



NOTICE OF MEETING AND EXPLANATORY MEMORANDUM

PNG Air Limited

(PNG company no. 1-24926)

A Special Meeting of shareholders will be held at 4:00 pm (Port Moresby time) on Friday, 8 December 2023 at the Grecian Room at the Lamana Hotel, Port Moresby, Papua New Guinea.

No refreshments will be served at this meeting.

It is extremely important that you read this entire document. If you have any questions concerning this document or the matters raised within the document, including its annexures, please raise those questions and/or concerns with your financial, tax, legal or other professional advisors. An independent advisor's report is annexed to this document.

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PNG Air

LETTER FROM THE CHAIRMAN OF PNG AIR

Dear Shareholders

As noted in our recent announcements to the market, PNG Air is proposing to enter into a formal scheme of arrangement under Part XVI of the Companies Act in connection with the restructuring of the debts which PNG Air owes to its Major Creditors.

The restructuring has been necessitated by the reduction in aviation revenue associated with the National Pandemic and the generally depressed state of the PNG economy. PNG Air's capital structure is impaired and amounts owing to unsecured creditors are too high for PNG Air to sustain without a restructure.

The aviation sector is built upon customer confidence. The stabilisation of PNG Air's capital structure will enable the airline to pursue growth in the future, while delivering the airline an improved financial performance in the medium term.

A scheme of arrangement is a frequently used method of effecting complicated corporate arrangements in PNG, Australia and elsewhere in the world. The Scheme offers the best means for PNG Air to restructure its liabilities with transactional certainty. The Scheme involves PNG Air's Major Creditors only and PNG Air's customer, trade and employment arrangements with other stakeholders will not be directly affected by the Scheme.

As an adjunct to the Scheme and in order to give effect to the arrangements which PNG Air has negotiated with two of its Major Creditors, MRDC and Nasfund, Shareholders are being asked to vote in favour of issuing to:

- (a) the MRDC Entities, the MRDC Additional Shares in accordance with Resolutions 1 and 2; and
- (b) Nasfund, the Nasfund Additional Shares in accordance with Resolutions 3 and 4.

The MRDC Entities will subscribe for 208,333,333 Additional Shares to convert the PGK 25,000,000 which the MRDC Entities lent to PNG Air in 2015-2017 from debt to equity. This debt will be converted to equity in the form of PNG Air ordinary shares at a price of 12 Toea per share. This price is the last on-market trading price of PNG Air shares in 2019. Approval of this conversion comprises Resolution 1.

MRDC Entities have already lent PNG Air a further PGK 20,000,000 and they now propose to invest an additional PGK 30,000,000 in PNG Air over 18 months. The further loan of PGK 20,000,000 will be converted to equity in the form of PNG Air ordinary shares and the additional PGK 30,000,000 will be invested in PNG Air ordinary shares in each case at a price per share of 0.843 Toea being the current value of PNG Air's ordinary shares. Approval of this further conversion and additional investment comprises Resolution 2.

Nasfund will subscribe for 208,333,333 Additional Shares to convert to equity the PGK 25,000,000 which Nasfund lent to PNG Air in 2016-2017. This debt will also be converted to equity in the form of PNG Air ordinary shares at a price of 12 Toea per share. Approval of this conversion comprises Resolution 3.

Finally, Nasfund now proposes to invest an additional PGK 8,225,200 in PNG Air. This additional PGK 8,225,200 will be invested in PNG Air ordinary shares at a price per share of 0.843 Toea. Approval of this investment comprises Resolution 4.

PNG Air Directors' Recommendation

PNG Air's balance sheet is impaired for a number of reasons including because the money lent by the MRDC Entities and Nasfund to PNG Air in 2016-17 was never converted from debt to equity. This requires Shareholder approval.

Shareholders are being asked to approve the issuing of the Additional Shares described in Resolutions 1, 2, 3 and 4 to repair the balance sheet and so that PNG Air's financial statements for 2019, 2020, 2021 and 2022 can be finalized and audited.

PNG Air's continuation as a viable airline depends upon it receiving the additional capital described above from the MRDC Entities and Nasfund. This additional capital is being provided by the MRDC Entities and Nasfund on the basis that the Additional Shares will be issued. If the Additional Shares are not issued, PNG Air's balance sheet will become further impaired and PNG Air will be unable to continue operating. This makes it essential that Shareholders approve the issuing of the Additional Shares by voting in favour of Resolutions 1, 2, 3 and 4.

