

**IN THE FEDERAL COURT OF AUSTRALIA
DISTRICT REGISTRY**

No. V621 of 2005

**IN THE MATTER OF ANSETT AUSTRALIA LIMITED
(ACN 004 209 410) & ORS (in accordance with the
Schedule attached) (All Subject to a Deed of
Company Arrangement)**

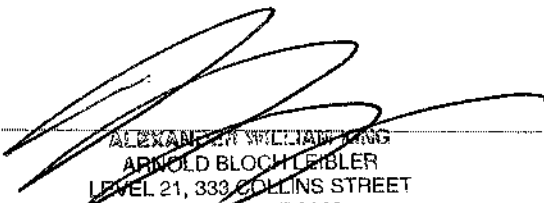
and

**MARK ANTHONY KORDA and MARK FRANCIS
XAVIER MENTHA (as Deed Administrators of the
Companies)**

CERTIFICATE IDENTIFYING EXHIBIT

This is the exhibit marked "**MAK-42**" produced and shown to **MARK ANTHONY KORDA** at the time of swearing his affidavit dated 12 September 2005.

Before me:


ALEXANDER WILLIAM KING
ARNOLD BLOCH LEIBLER
LEVEL 21, 333 COLLINS STREET
MELBOURNE 3000
A NATURAL PERSON WHO IS A CURRENT
PRACTITIONER WITHIN THE MEANING OF
THE LEGAL PRACTICE ACT 1996

**Exhibit "MAK-42"
Skywest/Aeropelican reports to creditors
dated 15 January 2002**

**REPORT BY ADMINISTRATORS PURSUANT TO
SECTION 439A(4) OF THE CORPORATIONS ACT**

**Skywest Airlines Pty Ltd ACN 008 997 662
Skywest Aviation Limited ACN 044 444 866
Skywest Holdings Pty Ltd ACN 008 905 646
Skywest Jet Charter Pty Ltd ACN 008 800 155
(All Administrators Appointed)
("the Companies")**

15 JANUARY 2002

CONTENTS

Section	Content
1.	Basis of Report
2.	History of the Companies
3.	Report as to Affairs
4.	Events Since Appointment
5.	Administrators' Investigations
6.	Options Available to Creditors
7.	Statement of Administrators' Opinion Pursuant to Section 439(4)(B) of the Corporations Act

Annexure

1. Statement of Details of Deed of Company Arrangement for Skywest Airlines Pty Ltd
2. Statement of Details of Deed of Company Arrangement for Skywest Aviation Limited, Skywest Jet Charter Pty Ltd and Skywest Holdings Limited.

GLOSSARY

Administrators	Mark F Mentha and Mark A Korda
Skywest	Skywest Airlines Pty Ltd (Administrators Appointed)
Aviation	Skywest Aviation Limited (Administrators Appointed)
Holdings	Skywest Holdings Pty Ltd (Administrators Appointed)
Jet	Skywest Jet Charter Pty Ltd (Administrators Appointed)
Deed	Deed of Company Arrangement

CORPORATIONS ACT

REPORT BY ADMINISTRATORS

PURSUANT TO SECTION 439A(4)

Mark Korda and Mark Mentha were appointed Administrators of the Companies on 17 September 2001 pursuant to an Order of the Federal Court of Australia. This followed the initial appointment of Administrators on 12 September 2001 to Skywest and 14 September 2001 to Aviation, Jet and Holdings pursuant to Section 436A of the Corporations Act ("the Act").

The first meeting of the creditors of Skywest was held on 18 September 2001, whilst the first meeting of the creditors of Aviation, Jet and Holdings was held on 20 September 2001, the meetings for Aviation and Jet were adjourned to 28 September 2001 as there was no quorum present at the date the meetings were initially called.

Pursuant to Section 439A(4) of the Act, the Administrators hereby provide their Report to Creditors. The report addresses the Companies business, property, affairs and financial circumstances, and provides the Administrators' opinions on the following matters:

- Whether it would be in the creditors' interests for the Companies to execute a Deed of Company Arrangement; or
- Whether it would be in the creditors' interests for the Administration of the Companies to end; or
- Whether it would be in the creditors' interests for the Companies to be wound up

and the reasons for our opinion.

This report is provided prior to the holding of the second meeting of creditors of the Companies, which is scheduled to take place on 25 January 2002. The above matters will be voted upon by the creditors of the Companies at the second meeting.

It should be noted that Jet and Aviation are understood to be dormant.

1. Basis of Report

Section 435A of the Act states that the objective of the Voluntary Administration legislation is to provide for the business, property and affairs of an insolvent company to be administered in a way that:

- maximises the chances of the company, or as much as possible of its business, continuing its existence; or
- if it is not possible for the company or its business to continue in existence - results in a better return for the company's creditors and members than would result from an immediate winding up of the company.

This report has been prepared from information obtained from the records of the Companies, discussions with the directors and management and the Administrators' own enquires. The Administrators' investigations into each of the Companies affairs have been restricted due to the limited time period provided under the Act for us to issue the report and convene the second meeting of creditors.

The Administrators have no reason to doubt the information contained in the report. However, except where otherwise stated, we reserve the right to alter any conclusions reached on the basis of any changed or additional information which may become available between the date of this report and the date of the second meeting of creditors.

It should be noted that Jet and Aviation are understood to be dormant companies with no assets or liabilities, and that Holdings has only related party receivables and payables. Therefore, the report mainly concentrates on the trading entity being Skywest.

2. History of the Companies

2.1 Background

Skywest is one of the oldest regional airlines in Australia and its present form is the result of various mergers and acquisitions.

In January 1981, a company called Trans West merged with rival company Skywest Jet Charter to form Western Australia's largest general aviation operators. The merged entity adopted the Skywest name. During 1981, Skywest began rationalising its airline operations to adopt a core fleet of four 18-seat BAe Jetstream 31 aircraft.

In October 1983 Skywest Airlines won the right to compete with the Ansett owned Airlines of WA on Western Australia's intrastate air services. In November 1983 Moorabbin Aircraft Spares was acquired followed by a further acquisition of East-West Airlines ("East West") in December 1983. East West was essentially a third interstate airline, however this was not formally recognised under the Federal Government's Airline Policy which afforded protection to the incumbent operators Ansett and TAA. All companies comprising the Skywest Group operated as three distinct operating entities.

In May 1987, a corporate restructure resulted in the creation of two separate and autonomous operating companies within the group – Skywest Aviation Pty Ltd and Skywest Airlines Pty Ltd.

In July 1987 Skywest was effectively acquired by TNT and News Limited, who at that time were the owners of Ansett Transport Industries. Following the acquisition, a decision was made to dissolve East-West Airlines and to dispose of Skywest Aviation. Skywest Airlines was retained as part of the Ansett Group of companies to deliver services to regional Western Australia in association with its sister-company Ansett WA, which operated jet services throughout the northern ports of Western Australia.

In January 1995, Ansett replaced the Skywest fleet of four Jetstream 31's with a fleet of five Fokker 50 aircraft. This resulted in the provision of services solely by Skywest to the mid-north coastal routes including Geraldton, Carnarvon and Learmonth.

