ACN: 099 547 270
REGIONAL EXPRESS HOLDINGS LTD

NOTICE OF ANNUAL GENERAL MEETING

23 December 2020

Dear Shareholder,

Regional Express Holdings Limited (Company or Rex) would like to invite you to its 2020 Annual General Meeting to be held virtually at 2pm Sydney time on Friday 29 January 2021 ("Meeting").

As a result of the potential health risks and Government restrictions in response to the COVID-19 pandemic, the Meeting will be held virtually via the online platform at https://agmlive.link/REX20

In addition to the usual business of the Meeting, the Company will be seeking shareholder approval for an important resolution (**Proposed Transaction Resolution**) to approve funding arrangements to implement Rex's proposed domestic major city jet operations (**Domestic Services**) which involve the Company issuing to PAGAC Regulus Holding Pte. Ltd. (being an affiliate of PAG Asia Capital GP III Limited) (**PAG**) up to $150 million of secured convertible notes to PAG and/or its designated affiliates (**Proposed Transaction**). Completion of the Proposed Transaction is subject to shareholders approving the Proposed Transaction Resolution.

The accompanying letter from our Chairman, Mr Lim Kim Hai, provides further details about the Domestic Services, Proposed Transaction and the reasons why the Board is recommending that shareholders vote in favour of the Proposed Transaction Resolution.

The Notice of Meeting (**NOM**) explains the items of business you will be asked to consider at the Meeting and include the Board's voting recommendation for each resolution. The NOM also contains a detailed Explanatory Statement and Independent Expert's Report (collectively **Meeting Materials**) providing further information about the Domestic Services and Proposed Transaction. You are encouraged to carefully read the Meeting Materials before voting on the resolutions.

In accordance with subsection 5(1)(f) of the Corporations (Coronavirus Economic Response) Determination (No.3) 2020, the Company will not be dispatching physical copies of the Meeting Materials. These are made available to shareholders electronically on the Company's website https://rex.com.au/AboutRex/InvestorRelations/InvestorReports.aspx#irnoa or on the Company's ASX Market announcements page at www.asx.com.au under the Company's ASX code "REX". If you have elected to receive electronic communications from the Company, you will receive an email to your nominated email address with a link to an electronic copy of the Meeting Materials and the personalised voting link.

The Meeting will give shareholders an opportunity for questions to be asked of Management, the Board or the Company's auditor. You are invited to register questions in advance of the Meeting (instructions set out in NOM).

To participate in the Meeting, please follow the instructions in the Virtual Meeting Online Guide accompanying the Meeting Materials. The Guide details how to log in, register to vote and ask questions during the AGM. Proxy holders will need their Proxy code to login which Link Market Services (Company's share registry) will provide via email prior to the Meeting. The Company strongly recommends that you lodge a directed proxy as soon as possible in advance of the Meeting even if you plan to participate in the Meeting online.

The Rex Board looks forward to your virtual attendance at the Meeting and thank you for your continued support.

Yours sincerely,

Irwin Tan
Company Secretary
Regional Express Holdings Limited

+61 2 9023 3555 enquiry@rex.com.au
rex.com.au 81-83 Baxter Road, Mascot, NSW 2020

Dear Shareholder

2020 ANNUAL GENERAL MEETING

On behalf of the Board, I am pleased to invite you to attend the 2020 Annual General Meeting (**Meeting**) of Regional Express Holdings Limited (**Company**).

In addition to the usual business of the Meeting, the Company will be seeking approval for an important resolution (**Proposed Transaction Resolution**) to approve funding arrangements to implement our proposed domestic major city jet operations (**Domestic Services**) which involve the Company issuing to PAGAC Regulus Holding Pte. Ltd. (being an affiliate of PAG Asia Capital GP III Limited) (**PAG**) up to $150 million of secured convertible notes (**Convertible Notes**) to PAG and/or its designated affiliates (**Proposed Transaction**). Completion of the Proposed Transaction (**Financial Close**) is subject to various conditions. We have established a new subsidiary Rex Airlines Pty Ltd (**Rex Airlines** or **RAPL**) to operate the Domestic Services, which will be funded entirely from funds raised by the Proposed Transaction.

The Board believes that the Proposed Transaction provides the assurance for the Company to proceed at full speed with preparations for its Domestic Services, scheduled to commence on 1 March 2021. This will allow the Company to build on its existing infrastructure at Australian capital city airports, efficiencies and reliability to capitalise on opportunities that have presented themselves. These opportunities include:

- favourable terms for the leasing of Boeing 737-800NG jets used for the Domestic Services, 6 of which have been secured with more under consideration;
- a surplus of experienced flight and cabin crew in the Australian aviation market;
- historically low fuel prices;
- distressed economy favouring demand for quality services at affordable fares; and
- a surplus of slots and gate space at airports located in Australian capital cities over the next 18 months.

Importantly, the Company has already achieved the following milestones:

- the Foreign Investment Review Board has given the necessary approvals for the Proposed Transaction; and
- the Civil Aviation and Safety Authority has given approval for the new jet services in the form of a High Capacity Air Operator's Certificate.

The Convertible Notes, if converted, could result in PAG having a shareholding in the Company of approximately 23.3% (if the initial $50 million tranche is fully converted by PAG), and up to approximately 47.6% (if the full $150 million is drawn down by the Company and converted by PAG). The Convertible Notes can only be exercised after three years following Financial Close, unless certain trigger events occur before then, so there will not be any immediate dilution for Shareholders. If the Company has elected not to drawdown the full $150 million by the date which is three years after Financial Close (**Final Draw Date**), then the Company will issue to PAG zero-cost options exercisable at $1.50 per Share (subject to customary adjustments) (**Warrants**) which if fully exercised and aggregated with Shares issued on conversion of any Convertible Notes, would similarly result in PAG having a total shareholding of up to approximately 47.6%. Accordingly, Shareholder approval is required for the Proposed Transaction Resolution in respect of the issue of Convertible Notes, Warrants and any Shares issued upon conversion of the Convertible Notes or exercise of the Warrants both under the Corporations Act and the ASX Listing Rules.

PAG will also be entitled to nominate up to two Directors to the Board of the Company and one of those directors to the board of RAPL, subject to certain conditions.

The Board has carefully considered the advantages, disadvantages and risks associated with the Proposed Transaction and believes the Proposed Transaction presents several significant advantages:

- the Convertible Notes having a relatively low interest rate of 4% per annum payable quarterly in arrears;
- the Company having the long-term ability to flexibly drawdown funds. The Company will initially drawdown $50 million, with an additional $100 million available for drawdown until the Final Draw Date. The terms of the Convertible Notes provide the Company with assurance and funding flexibility without the need for unnecessary interest payments for unused funds;
- providing the Company with substantial cash reserves to respond to unexpected contingencies in the start-up of Domestic Services; and
- the long-term financial backing of PAG, being a leading Asia-Pacific focused investment firm with assets under management of over US$40 billion.