The arrangements agreed by PNG Air with some of its Major Creditors are conditional on Shareholders approving the issuing of the Additional Shares. An insolvency event with respect to PNG Air will almost certainly occur if the Additional Shares are not issued.

In accordance with Rule 32 of the Mergers and Takeovers Code, the Board has commissioned financial advisors and valuers, Grant Thornton Corporate Finance Pty Ltd (**Independent Advisor**), to prepare a report (**Independent Advisor's Report**) on the merits of the proposed issue of the Additional Shares to the MRDC Entities.

The Independent Advisor's Report concludes that it is fair and reasonable for PNG Air to issue the Additional Shares to the MRDC Entities (**Allotment**) having regard to the interests of those Shareholders who may vote to approve the issue.

The Mergers and Takeovers Code does not require the Independent Advisor's Report to extend to the Nasfund Shares. Even so, PNG Air is confident that the proposed issuing of Additional Shares to Nasfund is also fair and reasonable having regard to the interests of the Shareholders who may vote to approve that issue.

Reasons for Directors' Recommendation

The Directors recommend that Shareholders vote in favour of issuing the Additional Shares for the following reasons:

- (a) This will provide an opportunity for PNG Air to trade profitably again and return to a financially sustainable position.
- (b) PNG Air's balance sheet will be repaired. This in turn will allow PNG Air to complete the preparation of and have audited its 2019, 2020, 2021 and 2022 financial statements. Once this occurs, PNG Air will request PNGX to allow on market trading in PNG Air shares to commence again.
- (c) PNG Air will be able to move forward with the Scheme.
- (d) The Scheme provides economic certainty for the airline, its creditors, 605 employees and customers and will enable these valued relationships to continue.
- (e) If the Additional Shares are not issued, a liquidator will almost certainly be appointed to PNG Air and PNG Air will be wound up. In an insolvency, it is expected that the airline will immediately shut down and that PNG Air's assets will be returned to the owners of those assets or liquidated for the benefit of secured creditors. In those circumstances, it is very unlikely there will be any return to unsecured creditors or Shareholders.
- (f) If the Additional Shares are not issued and if the Scheme fails, PNG's airline industry will lose the only really viable competitor to Air Niugini. At the same time, the price of domestic air travel will almost certainly increase substantially. If this happens, Papua New Guineans will have reduced access to domestic air travel in PNG.

Independent Advisor's Conclusion

The Independent Advisor's Report, set out in **Attachment A** of this Explanatory Memorandum, concludes that the Allotment is FAIR AND REASONABLE to PNG Air's non-associated shareholders in the absence of a superior proposal.

The Independent Advisor's conclusion is based on a range of matters, including but not limited to:

- (a) a fairness assessment;
- (b) a reasonableness assessment based on advantages, disadvantages and other factors;
- (c) quantitative and qualitative considerations; and
- (d) the value of PNG Air before and after the Allotment.

A copy of the full Independent Advisor's Report is available at <https://pngair.com.pg/media-center/>

Special Meeting of Shareholders

The Board has called a special meeting of Shareholders in accordance with Articles 11.3, 11.5 and 11.6 of the Constitution to be held at **4:00 pm on Friday, 8 December 2023** at the Lamana Hotel, Grecian Room, 1 Famagusta Road, Port Moresby, Papua New Guinea.

The purpose of this special meeting is to consider and, if thought fit, to approve Resolutions 1, 2, 3 and 4.

I encourage each Shareholder to exercise their right to vote and to view favorably the information provided.

I urge Shareholders to read the Notice of Meeting and Explanatory Memorandum, including the Independent Advisor's Report, in full.

If any Shareholder is in any doubt about what they should do or anything in this Notice of Meeting and Explanatory Memorandum, they should consult their legal, investment, taxation or other professional advisors without delay.

Questions concerning this Notice of Meeting and Explanatory Memorandum, should be addressed to Leahy Lewin Lowing Sullivan Lawyers (Attention: Michael Sullivan sullivan@lls.com.pg or Amira Ward award@lls.com.pg) by email.

PNG Air's future rests in your hands.

Yours faithfully



Augustine Mano
Chairman
PNG Air Limited

24 November 2023

1. NOTICE OF SPECIAL MEETING

The Board has voted to convene a Special Meeting of Shareholders pursuant to Article 11.3 of the Constitution.

The Special Meeting of Shareholders will be held at **4:00 pm on Friday, 8 December 2023 at the The Lamana Hotel, 1 Famagusta Road Port Moresby, Papua New Guinea.**

The Explanatory Memorandum accompanying this Notice of Special Meeting contains information that you should consider prior to attending the Special Meeting and before voting on the issuing of Additional Shares to the MRDC Entities and to Nasfund.

