeting and rebranding.

Over the past few years, management had sought unsuccessfully to raise capital from various sources within the restrictive and limited PNG capital markets. That has resulted in discussions with a number of entities, some of whom have conducted various levels of due diligence. However, none of those discussions have resulted in a firm investment offer. The most recent of those proposals resulted in an indicative and conditional offer in mid 2014 from an entity not associated with the Company to subscribe for new shares in the Company. However, that offer was withdrawn before entry into a contract.

With Directors' approval, approaches were then made to the MRDC entities and NasFUND seeking additional capital commitments from those two major shareholders. The outcome of those approaches and several subsequent presentations and submissions led to their agreements to provide the additional funding sought, subject to the value of their increased shareholdings being reflective of the underlying net worth of the Company.

At the time, the Directors had also considered a separate proposal by another party to acquire all the Shares then held by the late Sir John Wild. However, they considered that, as that proposal would not necessarily provide the Company itself with the required capital, the course of action presented by the MRDC entities' and NasFUND agreements would be recommended to Shareholders.

In order to then proceed with the recommended proposal and to meet the conditions required by the MRDC entities and NasFUND, an agreement was reached with Sir John

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Wild whereby the Company would buy back 120 million of the Shares he then held. The details of that arrangement are set out in this document. Additionally, the issue price for the new Shares to be issued to the MRDC entities and to NasFUND was calculated so as to reflect an adjusted fair value of the Company, after allowing for the effects of the proposed transactions.

Given the Company's present difficult circumstances and the absence of alternative firm offers of funding to the Company, the Directors considered the proposed Share subscription and issue by the MRDC entities and NasFUND to be in the interests of Shareholders as it will allow the Company to sustainably continue its business, the proposed issue price for the Shares reflect their value and because all other Shareholders will be afforded the opportunity to acquire Shares at equivalent values.

### **New debt repayment terms with existing creditors**

The announcement of the Recapitalisation Proposal has enabled the Company to re-negotiate its arrangements in respect of existing financial and operating liabilities of the Company. These are as follows.

- Subject to completion of the Capital Restructuring, NasFund will extend the term of its secured note of PGK 25 million so that it is repayable 24 months from completion of the Capital Restructuring, rather than the current arrangements where the note is repayable in tranches between December 2014 and May 2015.
- Bank of South Pacific ("**BSP**") has provided loan facilities with an aggregate balance of approximately PGK 43.9 million. BSP has agreed by letter dated 26 September 2014 that, provided APNG meets its obligations (and in particular its payment obligations) under the facilities:
  - BSP will keep all existing facilities in place for the next 12 months; and
  - subject to completion of the Capital Restructuring, BSP will not seek early payment or take enforcement action to place APNG under administration.
- Subject to completion of the Capital Restructuring, National Airports Corporation ("**NAC**"), a state aviation enterprise charged with the responsibility of overseeing the operations of PNG major airports, has agreed to freeze the total arrears amount owing by APNG to NAC as at 31 October 2014, which amounts to approximately PGK 10 million, with such amounts plus interest to be payable from 1 May 2015 over a maximum period of 18 months. In December 2014, APNG will resume full payment on a monthly basis of ongoing aeronautical and rent charges starting with the charges for the month of November 2014.

The completion of the Capital Restructuring will enable these arrangements to come into effect.

### **Opportunity to participate in capital raising on similar terms**

If the Capital Restructuring completes, the Company will undertake an Entitlement Offer that will allow Shareholders (other than the MRDC entities and NasFUND) the opportunity to choose to make further investments in the Company on similar terms to those agreed for the securities issues to the MRDC entities and NasFUND.

The 5:1 ratio under the Entitlement Offer has been chosen on the basis that the ratio under the Share issue to the MRDC entities is (on an aggregate basis) approximately 4.08 new

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Shares per existing Share (and on an individual company basis in the range of 3.81 (for Mineral Resources Ok Tedi No 2 Limited) to 4.71 (for Mineral Resources Development Company Limited) new Shares per existing Share) and that for NasFUND it is approximately 4.76 new Shares per existing Share. The higher of those aggregate ratios has been chosen and rounded up to the nearest whole number of Shares. The ratio of Options to new Shares under the Entitlement Offer is the same as for the MRDC entities and NasFUND. The issue price per new Share (10 toea), the exercise price of each Option (2 toea) and the period in which Options may be exercised (5 years) is the same as for the MRDC entities and NasFUND.

## **2.2 ATR Acquisition**

The ATR-72-600 type aircraft is well suited to forming the new fleet that the Company will require to be successful into the future. The Company's management conducted an extensive assessment process which considered all available new (or up to 7 year old) turbo-prop aircraft within the 40 to 80 seat range, presently available in the market and able to be registered and operated in PNG before recommending the ATR 72-600.

In particular it was noted as follows.

- The assessment conducted by Company management identified that on all sectors modelled the ATR-72-600 was expected to be cheaper to operate than the present DHC-8-102 fleet on a per sector basis (and much cheaper per seat) and also more cheaply than the other competitor aircraft.
- The ATR-72-600 offers significantly better passenger/payload opportunities than the ATR-42-600 as well as the simplicity of a single fleet, and can be expected to better retain residual value.
- The ATR-72-600 offers 32 seats (89% more) or 3,400 kg more payload (90% more) than the DHC-8-102, and hence greater revenue making capability.
- The greater capacity provided by the larger ATR aircraft gives the opportunity to the Company to operate more profitably than if it were to continue to operate a DHC-8-102 fleet.
- The ATR-72-600 can be set up to multiple different passenger/freight configurations allowing an effective solution to most scenarios Airlines PNG is likely to need to meet.
- Compared to the DHC-8-102's range of 1,100 NM, the ATR-72-600 has a range of 1,700 NM under similar considerations.
- The ATR-72-600 can operate into almost all aerodromes in PNG which the DHC-8-102 presently operates to with similar or better payloads.
- The purchase of new ATR-72-600 aircraft would allow the Company to configure all aircraft to a common standard and with equipment that will maximise the aircraft's ability to operate safely and on-time in the PNG aviation environment while also maximising revenue earning capabilities.