The Independent Expert appointed to assess the Proposed Transaction considers that the Proposed Transaction is "not fair but reasonable" to Shareholders. Although the Independent Expert has concluded that the Proposed Transaction is not fair, it has also concluded that the Proposed Transaction is reasonable as the advantages of proceeding with the Proposed Transaction outweigh the potential disadvantages. Further details regarding the Domestic Services and the Proposed Transaction (including the Independent Expert's report set out in Schedule 5) are set out in the Explanatory Statement and you are strongly encouraged to read the Explanatory Statement in its entirety.

The Board concurs with the conclusion of the Independent Expert and unanimously believes that the Proposed Transaction is in the best interests of Shareholders. Accordingly;

- each Director recommends that Shareholders vote in favour of the Proposed Transaction Resolution;
- each Director confirms that they intend to vote any Shares that they own in favour of the Proposed Transaction Resolution; and
- the Chairman and any other Director who receives undirected proxies intend to vote any such undirected proxies in favour of all Resolutions,

in the absence of a superior and credible proposal emerging between now and the time of the Meeting.

Your vote is important.

The Board encourages you to lodge your votes online at https://agmlive.link/rex20. You will require your HIN/SRN and postcode/domicile code to access online voting.

I would like to thank you, our Shareholders, for your support and vote of confidence in the business and its team. We look forward to delivering on the opportunities we see for the business moving forward and growing Shareholder value.

Yours sincerely

Lim Kim Hai
Executive Chairman

REGIONAL EXPRESS HOLDINGS LIMITED
ACN: 099 547 270

Notice of 2020 Annual General Meeting and Explanatory Statement

Friday, 29 January 2021 at 2:00pm (Sydney time)

Via livewebcast at https://agmlive/rex20

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On behalf of the Board, I am pleased to invite you to attend the 2020 Annual General Meeting (**Meeting**) of Regional Express Holdings Limited (**Company**).

In addition to the usual business of the Meeting, the Company will be seeking approval for an important resolution (**Proposed Transaction Resolution**) to approve funding arrangements to implement our proposed domestic major city jet operations (**Domestic Services**) which involve the Company issuing to PAGAC Regulus Holding Pte. Ltd. (being an affiliate of PAG Asia Capital GP III Limited) (**PAG**) up to $150 million of secured convertible notes (**Convertible Notes**) to PAG and/or its designated affiliates (**Proposed Transaction**). Completion of the Proposed Transaction (**Financial Close**) is subject to various conditions. We have established a new subsidiary Rex Airlines Pty Ltd (**Rex Airlines** or **RAPL**) to operate the Domestic Services, which will be funded entirely from funds raised by the Proposed Transaction.

The Board believes that the Proposed Transaction provides the assurance for the Company to proceed at full speed with preparations for its Domestic Services, scheduled to commence on 1 March 2021. This will allow the Company to build on its existing infrastructure at Australian capital city airports, efficiencies and reliability to capitalise on opportunities that have presented themselves. These opportunities include:

- favourable terms for the leasing of Boeing 737-800NG jets used for the Domestic Services, 6 of which have been secured with more under consideration;
- a surplus of experienced flight and cabin crew in the Australian aviation market;
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Importantly, the Company has already achieved the following milestones:

- the Foreign Investment Review Board has given the necessary approvals for the Proposed Transaction; and

- the Civil Aviation and Safety Authority has given approval for the new jet services in the form of a High Capacity Air Operator's Certificate.

The Convertible Notes, if converted, could result in PAG having a shareholding in the Company of approximately 23.3% (if the initial $50 million tranche is fully converted by PAG), and up to approximately 47.6% (if the full $150 million is drawn down by the Company and converted by PAG). The Convertible Notes can only be exercised after three years following Financial Close, unless certain trigger events occur before then, so there will not be any immediate dilution for Shareholders. If the Company has elected not to drawdown the full $150 million by the date which is three years after Financial Close (**Final Draw Date**), then the Company will issue to PAG zero-cost options exercisable at $1.50 per Share (subject to customary adjustments) (**Warrants**) which if fully exercised and aggregated with Shares issued on conversion of any Convertible Notes, would similarly result in PAG having a total shareholding of up to approximately 47.6%. Accordingly, Shareholder approval is required for the Proposed Transaction Resolution in respect of the issue of Convertible Notes, Warrants and any Shares issued upon conversion of the Convertible Notes or exercise of the Warrants both under the Corporations Act and the ASX Listing Rules.

PAG will also be entitled to nominate up to two Directors to the Board of the Company and one of those directors to the board of RAPL, subject to certain conditions.

The Board has carefully considered the advantages, disadvantages and risks associated with the Proposed Transaction and believes the Proposed Transaction presents several significant advantages:

- the Convertible Notes having a relatively low interest rate of 4% per annum payable quarterly in arrears;
- the Company having the long-term ability to flexibly drawdown funds. The Company will initially drawdown $50 million, with an additional $100 million available for drawdown until the Final Draw Date. The terms of the Convertible Notes provide the Company with assurance and funding flexibility without the need for unnecessary interest payments for unused funds;
- providing the Company with substantial cash reserves to respond to unexpected contingencies in the start-up of Domestic Services; and
- the long-term financial backing of PAG, being a leading Asia-Pacific focused investment firm with assets under management of over US$40 billion.

The Independent Expert appointed to assess the Proposed Transaction considers that the Proposed Transaction is "not fair but reasonable" to Shareholders. Although the Independent Expert has concluded that the Proposed Transaction is not fair, it has also concluded that the Proposed Transaction is reasonable as the advantages of proceeding with the Proposed Transaction outweigh the potential disadvantages. Further details regarding the Domestic Services and the Proposed Transaction (including the Independent Expert's report set out in Schedule 5) are set out in the Explanatory Statement and you are strongly encouraged to read the Explanatory Statement in its entirety.

The Board concurs with the conclusion of the Independent Expert and unanimously believes that the Proposed Transaction is in the best interests of Shareholders. Accordingly;

- each Director recommends that Shareholders vote in favour of the Proposed Transaction Resolution;
- each Director confirms that they intend to vote any Shares that they own in favour of the Proposed Transaction Resolution; and
- the Chairman and any other Director who receives undirected proxies intend to vote any such undirected proxies in favour of all Resolutions,

in the absence of a superior and credible proposal emerging between now and the time of the Meeting.

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I would like to thank you, our Shareholders, for your support and vote of confidence in the business and its team. We look forward to delivering on the opportunities we see for the business moving forward and growing Shareholder value.