The Explanatory Memorandum, Proxy Form and the Independent Advisor's Report form part of this Notice of Meeting.

The Resolutions detailed in 1.1, 1.2, 1.3 and 1.4 below will be put to the Special Meeting as ordinary resolutions.

Each of the Resolutions is subject to and conditional upon the Major Creditors voting in favour of the Scheme at the Scheme Meeting and the Court approving the Scheme under Section 250(1) of the Companies Act.

1.1. RESOLUTION 1

CONVERSION OF THE MRDC ENTITIES' HISTORICAL CAPITAL CONTRIBUTIONS FROM DEBT TO EQUITY

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

"That for the purpose of converting from debt to equity the capital of PGK 25,000,000 which the MRDC Entities provided to PNG Air in 2015-2017, approval is given for the Company to issue the following shares at a subscription price of 12 Toea per share (being the last on market trading price of PNG Air shares in 2019), to:

(a) *Mineral Resources Development Company Limited:*

(i) *150,000,000 fully paid ordinary shares;*

(b) *Mineral Resources Star Mountain Limited:*

(i) *29,166,666.66 fully paid ordinary shares; and*

(c) *Mineral Resources OK Tedi No. 2 Limited:*

(i) *29,166,666.66 fully paid ordinary shares."*

The total number of fully paid ordinary shares proposed to be issued to the MRDC Entities in accordance with Resolution 1 is 208,333,333.

1.2. RESOLUTION 2

CONVERSION OF THE MRDC ENTITIES' FURTHER RESCUE CAPITAL CONTRIBUTIONS FROM DEBT TO EQUITY

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

“That for the purposes of recording as equity rather than debt the further capital of PGK 55,000,000 which the MRDC Entities have already provided or will provide to PNG Air, the Company will, at a subscription price of 0.843 Toea per share (being the current estimated value¹ of those shares) issue an additional 6,524,317,912 fully paid ordinary shares to the MRDC Entities such additional shares to be apportioned between the MRDC Entities in accordance with the written advice of the Managing Director of Mineral Resources Development Company Limited.”

The total number of fully paid ordinary shares proposed to be issued to the MRDC Entities in accordance with Resolution 2 is 6,524,317,912.

1.3. RESOLUTION 3

CONVERSION OF NASFUND’S HISTORICAL CAPITAL CONTRIBUTIONS FROM DEBT TO EQUITY

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

“That for the purpose of converting from debt to equity PGK 25,000,000 which Nasfund lent PNG Air in 2016-2017, approval is given for the Company to issue to Nasfund 208,333,333 fully paid ordinary shares at a price of 12 Toea per share (being the last on-market trading price of PNG Air shares in 2019).”

The total number of fully paid ordinary shares proposed to be issued to Nasfund in accordance with Resolution 3 is 208,333,333.

1.4. RESOLUTION 4

CONVERSION OF NASFUND’S FURTHER HISTORICAL CAPITAL CONTRIBUTIONS FROM DEBT TO EQUITY AS RESCUE CAPITAL

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

“That for the purpose of converting from debt to equity a further PGK 8,225,200 which Nasfund lent PNG Air in 2016-17, approval is given for the Company to issue to Nasfund, 975,705,813 fully paid ordinary shares to at a price of 0.843 Toea per share (being the current estimated value² of those shares).”

The total number of fully paid ordinary shares proposed to be issued to Nasfund in accordance with Resolution 4 is 975,705,813.

1.5. Voting Exclusion Statement

In accordance with Listing Rules 14.19 and 19.12 and Rule 31 (2) of the *Takeovers and Merges Code*, PNG Air will disregard any votes cast in favour of:

- (a) Resolutions 1 or 2 by or on behalf of the MRDC Entities or an Associate of any of the MRDC Entities.

¹ Given the indebtedness and financial position of the Company following the challenges of the COVID-19 pandemic, the estimated value of total shareholder equity (before any rescue capital was committed by shareholders) was nil. This is a position supported by the Grant Thornton’s recently completed Independent Expert’s Report. Accordingly, the new shares issuance of [6,524,317,912] to the MRDC entities will represent [c.90%] of total shares for consideration of [c.K55,000,000] which supports the issue price of 0.843 toea per share.

² New shares to Nasfund for its rescue capital contribution are to be issued at the same price as MRDC entities (as outlined above).

- (b) Resolutions 3 and 4 by or on behalf of Nasfund or an Associate of Nasfund including Nasfund Contributors Savings & Loan Society Limited (1-120779).