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### **3. Other considerations**

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For the reasons given in section 2, the Directors unanimously recommend that Shareholders vote in favour of the Recapitalisation Proposal and ATR Acquisition (by voting in favour of Resolutions 1, 2, 3 and 4), in the absence of a superior proposal.

However, there are certain consequences that you should be aware of if the Recapitalisation Proposal and/or ATR Acquisition proceeds, including those described below.

#### **RECAPITALISATION PROPOSAL**

##### **3.1 Recapitalisation Proposal**

###### **Impact on influence over the Company**

The Recapitalisation Proposal will result in two of PNG's major institutions, the MRDC entities and NasFUND owning an aggregate of between approximately 41.23% and 91.82% of the Shares (depending on the take-up under the Entitlement Offer, which will not be underwritten, and the exercise of Options). See section 4 for further details.

The implementation of the Recapitalisation Proposal:

- will result in the MRDC entities and NasFUND each [separately and collectively should they choose to act together in addition to ensuring the Board is comprised in the manner described in section 7.1(e)] having a level of influence over the Company that is substantially higher than other Shareholders;
- may influence a decision by a third party in the future to bid or propose a control transaction for the Company because the significant shareholdings of the MRDC entities and NasFUND may be seen as "blocking stakes", and there is a risk that investors will apply a discounted valuation to the Shares as a result of the perceived change in control of the Company if the Recapitalisation Proposal is implemented, and the decreased likelihood of a third party takeover proposal; and
- the interests of the MRDC entities and NasFUND as substantial Shareholders may not always be completely aligned with the interests of other Shareholders – however, in these circumstances minority Shareholders would have the benefit of various protections provided by applicable law and the Listing Rules in relation to dealings between the Company and an MRDC entity or NasFUND (or their respective associates) (eg. the requirement to obtain minority Shareholder approval for certain transactions), and in addition all Directors are required to act in the best interests of all Shareholders in accordance with their legal duties.

###### **Differing view on terms of Recapitalisation Proposal**

It may be that you:

- disagree with the Directors and the Independent Expert regarding the merits of the Recapitalisation Proposal; and
- believe that the terms of the Recapitalisation Proposal are not favourable or that the Company could have secured funding on more favourable terms than the Recapitalisation Proposal.

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However, as described in section 2.1, the Company has undertaken a comprehensive process in seeking funding on the most favourable terms in the circumstances.

### **3.2 ATR Acquisition**

There are a number of potential risks associated with the acquisition of ATR 72-600 aircraft. These are as follows.

#### **Financial risk**

Ordering new aircraft (ATR-72-600s or any other new type) requires the Company to incur significant financial obligations. The capital ownership and/or lease costs associated with any new aircraft are substantially more than with those associated with the present fleet.

#### **Operational and induction risk**

The Company has extensive corporate and operational experience with the DHC-8-102 aircraft. With the introduction of the new type the organisation is likely to have to invest in some operational staff with prior experience on type. There are also likely to be additional associated costs such as requiring more flight crew to operate the DHC-8-102, while present crew convert onto the new type.

#### **General operational risk**

National Airports Corporation is planning to upgrade a number of PNG runways over the next five years. Associated with this work, possible changes to aviation regulations (or even other runway repair work) it is possible runway lengths may be shortened to distances that the DHC-8-102 could have still operated from, but the ATR-72-600 could not. However the DHC-8-102 fleet will continue in the Company's operations for some more years (albeit in reducing numbers) which in this period will mitigate this risk.

## 4. Impact on Share capital and shareholdings

This section shows the impact of the Recapitalisation Proposal on the total number of issued Shares and on the Shareholding interests of Shareholders at various stages of the Recapitalisation Proposal and under various potential scenarios.

### 4.1 Current and after the Share buy-back, but prior to the issue of securities to the MRDC entities and NasFUND

Current shareholdings			Immediately after buy-back of 120m Shares held by estate of Sir John Wild, but prior to the issue of securities to the MRDC entities and NasFUND		
Estate of Sir John Wild	135,750,000	60.87%	Estate of Sir John Wild	15,750,000	15.29%
MRDC entities	24,500,000 <sup>2</sup>	10.99%	MRDC entities	24,500,000	23.79%
NasFUND	21,000,000	9.42%	NasFUND	21,000,000	20.39%
Others	41,750,000	18.72%	Others	41,750,000	40.53%
<b>Total Shares</b>	<b>223,000,000</b>	<b>100%</b>	<b>Total Shares</b>	<b>103,000,000</b>	<b>100%</b>

### 4.2 After issue of securities to the MRDC entities and NasFUND

Immediately after buy-back of 120m Shares held by estate of Sir John Wild, but prior to the issue of securities to the MRDC entities and NasFUND			Immediately after issue of securities to the MRDC entities and NasFUND (but assuming none of the Options issued to them are exercised), and prior to the issue of securities under the Entitlement Offer		
Estate of Sir John Wild	15,750,000	15.29%	Estate of Sir John Wild	15,750,000	5.20%
MRDC entities	24,500,000	23.79%	MRDC entities	124,500,000	41.09%
NasFUND	21,000,000	20.39%	NasFUND	121,000,000	39.93%
Others	41,750,000	40.53%	Others	41,750,000	13.78%
<b>Total Shares</b>	<b>103,000,000</b>	<b>100%</b>	<b>Total Shares</b>	<b>303,000,000</b>	<b>100%</b>

### 4.3 After issue of securities to the MRDC entities and NasFUND, and to other Shareholders under the Entitlement Offer (assuming 100% take-up), and assuming no Options are exercised

Assuming 100% take-up under the Entitlement Offer (ie. all Shareholders other than the MRDC entities and NasFUND subscribe for their full entitlements), a total of 287,500,000 Shares and 575,000,000 Options will be issued under the Entitlement Offer.