In mid-1996 TNT sold their 50% share in Ansett Holdings Limited which resulted in Skywest Airlines being ultimately owned 50/50 by News Corporation and Air New Zealand. In February 2000, News Corporation announced the sale of its 50% holding to deliver ultimate control of Skywest, via Ansett Holdings, to Air New Zealand.

2.2 Directors and Other Officers

According to company searches obtained from the ASIC, the directors and other officers of the Companies at the date of Administration were as follows:

Position Held	Name
• Directors	<input type="checkbox"/> Mr JH Blair
	<input type="checkbox"/> Mr SD Roworth
	<input type="checkbox"/> Mr G Frazis
• Secretaries	<input type="checkbox"/> Mr JH Blair
	<input type="checkbox"/> Mr SD Roworth

Skywest is the sole shareholder of both Jet and Aviation as at the date of the appointment of the Administrators. Skywest is owned solely by Bodas Pty Ltd ("Bodas"). Bodas is in turn owned solely by Ansett Holdings Limited. The sole shareholder of Holdings is Moreal Pty Ltd, which is in turn owned solely by Ansett Holdings Limited.

These details were obtained from an Australian Securities and Investments Commission ("ASIC") search conducted on 18 September 2001.

2.3 Historical Trading Performance

Presented in the table below is a summary of Skywest's historical trading performance for the 1999, 2000 and 2001 financial years.

	1999 (Audited) (\$'000)	2000 (Audited) (\$'000)	2001 (\$'000)
Revenue	42,513	44,917	45,700
Operating Expenses	(39,655)	(42,946)	(45,192)
Operating Profit/(Loss)	2,858	1,971	508

Source: Skywest financial statements.

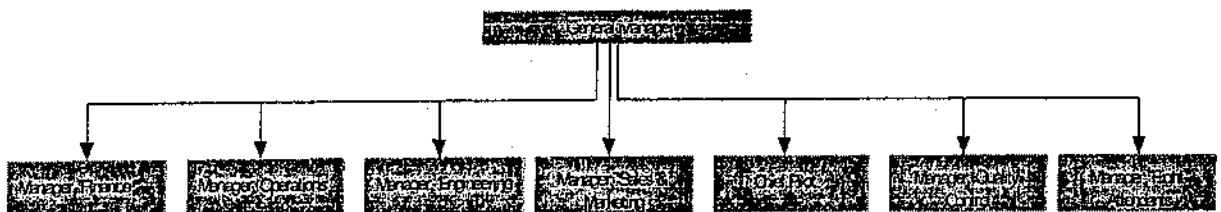
Trading revenue is derived through the service of corporate and tourist travellers across 13 ports in regional Western Australia.

The majority of the operating expenses relate to salaries and wages costs of personnel employed by Skywest, along with the costs of aircraft leases and maintenance activities.

Operating profits are impacted by intercompany transactions with the Ansett group including interest on intercompany accounts.

2.4 Management

The current management structure of Skywest is presented in the following diagram.



Mr David Fletcher is the current General Manager of Skywest and was appointed in late August 2001 as the replacement of Mr William Jauncey who had held the position for two years prior to this date.

The management group collectively has almost 150 years of aviation experience. Since the commencement of the Administration there has been no resignations from the management group.

2.5 Reasons for Failure

As outlined above, Skywest has historically generated profits and generally, paid its liabilities out of its own resources without the need for substantial borrowings from related entities. It is only by virtue of the Ansett Group, which includes the Companies, being placed in Administration which has resulted in the current arrangements.

3. Report as to Affairs

Pursuant to Section 438B(2) of the Act, the directors of the Companies are required to submit a Report as to Affairs ("RATA") detailing all of the assets and liabilities of the Companies at their "Book Values" and their "Estimated Realisable Values" ("ERV").

We have not requested the directors submit a RATA for the Companies. This is due to the cost to the Ansett Group of Companies to provide the necessary information, which would have mirrored work being conducted by Andersen staff as part of the investigation process.

Below is a summary of the book values of assets and liabilities as at 12 September 2001 as prepared by Andersen staff, based on the information reviewed for the Companies.

Category	Skywest Airlines \$'000	Skywest Holdings \$'000	Skywest Aviation \$'000	Skywest Jet Charter \$'000
Assets				
Cash	36	-	-	-
Trade Debtors	835	-	-	-
Sundry Debtors and Prepayments	44	-	-	-
Consumables & WIP	794	-	-	-
GST & FITB	1,233	-	-	-
Related Party Receivables	31,946	1,547	-	-
Plant & Equipment	453	-	-	-
Rotables, Spares & Simulators	3,261	-	-	-
Total Assets	38,602	1,547	-	-
Liabilities				
Employee Entitlements	(2,081)	-	-	-
Bank Overdraft	(6,158)	-	-	-
Trade Creditors	(7,728)	-	-	-
Income Tax Payable & PDIT	(2,096)	-	-	-
Other Creditors	(1,200)	-	-	-
Related Party Payables	(4,127)	(269)	-	-
Total Liabilities	(23,390)	(269)	-	-
Net Assets/(Liabilities)	15,212	1,278	-	-

Source: Skywest Management and Companies records

Comments

Some comments in respect of the above information are as follows:

- The book value of the assets are based on records of the Companies and information prepared by Skywest Management. The information has not been audited.
- Trade debtors are receivables owed to Skywest from third parties (ie, not Ansett related companies). Approximately \$784,000 in pre-appointment trade debtors has been collected by the Administrators.
- Intercompany receivables comprise trade debtors from Ansett Australia (\$8.7m), Ansett Australia Cargo (\$138,000) and \$23.1m by way of loan to Ansett Australia Holdings.

- The Employee Entitlements comprise annual leave and long service leave accrued to the date of administration (12 September 2001). Employee claims receive priority over ordinary unsecured creditors in a winding up of a company pursuant to Section 556 of the Act. It should be noted that the majority of employee entitlements may be transferred to a purchaser in the event of a sale.
- Trade Creditors represent amounts owed to third parties in the ordinary course of trading.
- Intercompany payables represent \$2.7m in trade creditors to Ansett Australia and related companies, and loans to Skywest Holdings (\$1.0m) and Eastwest Airlines (\$472,000).
- Aviation and Jet are dormant companies and have minimal assets. There are no external creditors of these companies.
- Liabilities may also include guarantees given to financiers to the Ansett Group, which may be in excess of \$100million. This has not been included in the table above.
- Liabilities to creditors of other companies in the Ansett Group, which are also parties to a Deed of Cross Guarantee registered with ASIC, may also be significant.

4. Events Since Appointment

Skywest ceased trading on 14 September 2001 shortly after the appointment of the Initial Administrators. Skywest recommenced limited operations on 23 September 2001, after our appointment as Administrators.

Skywest currently employs approximately 150 staff. Following the recommencement of services, the Skywest network was rescheduled to include several north western ports previously flown by Ansett, WA. Services to Meekatharra and Wiluna were ceased whilst new services to Karratha, Port Hedland and Newman were introduced along with increased frequency to Kalgoorlie. Limited flights have also been flown into Broome (recommenced on 14 October 2001).