PNG Air need not disregard a vote if it is cast:

- (c) by a person as proxy for a person who is entitled to vote, in accordance with directions on the proxy form; or
- (d) by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The MRDC Entities and their Associates (if any) must not vote on Resolutions 1 and 2.

Nasfund and its Associates including Nasfund Contributors Savings & Loan Society Limited (1-120779) must not vote on Resolutions 3 and 4.

The MRDC Entities and Nasfund are independent of each other.

1.6. Directors' Statement

In accordance with Rule 33 of the Takeovers and Mergers Code, the Directors unanimously recommend that Shareholders vote in favour of Resolutions 1, 2, 3 and 4 because:

- (a) **Scheme:** The issuing of the Additional Shares is an important adjunct to the Scheme. The Scheme will only proceed if the Additional Shares are issued.
- (b) **Clarity:** The issuing of the Additional Shares will resolve a long-term dilemma concerning the legal nature of various funds already provided to PNG Air by the MRDC Entities and Nasfund.
- (c) **Rescue Capital:** Some of the Additional Shares are being issued in consideration of much needed "rescue capital" provided or to be provided by the MRDC Entities and Nasfund.
- (d) **Avoidance of insolvency:** The alternative is an insolvency event. In the event of an insolvency, it is expected that PNG Air will immediately shut down and its assets will be returned to aircraft lessors or liquidated for the benefit of secured creditors. In an insolvency, it is unlikely that there will be any return to PNG Air's unsecured creditors or to Shareholders.
- (e) **Fairness:** The Independent Advisor has concluded that the issuing of the Additional Shares is fair and reasonable to all Shareholders.

1.7. Statements by the Board

The Board makes the following statements in relation to the issuing of Additional Shares:

- (a) In accordance with Section 47 (1) of the *Companies Act* and Listing Rule 14.19.8, the Board is of the opinion that the consideration for and the terms of issue of the Additional Shares to each of the MRDC Entities and to Nasfund are fair and reasonable to PNG Air and to all existing Shareholders, based on information that is known to the Board and is publicly available.
- (b) In accordance with Section 43 of the *Companies Act* and Article 2.1 of the Constitution, the Board has authorized the issuing of the Additional Shares to each of the MRDC Entities and

to Nasfund on the terms detailed in Resolutions 1, 2, 3 and 4, subject to the approval by Shareholders.

- (c) The issue price for the Additional Shares is contained within each of Resolutions 1, 2, 3 and 4.
- (d) The Additional Shares are fully paid ordinary shares which carry the same voting rights as any other issued ordinary share in PNG Air.
- (e) The maximum number of Additional Shares to be issued to the MRDC Entities is 6,732,651,245. If all those Additional Shares are issued to the MRDC Entities, the MRDC Entities will hold 83.37% of PNG Air's issued share capital.
- (f) The MRDC Entities are related parties of PNG Air because they together hold more than 5% of PNG Air's issued share capital³.
- (g) The maximum number of Additional Shares to be issued to Nasfund is 1,184,039,146. If all those Additional Shares are issued to Nasfund, Nasfund will hold 15.87% of PNG Air's issued Shares.
- (h) Nasfund is a related party of PNG Air because it holds more than 5% of PNG Air's issued Shares.⁴
- (i) If approved by Shareholders and, in the case of the Additional Shares to be issued to the MRDC Entities, subject to the MRDC Entities obtaining ICCA Approval, the Board will issue the Additional Shares within one (1) month following the date of the Special Meeting and by no later than **8 January 2024**.
- (j) In accordance with Listing Rule 14.19, approval of the issuing of the Additional Shares also constitutes approval of an exempt issue for the purposes of the Annual New Issue Limit (as defined under the Listing Rule) of 20% applicable under Listing Rule 11.1.1.

A copy of the full Independent Advisor's Report is available at <https://pngair.com.pg/media-center>

By order of the Board

Deborah Poya

Manager Legal and Company Secretary

³ Section 395 of the *Capital Market Act 2015* and Listing Rule 14.19.5.

⁴ Section 395 of the *Capital Market Act 2015* and Listing Rule 14.19.5.

2. NOTES TO THE NOTICE OF SPECIAL MEETING

2.1. Explanatory Memorandum

This Notice of Special Meeting should be read in conjunction with the accompanying Explanatory Memorandum, including the Independent Advisor's Report.

2.2. Eligibility to vote

A person's entitlement to vote at the Special Meeting will be determined by reference to the number of Shares registered in that person's name (as per the member's register) as at 5:00 pm on **6 December 2023**.