<sup>2</sup> As at the date of this document, Mineral Resources Development Company Limited holds 7,000,000 Shares, Mineral Resources Star Mountains Limited holds 7,000,000 Shares and Mineral Resources Ok Tedi No 2 Limited holds 10,500,000 Shares.

Immediately after issue of securities to the MRDC entities and NasFUND (but assuming none of the Options issued to them are exercised), and prior to the issue of securities under the Entitlement Offer			Immediately after issue of securities under the Entitlement Offer (assuming 100% take-up) and assuming no Options are exercised		
Estate of Sir John Wild	15,750,000	5.20%	Estate of Sir John Wild	94,500,000	16.00%
MRDC entities	124,500,000	41.09%	MRDC entities	124,500,000	21.08%
NasFUND	121,000,000	39.93%	NasFUND	121,000,000	20.49%
Others	41,750,000	13.78%	Others	250,500,000	42.42%
<b>Total Shares</b>	<b>303,000,000</b>	<b>100%</b>	<b>Total Shares</b>	<b>590,500,000</b>	<b>100%</b>

**4.4 After issue of securities to the MRDC entities and NasFUND, and to other Shareholders under the Entitlement Offer (assuming 100% take-up), and assuming that the MRDC entities, NasFUND and all other Shareholders exercise all of their Options**

Immediately after issue of securities to the MRDC entities and NasFUND (but assuming none of the Options issued to them are exercised), and prior to the issue of securities under the Entitlement Offer			After issue of securities to the MRDC entities and NasFUND, and to other Shareholders under the Entitlement Offer (assuming 100% take-up), and assuming that the MRDC entities, NasFUND and all other Shareholders exercise all of their Options		
Estate of Sir John Wild	15,750,000	5.20%	Estate of Sir John Wild	252,000,000	16.10%
MRDC entities	124,500,000	41.09%	MRDC entities	324,500,000	20.73%
NasFUND	121,000,000	39.93%	NasFUND	321,000,000	20.50%
Others	41,750,000	13.78%	Others	668,000,000	42.67%
<b>Total Shares</b>	<b>303,000,000</b>	<b>100%</b>	<b>Total Shares</b>	<b>1,565,500,000</b>	<b>100%</b>

**4.5 After issue of securities to the MRDC entities and NasFUND, and assuming 0% take-up under the Entitlement Offer and that the MRDC entities and NasFUND exercise all of their Options**

Immediately after issue of securities to the MRDC entities and NasFUND (but assuming none of the Options issued to them are exercised), but prior to the issue of securities under the Entitlement Offer			After issue of securities to the MRDC entities and NasFUND, and assuming 0% take-up under the Entitlement Offer and that the MRDC entities and NasFUND exercise all of their Options		
Estate of Sir John Wild	15,750,000	5.20%	Estate of Sir John Wild	15,750,000	2.24%
MRDC entities	124,500,000	41.09%	MRDC entities	324,500,000	46.16%
NasFUND	121,000,000	39.93%	NasFUND	321,000,000	45.66%
Others	41,750,000	13.78%	Others	41,750,000	5.94%
<b>Total Shares</b>	<b>303,000,000</b>	<b>100%</b>	<b>Total Shares</b>	<b>703,000,000</b>	<b>100%</b>

## 5. Impact on financial position

Below is a pro forma consolidated balance sheet of the Company (unaudited) which illustrates the effect of the Recapitalisation Proposal (as if the Recapitalisation Proposal had completed on 30 June 2014) in 3 scenarios:

- **Scenario 1** – completion of the Capital Restructuring only;
- **Scenario 2** - the Capital Restructuring is completed, there is 100% take-up under the Entitlement Offer (ie. all Shareholders other than the MRDC entities and NasFUND subscribe) and no Options are exercised; and
- **Scenario 3** - the Capital Restructuring is completed, there is 100% take-up under the Entitlement Offer (ie. all Shareholders other than the MRDC entities and NasFUND subscribe) and the MRDC entities, NasFUND and all other Shareholders immediately exercise all of their Options.

The unaudited balance sheets are indicative only, and are based on the unaudited financial statements as at 30 June 2014 as released to POMSoX on 12 September 2014 but not then released by POMSoX to the market.