Due to increased flying hours associated with the servicing of ex-Ansett ports in the North West of Western Australia, Skywest engaged several ex-Ansett personnel on a casual basis to assist with operations. The current ex-Ansett personnel that were engaged by Skywest are as follows:

Department	Number
Flight Attendants	10
Operations	7
Sales & Marketing	4
Flight Crew (pilots)	1
Total	22

Skywest is currently operating 5, 46 seat Fokker 50 aircraft, which are leased from Ansett Australia Limited. Skywest flies to the following ports on a regular basis: Albany, Esperence, Kalgoorlie, Leinster, Carnarvon, Geraldton, Exmouth, Meekatharra, Leonora, Laverton, Newman, Sons of Gwalia and Karratha,

Since the appointment of the Administrators a number of tasks have been conducted by the Administrators' staff, these include:

- Identifying the assets of the Companies;
- Reviewing and re-opening services to the above listed locations;
- Determining employee entitlements;
- Reconciling claims by creditors;

Significant time has also been spent by the Administrators in identifying and preparing all of the assets of Skywest for sale. The sale process was as follows:

- Advertisements were placed in the *Western Australian*, *Australia Financial Review* and *The Australian* newspapers.
- Interested parties were requested to execute a Deed of Confidentiality. Over 40 expressions of interest were received with 32 returning executed Deeds of Confidentiality.
- An information memorandum was prepared and distributed to all parties who provided a Deed of Confidentiality.
- Indicative offers were provided by 13 interested parties. The majority of these offers were for all assets of Skywest.
- Six parties were invited to the data room. All parties made final offers in respect of the airline.
- Final discussions with two of these parties led to the selection of the Airline Investments Limited ("AIL") bid, which provided a higher outcome in terms of amount offered, and secured ongoing operations and employment of all current full time staff.

An in-principle agreement has been reached with AIL, a non-listed public company for it to purchase the shares in Skywest. AIL represents a consortium of private Western Australian

interests with the support of a major broking house. AIL has indicated their intention is to progress a public capital offering and listing on the Australian Stock Exchange.

It is the intention of AIL in the first instance, to strengthen the business of Skywest on its existing, historical routes, and particularly to develop the air cargo business. Thereafter, AIL will evaluate the potential of introducing jet aircraft services to the northern ports of Western Australia and to further expand the business within Western Australia.

The Administrators believe this outcome is in the interests of Skywest stakeholders, which includes offering continuity of employment for all existing staff. AIL will be Western Australian based and focussed on the supply of essential services to Western Australian businesses. Given the intention's for ownership of Skywest to be publicly held, this will enable ownership to be widely held by Western Australians. Further, it is expected that AIL will have an effective partnership agreement in place between itself and Ansett Mark II, providing Skywest with the benefits of association with a National Carrier.

With the inclusion of former Skywest CEO, Bill Meeke, the AIL syndicate contains substantial aviation understanding and experience. This knowledge of the Western Australian aviation industry provides Skywest with further guidance for its ongoing development and growth.

The sale is subject to implementation of a Deed of Company Arrangement.

5. Administrators' Investigations

In accordance with the requirements of regulation 5.3A.02 of the Corporations Regulations, the Administrators have sought to establish whether there are any transactions in respect of which money, property or other benefits may be recoverable by a Liquidator under Part 5.7B of the Act if the Companies are placed into liquidation. The main transactions investigated can be categorised as follows:

- Unfair preference payments;
- Uncommercial transactions;
- Unfair loans;
- Trading whilst insolvent liability of a holding company; and
- Floating charges granted within 6 months of the appointment of the Administrators.

Significant time has been spent investigating the affairs of the Companies. As indicated above, the investigations into the Companies' affairs has been restricted due to the limited time period provided under the Act in which to issue this report and convene the second meeting of creditors.

The results of investigations into each of the above categories of transactions are outlined below.

5.1 Unfair Preference Payments

An unfair preference is a transaction, generally within the 6 months prior to the appointment of the Administrator, to which a company and a creditor are parties which results in the creditor receiving more than it would receive in respect of its debt if the transaction had been set aside and the creditor had to prove for the debt in the winding up of the company. If proven to be an unfair preference the creditor would have to return the benefit they received to the Liquidator.

In order to prove a creditor received an unfair preference payment the Liquidator must first show the company was insolvent at the time of the payment (refer below).

The creditor has a defence to a claim by a Liquidator that a transaction is an unfair preference if it proves that it entered into the transaction in good faith and, at the time the benefit was received, the creditor had no reasonable grounds for suspecting that the company was insolvent or would become insolvent through entering into the transaction and valuable consideration was given.

Unfair preferences can be difficult to prove and recover, and the exercise is often time consuming and expensive.

In the Administrators' opinion, based on preliminary investigations, we believe there are no payments which may be recoverable as an unfair preference payment by a subsequently appointed Liquidator.

5.2 Uncommercial Transactions

An uncommercial transaction is a transaction below a value where a reasonable person in the company's circumstances would not be expected to enter into the transaction having regard to the benefits and detriment to the company of entering into the transaction, the respective benefits to the other parties to the transaction and any other relevant matter.

Uncommercial transactions in the 2 years prior to the appointment of the Administrators may potentially be overturned by a subsequently appointed Liquidator if the Company was insolvent at the time of the relevant transaction.

The defences available to a party in an uncommercial transaction claim are effectively the same as those for an unfair preference.

In the Administrators' opinion, based on preliminary investigations, there are no potential uncommercial transactions to which the Companies were a party in the relevant time period.

5.3 Unfair Loans

An unfair loan is a loan where, upon analysis, the interests or charges with respect to the loan were extortionate. Unfair loans any time prior to the appointment of the Administrators may potentially be overturned by a subsequently appointed Liquidator.

The only loans provided to the Companies were the intercompany loans with other members of the Ansett Group. Management has advised that interest was charged on these loans, therefore we have no reason to believe that there would be any recovery of funds under this mechanism.

Accordingly, in the Administrators' opinion, based on preliminary investigations, there are no potential unfair loans to which the Companies were a party in the relevant time period.

5.4 Directors Trading Whilst Insolvent

Under the Act, a director is personally liable to the company if the director fails to prevent a company from incurring a debt when, at the time of incurring that debt, the company is insolvent, or becomes insolvent by incurring the debt.

This claim must be proven by the Liquidator against each individual director. In the event that a Liquidator does not pursue the directors, a creditor may seek to recover against the directors.

Directors have several defences available to them. To successfully defend a claim for insolvent trading a director must provide one of the following:

- that when the debt was incurred the director had reasonable grounds to expect that the company was solvent and would remain solvent even if the debt was incurred;
- that when the debt was incurred the director had reasonable grounds to believe, and he or she did believe, that a subordinate was competent, reliable and responsible for providing adequate information about the company's solvency and the director expected, on the basis of this information, that the company was solvent and would remain solvent;
- that when the debt was incurred the director, because of illness or for some other good reasons, did not take part in the management of the company at that time; or
- that the director took all reasonable steps to stop the company from incurring the debt.

It must first be shown that at a point in time the Companies were insolvent. Insofar as the Companies are concerned, it is clear that the Companies had historically provided other Companies within the Ansett group with cash injections via the treasury company, Ansett Australia Holdings Limited, which was used to fund other businesses of the group. These amounts were regularly cleared and we have been informed that interest was paid on these amounts.