2.3. Approval thresholds

Each of Resolutions 1, 2, 3 and 4 is proposed as an ordinary resolution which in order to be passed, require 50% or more of the votes cast by Shareholders who are entitled to vote on the Resolution voting in favour of the Resolution.

Resolutions 1 and 2 are interdependent, which means each of those Resolutions needs to pass in order for one of them to pass.

Resolutions 3 and 4 are interdependent, which means each of those Resolutions need to pass in order for one of them to pass.

2.4. Proxy votes

An individual Shareholder entitled to attend and vote may appoint not more than one (1) proxy to attend and vote in their place. A proxy does not have to be a Shareholder.

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

A proxy form is included with this Notice of Special Meeting and Explanatory Memorandum.

PNG Air must receive a Shareholder's signed proxy form by no later than 5:00 pm on Wednesday, **6 December 2023**. Proxy forms received after this date and time will be invalid.

Proxy forms may be lodged in person, by email or by post. The address for lodgment of proxies is:

<i>Delivery address</i>	<i>Postal Address</i>	<i>Email Address</i>
PNG Registries Limited Level 4, Cuthbertson House Cuthbertson Street Port Moresby NCD	PNG Air Limited C/- PNG Registries Limited PO Box 1265 Port Moresby NCD Papua New Guinea	pngregistries@linkgroup.com

2.5. Undirected proxies

PNG Air's Company Secretary will vote all undirected proxies on, and in favour of, all the proposed Resolutions.

2.6. Power of attorney

If a proxy is signed by a Shareholder's attorney, the attorney confirms that they have received no revocation of the 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 5:00 pm on Wednesday, **6 December 2023**.

2.7. Corporate Representative

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

2.8. Enquiries

Shareholders should contact Deborah Poya at **deborah.poya@pngair.com.pg** or Amira Ward at **award@llls.com.pg** if they have any queries in relation to the Notice of Meeting or the Explanatory Memorandum.

3. EXPLANATORY MEMORANDUM

3.1. Date

This Explanatory Memorandum is dated **24 November 2023**.

3.2. Purpose of this Explanatory Memorandum

The purpose of this Explanatory Memorandum is to explain the reasons for the Special Meeting and provide Shareholders with an explanation in support of Resolutions 1, 2, 3 and 4.

3.3. Forward looking statements

Subject to any continuing obligations under the Listing Rules, the *Companies Act* or the *Capital Market Act*, PNG Air does not give any undertaking to update or revise any forward-looking statements included in this Explanatory Memorandum after the date of this Explanatory Memorandum to reflect any change in expectations in relation to any such statements thereto or any change in events, conditions, or circumstances on which any such statements are based.

3.4. Notice to persons outside PNG

This Explanatory Memorandum has been prepared in accordance with all applicable PNG laws and disclosure requirements which may differ to the laws and disclosure requirements of other countries.

3.5. No investment or other advice

The information contained in this Explanatory Memorandum does not constitute financial product advice and has been prepared without reference to Shareholders own investment objectives, financial situation, taxation position and particular needs. It is important that Shareholders read this Explanatory Memorandum in its entirety before making any decision, including a decision on whether or not to vote in favour of each or any of Resolutions 1, 2, 3 and 4. If a Shareholder is in any doubt about what they should do, they should consult their legal, investment, taxation or other professional adviser without delay.

3.6. Disclaimers

Responsibility for information

The Independent Advisor has prepared the Independent Advisor's Report contained in **Attachment A** and the Independent Advisor takes responsibility for that report. None of PNG Air's directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Independent Advisor's Report.

3.7. PNGX requirements

A copy of this Notice of Special Meeting and Explanatory Memorandum has been provided to the Securities Commission and PNGX.

None of the Securities Commission, PNGX or nor any of their officers, assumes any responsibility for the contents of this Notice of Scheme Meeting or the Explanatory Memorandum.

3.8. Rounding

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

3.9. References to time

Unless otherwise stated in this Explanatory Memorandum, a reference to time or a calendar date in this Explanatory Memorandum is a reference to the local time or calendar date in Port Moresby, PNG.

3.10. Definitions

A number of terms used in this Explanatory Memorandum have special meanings. These are listed in the Glossary below. Each of the documents reproduced in the attachments to this Explanatory Memorandum has its own defined terms, which are sometimes different from those in the Glossary.