Yours sincerely

Lim Kim Hai

Executive Chairman

KEY INFORMATION IN RESPECT OF THE PROPOSED TRANSACTION

QUESTION	ANSWER	REFERENCE
THE PROPOSED TRANSACTION		
What is the Proposed Transaction?	The Proposed Transaction involves the initial issue of $50 million in Convertible Notes, and up to a further $100 million in Convertible Notes in the three years thereafter, the proceeds of which will be used to establish, launch, operate and expand Rex's Australian domestic Regular Public Transport jet operations scheduled to commence on 1 March 2021 (**Domestic Services**).	5.1
What are the proposed Domestic Services?	The Domestic Services will be operated using leased Boeing 737-800NG jets with eight business class seats and either 162 or 168 economy class seats depending on the specific aircraft. The Domestic Services are scheduled to commence on 1 March 2021, which will initially see the deployment of three jets servicing the Sydney to Melbourne route. By Easter 2021, it is proposed that two additional jets will be added to service the three cities of the "Golden Triangle" - being Sydney, Melbourne and Brisbane. Should demand be sufficiently high, it is the Company's current intention that further additions to the fleet will be made in order to have eight to ten jets in total by the end of 2021. This would allow the Company's network to expand to cover a majority of the top ten domestic routes in Australia which are all based out of Sydney and Melbourne.	5.2
What are the key aspects of the Subscription Agreement and Convertible Note Deed Poll?	Under the Proposed Transaction, subject to certain regulatory and Shareholder approvals: • the Company will be able to drawdown up to $150 million in the period of three years up to the Final Draw Date by issuing up to 150 million Convertible Notes having a face value of $1.00 each to PAG which will be redeemable, or convertible into Shares at $1.50 per Share in the Company, in accordance with the terms of the Subscription Agreement and Convertible Note Deed Poll; • if the Company elects not to drawdown the full $150 million (**Undrawn Amount**) by the Final Draw Date, then the Company will issue such number of Warrants having an Exercise Price of $1.50 per	5.1 5.4 Schedule 3

QUESTION	ANSWER	REFERENCE
	Share which would have an aggregate total Exercise Price equal to the Undrawn Amount, which will be exercisable to acquire Shares in accordance with the Warrant terms (which are summarised in Section 5.5); • the Company and certain subsidiaries (each an **Obligor** and **Guarantor**) will provide a first ranking security over all of their assets and undertakings and will also provide guarantees in favour of PAG to secure the Convertible Notes; and • PAG will, subject to certain conditions, have the right to nominate up to two non-Executive directors and one alternative director to the Board. One of those directors may also be nominated to the RAPL Board.	
Who is PAG?	PAG is part of one of the world's largest Asia Pacific-focused private investment firms, with a network of 200 seasoned investment professionals in nine key offices in the Asia-Pacific region and around the world.	5.6.1
What are the key terms of the Convertible Notes and Warrants	The Convertible Notes : • are redeemable on the Maturity Date or earlier if certain Trigger Events occur; • convertible into Shares at a Conversion Price of $1.50 per Share(subject to customary adjustments) after three years after their date of issue or earlier if certain Trigger Events occur. Please refer to section 5.4 for a summary of the key terms of the Convertible Notes and Schedule 3 Any Warrants that are issued after the Final Draw Date in lieu of Convertible Notes, will be exercisable at $1.50 per Share, from their date of issue and up to the Maturity Date. Please refer to section 5.5 for a summary of the key terms of the Warrants	5.4 5.5
What will PAG's shareholding in the Company be as a result of the Proposed Transaction being	The Proposed Transaction could upon conversion of the Convertible Notes and/or exercise of Warrants result in PAG and/or a PAG Affiliate having a shareholding in the Company: • of approximately 23.3% if the initial $50 million tranche of Convertible Notes is fully converted,	5.1

QUESTION	ANSWER	REFERENCE
approved?	and • up to approximately 47.6% if the full number of Convertible Notes and/or Warrants are all converted and exercised.	
Why is Shareholder approval being sought?	Shareholder approval is being sought pursuant to and in accordance with section 611 item 7 of the Corporations Act and Listing Rule 7.1 in relation to the issue of Convertible Notes and Warrants and Shares issued upon their conversion or exercise as part of the Proposed Transaction.	5.7
ASSESSMENT OF THE TRANSACTION AND DIRECTORS' RECOMMENDATION		
What is the opinion of the Independent Expert?	The Independent Expert's Report concludes that the Proposed Transaction is "not fair but reasonable" to Shareholders not associated with the Proposed Transaction, in the absence of a superior proposal. This is on the basis that: • the fair market value of a Share after the Proposed Transaction (assessed as being \$1.55 to \$1.75) is less than the fair market value of a Share before the Proposed Transaction (assessed as being \$1.97 to \$2.30), so it is not fair; but • the advantages of the Proposed Transaction outweigh the potential disadvantages, so that it is reasonable. The assessment is set out in summary form in section 5.16. Shareholders are strongly encouraged to read the Independent Expert's Report, a fully copy of which is set out in Schedule 5.	5.16 Schedule 5
What are the Directors' recommendation?	Having regard to the opinion of the Independent Expert and the advantages and disadvantages and risks associated with the Proposed Transaction, all Directors believe that the Proposed Transaction is in the best interests of the Company and its Shareholders for the following reasons: • (**Funding flexibility**) the Company will have the ability to drawdown funds flexibly to meet its funding requirements for the Domestic Services; • (**Favourable interest rate**) the Company will be required to pay a relatively low rate of interest on	5.3

QUESTION	ANSWER	REFERENCE
	the drawndown funds at a rate of 4% per annum, payable quarterly in arrears; • (**Improved financial position**) proceeds raised under the Convertible Notes will provide the Company with substantial cash reserves to fund the Domestic Services and to respond to any unexpected contingencies when establishing, launching, operating and expanding the Domestic Services; • (**Increased likelihood for success of Domestic Services**) the Proposed Transaction is expected to increase the likelihood of the success of the Domestic Services which if successful would be transformative for the Rex Group and could provide significant upside to Shareholders; and • (**Strategic partnership with PAG**) the Company will have the long-term financial backing of the PAG Group, a leading Asia-Pacific focused investment firm with over US$40 billion of assets under management.	
	The Directors unanimously recommend Shareholders vote in favour of the Proposed Transaction.	5.15
How do the Directors intend to vote?	Each Director intends to vote in favour of the Proposed Transaction in respect of all the Shares they hold or control and any undirected proxies they receive.	5.17
What are the reasons to vote in favour of, or against the Proposed Transaction?	The Directors are of the view that the following are some of the reasons why Shareholders may decide to vote in favour of the Proposed Transaction: • (**Significant funding for Domestic Services**) the Proposed Transaction provides the Company with sufficient funding to establish, launch, operate and expand the Domestic Services; • **(Market confidence)** the significant funding available for the Domestic Services will provide considerable assurance to suppliers (including lessors of aircraft), corporate customers and for passengers who choose to book months in advance for their flights; • (**Increased likelihood for success of Domestic Services**) the Proposed Transaction is expected to	5.11