If it is able to be shown that the Companies were insolvent the directors would still have the above defences available to them. As indicated, our investigations indicate that the Companies

were not insolvent, but placed in administration due to their inclusion as part of the Ansett Group, and the severe operational impact on the Companies that would occur as a result of other companies in the group being placed into Administration.

Based on information currently available, it is unlikely that a claim could be successfully pursued against the directors of the Companies for trading whilst insolvent. As with unfair preferences, trading whilst insolvent claims can be difficult to prove and recover, and the exercise is often time consuming and expensive.

5.5 Holding Company Liable for Debts of an Insolvent Subsidiary

Where it can be shown:

- a subsidiary company was insolvent at the time of the incurring of a debt, or became insolvent as a result of incurring a debt; and
- at that time there were reasonable grounds for suspecting the company was insolvent; and
- the holding company or its directors were aware, or ought to be aware, that there are grounds for so suspecting

the holding company may be held liable for the debts incurred by the subsidiary.

Given it must be shown that the Companies were insolvent the same issues as outlined above will exist. Therefore, based on information currently available, it is unlikely that a claim could be successfully pursued against any holding company of the Companies.

5.6 Floating Charge Created Within 6 Months Prior to the Appointment of the Administrators

Based on information available, there were no floating charges created within the six months prior to the appointment of the Administrators.

6. Options Available to Creditors - Skywest

The purpose of the second meeting of creditors is for the creditors to resolve whether:

- the Companies should execute a Deed of Company Arrangement ("DOCA"), or;
- the Administration should end; or
- the Companies should be wound up.

6.1 Deed of Company Arrangement

Attached at Annexure 1 is the statement detailing the proposed DOCA for Skywest recommended by the Administrators. The DOCA will require flexibility to allow for the following:

- The proposed sale to AIL.
- If required, the Deed Administrators to maintain and operate the business pending a sale of shares or, if a sale of shares is not consummated, the realisation of the business and assets.
- Give the Administrators and the Creditors more time to determine whether pooling of the Companies' assets and liabilities with the remainder of the Ansett Group is required and/or appropriate.

We comment further in relation to each of these three issues as follows:

Sale to AIL

It is intended that AIL purchase the shares in Skywest and certain assets owned or leased by other companies in the Ansett group but used in Skywest's operations.

The sales are conditional upon the DOCA and it is intended that the sale will take place as soon as possible after the DOCA is approved and executed. The net sale proceeds will be held for the benefit of Skywest creditors.

Creditor claims against Skywest as at the date of the Administrators appointment would be released and extinguished and substituted by claims against the net proceeds.

The sale has been structured in this way to ensure that a new Air Operators Certificate ("AOC") does not have to be applied for by AIL - it being able to maintain, through Skywest, the existing AOC.

Business Operation

Whilst negotiations are progressing well with AIL it may be that the Deed Administrators will need to continue to operate the Skywest business pending sale. If the sale to AIL is not settled the Deed Administrators would look for other opportunities for the sale of the shares and/or the realisation of the Skywest business and assets - during which time the Deed Administrators would require the ability to continue to operate and maintain or wind down the business.

Pooling

Across the Ansett Group a significant investigation has been undertaken as to:

- Whether the ownership of the assets are recorded in the correct company.
- Whether the liabilities are recorded in the correct company.

- The likely recovery of the various inter-company loan accounts. This includes the recoverability of the inter-company loan accounts from companies within the Ansett Group that are not currently in administration or located overseas.
- The contingent assets and liabilities that may exist (such as cross guarantees given by the companies of the Group for other companies in the Group).
- The potential value of contingent liabilities (such as the liability for Frequent Flyer points).

As extensive investigations are still required it is premature to finalise our views as to the estimated return to creditors for each of the companies in the Ansett Group. We are not yet in a position to determine or recommend to creditors whether it would be appropriate to seek to have the proceeds available for Skywest creditors to be pooled with the assets of the Ansett Group and for the Skywest creditors' claims to be pooled with all claims against the Ansett Group.

Accordingly, we recommend that a further meeting of Skywest creditors be held at a later date for all creditors to determine this issue. We would intend to hold this meeting within 60 days of the meeting on 25 January 2002 and have it held in conjunction with the meetings of creditors of the other companies in the Ansett Group convened for, among other things, the same purpose.

Options Available to Creditors – Aviation, Jet and Holdings

Attached at Annexure 2 is the statement detailing the proposed DOCA for each of Aviation, Jet and Holdings recommended by the Administrators. The DOCA will require flexibility to allow for the following:

- For Jet and Aviation, a sale of shares in those companies to facilitate the sale of shares in Skywest - Jet and Aviation's immediate holding company.
- If required, the Deed Administrators to maintain and operate the business pending a sale of shares or, if a sale of shares is not consummated, the realisation of the business and assets.
- Giving the Administrators and the creditors more time to determine whether pooling of the Companies' assets and liabilities with the remainder of the Ansett Group is required and/or appropriate. Please refer to the comments on "Pooling" earlier in the section on this issue, which equally apply to Jet, Aviation and Holdings.

6.2 Administration Should End

Given that the Administrations are likely to result in claims from financiers to the Ansett Group with the benefit of guarantees from Skywest, Skywest cannot be considered solvent.

Holdings is likely to be insolvent taking into account its intercompany balances and the fact that it is a party to a Deed of Cross Guarantee that is registered with ASIC.

Aviation and Jet are dormant, but companies which need to remain under the control of the Administrators as they may be required to be dealt with as part of a sale of the shares in Skywest.

Accordingly we cannot recommend that the Administrations should end and be handed back to the directors.

6.3 Comparison of a winding up and a going concern sale of Skywest.

In forming an opinion whether to pursue the proposed Deed of Company Arrangement or a winding up of the Companies, creditors should consider the return to creditors under both scenarios.

Aviation and Jet are dormant companies with no assets or liabilities. Holdings has related party receivables totalling \$1.55m from Ansett Australia Holdings (\$540,000) and Skywest Airlines (\$1.0m). The realisation of these receivables is unknown at this stage and will depend on the outcome of the Administrations and the future of these companies.

An estimate of funds available to unsecured creditors in the event that Skywest is placed into liquidation compared to a going concern sale is detailed as follows:

	Liquidation \$'000	Going Concern Sale \$'000
Asset Realisations		
Trade Debtors	804	804
Consumables & WIP	470	-
Related Party Receivables	-	-
Plant & Equipment	200	-
Rotables, Spares & Simulators	1,304	-
Gross proceeds from Sale	-	6,475
Total Asset Realisations	2,778	7,279
Less:		
Employee Entitlements	(2,081)	(2,081)
Redundancies	(2,513)	-
Payroll tax on redundancies	(151)	-
Rotables Adjustment	-	(362)
Ansett assets transferred to Skywest	-	(1,000)
Other secured/priority creditors		
ROT's, liens and 3rd party claims	(670)	(670)
Administrators costs, Legal costs and contingencies	(1,000)	(1,000)
Trading costs (net):		
forecast profit/(loss)	(350)	(433)
backoffice/overhead costs	(150)	-
Total deductions	(6,915)	(5,546)
Available for unsecured creditors	(4,137)	1,733

Some comments on the above are as follows:

These figures are indicative only and are based on information received to date.