Additional Shares	The MRDC Additional Shares to be issued to the MRDC Entities in accordance with Resolutions 1 and 2 if those resolutions are approved and the Nasfund Additional Shares to be issued to Nasfund in accordance with Resolutions 3 and 4 if those resolutions are approved.
Associate	Has the same meaning as the term “associate” in the Definitions and Interpretations section of the PNGX Listing Rules.
Attachment	An attachment to this Explanatory Memorandum.
Board	The board of directors of PNG Air.
Business Day	Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that PNGX declares is not a business day.
Capital Market Act	<i>Capital Market Act 2015</i> (PNG).
Companies Act	<i>Companies Act 1997</i> (PNG).
Constitution	PNG Air's company constitution.
Court	National Court of PNG.

Director	Each director of PNG Air in office as at the date of this Explanatory Memorandum, or in office from time to time, as the context requires
Grant Thornton	Means Grant Thornton Australia Limited (ACN 127 556 389) of Collins Square, Tower 5 Level 22 727 Collins Street, Melbourne Victoria 3008.
ICCC	Independent Consumer and Competition Commission of Papua New Guinea established under Section 4 of the <i>ICCC Act</i> .
ICCC Act	<i>Independent Consumer and Competition Commission Act 2002</i> .
Independent Advisor	Grant Thornton Corporate Finance Pty Ltd (ACN 003 265 987) of Level 22 Tower 5, Collins Square 727 Collins Street Melbourne VIC 3008.
Independent Advisor's Report	The report prepared by the Independent Advisor, a copy of which is set out in Attachment A to this Explanatory Memorandum.
Listing Rules	The Listing Rules of PNGX effective 18 September 2023.
Major Creditors	Means the major creditors of PNG Air who are entitled to vote in favour of or against the Scheme at the Creditors' meeting on 11 December 2023.
MRDC	Mineral Resources Development Company Limited (PNG company no. 1-5231).
MRDC Entities	Collectively, MRDC, Mineral Resources OK TEDI No. 2 Limited (PNG company 1-27966) and Mineral Resources Star Mountain Limited (PNG company 1-27147).
MRDC Additional Shares	The 6,732,651,254 Additional Shares subscribed for by and to be issued to the MRDC Entities in accordance with Resolutions 1 and 2.
Nasfund	National Superannuation Fund Limited (PNG company no. 1-46031).
Nasfund Additional Shares	The 1,184,039,146 Additional Shares subscribed for by and to be issued to Nasfund in accordance with Resolutions 3 and 4.
National Pandemic	The COVID-19 pandemic and PNG public health crisis declared by the PNG Government under section 4 of the <i>National Pandemic Act 2020</i> .
Notice of Special Meeting	The notice of a special meeting of Shareholders in the form set out in this document.
PNG	The Independent State of Papua New Guinea.
PNG Air	PNG Air Limited (PNG company no. 1-24926) and, where the context requires, includes its wholly owned subsidiaries.

PNGK/PGK/K	The lawful currency of PNG from time to time.
PNGX	PNGX Markets Limited (PNG company no. 1-29172) or, as the context requires, the financial market operated by it.
Regulatory Approval	Any approval, consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, direction, declaration, authority, waiver, modification or exemption from, by or with a governmental agency or anything that would be fully or partly prohibited or restricted by law if a governmental agency intervened or acted in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.
Resolution	Each of Resolutions 1, 2, 3 or 4 the text of which are included in the Notice of Shareholders Meeting.
Scheme	The proposed scheme of arrangement under Part XVI of the <i>Companies Act</i> between PNG Air and its Major Creditors.
Securities Commission	The Securities Commission of Papua New Guinea established under Section 4 of the <i>Securities Commission Act 2015</i> .
Share	A fully paid ordinary share in the capital of PNG Air.
Shareholder	A person who holds one or more Shares.
Special Meeting	The special meeting of Shareholders held or to be held on 8 December 2023

4. OVERVIEW

4.1. Additional Shares

As an adjunct to the Scheme, Shareholders are being asked to vote in favour of issuing the Additional Shares:

(a) to the MRDC Entities in accordance with Resolutions 1 and 2; and

(b) to Nasfund in accordance with Resolutions 3 and 4.

The MRDC Entities and Nasfund each advanced funds to PNG Air during 2015 - 2017. At the time those payments were made, the payments were intended as equity however no shares were ever issued. It is proposed to issue the Additional Shares which are the subject of Resolutions 1 and 3 to correct this anomaly by converting the debt to equity.

In addition, it is proposed to issue the Additional Shares the subject of Resolutions 2 and 4 to the MRDC Entities and to Nasfund respectively in exchange for additional capital contributed or to be contributed to PNG Air by those companies.

4.2. Takeovers and Mergers Code

PNG Air is a “code company” for the purposes of the Takeovers and Mergers Code.