QUESTION	ANSWER	REFERENCE
	increase the likelihood of the success of the Domestic Services which, if successful, would be transformative for the Group and could provide significant upside to Shareholders; • (**Opportunities in the Aviation Industry**) the aviation market, in its current distressed state, presents an unique opportunity to capitalise on cheap aircraft leases, historically low jet fuel prices and reduced competition for the "Golden Triangle" route of Melbourne, Sydney and Brisbane as a result of the recent collapse of a major airline; • (**Favourable terms**) the Proposed Transaction provides the Company with substantial funding at a relatively low interest of 4% per annum payable quarterly in arrears. Further, there is no interest payable by the Company during the Extended Term if requested PAG elects to extend the Term. Such terms assist the Company managing its financial position going forward; • (**Premium to trading prices before announcement of Proposed Transaction**) the Conversion Price for Convertible Notes and Exercise Price of Warrants(if any) of $1.50 was at a premium to the market price of Shares traded on ASX prior to the announcement of the Proposed Transaction. However, since that announcement Rex Shares have at times traded at above $1.50; • (**Potentially increases liquidity**) the increased size of the Company if the Proposed Transaction proceeds may also help improve liquidity as the enhanced scale may increase the investor universe and facilitate coverage from sell-side research analysts; • (**Best alternative currently available**) the Company and Board considered various alternatives for raising funding for the Domestic Services. However, there are no other alternatives currently available that provide the same level of funding certainty for the Domestic Services and there have been no superior offers despite the public nature of the Proposed Transaction; • (**Long term commitment of major investors)** the	

QUESTION	ANSWER	REFERENCE
	Convertible Notes have a minimum five year term (subject to certain earlier redemption events) and PAG has also agreed to a Voluntary Escrow Deed confirming PAG will not dispose of Conversion Shares for two years from the date they are first issued to PAG. Similarly, Mr Lim Kim Hai, Executive Chairman and founder of the Company, will enter into a Voluntary Escrow Deed in respect of his Shares for the Term of the Convertible Notes; • (**Strategic Shareholder**) the issue of the Convertible Notes will result in PAG making a significant investment which indicates its long-term commitment to the Company's strategy prospects; • (**Board experience**) when PAG becomes entitled to appoint its nominee directors to the Board and the RAPL Board, such nominees will provide additional strategic oversight, knowledge and experience to those boards; and • (**Independent Expert has concluded the Proposed Transaction is reasonable**) the Independent Expert's Report concludes that the Proposed Transaction is "not fair but reasonable" to Shareholders not associated with the Proposed Transaction.in the absence of a superior proposal as ,on balance, the benefits of the Proposed Transaction outweigh the potential disadvantages.	
	The Directors are of the view that the following are some of the reasons why Shareholders may decide to vote against the Proposed Transaction: • (**Dilution**) after three years (or earlier if certain Trigger Events occur) if PAG elects to convert its Convertible Notes and/or exercise Warrants, then current Shareholders will have their percentage shareholding in the Company diluted. PAG will have the ability to convert the Convertible Notes into a shareholding of about 23.3% if the entire initial $50 million in Convertible Notes is converted, and up to about 47.6% if the full further $100 million in Convertible Notes is drawn down and fully	5.12

QUESTION	ANSWER	REFERENCE
	converted or if Warrants are issued and fully exercised. This will mean that the shareholding percentage and voting power of existing Shareholders will be reduced to between 76.8% and 51.4% (depending on the amount of Convertible Notes converted and/or Warrants exercised); • (**Impact on possible control transactions**) the presence of PAG as a significant shareholder with Board representation and the existence of the positive and negative covenants under the Subscription Agreement may deter other prospective acquirers from making a takeover offer for the Company other than through a transaction supported by PAG This may reduce the opportunity for Shareholders to receive a takeover control premium in the future; • (**PAG has certain rights as a financier**) as is typical with a financing transaction, PAG will have the benefit of certain negative covenants and restrictions in relation to certain actions by the Company and other Group Companies. Complying with these obligations may restrict the Group's autonomy and flexibility to make and implement certain business decisions; and • (**Funding risk**) The subsequent drawdown of funds under the Subscription Agreement is subject to satisfaction of customary requirements including the Company confirming there is no event of default. Once the Company has drawdown at least $75 million there are further requirements including that the Company must have utilised its excess cash flow to fund the Domestic Services and notified PAG there is a likely pathway to sustainable positive operating cash flow in the following 12 months. There is a risk that the Company may not be able to satisfy these requirements or that PAG may otherwise decline to provide further funding if an independent adviser concludes that there is no likely pathway for the Domestic Services to achieve sustainable positive operating cash flow in the following 12	

QUESTION	ANSWER	REFERENCE
	month period; • (**Recent trading prices have exceeded $1.50**) since the announcement of the Proposed Transaction, the trading price of Shares has at times increased to levels above the Conversion Price for the Convertible Notes and exercise price of the Warrants (if any) of $1.50 per Share. The trading price as at the close of trading on ASX on the day before the date of this Explanatory Statement was $1.905);and • (**Independent Expert has concluded the Proposed Transaction is not fair**) the Independent Expert's Report concludes that the Proposed Transaction is "not fair but reasonable" to Shareholders not associated with the Proposed Transaction.in the absence of a superior proposal as ,on balance, the benefits of the Proposed Transaction outweigh the potential disadvantages. The Directors believe that the advantages of the Proposed Transaction outweigh the potential disadvantages.	
What are the potential risks associated with the Proposed Transaction?	There are also a number of risks associated with the implementation of the Proposed Transaction which Shareholders should have regard. These include: • (**Travel industry disruption and the impact of COVID-19**) there can be no guarantee that expected benefits will materialise from using the proceeds of the Proposed Transaction to establish, launch, operate and expand the Domestic Services. The operating and financial performance of the Group is dependent on, amongst other things: o uncertainty in the state of the aviation and broader travel industry, including any restrictions on domestic air travel and the level of demand for the Domestic Services; and o how incumbent airlines will competitively respond to the threat of a new airline entering the "golden triangle route" of Melbourne, Sydney and Brisbane; • (**Change of law and regulations**) the aviation	5.13

QUESTION	ANSWER	REFERENCE
	industry is subject to extensive regulation. Changes in law and regulations and government policy (including relating to the COVID-19 pandemic) may impact the Group's revenue or increase the Group's operating costs; and • (**Breakdown in relations**) to maximise the benefits of the PAG partnership, there needs to be a strong working relationship between the Company and PAG. In the event that there is a breakdown of that relationship, the Company may be unable to realise the full benefits of the Proposed Transaction. However, there are strong incentives on both sides to keep relations positive and to resolve any difficulties.	
What will happen if Shareholder approval is not obtained or the Proposed Transaction does not otherwise proceed?	If the Proposed Transaction is not approved by Shareholders, the Company will continue to operate as it did before the Proposed Transaction was announced. If that occurs, the Board will continue to assess the Group's strategic objectives and alternatives. The Board is committed to proceeding with the launch of the Domestic Services and will pursue other avenues for funding, including sale-and-lease-back arrangements to fund the establishment, launch and operation of the Domestic Services. The Company has obtained proposals from two companies willing to undertake sale-and-lease-back transactions predicated on $30 million for 15 aircraft. The Company expects that it will be able to raise $30 million through this initially and will contemplate similar transactions if further funding is required.	5.14
Further information		
Where can Shareholders find out further information?	For further details on the terms of the Proposed Transaction and Subscription Agreement and Convertible Note Deed Poll, see Section 5 and Schedules 1, 3, 4 and 5 (also available on the Company's website and www.asx.com.au).	

