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BRIEFING

Creditors' schemes of arrangement: lessons from *Twinza Oil*

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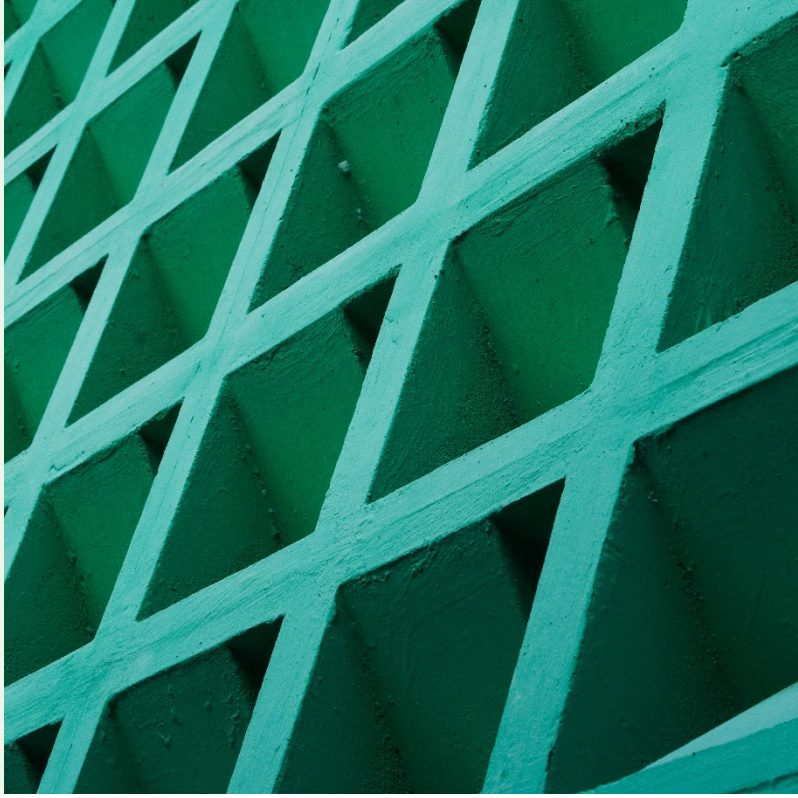

Creditors' schemes of arrangement remain a relatively underused tool in the Australian restructuring landscape. In practice, the time, cost and procedural complexity of a scheme, combined with the absence of an automatic moratorium on creditor enforcement, often see parties default to cheaper, faster and more flexible options such as deeds of company arrangement.

However, when deployed in the right circumstances, schemes remain a powerful restructuring mechanism – particularly where there is a need to cram down dissenting or unresponsive creditors within a secured creditor class, which is not possible under a DOCA without unanimous secured creditor consent.

The recent *Twinza Oil* restructuring underscores the strategic value of creditors' schemes, but also the execution and litigation risks that accompany them, especially where valuation issues are contested.

The *Twinza* case is also notable as the first Australian creditors' scheme progressed alongside an active receivership appointment by secured lenders, reinforcing the flexibility of the scheme regime when carefully coordinated.

Background

Twinza Oil, an Australian publicly listed company, has been developing the Pasca A offshore gas project in Papua New Guinea for several years. While the project's front-end engineering and design phase is well advanced, Twinza requires additional funding to reach Final Investment Decision.

Twinza defaulted under its senior debt facilities in December 2024. In February 2025, senior secured lenders appointed receivers and managers and entered into a standstill arrangement that contemplated a creditors' scheme as part of a broader recapitalisation. By January 2026, outstanding senior secured debt totalled approximately US$387 million.

The first proposed scheme

The initial scheme proposal (the First Scheme) contemplated a substantial deleveraging through a debt-for-equity swap:

- approximately 92% of senior secured debt would be exchanged for 85% of the recapitalised company's ordinary equity, with around US$30 million of senior debt remaining outstanding
- holders of convertible redeemable preference shares (CRPS) would convert into 10% of the post-transaction ordinary equity outside the scheme, and
- existing ordinary shareholders would be diluted to approximately 5%.

As with all Australian schemes of arrangement, Twinza was required to obtain court approval through two hearings:

1. a convening hearing, to approve the holding of the scheme meeting; and
2. an approval hearing, at which the Court determines whether to approve the scheme following creditor approval.

Twinza successfully obtained convening orders. The First Scheme was then approved at the scheme meeting by 100% of affected creditors, both by number and value, voting at the meeting.