Under Rule 12 of the Takeovers and Mergers Code and except as provided in Rule 13 a person who individually or together with their Associates (for example the MRDC Entities) holds 20% or more of the voting rights in a code company, may not become the holder or controller of an increased percentage of the voting rights in that code company.

Notwithstanding Rule 12, Rule 13(1)(d) permits a person to become the holder or controller of an increased percentage of the voting rights in a code company by an allotment to that person of voting securities in the code company if the allotment is approved by an ordinary resolution of shareholders of the code company in accordance with the Takeovers and Mergers Code.

Collectively, the MRDC Entities currently hold 40.4% of PNG Air’s issued Shares. Any increase in this percentage requires the MRDC Entities to comply with the Takeovers and Mergers Code.

If the Additional Shares are issued to them, the MRDC Entities will hold approximately 83.37% of PNG Air’s issued Shares and therefore well in excess of the 20% threshold which triggers the application of the Takeovers and Mergers Code.

The Takeovers and Mergers Code will not apply to the Nasfund Additional Shares. This is because, assuming the Nasfund Additional Shares are issued to Nasfund after the MRDC Entities acquire their MRDC Additional Shares, Nasfund will hold only 15.87% of PNG Air’s issued Shares and its shareholding will be well below the 20% threshold which triggers the application of the Takeovers and Mergers Code.

Although, for the reasons detailed above, the Takeovers and Mergers Code does not require Shareholders to approve the issuing of the Nasfund Additional Shares, the Listing Rules (discussed in paragraph 4.3 below) nevertheless require this Shareholder approval.

4.3. Trading on PNGX

On market trading in the Shares has been suspended since January 2019, due to PNG Air's failure to lodge audited financial statements.

Once the MRDC Additional Shares and the Nasfund Additional Shares are issued and the Scheme is implemented, PNG Air's 2019, 2020, 2021 and 2022 audited financial statements will be finalised and released to the market. This in turn should result in PNGX permitting on-market trading in PNG Air's Shares to resume.

4.4. Regulatory approvals

The issuing of the MRDC Additional Shares as described in Resolutions 1 and 2 is regulated by the Listing Rules⁵, the *Capital Market Act*⁶, the *ICCC Act*⁷, the *Companies Act*⁸, the Takeovers and Mergers Code⁹ and the Constitution¹⁰.

The issuing of the Nasfund Additional Shares as described in Resolutions 3 and 4, is regulated by the Listing Rules¹¹, the *Capital Market Act*¹², the *Companies Act*¹³ and the Constitution¹⁴.

The Major Creditors are not required to approve the issuing of the Additional Shares. However, because the MRDC Entities and Nasfund are Shareholders as well as Major Creditors, they will, subject to the Listing Rules' voting exclusion requirements, vote on the issuing of the Additional Shares.

4.5. Independent Advisor's Report

The Independent Advisor's Report, set out in **Attachment A** to this Explanatory Memorandum, concludes that the Allotment is FAIR AND REASONABLE to PNG Air's Non-Associated Shareholders in the absence of a superior proposal.

The Independent Advisor's conclusion is based on a range of matters, including but not limited to:

(a) a fairness assessment;

⁵ Listing Rules: 4.1, 4.2, 6.1.5, 6.1.6, 6.9.1, 6.13, Listing Rule 11.5 (Exception 13), Listing Rule 14.14, Listing Rule 14.15 (Exception 10) and Listing Rules 14.19 and 19.12.

⁶ Capital Market Act: Section 126 (4) and Schedule 7, Item 16.

⁷ ICCA Act: Section 81.

⁸ Companies Act: Section 47 (1).

⁹ Takeovers and Mergers Code: Rule 13 (1) (d), Rules 27, 31, 32, 33 and 34, and Schedule 4

¹⁰ Constitution: Articles 2.1, 11.1 and 11.6.

¹¹ Listing Rules 4.1, 4.2, 6.1.5, 6.1.6, 6.9.1, 6.13, Listing Rule 11.5 (Exception 13), Listing Rules 14.14 and 14.15 (Exception 10) and Listing Rules 14.19 and 19.14.

¹² Capital Market Act: Section 126 (4) and Schedule 7, Item 16.

¹³ Companies Act: Section 47 (1).

¹⁴ Constitution: Articles 2.1, 11.1 and 11.6.

- (b) a reasonableness assessment based on advantages, disadvantages and other factors;
- (c) quantitative and qualitative considerations; and
- (d) the value of PNG Air before and after the Allotment.