All Amounts in K'000							
Item	Base Balance Sheet 30 June 2014 (unaudited)	Movement between Base & Scenario 1 Balance Sheet	Scenario 1 Balance Sheet	Movement between Scenario 1 & Scenario 2 Balance Sheet	Scenario 2 Balance Sheet	Movement between Scenario 2 & Scenario 3 Balance Sheet	Scenario 3 Balance Sheet
Property, Plant & Equipment	134,199	-	134,199	-	134,199	-	134,199
Property & Other	5,961	-	5,961	-	5,961	-	5,961
Deferred Tax Assets	56,562	-	56,562	-	56,562	-	56,562
<b>Total Non Current Assets</b>	<b>196,722</b>	<b>-</b>	<b>196,722</b>	<b>-</b>	<b>196,722</b>	<b>-</b>	<b>196,722</b>
Inventory	14,886	-	14,886	-	14,886	-	14,886
Trade	29,236	-	29,236	-	29,236	-	29,236
Other	15,867	-	15,867	-	15,867	-	15,867
Cash	1,756	4,300	6,056	-	6,056	-	6,056
<b>Total Current Assets</b>	<b>61,744</b>	<b>4,300</b>	<b>66,044</b>	<b>-</b>	<b>66,044</b>	<b>-</b>	<b>66,044</b>
<b>Total Assets</b>	<b>258,466</b>	<b>4,300</b>	<b>262,766</b>	<b>-</b>	<b>262,766</b>	<b>-</b>	<b>262,766</b>
<b>Equity &amp; Liabilities</b>							
<b>Total Equity</b>	<b>46,309</b>	<b>20,000</b>	<b>66,309</b>	<b>28,750</b>	<b>95,059</b>	<b>19,500</b>	<b>114,559</b>
Borrowings	13,561	25,000	38,561	-13,561	25,000	-	25,000
Deferred Tax Liability	49,308	-	49,308	-	49,308	-	49,308
Provisions	10,076	-	10,076	-	10,076	-	10,076
<b>Total Non Current Liabilities</b>	<b>72,945</b>	<b>25,000</b>	<b>97,945</b>	<b>-13,561</b>	<b>84,384</b>	<b>-</b>	<b>84,384</b>
Trade Creditors	59,678	-15,700	43,978	-	43,978	-	43,978
Borrowings	72,329	- 25,000	47,329	-15,189	32,140	-19,500	12,640
Other	7,205	-	7,205	-	7,205	-	7,205
<b>Total Current Liabilities</b>	<b>139,212</b>	<b>-40,700</b>	<b>98,512</b>	<b>-15,189</b>	<b>83,323</b>	<b>-19,500</b>	<b>63,823</b>
<b>Total Liabilities</b>	<b>212,157</b>	<b>-15,700</b>	<b>196,457</b>	<b>-28,750</b>	<b>167,707</b>	<b>-19,500</b>	<b>148,207</b>
<b>Equity &amp; Liabilities</b>	<b>258,466</b>	<b>4,300</b>	<b>262,766</b>	<b>-</b>	<b>262,766</b>	<b>-</b>	<b>262,766</b>

### Notes and assumptions regarding pro forma balance sheets

- The above pro forma balance sheets for Scenarios 1, 2 and 3 have been prepared considering only the impacts of the Recapitalisation Proposal against the 30 June

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2014 (base) balance sheet. All other actual or likely operational movements have not been considered or reflected in the pro forma balance sheets.

- Under Scenario 1 it is assumed that the equity investment of K20 million under the Capital Restructuring is utilised to pay Trade Creditors in amount of K15.7 million and the balance of K4.3 million is held in cash to be utilised for payment of initial outlays required for the ATR re-fleeting project. These outlays are mostly related to payment of initial deposits for ensuring booking of delivery slots with the aircraft manufacturer (on behalf of the lessors) and payment for re-branding work. Under this scenario, the borrowings are re-classified based on NasFund's commitment to extend its K25 million debt funding under the notes program by 24 months. Hence, K25 million current liability borrowings under the base balance sheet is transferred to non-current borrowings under the Scenario 1 pro forma balance sheet.
- Under Scenario 2, it is assumed that an equity amount of K28.75 million is raised under the Entitlement Offer, in addition to the K20 million raised under the Capital Restructuring, thus generating equivalent amount of cash in hand for the company. It is further assumed that the entire additional cash has been utilised to pay off borrowings bearing high interest costs. However, entire borrowings under the notes program of K31.5 million, including K25 million from NasFund, have been retained under this scenario.
- Under Scenario 3, it is assumed that an equity amount of K19.5 million is raised from the exercise of Options, in addition to the K20 million raised under the Capital Restructuring and the K28.75 million raised under the Entitlement Offer, which will generate equivalent amount of additional cash in hand for the company. It is further assumed that this additional cash has been utilised to pay off current borrowings of equivalent amount. Under this scenario too, the total borrowings of K31.5 million under the notes program continues to be retained, however other current borrowings are significantly reduced.
- Except for the allocation of K4.3 million for payment of initial outlays in regards to ATR re-fleeting project, the above pro-forma balance sheets do not include any other costs associated with the ATR aircraft acquisition. Since these aircraft will be acquired through leases over a period of three years extending between 2015 and 2017, it is not possible to include the associated costs at the current stage.

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## **6. Additional information regarding Resolution 1 (Share buy-back and increases in relevant interest percentages)**

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### **6.1 Share buy-back agreement**

On 8 October 2014, the Company and Sir John Wild (prior to his passing) entered into a buy-back agreement setting out the terms of the proposed buy-back of 120 million Shares (representing approximately 53.81% of the Shares currently on issue) from the estate of Sir John Wild for a nominal price of 1 kina in total, as described in section 1.2(a). The agreement specifies certain conditions precedent to be satisfied. As at the date of this document, the only remaining condition precedent to be satisfied is Shareholder approval. The agreement provides that completion of the buy-back will occur on the first business day after all conditions precedent have been satisfied. On completion of the buy-back the Shares will be cancelled by the Company.

Completion of the buy-back is a condition to completion of the securities issuances to the MRDC entities and NasFUND as described in section 7.1, and therefore a condition to receiving the relevant subscription monies from the MRDC entities and NasFUND.

### **6.2 Shareholder approval requirement**

Neither the Companies Act nor the Constitution imposes a Shareholder approval requirement for the Share buy-back.

However, by reason of Rule 4 of the Takeovers Code, except pursuant to a takeover offer made in compliance with the Takeovers Code, or as permitted under Rule 5 of the Takeovers Code (which includes shareholder approval):

- a person who has not relevant interest in Shares, or has a relevant interest in less than 20% of the Shares, shall not increase the percentage of their relevant interest in Shares unless after that event that person has a relevant interest in not more than 20% of the Shares (Rule 4(1)(a)); and
- a person who has a relevant interest in 20% or more of the Shares shall not increase the percentage of their relevant interest in Shares (Rule 4(1)(b)),

and, for this purpose, an increase in the percentage of a person's relevant interest in Shares includes an increase which occurs as a result of no act or omission by that person, or as a result of an act or omission by another person.