VIRTUAL PARTICIPATION

The Board considers the health, safety and welfare of the Company's staff, its Shareholders and other stakeholders to be paramount.

In accordance with the Corporation Act (as modified by the Corporations (Coronavirus Economic Response) Determination (No. 3) 2020), to facilitate Shareholder participation, the Board has determined that Shareholders will participate in the Meeting via a live webcast.

The Meeting will be hosted online as a live webcast at the following URL: https://AGMLIVE.LINK/REX20. You will be able to view the Meeting live, lodge a direct vote in advance, or in real time, and ask questions online.

Shareholders participating in the Meeting will be able to cast direct votes between the commencement of the Meeting at 2.00pm (Sydney time) on Friday, 29 January 2021, and the closure of voting as announced by the Chairman during the Meeting.

Shareholders who participate in the Meeting using the online platform will be entitled to the same rights as if they attended the Meeting in person, including:

- to be counted as being present at the Meeting for any purpose, including for the purpose of determining whether there is a quorum;
- to ask questions or make comments; and
- to vote on Resolutions they are entitled to vote on.

If you attend the Meeting via the live webcast, you can lodge your votes online at https://AGMLIVE.LINK/REX20. You will require your HIN/SRN and postcode/domicile code to access online voting.

MEETING AGENDA

1.30pm	**Registration Opens** Please log onto your electronic device in advance of the AGM commencement time and register your attendance. You will need your SRN/HIN Number and postcode/domicile code (or Proxyholder login provided to you by Link Market Services) in order to login to the online Meeting platform).
2.00pm	**Commencement of Meeting** • Chairman's Address

	• Business of the Meeting

More information about how to use the Meeting online platform (including how to vote and ask questions online during the Meeting) is available in the Virtual Meeting Online Guide, which has been lodged with the ASX along with this Notice, and is available at www.asx.com.au under the Company's ASX code "REX".

SHAREHOLDER QUESTIONS

The Meeting will provide shareholders opportunity to ask questions of the Board or Deloitte (the Company's auditor). The Board encourages shareholders to register questions in advance of the Meeting.

A Shareholder Question Form has been provided to all shareholders. Written questions must be received by Link Market Services Limited by 5.00pm (Sydney time) on Friday, 22 January 2021 and can also be submitted online by logging into your holding at www.linkmarketservices.com.au.

Questions will be collated and the Chairman will seek to address as many of the more frequently raised questions as possible. However, there may not be sufficient time available at the Meeting to address all questions raised.

NOTICE OF 2020 ANNUAL GENERAL MEETING

Unless specified otherwise, capitalised terms in this Notice of Meeting have the same meaning as in the Explanatory Statement accompanying this Notice of Meeting.

General item - Annual Report

To receive and consider the financial report of the Company and its controlled entities for the financial year ended 30 June 2020, and the related Directors' Report, Directors' Declaration and Auditor's Report. There is no vote on this item.

Resolution 1 - Adoption of remuneration report

To consider, and if thought fit, pass the following Resolution as a non-binding ordinary resolution:

> "*That the remuneration report, as set out in the Directors' Report for the Company and its controlled entities for the financial year ended 30 June 2020, be adopted.*"

Please note that the vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Exclusion Statement

A vote on this Resolution must not be cast (in any capacity) by or on behalf of the following persons:

(a) a member of Key Management Personnel, details of whose remuneration are included in the Remuneration Report for the year ended 30 June 2020, or a Closely Related Party of such member (regardless of the capacity in which the vote is cast); or

(b) by a person appointed as a proxy, where that person is either a member of Key Management Personnel or a Closely Related Party.

However, a person described above may cast a vote on this Resolution if:

- the person does so as a proxy that specifies how the proxy is to vote on the Resolution; or
- the person is the Chairman and has been appointed as a proxy (expressly or by default) without being directed how to vote on the Resolution and expressly authorises the Chairman to exercise the proxy even though it is in connection with the remuneration of a member of Key Management Personnel; and
- in either case, the vote is not cast on behalf of a person described in paragraphs (a) or (b) above.

Resolution 2 – Re-election of Neville Howell as an Executive Director

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

> *"That Neville Howell, who retires as an Executive Director in accordance with Listing Rule 14.4 and article 20.1 of the Constitution, and being eligible for re-election under article 20.8 of the Constitution, be re-elected as an Executive Director of the Company."*

Resolution 3 – Re-election of Christopher Hine as an Executive Director

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

> *"That Christopher Hine, who retires as an Executive Director in accordance with Listing Rule 14.4 and article 20.1 of the Constitution, and being eligible for re-election under article 20.8 of the Constitution, is re-elected as an Executive Director of the Company."*

Resolution 4 – Re-election of James Davis as an Independent Director

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

> *"That James Davis, who retires as an Independent Director in accordance with Listing Rule 14.4 and article 20.1 of the Constitution, and being eligible for re-election under article 20.8 of the Constitution, be re-elected as an Independent Director of the Company."*

Resolution 5 – Re-election of Professor Ronald Bartsch as an Independent Director

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

> *"That Professor Ronald Bartsch, who retires as an Independent Director in accordance with Listing Rule 14.4 and article 20.1 of the Constitution, and being eligible for re-election under article 20.8 of the Constitution, be re-elected as an Independent Director of the Company."*

Resolution 6 – Appointment of BDO Audit Pty Ltd as the auditor of the Company

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

> *"That for the purposes of section 327B of the Corporations Act, subject to the consent of the Australian Securities and Investments Commission, BDO*

Audit Pty Ltd, having been nominated and having consented in writing to act as auditor of the Company, be appointed as the auditor of the Company to fill the vacancy following the resignation of Deloitte Touche Tohmatsu as the auditor of the Company."