- Realisation from Related party receivables is unknown at this stage due to complexities associated with the Ansett Group.
- ROT's, liens and 3rd party claims are still being investigated.
- Trading costs under a liquidation scenario comprise an estimated net trading loss of \$350,000 to 25 January 2002, being the date of the creditors' meeting. An additional cost of \$150,000 assuming a 3 month wind-down period and 50% reduction in costs would be likely in the event of a liquidation. Trading loss in the event of a going concern sale is \$433,000 to 31 January 2002, being the expected sale completion date. These estimates are based on trading results to date, management's projections and our review, for the period of administration.

- Gross proceeds from sale are \$6.475m in accordance with the offer from AIL and a letter of agreement signed by the parties. There was no allocation of the proceeds to the various assets of the Skywest, rather it was a total consideration offered for the shares of Skywest. The offer received from AIL did, however, attribute \$750,000 to the F50 aircraft fleet (ie, recognised equity). It is envisaged that the aircraft which are currently leased by Ansett Australia Limited will be assigned to Skywest upon sale. Very few offers received for Skywest were prepared to recognise any equity in the aircraft, with some interested parties attributing negative equity to the aircraft. We understand there is currently a surplus of F50 aircraft on the market worldwide and sellers are finding it difficult to retrieve value for these assets. A report published by Aircraft Value News in April 2001 indicated the values of Turboprop aircraft are weakening and there is a much lower rate of new production. The report also notes that competition is intense from other turboprops and regional jets. There appears to be a solid market for rental/lease of these type of aircraft, but a weakening market for acquisition, as operators tend to shy away from the risks associated with ownership. Further, there is increasing uncertainty regarding the airline industry in general.
- Rotables adjustment represents the cost of repairing rotables under repair at 30 June 2001 compared to the cost of repairing rotables under repair at completion date. This number has been estimated as at 20 December 2001 in the absence of more current information.
- Ansett assets transferred to Skywest have been assigned an estimated value of \$1m. There are several assets currently used by Skywest that belong to Ansett. It is envisaged that these will be transferred to Skywest on or before completion date. We have been unable to obtain a full listing of these assets to date and are still awaiting this information from Skywest Management and AIL. An appropriate value for the assets will be determined having regard to book values and independent advice once the assets to be transferred have been determined and agreed upon between AIL and the Administrators.
- No amounts are included for actions to be investigated further by the Liquidator for antecedent transactions such as the recovery of unfair preferences or actions for trading whilst insolvent.
- No amounts are included for contingent creditors which would increase the expected deficiency.
- Liabilities may also increase due to guarantees given to financiers to the Ansett Group, which may be in excess of \$100million.
- Ordinary unsecured creditors of Skywest are estimated to be approximately \$16m including Ansett related companies and the National Australia Bank. Given the uncertainty regarding potential contingent claims and cross guarantees within the Ansett Group, it is too difficult to estimate a return to creditors at this stage.
- Liabilities to creditors of other companies in the Ansett Group which are also parties to a Deed of Cross Guarantee registered with ASIC may also be significant.

There are likely to be no funds available to unsecured creditors in a liquidation scenario. The proposed sale of Skywest is likely to offer a return to unsecured creditors. A dividend under a DOCA would be paid in a much shorter timeframe than if Skywest were to be wound up.

A Liquidation of Skywest would be likely to result in the loss of Skywest's AOC which would prevent Skywest continuing to operate as a going concern.

A DOCA enables Skywest to maintain its AOC and facilitate a sale of shares in Skywest without the need for a purchaser to apply for a new AOC. An application for a new AOC is an expensive and time consuming process and in the circumstances would result in lower sale proceeds.

7. Statement of Administrators' Opinion Pursuant to Section 439(4)(b) of the Act

Pursuant to Section 439A(4)(b) of the Act, for the reasons set out above, the Administrators are of the opinion that it is in the best interests of creditors for the Companies to execute the proposed Deeds of Company Arrangement.


For the reasons set out above, the Administrators are of the opinion that it is **not** in the best interests of creditors for the Administration of the Companies to end.

For the reasons set out above, the Administrators are of the opinion that it is **not** in the best interests of creditors for the Companies to be wound up.

DATED this 15th day of January 2002.



MARK A KORDA
Administrator



MARK F MENTHA
Administrator

**Statement of Details of Deed of Company Arrangement
for Skywest Airlines Pty Ltd**

The DOCA for Skywest will provide for the following:

- 1 Mark Anthony Korda and Mark Francis Xavier Mentha be appointed as Deed Administrators.
- 2 The Deed Administrators have all the powers set out in paragraph 2 of Schedule 8A of the Corporations Act.
- 3 A committee of creditors will be established for the purpose of advising and assisting the Deed Administrators and to approve the Deed Administrators' remuneration.
- 4 The Deed Administrators will be indemnified by Skywest against liabilities incurred during the administration of Skywest and the administration of the Deed and out of any proceeds of sale of shares of Skywest.
- 5 The calculation of creditors' debts and the determination of creditors' entitled to claim will be matters determined at a subsequent meeting of creditors, ("the Subsequent Meeting").
- 6 The Deed will terminate upon a sale of shares in Skywest and, if no sale of shares takes place as determined at the Subsequent Meeting.
- 7 If shares in Skywest are sold creditor claims against Skywest will be released and extinguished and substituted by claims against monies payable under the share sale transaction.
- 8 The Deed Administrators will be agents of Skywest.

**Statement of Details of Deed of Company Arrangement
for Skywest Aviation Limited, Skywest Jet Charter Pty Ltd
and Skywest Holdings Limited**

The DOCA for Aviation, Jet and Holdings will provide for the following:

- 1 Mark Anthony Korda and Mark Francis Xavier Mentha be appointed as Deed Administrators.
- 2 The Deed Administrators have all the powers set out in paragraph 2 of Schedule 8A of the Corporations Act.
- 3 The Deed Administrators will be indemnified by Aviation, Jet and Holdings against liabilities incurred during the administration of these companies and the administration of the Deed.
- 4 The calculation of creditors' debts and the determination of creditors' entitled to claim will be matters determined at a subsequent meeting of creditors, ("the Subsequent Meeting").
- 5 The Deed will terminate as determined at the Subsequent Meeting.
- 6 The Deed Administrators will be agents of Aviation, Jet and Holdings.

FORM 532

Corporations Act

APPOINTMENT OF PROXY

Skywest Airlines Pty Limited ACN 008 997 662
Skywest Aviation Pty Limited ACN 004 444 866
Skywest Holdings Pty Limited ACN 008 905 646
Skywest Jet Charter Pty Limited ACN 008 800 155
(All Administrators Appointed)
(the Companies)

I/We (1) _____ of _____
a creditor of the Companies appoint (2) _____ or in his/her absence
_____ as my/our general/special proxy to vote at the meeting of creditors to
be held on the 25th day of January 2002 or at any adjournment of that meeting. (3)

DATED THIS: _____ day of _____ 2002

(4) _____

Notes:

- (1) If a firm, strike out "I" and set out the full name of the firm.
(2) Insert the name, address and description of the person appointed.
(3) If a special proxy add the words "to vote for" or the words "to vote against" and specify the particular resolution.
(4) If the creditor is a sole trader, sign in accordance with the following example: "A.B., the proprietor of the said firm".
If the creditor is a partnership, sign in accordance with the following example: "A.B., a partner of the said firm."
If the creditor is a company, then the form of proxy must be under its Common Seal or under the hand of some officer duly authorised in that capacity, and the fact that the officer is so authorised must be stated in accordance with the following example: "For the company, A.B." (duly authorised under the Seal of the Company).
(5) The following certificate is to be completed only where the person given the proxy is blind or incapable of writing.