By reason of the Share buy-back agreement described in section 6.1, the Company has increased its relevant interest in Shares from nil to 120,000,000 Shares (being the number of Shares to be bought back), representing a relevant interest in approximately 53.81% of the issued Shares. This is the case notwithstanding that the Shares will be cancelled immediately following completion of the buy-back. Pursuant to Rule 5(1)(a) of the Takeovers Code, this increase in relevant interest will be exempted from Rule 4 where it occurs by an acquisition of Shares where:

- the acquisition is conditional upon Shareholder approval within 3 months (note here that the General Meeting will be held within 3 months after the Share buy-back agreement was signed) and does not confer any control over, or power to substantially influence, any voting right in the Company until shareholder approval

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has been obtained (note here that the Company does not have any control over the voting rights attached to the Shares to be bought-back); and

- Shareholders approve the acquisition either by ordinary resolution in general meeting (where the Company (as acquirer), the estate of Sir John Wild (as disposer) and their respective associates cannot vote) or by unanimous resolution in general meeting.

Resolution 1 accordingly seeks Shareholder approval by ordinary resolution for the Share buy-back. The Share buy-back (ie. acquisition), if approved by Shareholders (such approval will have been given if all of Resolutions 1, 2 and 3 are passed), will be an exception to Rule 4 of the Takeovers Code permitted by Rule 5 of the Takeovers Code.

Also, as indicated in section 4.1, completion of the Share buy-back will result in the MRDC entities and NasFUND increasing their respective shareholding percentages in the Company (and therefore the percentage of their respective relevant interest in Shares) to beyond 20%, which would exceed the 20% threshold in Rule 4(1)(a) of the Takeovers Code.

If this increase in relevant interest percentage were to occur as a result of the MRDC entities and NasFUND acquiring additional Shares, that increase could be put to Shareholders for approval under Rule 5 of the Takeovers Code. However, Rule 5 does not permit a company's shareholders to approve an increase resulting from a share buy-back or reduction in share capital. In light of this, the Company has requested the PNG Securities Commission to exempt the MRDC entities and NasFUND from complying with Rule 4 of the Takeovers Code in respect of from complying with Rule 4 of the Takeovers Code 1998 in respect of an increase by each of them of the percentage of their relevant interest in Shares as a result of the Share buy-back from the estate of Sir John Wild, on condition that:

- the Share buy-back is approved by Shareholders by ordinary resolution in general meeting, and none of the MRDC entities, NasFUND or their respective associates vote on that resolution; and
- the proposed issue of new Shares and Options to the MRDC entities and NasFUND complies with Rule 5 of the Takeovers Code.

Resolution 1 seeks to satisfy the first of these conditions, and Resolution 2 seeks to satisfy the second of these conditions.

### **6.3 Conditional resolution**

Resolution 1 is conditional upon Resolutions 2 and 3 also being passed, and also upon a prospectus for the Entitlement Offer being submitted by the Company to the Registrar of Companies within 7 days after Resolution 1 is passed. If Shareholders approve Resolutions 1, 2 and 3, the Company intends to submit the prospectus to the Registrar of Companies on the day of the General Meeting or on the next business day.

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## 7. Additional information regarding Resolution 2 (Issue of securities to MRDC entities and NasFUND)

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### 7.1 Share subscription agreements

The Company, each MRDC entity and NasFUND have entered into Share subscription agreements setting out the terms of the proposed issue of Shares and Options to each of the MRDC entities and NasFUND, as described in sections 1.2(b) and 1.2(c). Each agreement is on the same terms, other than with respect to the number of Shares and Options to be issued to the party subscribing for Shares and Options under the relevant agreement.

Below is a summary of the key terms of the agreements.

#### (a) Issues of securities

Subject to the satisfaction of certain conditions precedent, the following securities will be issued to the MRDC entities and NasFUND.

Allottee	Shares to be issued	Options to be issued
Mineral Resources Development Company Limited	33 million Shares for a cash issue price of 10 toea per Share	66 million free Options (each exercisable into 1 new Share), with each Option being exercisable at any time during a 5 year period after the issue date at 2 toea per new Share
Mineral Resources Star Mountains Limited	27 million Shares for a cash issue price of 10 toea per Share	54 million free Options (each exercisable into 1 new Share) – same features as above
Mineral Resources Ok Tedi No 2 Limited	40 million Shares for a cash issue price of 10 toea per Share	80 million free Options (each exercisable into 1 new Share) – same features as above
NasFUND	100 million Shares for a cash issue price of 10 toea per Share	200 million free Options (each exercisable into 1 new Share) – same features as above
Total	200 million Shares for a total cash issue price of K 20 million	400 million free Options

#### (b) Conditions precedent and completion

Completion of the securities issuances is subject to various conditions precedent. As at the date of this document, the remaining conditions precedent to be satisfied are Shareholder approval, completion of the Share buy-back described in section 1.2(a), and the MRDC entities and NasFUND paying their respective Share subscription amounts at the same time.

Completion of the securities issuances is to occur on the first business day after the General Meeting, assuming Resolutions 1, 2 and 3 are approved. On that date, subject to and following completion of the Share buy-back described in section 1.2(a), the MRDC entities and NasFUND will be required to pay their respective Share subscription amounts to the Company and the Company will be required to issue the relevant Shares and Options.