Resolution 7 – Approval of the Proposed Transaction

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

"That for the purposes item 7 of section 611 of the Corporations Act, Listing Rule 7.1 and for all other purposes, approval be given for the Proposed Transaction , including for:

(a) the Company to issue Convertible Notes, Warrants and Shares, on the terms and conditions set out in the Subscription Agreement (as summarised in the Explanatory Statement accompanying this Notice of Meeting), so that:

*i. the Company will issue to PAGAC Regulus Holding Pte. Ltd. (**PAG**) up to 150 million Convertible Notes having a total face value of $150 million and a Conversion Price of $1.50 per Share (subject to customary adjustments);*

*ii. if the Company elects not to drawdown the full $150 million (**Undrawn Amount**) by the Final Draw Date, then the Company will issue to PAG such number of Warrants having an Exercise Price of $1.50 per Share (subject to customary adjustments) which would have an aggregate total Exercise Price equal to the Undrawn Amount; and*

iii. upon the conversion of all or some of the Convertible Notes or exercise of some or all of those Warrants by PAG or a PAG Affiliate (as defined in the Explanatory Statement) to which Convertible Notes or Warrants may be transferred, the Company will issue such number of Shares determined in accordance with the terms of such Convertible Notes and Warrants (as applicable); and

(b) the resulting acquisition by PAG and any such PAG Affiliate of a relevant interest and voting power in respect of such Shares."

Voting Exclusion Statement

The Company will disregard any votes cast in favour of this resolution by or on behalf of PAG and any of its associates, or any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder of ordinary securities in the entity).

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form;

(b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

- the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
- the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 8 – Adoption of the Management Incentive Scheme

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

"That for the purposes of Listing Rule 7.2, exception 13 and for all other purposes, approval is given for the Company to adopt the Management Incentive Scheme and for the issue of Awards and Shares upon the vesting and exercise of Awards under the Management Incentive Scheme, on the terms and conditions summarised in the Explanatory Statement."

Voting Exclusion Statement

The Company will disregard any votes cast in favour of this Resolution by or on behalf of a person who is eligible to participate in the Management Incentive Scheme or an associate of those persons.

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form;

(b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

- the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and

- the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 9 – Approval of grant of Awards and Shares to Neville Howell under the Management Incentive Scheme

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

> *"That, subject to the passing of Resolutions 2 and 8, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given to issue up to 1,100,000 Awards, and Shares upon the vesting and exercise of such Awards, to Neville Howell, subject to and in accordance with the terms and conditions of the Management Incentive Scheme, as summarised in the Explanatory Statement."*

Voting Exclusion Statement

The Company will disregard any votes cast on this Resolution by a person referred to in rule 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the Management Incentive Scheme or an associate of those persons.

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form;

(b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

- the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
- the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 10 – Approval of grant of Awards and Shares to Christopher Hine under the Management Incentive Scheme

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

> *"That, subject to the passing of Resolutions 3 and 8, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given to issue up to 500,000 Awards, and Shares upon the vesting and exercise of such Awards, to Christopher Hine, subject to and in accordance with the terms and*

conditions of the Management Incentive Scheme, as summarised in the Explanatory Statement."

Voting Exclusion Statement

The Company will disregard any votes cast on this Resolution by a person referred to in rule 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the employee incentive scheme in question.

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form;

(b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

- the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
- the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 11 – Approval of grant of Awards and Shares to James Davis under the Management Incentive Scheme

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

"That, subject to the passing of Resolutions 4 and 8, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given to issue up to 500,000 Awards, and Shares upon the vesting and exercise of such Awards, to James Davis, subject to and in accordance with the terms and conditions of the Management Incentive Scheme, as summarised in the Explanatory Statement."

Voting Exclusion Statement

The Company will disregard any votes cast on this Resolution by a person referred to in rule 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the Management Incentive Scheme or an associate of those persons.

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form;

(b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

- the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
- the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 12 – Approval of grant of Awards and Shares to Professor Ronald Bartsch under the Management Incentive Scheme

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

> *"That, subject to the passing of Resolutions 5 and 8, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given to issue up to 500,000 Awards, and Shares upon the vesting and exercise of such Awards, to Professor Ronald Bartsch, subject to and in accordance with the terms and conditions of the Management Incentive Scheme, as summarised in the Explanatory Statement."*

Voting Exclusion Statement

The Company will disregard any votes cast on this Resolution by a person referred to in rule 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the Management Incentive Scheme or an associate of those persons.

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form;

(b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

- the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
- the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 13 – Approval of grant of Awards and Shares to The Honourable John Sharp AM under the Management Incentive Scheme

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

> *"That, subject to the passing of Resolution 8, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given to issue up to 1,600,000 Awards, and Shares upon the vesting and exercise of such Awards, to The Honourable John Sharp AM, subject to and in accordance with the terms and conditions of the Management Incentive Scheme, as summarised in the Explanatory Statement."*

Voting Exclusion Statement

The Company will disregard any votes cast on this Resolution by a person referred to in rule 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the Management Incentive Scheme or an associate of those persons.

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form;

(b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

- the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
- the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

BY ORDER OF THE BOARD

Dated 23, December 2020

Irwin Tan
Company Secretary

Voting Notes

These Voting Notes should be read together with and form part of the Notice of Meeting.

If you are unable to participate in the Meeting via the live webcast but wish to appoint a proxy, please complete the Proxy Form which you will receive either electronically (if you have elected to receive electronic communications from the company), or via post.

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1. Determination of entitlement to attend and vote

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Board has determined that a person's entitlement to vote at the AGM will be the entitlement of that person set out in the register of shareholders as at 7.00pm (Sydney time) on Wednesday, 27 January 2021. Accordingly, transactions registered after that time will be disregarded in determining shareholders entitled to vote at the AGM.

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2. Proxies

2.1 General information

If you are a Shareholder entitled to attend and vote at the Meeting, you are entitled to appoint one or two proxies. Where two proxies are appointed, you may specify the number or proportion of votes that each may exercise, failing which each may exercise half of the votes. If you want to appoint one proxy, you can use the Proxy Form provided. If you want to appoint two proxies, please follow the instructions on the Proxy Form.

An instrument appointing a proxy must be signed by the Shareholder appointing the proxy or by the Shareholder's attorney duly authorised in writing or, if the Shareholder is a corporation, in accordance with the Corporations Act and the Shareholder's constitution. A proxy need not be a Shareholder and may be an individual or body corporate.

A proxy has the same rights as a Shareholder to speak at the Meeting, to vote (but only to the extent allowed by the appointment) and to join in a demand for a poll.

A Proxy Form which is signed under power of attorney or other authority must be accompanied by that power of attorney or authority or a copy of that power of attorney or authority certified as a true copy by statutory declaration, unless it has previously been provided to and been accepted by the share registry.

Where more than one joint Shareholder votes, the vote of the Shareholder whose name appears first in the register of Shareholders shall be accepted to the exclusion of the others.

The Company encourages all Shareholders who submit proxies to direct their proxy whether to vote for or against or to abstain from voting on each Resolution.

If you sign and return a Proxy Form and do not nominate a person to act as your proxy, the Chairman will be appointed as your proxy by default.

2.2 Undirected proxies - Chairman's intention

The Chairman intends to vote any undirected proxy in favour of all Resolutions

If you wish, you can appoint the Chairman as your proxy and direct the Chairman to cast your votes contrary to the above stated voting intention or to abstain from voting on a Resolution. Simply mark your voting directions on the Proxy Form before you return it.

2.3 Where to lodge a proxy

You may lodge a proxy by following the instructions set out on the Proxy Form accompanying this Notice of Meeting.