(5) CERTIFICATE OF WITNESS

I, _____ of _____ certify that
the above instrument appointing a proxy was completed by me in the presence of and at the request of
the person appointing the proxy and read to him before he/she attached his/her signature or mark to
the instrument.

Signature of Witness:

Description:

Place of Residence:

This proxy should be returned to ANDERSEN, GPO BOX 5151AA, MELBOURNE, VICTORIA, 3001 marked
to the attention of Miss Vanessa Vanderhoek, so that it is received no later than 4.00 p.m. on the day
preceding the meeting.

FORM 535

Corporations Act

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Administrators of _____ (Administrators Appointed):

1. This is to state that the above Company was on _____ and still is, justly and truly

indebted to _____ for

the sum of _____ dollars and _____ cents.

Particulars of the debt are:

Date	Consideration	Amount		Remarks
		\$	¢	

2. To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it except for the following:

Date	Drawer	Acceptor	Amount		Due Date
			\$	¢	

*3. I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

*3. I am the creditor's agent authorised in writing to make this statement in writing. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Dated:

Signature:

Occupation:

Address:

**REPORT BY ADMINISTRATORS PURSUANT TO
SECTION 439A(4) OF THE CORPORATIONS LAW**

**AEROPELICAN AIR SERVICES PTY LTD
(ADMINISTRATORS APPOINTED)
ACN 000 653 083**

15 January 2002

**AEROPELICAN AIR SERVICES PTY LTD
(ADMINISTRATORS APPOINTED)
ACN 000 653 083**

PURSUANT TO SECTION 439A(4)

CONTENTS

Section	Content
1.	Basis of Report
2.	History of the Company
3.	Report as to Affairs
4.	Events Since Appointment
5.	Administrators' Investigations
6.	Options Available to Creditors
7.	Statement of Administrators' Opinion Pursuant to Section 439(4)(B) of the Corporations Law

Annexure

1. Statement of Details of Proposed Deed of Company Arrangement

CORPORATIONS LAW

REPORT BY ADMINISTRATORS PURSUANT TO SECTION 439A(4)

AEROPELICAN AIR SERVICES PTY LTD (ADMINISTRATORS APPOINTED) ACN 000 653 083

Mark Korda and Mark Mentha were appointed Administrators of Aeropelican Air Services Pty Ltd (Administrators Appointed) ("Aeropelican" or "the Company") on 17 September 2001 pursuant to an Order of the Federal Court of Australia. This followed the appointment of Messers Greg Hall, Alan Waston and Peter Hedge of PricewaterhouseCoopers as Administrators on 12 September 2001 pursuant to Section 436A of the Corporations Act ("the Act") ("the initial Administrators"). The first meeting of the creditors of Aeropelican was held on 18 September 2001.

Pursuant to Section 439A(4) of the Law the Administrators hereby provide their Report to Creditors. The report addresses the Company's business, property, affairs and financial circumstances, and provides the Administrators' opinions on the following matters:

- Whether it would be in the creditors' interests for the Company to execute a Deed of Company Arrangement; or
- Whether it would be in the creditors' interests for the Administration of the Company to end; or
- Whether it would be in the creditors' interests for the Company to be wound up

and the reasons for our opinion.

This report is provided prior to the holding of the second meeting of creditors of the Company, which is scheduled to take place on 25 January 2002. The above matters will be voted upon by the creditors of the Company at the second meeting.

1. Basis of Report

Section 435A of the Law states that the objective of the Voluntary Administration legislation is to provide for the business, property and affairs of an insolvent company to be administered in a way that:

- maximises the chances of the company, or as much as possible of its business, continuing its existence; or
- if it is not possible for the company or its business to continue in existence - results in a better return for the company's creditors and members than would result from an immediate winding up of the company.

This report has been prepared from information obtained from the records of the Company, discussions with the directors and management and the Administrators' own enquiries. The Administrators' investigations into the Company's affairs have been restricted due to the limited time period provided under the Law for us to issue the report and convene the second meeting of creditors.

The Administrators have no reason to doubt the information contained in the report. However, except where otherwise stated, we reserve the right to alter any conclusions reached on the

basis of any changed or additional information which may become available between the date of this report and the date of the second meeting of creditors.

2. History of the Company

2.1 Background

Aeropelican was acquired by Ansett Australia to leverage Ansett's national network into regional NSW. The Company is a mature business that is well respected in the markets in which it operates.

Aeropelican is headquartered in Belmont, NSW. The Company is centrally managed and has autonomous day-to-day management of its operational and business activities, which it coordinates from its Belmont headquarters.

The Company operates a fleet of four owned turbo-prop aircraft across its network. Aeropelican operates the single sector from its base at Belmont to Sydney. In addition, the Company maintains its fleet. Both line and heavy maintenance is performed at its maintenance facility at Belmont Airport. Engine overhaul is contracted out.

Aeropelican generated an after tax profit of \$998,000 during the financial year ended 30 June 2001. The Company's average load factor was 67.2%.

Qantas is currently operating a service between Sydney and Williamtown, Newcastle. However, there are no competitors flying into Belmont, Newcastle from Sydney (Aeropelican owns the Belmont airport). Motor vehicles are the only real alternative mode of transport for travel to Sydney. However, due to traffic congestion, it does not represent a serious alternative for customers connecting to international or domestic trunk flights, nor for those customers travelling to the Sydney CBD for business related purposes. In this environment, Aeropelican has streamlined its business to meet the competitive pressures, and has successfully maintained its volume of passengers carried.

The initial Administrators closed the operations of Aeropelican after their appointment on 12 September 2001.

2.2 Directors and Other Officers

The directors and other officers of Aeropelican at the date of Administration were as follows:

Position Held	Name
• Directors	<input type="checkbox"/> Mr JH Blair
	<input type="checkbox"/> Mr SD Roworth
	<input type="checkbox"/> Mr G Frazis
• Secretaries	<input type="checkbox"/> Mr JH Blair
	<input type="checkbox"/> Mr SD Roworth

The sole shareholder at the date of the appointment of the Administrators was Bodas Pty Ltd ("Bodas"). Bodas is in turn owned solely by Ansett Holdings Limited ("Holdings"). The sole shareholder of Holdings is Moreal Pty Ltd, which is in turn owned solely by Ansett Holdings Limited. Both companies are also under Administration.

These details were obtained from an Australian Securities and Investments Commission Search conducted on 18 September 2001.