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Prior to the date of this document, the MRDC entities and NasFUND provided the Company with unsecured loans to enable the Company to pay an initial commitment fee USD 150,000 per firm aircraft (therefore USD 900,000 in total) to ATR (see section 1.6(g)). The loan amounts were: PGK 3.3 million (for Mineral Resources Development Company Limited), PGK 2.7 million (for Mineral Resources Star Mountains Limited), PGK 4.0 million (for Mineral Resources Ok Tedi No 2 Limited) and PGK 10.0 million (for NasFUND). It is expected that the Share subscription amounts payable by NasFUND and the MRDC entities will be off-set in full by the loan amounts.

(c) **Terms of securities**

The Shares to be issued will be fully-paid ordinary shares having the same terms as existing fully-paid ordinary shares.

The Options to be issued will have the following terms.

**1. Entitlement**

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

**2. Issue price**

No amount is payable on issue of the options.

**3. Exercise price**

The exercise price of each option is PGK0.02.

**4. Option period**

Each option may be exercised in whole or in part at any time before 5 years after the Shareholders' Meeting (ie. the General Meeting). An option not exercised, automatically expires on the day which is 5 years after the Shareholders' Meeting (ie. the General Meeting).

**5. Certificate**

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

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

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

**6.1 Participation**

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

**6.2 Bonus issues**

If the Company makes a bonus issue of shares or other securities to shareholders (except an issue in lieu of dividends or by way of dividend reinvestment) and no share has been issued in respect of the option before the record date for determining entitlements to the issue, then the number of underlying shares over which the option is exercisable is increased by the number of shares which the

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optionholder would have received if the optionholder had exercised the option before the record date for determining entitlements to the issue.

### **6.3 Reorganisations**

If there is a reorganisation of the capital of the Company, the rights of an optionholder will be changed to the extent necessary to comply with POMSoX's listing rules applying to a reorganisation of capital at the time of the reorganisation.

## **7. Method of exercise of options**

### **7.1 Method and payment**

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

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

### **7.2 Exercise all or some options**

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

### **7.3 Option certificates**

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

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

### **7.4 Issue of shares**

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

## **8. Ranking of shares issued on exercise of options**

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

## **9. Quotation**

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

## **10. Governing law**

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

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

(d) **Non-participation in Entitlement Offer**

Each of the MRDC entities and NasFUND has undertaken not to accept an offer of Shares and Options under the Entitlement Offer.

(e) **Board appointments**

Each of the MRDC entities and NasFUND must (as agreed in the respective Share subscription agreement with each other and the Company) exercise its rights as a Shareholder to ensure that after completion of the securities issuances the Board consists of 6 members and that 2 persons nominated by NasFUND and 2 persons nominated by Mineral Resources Development Company Limited and its related entities (including any current Director) are elected to the Board. The Company notes that 2 of the existing 5 Directors would be considered nominees of either NasFund or the MRDC entities.

(f) **Other key obligations**

The Company and the Board must:

- (i) ensure that when the sale of Twin Otter aircraft registration numbers P2-MCC and P2-MCZ which are currently subject to securities in favour of Credit Corporation (PNG) Limited are completed the sale proceeds are paid to Credit Corporation (PNG) Limited (to the extent of the then current secured indebtedness to that company); and
- (ii) use its best endeavours to complete a sale of the Company's subsidiary PNG Ground Services Limited (or of the refuelling business conducted by that subsidiary) within 6 months after completion of the securities issuances, provided that can be achieved at a commercially acceptable sale price and on terms relating to on-going fuel supply to the Company that are commercially acceptable to the Company having regard to its on-going operating costs.

## 7.2 Information regarding the MRDC entities and NasFUND

(a) **MRDC entities**

The information in this section 7.2(a) was provided by, and is the responsibility of, the MRDC entities.

Mineral Resources Development Company Limited is a company which is 100% owned by the PNG government, and which is entrusted to manage landowner equity interests in resource projects in PNG.

Mineral Resources Ok Tedi No.2 Ltd and Mineral Resources Star Mountains Ltd are wholly-owned subsidiaries of Mineral Resources Development Company Limited with beneficial interests held in Ok Tedi Mining Limited by the Fly River Provincial Government and the Special Mining Purpose Lease landowners of Ok Tedi respectively, under trust arrangements.

Both Mineral Resources Ok Tedi No.2 Ltd and Mineral Resources Star Mountains Ltd earn income by way of dividends distributed by Ok Tedi Mining Limited and also investments managed by Mineral Resources Development Company Limited.

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By reason of their common ownership, each of the 3 MRDC entities is taken to have a relevant interest in the Shares held by each other.

The Company has been informed that, other than the Share subscription agreements described in section 7.1 and other than as contemplated by the Share subscription agreements as described in sections 7.1(e) and 7.1(f) above:

- the MRDC entities intend that the business of the Company be continued in its current form, and do not intend to make any major changes to the business; and
- there is no agreement, arrangement or understanding which has been, or is intended to be, entered into between any MRDC entity and any other person relating to the allotment of Shares under the Share subscription agreements, any relevant interests held or to be held in the Shares to be allotted, or to the exercise of voting rights in the Company.

(b) **NasFUND**

The information in this section 7.2(b) was provided by, and is the responsibility of, NasFUND.

NasFUND was established in 2002 as the successor entity to the National Provident Fund. It is the largest private sector superannuation fund in PNG. NasFUND has 7 shareholders: Employers Federation of PNG, Manufacturers Council of PNG, PNG Chamber of Mines & Petroleum, PNG Chamber of Commerce & Industry, PNG Banking & Financial Workers Union, PNG Trade Union Congress and Rural Industries Council.