Shareholder objections and valuation challenge

Despite unanimous creditor support, certain shareholders and CRPS holders (the Objectors) challenged the scheme prior to the approval hearing. They argued that the value of Twinza's enterprise broke in the CRPS or ordinary equity, rather than in the senior secured debt, giving them an economic interest affected by the scheme.

Twinza's position was that shareholders had no economic interest in the company. If established, it is well-established and uncontroversial that that position would justify the absence of any shareholder vote. However, once the valuation challenge was raised, the burden fell on Twinza to prove that those stakeholders were, in fact, out of the money and had no right to participate in the approval of the First Scheme.

Twinza relied primarily on an independent expert valuation prepared by BDO, supported by a technical report from RISC. Both reports had been prepared prior to the convening hearing.

Why the Court refused to approve the First Scheme

The Court found that, although the expert reports complied with ASIC guidance in form, the valuation evidence contained a critical "analytical gap".

In particular, the BDO report did not transparently set out:

- the cash flow calculations underpinning the valuation
- how those cash flows were derived from underlying assumptions and data, or
- a clear, step-by-step pathway from modelling inputs to valuation conclusions.

As a result, the Court could not independently assess whether the valuation reflected the application of specialised expert knowledge, as required under the rules of evidence. Twinza was therefore unable to

discharge its onus of establishing that the Objectors had no economic interest in the company.

The Court dismissed the application to approve the First Scheme.

A revised approach and the second scheme

A scheme of arrangement being challenged by disgruntled stakeholders is nothing new or unusual. However, what's unusual in this case is that the challenge was raised on the eve of the first hearing, and with Twinza's agreement, addressed only at the second hearing, where the First Scheme had already been approved by scheme creditors at the scheme meeting (the Court having been satisfied that it was appropriate to order that the scheme meeting be convened in the first place). The timing of the challenge left Twinza with insufficient time to prepare and lead further evidence to address the issues identified by the Objectors. If nothing else, the decision debunks the prevailing (but incorrectly held) view that the second hearing is little more than a "rubber stamp" exercise.

Faced with mounting financial pressure and the risk of further delay, Twinza opted not to pursue a formal insolvency process such as voluntary administration. Instead, it re-engaged with stakeholders, including the Objectors, and developed a revised proposal (the New Scheme) designed to address both the evidentiary and structural issues.

The New Scheme retained the overall deleveraging structure, but adjusted the post-transaction equity allocation:

- senior secured lenders would hold 83% (down from 85%)
- ordinary shareholders would hold 7% (up from 5%), and
- CRPS holders would continue to hold 10%.

With these changes, the Objectors did not oppose the New Scheme or reassert an economic interest in the company in respect of the New Scheme. Given that there was no longer an objection, the Court was satisfied that the revised BDO valuation evidence addressed the deficiencies identified in the earlier proceedings and that a single class of scheme creditors – senior secured creditors – was appropriate. This is because they were the only creditors with an economic interest in the company.

The New Scheme was approved, again with 100% creditor support.

Key takeaways for clients operating in the distressed space

1) Schemes remain strategically powerful, but they're not procedural shortcuts

The *Twinza* experience reinforces the continuing utility of schemes of arrangement in complex restructurings, particularly where secured creditor coordination and cram-down are required. However, they demand careful execution and should not be approached as a lower-risk alternative to other restructuring pathways.

2) Valuation evidence is critical and contestable

Where value is close to breaking at the secured debt layer, valuation evidence will be rigorously scrutinised. Scheme proponents should assume that disgruntled stakeholders may challenge both the substance and the presentation of expert valuation material.

3) Approval hearings are not a "rubber stamp"

Even where a scheme has been unanimously approved by affected creditors, Australian courts will independently assess whether approval is justified. Late-stage objections can derail a transaction if evidentiary foundations are not sufficiently robust.

4) Tactical objections can influence outcomes

The case also illustrates how stakeholders with limited apparent economic leverage may nevertheless use the court process to negotiate improved outcomes.

Summary

Twinza highlights the delicate balance schemes must strike between protecting stakeholder rights and providing commercial certainty. At its heart, it's another example of the way schemes of arrangements are used in complex deleveraging transactions, particularly where secured debt held by multiple creditors is in play. Deeds of company arrangement on the other hand, cannot be used to affect secured creditors' security interests without unanimous agreement. It also represents the first scheme of arrangement progressed in Australia in tandem with a receivership appointment by the secured creditors.

Until any legislative reform meaningfully addresses procedural and evidentiary risk at the approval stage, careful front-end preparation – particularly around valuation evidence – remains essential for anyone relying on a creditors' scheme to deliver a restructuring outcome.

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