2.3 Historical Trading Performance

Below is a summary of the Company's unaudited trading performance for the 12 months to 30 June 2001:

	Actual for the 12 Months to 30 June 2001 \$000s ¹
Revenue	5,773
Operating Expenses	(4,696)
Operating Profit/(Loss)	1,077
Realised FX Exchange Losses	(9)
Depreciation	(320)
Interest Received (Paid)	251
Abnormal Items	(1)
Net Profit	998

Source: 1 Unaudited draft profit and loss statement prepared by management.

Trading revenue is derived through the service of one route between Sydney and Newcastle.

The majority of the operating expenses relate to salaries and wages costs of personnel employed by Aeropelican, along with the costs of aircraft leases and maintenance activities.

Operating profits are impacted by intercompany transactions with entities within the Ansett group.

3. Report as to Affairs

Pursuant to Section 438B(2) of the Law, the directors of the Company are required to submit a Report as to Affairs ("RATA") detailing all of the assets and liabilities of the Company at their "Book Values" and their "Estimated Realisable Values" ("ERV").

We advised the directors in this administration we did not require them to submit a RATA for Aeropelican. This is due to the complexities surrounding the Ansett Group of Companies and the costs that would be incurred by the officers of Aeropelican to have such detail provided, which would have mirrored work being conducted by Andersen staff as part of the investigation process.

Below is a summary of the book values of assets and liabilities based on the information prepared by management of Aeropelican.

	12 September 2001 \$000s ¹
Assets	
Cash at Bank	2
Debtors	0
Aircraft and Spares	1,758
Consumables and WIP	648
Plant and Equipment	123
Land and Buildings	1,591
Related Party Receivables	9,539
Other Assets	152
Total Assets	13,814
Liabilities	
Related Party Payables	4,549
Employee Entitlements	425
Income Tax and PDIT	450
Other Creditors	188
Related Party Payables	23
Total Liabilities	5,635
Net Assets/(Liabilities)	8,179

Source: 1 Unaudited balance sheet provided by management.

Some comments in respect of the above information are as follows:

- The balance sheet is based book values taken from company records and information prepared by Aeropelican management and assume the business is a going concern.
- Related party receivables comprise \$399,000 from Ansett Australia Limited and \$9.14m from Ansett Holdings Limited. As both of these companies are also currently under administration recovery of these amounts in full is unlikely.
- Related party payables include \$16,000 payable to Ansett Australia Limited.
- Additional liabilities may exist, being guarantees given to financiers to the Ansett Group. These claims may be in excess of \$100 million.
- Employee Entitlements may be transferred to a purchaser in the event of a sale.

4. Events Since Appointment

Operations

After ceasing operations after the initial Administrators appointment, Aeropelican resumed its operations on 21 September 2001, operating its 4 twin-otter aircraft between Sydney and Belmont, Newcastle.

Sale of Business

Significant time has been spent by the Administrators in identifying and preparing all of the assets of the Company for sale. The sales process was as follows:

- An advertisement was placed in the Australia Financial Review.
- Interested parties were requested to execute a Deed of Confidentiality. Approximately 63 expressions of interest were received. Indicative offers were provided by 8 interested parties.

The Administrators are continuing discussions with the offerors for a sale of all of the assets and shares of the Company. Further details will be provided at the second meeting of creditors.

5. Administrators' Investigations

Significant time has also been spent investigating the affairs of the Company. As indicated above, the investigations into the Company's affairs has been restricted due to the limited time period provided under the Law in which to issue this report and convene the second meeting of creditors.

In accordance with the requirements of regulation 5.3A.02 of the Corporations Regulations, the Administrators have sought to establish whether there are any transactions in respect of which money, property or other benefits may be recoverable by a Liquidator under Part 5.7B of the Law if the Company is placed into liquidation. The main transactions investigated can be categorised as follows:

- Unfair preference payments;
- Uncommercial transactions;
- Unfair loans;
- Trading whilst insolvent liability of a holding company; and
- Holding company liable for debts of an insolvent subsidiary.

The results of investigations into each of these categories of transactions are outlined below.

5.1 Unfair Preference Payments

An unfair preference is a transaction, generally within the 6 months prior to the appointment of the Administrator, to which a company and a creditor are parties which results in the creditor receiving more than it would receive in respect of its debt if the transaction had been set aside and the creditor had to prove for the debt in the winding up of the company. If proven to be an unfair preference the creditor would have to return the benefit they received to the Liquidator.

In order to prove a creditor received an unfair preference payment the Liquidator must first show the company was insolvent at the time of the payment (refer below).

The creditor has a defence to a claim by a Liquidator that a transaction is an unfair preference if it proves that it entered into the transaction in good faith and, at the time the benefit was received, the creditor had no reasonable grounds for suspecting that the company was insolvent or would become insolvent through entering into the transaction and valuable consideration was given.

Unfair preferences can be difficult to prove and recover, and the exercise is often time consuming and expensive.

In the Administrators' opinion, based on preliminary investigations, we believe there are no payments which may be recoverable as an unfair preference payment by a subsequently appointed Liquidator.

5.2 Uncommercial Transactions

An uncommercial transaction is a transaction below a value where a reasonable person in the company's circumstances would not be expected to enter into the transaction having regard to the benefits and detriment to the company of entering into the transaction, the respective benefits to the other parties to the transaction and any other relevant matter.

Uncommercial transactions in the 2 years prior to the appointment of the Administrators may potentially be overturned by a subsequently appointed Liquidator if the Company was insolvent at the time of the relevant transaction.

The defences available to a party in an uncommercial transaction claim are effectively the same as those for an unfair preference.

In the Administrators' opinion, based on preliminary investigations, there are no potential uncommercial transactions to which the Company was a party in the relevant time period.

5.3 Unfair Loans

An unfair loan is a loan where, upon analysis, the interests or charges with respect to the loan were extortionate. Unfair loans any time prior to the appointment of the Administrators may potentially be overturned by a subsequently appointed Liquidator.

The only loans provided to the Company were the shareholder loans detailed above. No interest was charged on these loans.

Accordingly, in the Administrators' opinion, based on preliminary investigations, there are no potential unfair loans to which the Company was a party in the relevant time period.

5.4 Directors Trading Whilst Insolvent

Under the Law, a director is personally liable to the company if the director fails to prevent a company from incurring a debt when, at the time of incurring that debt, the company is insolvent, or becomes insolvent by incurring the debt.

This claim must be proven by the Liquidator against each individual director. In the event that a Liquidator does not pursue the directors, a creditor may seek to recover against the directors.

Directors have several defences available to them. To successfully defend a claim for insolvent trading a director must provide one of the following:

- that when the debt was incurred the director had reasonable grounds to expect that the company was solvent and would remain solvent even if the debt was incurred;

- that when the debt was incurred the director had reasonable grounds to believe, and he or she did believe, that a subordinate was competent, reliable and responsible for providing adequate information about the company's solvency and the director expected, on the basis of this information, that the company was solvent and would remain solvent;
- that when the debt was incurred the director, because of illness or for some other good reasons, did not take part in the management of the company at that time; or
- that the director took all reasonable steps to stop the company from incurring the debt.

It must first be shown that at a point in time the Company was insolvent. Insofar as the Company is concerned, it is does not appear that the Company has historically traded whilst insolvent.