The Company has been informed that, other than the Share subscription agreements described in section 7.1 and other than as contemplated by the Share subscription agreements as described in sections 7.1(e) and 7.1(f) above:

- NasFUND intends that the business of the Company be continued in its current form, and does not intend to make any major changes to the business; and
- there is no agreement, arrangement or understanding which has been, or is intended to be, entered into between NasFUND and any other person relating to the allotment of Shares under the Share subscription agreements, any relevant interests held or to be held in the Shares to be allotted, or to the exercise of voting rights in the Company.

### **7.3 Shareholder approval requirement – Listing Rules and waivers**

Listing Rule 7.1 restricts the number of equity securities (which include ordinary shares and options to acquire ordinary shares) that a POMSoX-listed company may issue or agree to issue in any 12 month period, without the approval of shareholders, to 15% of the number of ordinary shares on issue at the start of the period, subject to certain adjustments and permitted exceptions. Any equity securities which the company has issued, or has agreed to issue, with the approval of shareholders under ASX Listing Rule 7.1 will not count towards the 15% in 12 months limitation.

The Shares and Options to be issued to the MRDC entities and NasFUND will be "equity securities" for the purposes of Listing Rule 7.1. Given the restrictions of Listing Rule 7.1, the Company would not be able to issue those Shares and Options without obtaining

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Shareholder approval. Accordingly, Resolution 2 seeks Shareholder approval for the purposes of Listing Rule 7.1 for those Shares and Options to be issued.

As announced on 9 October 2014 and described in section 11, POMSoX has granted various waivers of the Listing Rules in respect of the Proposal. A condition to the waiver of Listing Rule 7.16 is that Shareholders approve the issue of Shares and Options to the MRDC entities and NasFUND as per Listing Rule 7.1. Accordingly, Resolution 2 also seeks Shareholder approval for the purposes of that waiver.

If Shareholders approve Resolutions 1, 2 and 3, the Company will again have complete placement capacity under Listing Rule 7.1. However, as a condition to POMSoX's waiver of Listing Rules 7.11.3 and 7.16 (see section 11), the Company cannot issue any further options to acquire shares outside of the Proposal until such time as the number of issued shares is greater than the number of issued options.

#### **7.4 Shareholder approval requirement – Takeovers Code**

The upfront issues of Shares to the MRDC entities and NasFUND under the Share subscription agreements will, and the future issues of Shares to the MRDC entities and/or NasFUND upon the exercise of the free Options to be granted to them are likely to, result in each of them exceeding the permitted relevant interest thresholds in Rule 4 of the Takeovers Code (as described in section 6.2 above). See section 4 for the potential increases in the respective percentage Share holdings of the MRDC entities and NasFUND in various scenarios.

In addition, the effect of the obligations described in section 7.1(e) is that:

- each MRDC entity will obtain a relevant interest in the Shares held by each other MRDC entity and NasFUND;
- NasFUND will obtain a relevant interest in the Shares held by each MRDC entity; and
- the Company will obtain a relevant interest in the Shares held by each MRDC entity and NasFUND,

because each MRDC entity and NasFUND has agreed with each other and the Company that, if the securities issues under the Share subscription agreements occur, they will exercise their voting rights as Shareholders to ensure the Board is reconstituted in a certain manner. As far as the Company is aware, there is otherwise no agreement with respect to voting of Shares.

By reason of Rule 5(a)(i) of the Takeovers Code, a person may increase their relevant interest in Shares by an allotment of Shares where that allotment has been approved by the Company either by ordinary resolution in general meeting (where the allottee and any associate cannot vote) or by unanimous resolution in general meeting. Resolution 2 accordingly seeks Shareholder approval by ordinary resolution for the allotments of Shares (both upfront and upon the exercise of Options) described in the first paragraph above, as well as the increases in relevant interests described in the second paragraph above which arise from the Share subscription agreements.

The allotment of Shares described in the first paragraph above (both upfront and upon the exercise of Options) and the relevant interest increases described in the second paragraph above, if approved by Shareholders (such approval will have been given if all of

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Resolutions 1, 2 and 3 are passed), will be an exception to Rule 4 of the Takeovers Code permitted by Rule 5 of the Takeovers Code.

#### **7.5 Conditional resolution**

Resolution 2 is conditional upon Resolutions 1 and 3 also being passed, and also upon a prospectus for the Entitlement Offer being submitted by the Company to the Registrar of Companies within 7 days after Resolution 2 is passed. If Shareholders approve Resolutions 1, 2 and 3, the Company intends to submit the prospectus to the Registrar of Companies on the day of the General Meeting or on the next business day.

#### **8. Additional information regarding Resolution 3 (Entitlement Offer)**

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Shareholder approval is sought for the Entitlement Offer to comply with a condition to a POMSoX waiver of Listing Rule 7.11.3 (as described in section 11).

Resolution 3 is conditional upon Resolutions 1 and 2 also being passed.

#### **9. Additional information regarding Resolution 4 (Major transaction)**

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Section 110 of the Companies Act provides that a company shall not enter into a 'major transaction' unless the transaction is approved by special resolution of shareholders or contingent on such approval. A 'major transaction' is defined to include the acquisition or disposal of assets the value of which is more than half the value of the assets of the company before the acquisition or disposal (and includes any agreement for such acquisition or disposal).

As noted in section 1.6(e), the ATR Acquisition has an estimated aggregate purchase price (before discounts) of USD 144,000,000 (for 6 aircraft). The Company's current gross assets are approximately USD 110,000,000, so the ATR Acquisition constitutes a 'major transaction' for which Shareholder approval is sought.

The proposed sale and lease-back of the first 3 of the aircraft under the ATR Acquisition (see section 1.6(h)) will involve the disposal of assets which, based on an estimated aggregate purchase price of USD 72,000,000 (for 3 aircraft), is more than half of the Company's current gross assets of approximately USD 110,000,000. On these numbers, that will constitute a 'major transaction' and therefore Shareholder approval is sought.