To be effective, the proxy must be received by Link Market Service Limited in accordance with the instructions on the Proxy Form at the website address, postal address or fax number below not later than 2.00pm (Sydney time) on 27 January 2021.

- Online (preferred):

  www.linkmarketservices.com.au

- By mail:

  Regional Express Holdings Limited
  C/- Link Market Services Limited
  Locked Bag A14
  Sydney South NSW 1235
  Australia

- By fax:

  02 9287 0309 (from within Australia)

  +61 2 9287 0309 (from outside Australia)

- By delivery in person:

  Link Market Services Limited
  1A Homebush Bay Drive
  Rhodes NSW 2138
  Australia

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3. Representatives

In the case of a Shareholder which is a body corporate, a representative may be appointed.

Any Shareholder being a body corporate may, by Resolution of its Directors, authorise any person to act as its representative at the Meeting. That representative is entitled to exercise the same powers as the body corporate appointing the representative could have exercised as a Shareholder, if it were a natural person.

The representative should send to Link Market Service Limited prior to the Meeting evidence of his or her appointment unless it has previously been provided to Link Market Service Limited. If such evidence is not received prior to the commencement of the Meeting, then the individual will not be permitted to act as the Shareholder's representative or representative of the Shareholder's proxy.

4. Meeting participation and voting

To participate in the Meeting, please go to the URL: https://agmlive.link/rex20 and follow the instructions set out in the Virtual Meeting Online Guide that can be found on the Company's ASX Market announcements page at www.asx.com.au under the Company's ASX code "REX"..

The Board encourages you to lodge your votes online as per the URL above. You will require your HIN/SRN and postcode/domicile code to access online voting and ask questions.

If you do not plan to attend the Meeting, you are encouraged to complete and return a Proxy Form or lodge a proxy online.

As the meeting will be held virtually, voting on Resolutions set out in this Notice of Meeting will be conducted by poll.

EXPLANATORY STATEMENT TO THE NOTICE OF ANNUAL GENERAL MEETING

This document is an important document. If you are in any doubt as to how to act, you should consult your financial or legal adviser as soon as possible.

Purpose of this Explanatory Statement

This document is an important document. This Explanatory Statement explains the items of business to be considered at the Annual General Meeting and should be read in conjunction with the Notice of Meeting. This Explanatory Statement provides Shareholders with the necessary information to assist them in deciding how to vote on the items of business to be considered at the Annual General Meeting.

This Explanatory Statement does not take into account the individual investment objectives, financial situation and particular needs of Shareholders or any other person. Accordingly, it should not be relied upon as the sole basis for any decision in relation to the items of business to be considered at the Annual General Meeting. You should read this Explanatory Statement in its entirety before making a decision as to how to vote at the Annual General Meeting. If you have any doubt as to what you should do once you have read this Explanatory Statement, you should consult your financial or legal adviser as soon as possible.

Forward looking statements

Certain statements in this Explanatory Statement relate to the future. Those statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by those statements. These statements reflect views only as of the date of this Explanatory Statement.

While the Company believes that the expectations reflected in the forward looking statements of the Company in this document are reasonable, neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Explanatory Statement will actually occur and you are cautioned not to place undue reliance on those forward looking statements.

Disclaimer

No person is authorised to give any information or make any representation in connection with the items of business to be considered at the Annual General Meeting which is not contained in this Explanatory Statement.

Any information or representation not contained in this Explanatory Statement may not be relied on as having been authorised by the Company or the Directors in connection with the items of business to be considered at the Annual General Meeting.

Privacy

To assist the Company to conduct the Annual General Meeting, the Company may collect personal information including names, contact details and shareholding of Shareholders and the names of persons appointed by Shareholders to act as proxy at the Annual General Meeting. Personal information of this nature may be disclosed by the Company to its share registry and print and mail service providers. Shareholders have certain rights to access their personal information that has been collected and should contact the Company Secretary if they wish to access their personal information.

Responsibility for information

The information concerning the Company, the Domestic Services and the Proposed Transaction contained in this Explanatory Statement, including information as to the views and recommendations of the Directors, has been prepared by the Company and is the responsibility of the Company. Neither PAG, its associates nor their respective advisers assume any responsibility for the accuracy or completeness of that information.

Information concerning PAG in this Explanatory Statement, including information as to the intentions of PAG and its proposed nominee directors, has been provided by PAG and is their responsibility. Neither the Company nor its advisers assume any responsibility for the accuracy or completeness of that information.

The Independent Expert has prepared the Independent Expert's Report pertaining to the Proposed Transaction and takes responsibility for the Independent Expert's Report. It has consented to the inclusion of the Independent Expert's Report in this Explanatory Statement. The Independent Expert is not responsible for any other information contained within this Explanatory Statement. Shareholders are urged to read the Independent Expert's Report carefully and in its entirety to understand the scope of that report, the methodology of the assessment, the sources of information and the assumptions made.

To the extent that the Independent Expert's Report contains financial projections, forecasts, valuations or other content prepared by the Independent Expert, none of the Directors, the Company or its advisers represent, adopt or otherwise assume any responsibility for that content. projections, forecasts, valuations and other forward looking statements are by their nature uncertain and dependent on a number of future events. Any such statements should not be regarded as guidance and the Company does not propose to report or make disclosures relative to those statements

PAG and the Independent Expert have given and have not withdrawn their consent to the inclusion in this Explanatory Statement of the information prepared by them, as indicated above.

ASIC and ASX involvement

A copy of this Notice of Meeting has been lodged on 24 November 2020 with ASIC pursuant to ASIC Regulatory Guide 74 and with ASX pursuant to the Listing Rules. Neither ASIC, ASX nor any of their officers take any responsibility for the contents of this Notice of Meeting and Explanatory Statement.

Glossary

Terms and abbreviations used in the Notice of Meeting and this Explanatory Statement have the same meaning and are defined in the Explanatory Statement's Glossary in Schedule 1, other than in the Independent Expert's Report which contains its own Glossary in Schedule 5.

Key Dates

Event	Date
Date of this Notice of Meeting and Explanatory Statement	Wednesday, 23 December 2020
Dispatch of Letter, Proxy Form and Annual Report to Shareholders	Tuesday, 29 December 2020

Date for establishing voting entitlements	Wednesday, 27 January 2021
Latest time for receipt of Proxy Forms	2.00pm (Sydney Time), Wednesday, 27 January 2021
Annual General Meeting	**2.00pm (Sydney Time), Friday, 29 January 2021**

PART A: ORDINARY BUSINESS

1. GENERAL ITEM – ANNUAL REPORT

1.1 Background

The Annual Report of the Company includes the Financial Statements and accompanying notes, Directors' Report and the Auditor's Report for the year ended 30 June 2020. Shareholders can access a copy of the Annual Report on the Company's website at: https://www.rex.com.au/AboutRex/InvestorRelations/annual_report.aspx. As permitted by the Corporations Act, a printed copy of the Annual Report has been sent only to those Shareholders who have elected to receive a printed copy.

