



COBALTAIR LTD (in liquidation)

First annual report of the Company's liquidator to its creditors and shareholder, covering the period from 19th December 2018 to 18th December 2019

Nicosia, 7th January 2020

Stephanos Michaelides
Grant Thornton Specialist Services (Cyprus) Limited
Liquidator

Contents

1	Executive Summary	3
2	Progress to date	4
3	Significant legal cases	7
4	Creditor claims	9
5	Liquidator's remuneration	10
6	Future strategy	11
	Appendix A – Receipts and Payments account	12
	Appendix B - Statutory Information	13
	Appendix C – Committee of Inspection	14

1 Executive Summary

On 19th December 2018, separate meetings of the shareholders and creditors of Cobaltair Ltd (in Liquidation) ("*the Company*") were held, as a consequence of which, the Company was placed into creditors' voluntary liquidation and Stephanos Michaelides of Grant Thornton Specialist Services (Cyprus) Limited was appointed liquidator.

This progress report, prepared and presented pursuant to article 282(1) of CAP113, covers the first year of the liquidation, from the date of the appointment to 18th December 2019.

The liquidator's immediate priorities on appointment were:

- Securing the Company's funds held at various banks
- Securing the Company's IT infrastructure
- Contacting the group's key counterparties, especially debtors for collections, creditors for submitting and reconciling claims
- Realisation of assets

ASSETS

The Company's key realisable assets consist of:

- Cash at bank
- Aircraft spare parts
- Furniture and office equipment
- Legal claims

Realisations to 18th December 2019 amounted to €4.287k, as detailed in Section 2 and broken down in the Receipts and Payments account in Appendix A.

LIABILITIES

As per the Statement of Affairs presented at the above-referenced meetings of the shareholders and creditors, the Company had debts of €81.912k. However, we have received substantially higher claims from creditors, travel agents and individuals (for unflown tickets), which have increased the total amount owed to c€133.138k.

The Company has no secured creditors and a small amount of preferential creditors.

The Company's largest creditor is its parent company, Cobalt New Age Airlines Group Ltd, who have submitted a claim amounting to €73.898k. As at 18th December 2019, we have accepted and lodged against the liquidation an amount of €66.312k. We are in communication with the claimant, discussing the validity of the remaining amount of €7.586k.

LIQUIDATION COSTS

Total costs to date amount to €1.190k, of which €536k consist of fees of the liquidator. Details of costs incurred are presented in section 2.3.

INTERIM DIVIDEND

The Liquidator will consider whether an interim distribution can be made in the first half of 2020 and will advise creditors should it be determined that such a distribution would be prudent.

2 Progress to date

2.1 STRATEGY AND PROGRESS TO DATE

The liquidator's key initial strategy focused on:

- Advising all key stakeholders – banks, government agencies, customers and suppliers – that the Company was in liquidation and that all enquiries should be addressed to the liquidator
- Stabilising the IT infrastructure to ensure availability of the systems required for the liquidation
- Retaining key employees with a view to securing the Company's assets, reconciling and collecting debtor balances and reconciling supplier claims
- Understanding and progressing the legal claims taken by and defended by the Company
- Vacating and surrendering the Company's leased offices in Larnaca
- Deregistration of the branch in Greece (finalised in May 2019)

Employees

As at the date of appointment, 3 employees were retained to support the liquidation process, mainly the protection and realisation of assets, the reconciliation and collection of debtors and agreeing creditor claims. Since then, two employees have been released. The last remaining employee is assisting with the reconciliation and collection of debtors and creditors.

A further 4 former employees are assisting us (on an ad-hoc basis) in respect of the following:

- Reconciliation of creditor claims
- IT matters
- Sale of stock held at Anthimos, and C.A.S Cyprus Aerotechnical Services Ltd ("CAS")
- Review of Lessor Claims

Lessor claims

We have received claims from the 4 aircraft lessors amounting to €22.699k. We are currently in communications with the Lessors as regards the reconciliation of their claims.

Card Transaction Processor

Prior to the Company's liquidation, Elavon, the Company's card transaction processor, had withheld funds from remittances to the Company and had accumulated a reserve totalling €7.878k to cover costs of claims from passengers for unflown tickets/sectors, should the Company cease operations. Since the Company ceased operations, 54.954 claims (totalling €7.460k including costs) have been submitted and paid out by Elavon against this reserve. The Liquidator has had extensive communication with Elavon and has examined passenger claims paid in order to:

- ascertain that claims paid were valid
- ensure that all charges were in accordance with the relevant agreement with Elavon
- ascertain any remaining reserve after passenger claims for unflown tickets (paid using Credit/Debit Cards) have been satisfied.