#### **10. Information regarding Resolution 5 (Reappointment of Simon David Woolcott as a Director)**

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At the meeting of the Board on 22 October 2014, the Board appointed Mr Simon David Woolcott as an additional Director in accordance with clause 15.6 of the Company's Constitution.

Clause 15.6 of the Constitution provides that a Director appointed under that clause automatically retires at the next meeting of shareholders of the Company. Such a Director is eligible for reappointment as a Director at the meeting at which he or she automatically retires. Mr Woolcott, being eligible, offers himself for reappointment as a Director.

Mr Woolcott has significant experience as an accountant and as an aviation analyst. He was the Company's Chief Financial Officer between 2009 and 2012, and has maintained

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his involvement with the Company as a member of its Board Audit Risk and Compliance Committee since March 2013. Mr Woolcott is an Australian CPA, a Graduate of the Australian Institute of Company Directors and holds a Bachelor of Business degree in Accounting and Management. Mr Woolcott sits on a number of community and school boards and committees in Australia. Mr Woolcott's family is originally from New Ireland Province and he spent all of his childhood years in Rabaul ENBP and maintains close family connections there.

## 11. POMSoX waivers

As announced on 9 October 2014, POMSoX has granted various waivers of the Listing Rules in respect of the Proposal. Details of the waivers and conditions or requirements imposed by POMSoX on the waivers are as follows.

Listing Rule waived	Event	Conditions attached
6.14	Issue of Options under the Capital Restructuring and Entitlement Offer with exercise price of less than 20 toea	No conditions attached
7.16	Issue of Options under the Capital Restructuring and Entitlement Offer resulting in more options being on issue than underlying securities (ie. shares).	<ul style="list-style-type: none"> <li>As per Listing Rule 7.1, Shareholders approve the placement of Shares and Options to the MRDC entities and NasFUND. (Note: this is covered by Resolution 2).</li> <li>The notice of meeting seeking Shareholder approval for the placement of Shares and Options to the MRDC entities and NasFUND contains a voting exclusion statement that excludes the votes of the MRDC entities and NasFUND. (Note: this is in the Notice of General Meeting).</li> <li>No further options be issued or granted by the Company outside the proposed capital raising until such time as the number of issued securities (ie. shares) is greater than the number of issued options.</li> <li>The Company release details of this waiver at the time that full details of the capital raising is announced to the market. (Note: this occurred on 9 October 2014).</li> </ul>
7.11.3	Pro rata issue of securities on a ratio greater than 1:1 (ie. under the Entitlement Offer)	<ul style="list-style-type: none"> <li>Seek Shareholder approval. (Note: this is covered by Resolution 3).</li> <li>Same as 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> conditions of the waiver of Listing Rule 7.16.</li> </ul>

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## 12. Glossary

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

<b>Term</b>	<b>Meaning</b>
<b>ATR</b>	Avions de Transport Regional G.I.E.
<b>ATR Acquisition</b>	the proposed acquisition of ATR 72-600 aircraft, as described in section 1.6.
<b>Board</b>	the board of Directors of the Company
<b>Capital Restructuring</b>	the proposed capital restructuring to raise K20 million, as described in section 1.2
<b>Companies Act</b>	the PNG <i>Companies Act 1997</i>
<b>Company or APNG</b>	Airlines of Papua New Guinea Limited, a company incorporated in PNG
<b>Constitution</b>	the constitution of the Company
<b>Director</b>	a director of the Company
<b>Entitlement Offer</b>	the proposed entitlement offer of securities to all PNG resident Shareholders, as described in section 1.3
<b>General Meeting</b>	the general meeting of Shareholders convened by the Notice of General Meeting
<b>Independent Expert</b>	Deloitte Corporate Finance Pty Limited (ACN 003 833 127)
<b>Independent Expert's Report</b>	the report of the Independent Expert which accompanies this document
<b>K</b>	kina
<b>Listing Rules</b>	the listing rules of POMSoX
<b>MRDC entities</b>	Mineral Resources Development Company Limited, Mineral Resources Star Mountains Limited and Mineral Resources Ok Tedi No 2 Limited
<b>NasFUND</b>	National Superannuation Fund of PNG
<b>Notice of General Meeting</b>	the notice of general meeting accompanying this Explanatory Memorandum
<b>Option</b>	an option to subscribe for a Share
<b>PNG</b>	the Independent State of Papua New Guinea
<b>POMSoX</b>	the Port Moresby Stock Exchange Limited
<b>Recapitalisation Proposal</b>	the Capital Restructuring and Entitlement Offer
<b>Resolutions</b>	the resolutions set out in the Notice of General Meeting
<b>Securities Act</b>	the PNG <i>Securities Act 1997</i>
<b>Share</b>	a fully paid ordinary share issued in the capital of the Company
<b>Shareholder</b>	a person registered as the holder of one or more Shares
<b>Takeovers Code</b>	the PNG <i>Takeovers Code 1998</i>

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## **Corporate directory**

### **Airlines of Papua New Guinea Limited**

Jackson's Airport, Port Moresby  
PO Box 170, Boroko  
Papua New Guinea  
Telephone: +675 7373 7100  
Facsimile: +675 325 2219

### **Legal adviser**

Allens  
Level 6, Mogoru Moto Building  
Champion Parade  
Port Moresby  
Papua New Guinea

### **Company website**

[www.apng.com](http://www.apng.com)

### **Independent Expert**

Deloitte Corporate Finance Pty Limited  
550 Bourke Street  
Melbourne, Victoria 3000Australia

### **Share registry**

PNG Registries Limited  
Level 2, AON Haus  
PO Box 1265  
Port Moresby NCD  
Papua New Guinea  
Telephone: +675 321 6377  
Facsimile: +675 321 6379