4.6. Share capital and shareholdings

(a) Issue of Additional Shares to MRDC Entities

Current MRDC Entities' Shareholding			
MRDC Entity	Number of shares	Percentage of PNG Air's issued shares	Total shares on issue in PNG Air
MRDC	40,000,000	13%	
MROT No. 2	50,500,000	16.4%	
MRSM	34,000,000	11%	
MRDC Entities	124,500,000	40.4%	308,292,080

MRDC Entities' Shareholding after the Additional Shares are issued			
MRDC Entities	Number of Shares	Percentage of PNG Air's issued shares	Total shares on issue in PNG Air
	6,857,151,245	83.37%	8,224,982,471

(b) Issue of Additional Shares to Nasfund

Current Nasfund Shareholding			
Nasfund	Number of Shares	Percentage of PNG Air's issued shares	Total shares on issue in PNG Air
Current shareholding	121,000,000	39%	308,292,080

Nasfund's Shareholding After the Additional Shares are issued			
Nasfund	Number of Shares	Percentage of overall shares	Total shares on issue in PNG Air
Post issue shareholding	1,305,039,146	15.87%	8,224,982,471

4.7. Dilution of existing shareholdings

The issuing of the Additional Shares to the MRDC Entities and to Nasfund will significantly dilute each Shareholder's percentage shareholding in PNG Air. According to the Independent Advisor's Report, the current value of each Share in PNG Air is PGK Nil. After the Additional Shares are issued to the MRDC Entities and to Nasfund, the Independent Advisor has valued¹⁵ each Share between 0.71 and 0.82 Toea per share on a minority basis.

Although painful, this dilution of all Shareholders investment in PNG Air is an inevitable consequence of the financial difficulties created by Covid-19 and the generally depressed state of the PNG economy. Without restructuring its debts, PNG Air will almost certainly collapse.

4.8. Reasons to vote in favor of issuing the Additional Shares

Shareholders should consider voting in favour of issuing the Additional Shares for the following reasons:

- (a) **Scheme:** The issuing of the Additional Shares is an important adjunct to the Scheme. The Scheme will only proceed if the Additional Shares are issued.
- (b) **Clarity:** The issuing of the Additional Shares will resolve a long-term dilemma concerning the legal nature of various funds already provided to PNG Air by the MRDC Entities and Nasfund.
- (c) **Rescue Capital:** Some of the Additional Shares are being issued in consideration of "rescue capital" provided or to be provided by the MRDC Entities and Nasfund to PNG Air.
- (d) **Avoidance of insolvency:** The alternative is an insolvency event. In the event of an insolvency, it is expected that PNG Air will immediately shut down and its assets will be returned to aircraft lessors or liquidated for the benefit of secured creditors. In an insolvency, it is unlikely that there will be any return to PNG Air's unsecured creditors or Shareholders.
- (e) **Fairness:** The Independent Advisor has concluded that the issuing of Additional Shares is fair and reasonable to all the Shareholders.

4.9. Indicative key dates

DATE	EVENT	SPECIAL INSTRUCTIONS
24 November 2023	Calling of Special Meeting Shareholders by the Directors of PNG Air	The Notice of Special Meeting and the Explanatory Memorandum is dispatched to Shareholders on this date.
6 December 2023	Record Date	Deadline by which a Shareholder's shareholding must be registered if they are to vote at the meeting.

¹⁵ The assessment of value is based on assumptions detailed in the Independent Advisor's Report and the price that the shares may ultimately trade at may be different to the assessed value.

8 December 2023 Special Meeting of Shareholders of The Special Meeting of Shareholders will be held at the the Lamana Hotel, Port Moresby, PNG. The meeting will commence at 4:00 pm.

All dates above are indicative only. Any changes to the above timetable will be announced through PNGX and notified on PNG Air's website at www.pngair.com.

The dates and times above are references to calendar dates and times in Port Moresby, PNG.

5. CONTACT INFORMATION

If, after reading this Notice of Meeting and Explanatory Memorandum, a Shareholder has any questions about any matter in the Notice of Meeting or Explanatory Memorandum, they should contact Deborah Poya, PNG Air's Company Secretary by email at deborah.poya@pngair.com.pg or Amira Ward, Associate at Leahy Lewin Lowing Sullivan Lawyers by email at award@lls.com.pg.

If a Shareholder is in any doubt about what they should do or anything in this Notice of Meeting and Explanatory Memorandum, they should consult their legal, investment, taxation or other professional adviser without delay.

ATTACHMENT "A"
INDEPENDENT ADVISOR'S REPORT