As of today, the remaining reserves amount to €418k. We are in discussions with Elavon in order to agree the release of any remaining reserves.

Intellectual property, brand and intangible assets

We have investigated the intellectual property rights of the Company (including trademarks, goodwill and other intangibles) and independent expert advice was obtained, in order to ascertain any residual value that may be realised. Unfortunately, none of the IP we identified had any commercial value.

2.2 ASSET REALISATIONS

Realisations during the period since appointment are set out in the Receipts and Payments schedule in Appendix A.

Furniture and Office Equipment

Assets for sale were advertised in the press and published on the Company's website and one-day bazaars were held. A total of €105k was realised from the sale of furniture and office equipment. This exercise also enabled us to vacate the premises at the earliest opportunity to avoid further rental expenditure.

The premises were handed back to the landlord on 12th April 2019.

The Company's archive, which was stored in the Company's premises was indexed, boxed and relocated to a storage warehouse in Nicosia.

Spare Parts

The Company held spare part stock at the warehouses of CAS, Anthimos Bonded Warehouse and Newrest Catering.

CAS has filed a lawsuit in which they claim a lien over the spare parts stock held in their warehouse, to secure an unsecured claim submitted to the liquidation.

To avoid a deterioration of the condition and marketability of the stock, an agreement was reached with CAS whereby the spare parts will be sold, with the proceeds (estimated between \$200k and \$400k) being held in escrow until the finalisation of the law suit. Marketing efforts are ongoing.

Regarding the stock held at Anthimos, an offer was received for the parts held but unfortunately the buyer rescinded from his obligations and the sale did not proceed. Marketing efforts are continuing.

The stock held at Newrest was sold for €10k.

Cash at bank

On appointment, the Company had cash at bank totalling €1.793k. However, prior to the liquidation, 13 creditors obtained interim orders which resulted in all the funds in the Company's bank accounts being frozen. Since our appointment, we have been working with our lawyers to have the interim orders lifted and the funds frozen released. As at 18 December 2019, €352k remains frozen. Efforts are continuing to secure the release of this remaining balance.

The liquidator opened liquidation accounts with the Bank of Cyprus. Unfrozen funds, as well as other cash from realisation of assets are transferred to these bank accounts. Balances held as at 18th December 2019 were €1.645k, US\$706k and GBP£695k (total of €3.097k).

Book Debts and Deposits

Total receivables amount to €3.344k out of which we have collected €1.442k. We estimate that a substantial proportion of the remaining debtors will not be collected, since they relate to unused tickets.

We have been reconciling the debtors' balances owing for services (flights) provided before the Company ceased operations. We continue to reconcile all accounts in the balance sheet in order to pursue any remaining balances owed to the Company.

Reminders were sent to all debtors and final warning letters are being sent by our lawyers to those who are not responding. The Liquidator is currently evaluating various options for maximising collections from these debtors. Options considered, depending on the amount involved, the country of the debtor and the chances of success, are:

- initiation of legal proceedings,
- appointment of a debt collection agency or
- continue the communication with debtors regarding settlement (for low value debts)

In each case, the Liquidator will follow the option which will produce the highest net collection (after costs) in order to serve the best interest of the Company's creditors.

We have also collected deposits from creditors of €607k.

2.3 COSTS

Payments made in the period are set out in the Receipts and Payments account (Appendix A).

Wages and salaries

The Company has paid approximately €112k (including PAYE/NIC) to the employees retained.

Liquidator fees

See section 5.

Legal fees

We have paid approximately €179k in legal fees to date. The Liquidator reviews the quantum and appropriateness of the legal fees on a regular basis.

In order to ensure the continued engagement of the lawyers instructed by the Company on various abroad, we had no alternative than to make ransom payments of €101k in respect of pre-appointment legal fees. These payments were approved by the Committee of Inspection prior to payment.