If it is able to be shown that the Company was insolvent the directors would still have the above defences available to them. The directors advise that the Company was placed in administration as soon as the funding and operational support was withdrawn by the ultimate shareholders.

Based on information currently available, it is unlikely that a claim could be successfully pursued against the directors of the Company for trading whilst insolvent. As with unfair preferences, trading whilst insolvent claims can be difficult to prove and recover, and the exercise is often time consuming and expensive.

5.5 Holding Company Liable for Debts of an Insolvent Subsidiary

Where it can be shown:

- a subsidiary company was insolvent at the time of the incurring of a debt, or became insolvent as a result of incurring a debt; and
- at that time there were reasonable grounds for suspecting the company was insolvent; and
- the holding company or its directors were aware, or ought to be aware, that are grounds for so suspecting

the holding company may be held liable for the debts incurred by the subsidiary.

Given it must be shown that the Company was insolvent, the same issues as outlined above will exist. Therefore, based on information currently available, it is unlikely that a claim could be successfully pursued against any holding company of Aeropelican.

6. Options Available to Creditors

The purpose of the second meeting of creditors is for the creditors to resolve whether:

- the Company should execute a Deed of Company Arrangement ("DOCA"), or;
- the Administration should end; or
- the Company should be wound up.

6.1 Deed of Company Arrangement

Attached at Annexure 1 is the statement detailing the proposed DOCA recommended by the Administrators. The DOCA will require flexibility to allow for the following:

- A sale of shares in the Company.
- If required, the Deed Administrators to maintain and operate the business pending a sale of shares or, if a sale of shares is not consummated, the realisation of the business and assets.
- Giving the Administrators and the creditors more time to determine whether it is appropriate for pooling of the company's assets and liabilities with the remainder of the Ansett Group is required and/or appropriate.

We comment further in relation to each of these three issues as follows:

Sale of Shares

A sale of the shares in Aeropelican may be the most appropriate method of achieving a better return for Aeropelican creditors.

The sale would be conditional upon a DOCA and the sale would take place as soon as possible after a DOCA is approved and executed. The net sale proceeds would be held for the benefit of Aeropelican creditors.

Creditor claims against Aeropelican as at the date of the Administrators appointment would be released and extinguished and substituted by claims against the net proceeds.

A sale would be structured in this way to ensure that a new Air Operators Certificate ("AOC") does not have to be applied for by a purchaser - it being able to maintain, through Aeropelican, the existing AOC.

Business operation

Whilst negotiations are progressing well with potential purchasers, the Deed Administrators will need to continue to operate the Aeropelican business pending sale. If a sale of shares is not consummated the Deed Administrators would look for other opportunities for the sale and/or the realisation of the Aeropelican business and assets - during which time the Deed Administrators would require the ability to continue to operate and maintain or wind down the business.

Pooling

Across the Ansett Group a significant investigation has been undertaken as to:

- Whether the ownership of the assets are recorded in the correct company.
- Whether the liabilities are recorded in the correct company.
- The likely recovery of the various inter-company loan accounts. This includes the recoverability of the inter-company loan accounts from companies within the Ansett Group that are not currently in administration or located overseas.
- The contingent assets and liabilities that may exist (such as cross guarantees given by the companies of the Group for other companies in the Group).
- The potential value of contingent liabilities (such as the liability for Frequent Flyer points).

As extensive investigations are still required it is premature to finalise our views as to the estimated return to creditors for each of the companies in the Ansett Group. We are not yet in a

position to determine or recommend to creditors whether it would be appropriate to seek to have the proceeds available for Aeropelican creditors to be pooled with the assets of the Ansett Group and for the Aeropelican creditors' claims to be pooled with all claims against the Ansett Group.

Accordingly, we recommend that a further meeting of Aeropelican creditors be held at a later date for all creditors to determine this issue. We would intend to hold this meeting within 60 days and have it held in conjunction with the meetings of creditors of the other companies in the Ansett Group convened for, among other things, the same purpose.

6.2 Administration Should End

Given that Administration is likely to result in claims from financiers to the Ansett Group with the benefit of guarantees from Aeropelican, Aeropelican cannot be considered solvent. Accordingly we cannot recommend that the Administration should end and be handed back to the directors.

6.3 Company to be Wound Up

In forming an opinion whether to pursue the proposed Deed of Company Arrangement or a winding up of the Company, creditors should consider the return to creditors in both scenarios.

Funds available assuming a close down scenario are as follows:

	12 September 2001 \$000s
Aircraft and Spares	4,000
Consumables and WIP	200
Plant and Equipment	50
Land and Buildings	1,600
Related Party Receivables	477
Other Assets	0
Amount Available for Creditors	6,327

Some comments on the above are as follows:

- These figures are indicative only and are based on information received to date.
- Unsecured creditors have not been quantified above, however we note that the value may increase to include creditors with claims under guarantees that may have been given to financiers to the Ansett Group. These claims may be in excess of \$100 million.
- A Liquidation of Aeropelican would be likely to result in the loss of Aeropelican's AOC which would prevent Aeropelican continuing to operate as a going concern.

6.3 Comparison of DOCA and Liquidation

Comments in relation to the comparison between the proposed DOCA and Liquidation are as follows:

- The sale of Aeropelican as a going concern is likely to offer a better return to unsecured creditors, particularly in conjunction with a transfer of employee entitlements.
- A DOCA enables Aeropelican to maintain its AOC and facilitate a sale of shares in Aeropelican without the need for a purchaser to apply for a new AOC. An application for a

new AOC is an expensive and time consuming process and in the circumstances would result in lower sale proceeds.

7. Statement of Administrators' Opinion Pursuant to Section 439(4)(b) of the Law

Pursuant to Section 439A(4)(b) of the Law, for the reasons set out above, the Administrators are of the opinion that it is in the best interests of creditors for the Company to execute the proposed Deed of Company Arrangement.

For the reasons set out above, the Administrators are of the opinion that it is not in the best interests of creditors for the Administration of the Company to end.

For the reasons set out above, the Administrators are of the opinion that it is not in the best interests of creditors for the Company to be wound up.

DATED this 15th day of January 2002.



MARK A KORDA
Administrator



MARK F MENTHA
Administrator

Statement of Details of Proposed Deed of Company Arrangement

The DOCA for Aeropelican will provide for the following:

- 1 Mark Anthony Korda and Mark Francis Xavier Mentha be appointed as Deed Administrators.
- 2 The Deed Administrators have all the powers set out in paragraph 2 of Schedule 8A of the Corporations Act.
- 3 A committee of creditors will be established for the purpose of advising and assisting the Deed Administrators and to approve the Deed Administrators' remuneration.
- 4 The Deed Administrators will be indemnified by the Company against liabilities incurred during the administration of the Company and the administration of the Deed and out of any proceeds of sale of shares of the Company.
- 5 The calculation of creditors' debts and the determination of creditors' entitled to claim will be matters determined at a subsequent meeting of creditors, ("the Subsequent Meeting").
- 6 The Deed will terminate upon a sale of shares in the Company and, if no sale of shares takes place as determined at the Subsequent Meeting.
- 7 If shares in the company are sold creditor claims against the company will be released and extinguished and substituted by claims against monies payable under the share sale transaction.
- 8 The Deed Administrators will be agents of the Company.