Professional fees

We have paid approximately €73K as ad-hoc fees to former employees for:

- Support regarding reconciliation of creditor claims,
- Support with IT matters (maintenance of systems, formatting of hard disks and server, support with the sale of IT equipment),
- Support with the stock take, valuation and sale of aircraft spare parts,
- Support with the review of Lessor claims and
- Indexing and boxing the Company's archive

IT Costs

A number of the Company's IT systems were retained to support the liquidation process. We continue to review the ongoing IT requirements and commitments together with the assistance of former employees and we have decommissioned certain IT services which were no longer required. During the period under review, we made payments of €5k to IT suppliers for the ongoing service of the Company's IT infrastructure.

Rent, insurance and other property expenses

We have paid approximately €14k in respect of rent, insurance and other property expenses arising in the post-liquidation period. The Company's premises were vacated and returned to the Landlord in April 2019.

3 Significant legal cases

3.1 CLAIMS BY THE COMPANY

The Company commenced the following legal actions prior to the cessation of operations:

- *ACG/Wells Fargo*: ACG failed to deliver an aircraft in accordance with the terms of the lease agreement, therefore the Company terminated the lease and are claiming (in UK Courts) the return of the commitment fee plus additional costs incurred by the Company due to the above. The total claim is in excess of \$2m.
- *Everjets*: Arbitration proceedings were initiated in Portugal by Everjets claiming ~€1.4m for unpaid block hours, travel tickets and expenses pursuant to the termination of the agreement by the Company. The Company responded with a counterclaim in excess of €400k for the return of a security deposit and damages to the Company's operations.
- *GECAS*: The Company had to pay US\$6.8m for the recovery of an engine failure. Reports evidence that the engine manufacturer has the overall responsibility to cover the damage, and GECAS, being the lessor, is directly liable for the full restoration of the engine.
- *TradeAir*: Concerns a wet-lease agreement which was terminated by the Company in 2016 due to TradeAir's failure to provide the aircraft as agreed. Cobalt claims (in Austrian Courts) for restitution of a security deposit of €300k. Trade Air have initiated a counterclaim for unlawful termination of agreement in excess of €500k.

These legal claims are all ongoing and we are not expecting any of them to be settled until the second half of 2020 at the earliest.

3.2 SUMMARY OF OTHER SIGNIFICANT OPEN CLAIMS

Turkish Overflight Claim

As per the European Commission State Aid Approval Decision SA.32523, the Company is entitled to compensation for the recovery of additional costs incurred as a result of its inability, as a Cypriot air carrier, to enter Turkish airspace during the time period of its flight operations from June 2016 to 17th October 2018.

Following extensive investigations and analysis, we submitted a claim to the Ministry of Finance for an amount of €3.563k. No response has been received to date.

Cancellation of the Company's operating/commercial license

The Company is challenging (at the Administrative Court) the actions of the Air Transport Licensing Authority (ATLA) in connection with the cancellation (instead of suspension) of the Company's operating/license. It is the Company's position that this had a significantly detrimental effect on the Company's ability to attract potential investors. This matter is ongoing.

3.3 CLAIMS AGAINST THE COMPANY

As discussed in Section 2 above, 13 creditors commenced legal procedures against the Company in respect of outstanding amounts due, which led to Interim Orders being granted prior to the commencement of liquidation and various freezing orders being obtained over the funds held in the Company's bank accounts. One freezing order remains in place and we working to have this released.

The Liquidator is defending all claims and legal cases are ongoing for all.

Claim for CO₂ Emissions

In addition to the above, the Department of Environment has submitted a claim in the liquidation for the Company's failure to submit permits equivalent to the CO₂ emissions during 2018. Following an independent audit commissioned by the liquidator, the emissions for 2018 have been verified at

~110k tons. The cost of purchasing the required allowances would be ~€2.793K (@~€25/ton). In addition, a fine for late submission (if imposed) could amount to ~€11m (~110K tons @ €100/ton).

We have submitted the required independence verification emission report and have written to the Ministry objecting to the claim on various grounds. No response has been received yet.

4 Creditor claims

According to Companies Law Cap. 113, there are three classes of creditors:

4.1 SECURED CREDITORS

The Company has no secured creditors (reference is made to the claim of lien by CAS over the stock of spares – see section 2.2 above).

4.2 PREFERENTIAL CREDITORS

We have identified preferential creditors totalling €6k. This consists of Municipality taxes for the offices in Larnaca as well as the unpaid salary of employees for the period before the appointment of the Liquidator.

4.3 UNSECURED CREDITORS

We have received a total of 480 claims from unsecured creditors, totalling €133.138k.

It should be noted that the deadline for submission of claims was 30th June 2019 so no further new claims will be accepted by the liquidator.

Of the claims submitted, the Company's largest creditor is its parent company, Cobalt New Age Airlines Group Ltd, who have submitted a claim amounting to €73.898k. We have accepted and lodged against the liquidation an amount of €66.312k and we are in communication with the claimant, discussing the validity of the remaining amount of €7.586k.

We have also received claims from the 4 aircraft lessors amounting to €22.699k. We are in communication with the lessors, discussing the validity of their claims.

5 Liquidator's remuneration

5.1 TIME COSTS

The Committee of Inspection approved the calculation of the Liquidator's fees based on hours spent, with an upper limit to be calculated as follows:

- 4% of the amount collected from the realization of assets based on the estimates presented in the Statement of Affairs plus
- 2% of amounts distributed to creditors,

Total liquidation costs invoiced up to 18th December 2019 amounts to €536k.

5.2 DISBURSEMENTS

During the period, we have incurred disbursements of €17K.

6 Future strategy

We will continue to manage the affairs and the property of the Company in order to achieve the best outcome of the liquidation for the creditors. This will include but not be limited to:

- Realisation of the Company's remaining assets including the sale of Aircraft Spare parts and debtors
- Pursuing and defending (where deemed appropriate) legal claims
- Agreeing remaining unreconciled claims from creditors
- Complying with ongoing tax and VAT requirements
- Complying with ongoing statutory and reporting obligations
- Where possible (and without prejudicing the outcome of the liquidation), paying interim dividends to creditors

Appendix A to this report includes details of the Receipts and payments of the liquidation for the period from 19th December 2018 to 18th December 2019.

The liquidator will consider whether it would be prudent to pay an interim dividend during the first half of 2020 (ie by 30th June 2020). The timing and amount paid will depend on the progress of the various legal cases for and against the company and the realisation of the remaining assets. It should be noted however that, before paying any interim dividend, the liquidator will need to set aside sufficient funds to ensure that the integrity of the liquidation process is not compromised.

Appendix A – Receipts and Payments account

Abstract of Receipts and Payments as at 18 Dec 2019	€000
Income	
Sale of Furniture and Equipment	105
Collection of Book Debts / deposits	2.049
VAT Refund (pre-appointment)	480
Unblocking of amounts at Bank	1.636
VAT refunded	17
TOTAL	4.287
Expenditure	
Professional fees	73
Ransom payments	101
Liquidator's fees	536
Liquidator's expenses	17
Legal fees	179
Legal fees - disbursements	6
IT Costs	5
Storage costs	8
Wages & Salaries	87
PAYE & SIC	25
Bank Charges	2
Rent	11
Utilities	3
VAT	137
TOTAL	1.190
AMOUNT IN HAND	3.097

Appendix B - Statutory Information

Company Information

Company Name	Cobaltair Ltd
Date of Incorporation	16 April 2015
Company registration number	HE 342467
Registered office	31 Ifigenias Str. Joanna Tower, Flat 601 Strovolos 2007, Nicosia, Cyprus

On 19th December 2018, meetings of the shareholders and creditors of the Company were held, as a consequence of which, the Company was placed into creditors' voluntary liquidation and Stephanos Michaelides of Grant Thornton Specialist Services (Cyprus) Limited was appointed liquidator of the Company.

Appendix C – Committee of Inspection

A Committee of Inspection was appointed on the 19th December 2018 in accordance with the provisions of section 278 of the Cyprus Companies Law Cap.113.

The members appointed on that date were:

Name	Appointment date	Resignation date
Patrick Thomas Carroll	19 December 2018	-
Demetris Phellas	19 December 2018	-
Gregory Diacou	19 December 2018	-
Myria Loizou	19 December 2018	7 October 2019
Stavros Photiou	19 December 2018	-

During the period from 19 December 2018 to 18 December 2019, the committee held meetings on the following dates:

19 December 2018
6 March 2019
1 July 2019
14 October 2019

As outlined in the agenda of the General Meeting of the Creditors sent on 6 November 2019, one member of the Committee of Inspection resigned on 7 October 2019.

Any creditor who wishes to be considered to fill the vacancy should be preset and put themselves forward for election at the Creditors' meeting to be held on 13 January 2020 at 15:00 at the Europa Plaza Hotel (13 Alkaiou Street, Nicosia, 1311).