1.2 Questions and comments

Neither the Corporations Act nor the Constitution requires a vote of the Shareholders on the Financial Statements so there is no formal resolution. However, Shareholders will be given a reasonable opportunity to ask questions about, and make comments on, the Financial Statements and Annual Report. Similarly, you will have a reasonable opportunity at the Meeting to ask Deloitte, the Company's auditor for the year ended 30 June 2020, questions about the Auditor's Report.

You can also submit written questions to Deloitte about the Auditor's Report. Written questions must be received no later than 5.00pm (Sydney time) on Friday, 22 January 2021 at Link Market Service Limited (at the postal address, website address or fax number for lodgement of proxies). A list of questions for Deloitte will be available at the Meeting.

2. RESOLUTION 1 – ADOPTION OF THE REMUNERATION REPORT

2.1 Content of Remuneration Report

Directors of listed companies, such as the Company, are required to provide detailed disclosures of director and senior executive remuneration in their Directors' Reports. These disclosures are set out in the Remuneration Report (which forms part of the Directors' report) and were included in the Annual Report.

The Remuneration Report includes details of the remuneration provided to Key Management Personnel (including Non-Executive and Executive Directors) for the year ended 30 June 2020;

Under the Corporations Act, the Resolution of the Shareholders that the Remuneration Report of the Company be adopted, or any failure to pass that Resolution, is advisory only and does not bind the Company or its Directors.

However, the Board will consider the outcome of the vote and comments made by Shareholders on the Remuneration Report at the Meeting when reviewing the Company's remuneration policies and practices.

There will be a reasonable opportunity for Shareholders to comment on, and ask questions about, the Remuneration Report at the Meeting.

Further, if 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive Annual General Meetings, Shareholders will be required to vote at the second of those Annual General Meetings on a "board spill resolution" to determine whether another meeting should be held within 90 days at which all of the Directors must stand for re-election.

There are restrictions on who can vote in respect of the Resolution to approve the Remuneration Report. These are outlined in the Notice of Meeting above.

2.2 Recommendation

The Board of Directors unanimously recommends that Shareholders vote in favour of Resolution 1 to adopt the Remuneration Report.

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3. RESOLUTIONS 2 TO 5 – RE-ELECTION OF DIRECTORS

3.1 Retirement by rotation

In accordance with ASX Listing Rule 14.4 and Article 20.1 of the Constitution, a Director must retire from office by no later than the third AGM following their appointment or election or 3 years, whichever is longer and may seek re-election under article 20.8 of the Constitution.

The following Directors, retire as required by Article 20.1 of the Constitution and ASX Listing Rule 14.4 and, being eligible, offer themselves for re-election as Director of the Company under article 20.8 of the Constitution:

3.2 RESOLUTION 2 – RE-ELECTION OF NEVILLE HOWELL AS AN EXECUTIVE DIRECTOR

Mr Howell has over 39 years of aviation experience and has been with the Company since its inception in August 2002. He has operated the Saab 340 as a First Officer and Captain for over 18 years for both Hazelton Airlines and Regional Express. Prior to his role as GM Flight Operations (**GMFO**) and Chief Pilot, Mr Howell was Manager Training & Checking and Deputy Chief Pilot. He is an extensively qualified and experienced simulator and aircraft instructor and has held positions as both Training and Check Captain. Mr Howell was the Chief Flying Instructor and Chief Pilot for the first integrated pilot training academy in Australia and has provided cadet pilot training for both domestic and international carriers. He is a qualified lecturer in several aviation subjects and has a Diploma of Aviation. He holds a number of CASA delegations and has done since 1984. As GMFO, Mr Howell was responsible for all facets of the Company's flight operations and all operational matters affecting the safety of flight operations. Mr Howell became Chief Operating Officer in July 2014. As Chief Operating Officer, he is responsible for Rex's operations including flight operations, continuing airworthiness, maintenance control, airport operations and the human factors group. Mr Howell is the Accountable Manager for the Regional Express Air Operator's Certificate.

Neville Howell is an Executive Director and was last re-elected at the Company's 2017 Annual General Meeting and accordingly offers himself for re-election.

The Board believes that Mr Howell's extensive aviation and regulatory knowledge and experience complement the skills of the Board and the Board (other than Neville Howell) unanimously recommends that Shareholders vote in favour of Resolution 2.

3.3 RESOLUTION 3 – RE-ELECTION OF CHRISTOPHER HINE AS AN EXECUTIVE DIRECTOR

Mr Hine has over 25 years of aviation experience including 15 years as a First Officer and Captain of Metroliner and Saab 340 aircraft and is a well-accomplished and knowledgeable instructor. He has been with the Company since its inception in August 2002 and is the Group Flight Operations Advisor, Chairman's Office and Executive Chairman of the Australian Airline Pilot Academy (Wagga and Victoria). Prior to his current role, he was the Chief Operating Officer and General Manager Flight Operations and Chief Pilot. Prior to joining Rex, he worked for Kendell Airlines from 1995, during which time he held various Check and Training Captain positions. As Chief Operating Officer he was responsible for the Company's operations including flight operations, maintenance control, airport operations and the human factors group. Mr Hine has also had experience as a lecturer in Cockpit Systems Management for the Bachelor of Applied Science (Civil Aviation) degree at the University of South Australia.

Christopher Hine is an Executive Director and was last re-elected at the Company's 2017 Annual General Meeting and accordingly offers himself for re-election.

The Board believes that Mr Hine's involvement as a member of the Safety and Risk Management Committee and his extensive aviation industry knowledge and experience complement the skills of the Board and the Board (other than Christopher Hine) unanimously recommends that Shareholders vote in favour of Resolution 3.

3.4 RESOLUTION 4 – RE-ELECTION OF JAMES DAVIS AS AN INDEPENDENT DIRECTOR

Mr Davis has a degree in Aeronautical Engineering and commenced his aviation career with the CASA before obtaining his Air Transport Pilot Licence. He subsequently flew with airlines in Australia and overseas for 26 years, accumulating some 12,500 flying hours. He joined Hazelton Airlines in 1999 as Flight Operations and Standards Manager and later became Chief Pilot. He has been with Rex since its beginning in 2002, occupying the positions of Executive General Manager Operations, Managing Director Operations, Chief of Staff of the Chairman's Office and Managing Director. Mr Davis is a former Chairman of the Australian Airline Pilot Academy Pty Ltd and a former Director of Rex Group companies Pel-Air Aviation Pty Ltd. He is currently Chairman of the Regional Aviation Association of Australia.

James Davis is an Independent Director and was last re-elected at the Company's 2017 Annual General Meeting and accordingly offers himself for re-election.

The Board believes that Mr Davis' involvement as a member of the Audit and Corporate Governance Committee and his extensive regional aviation industry experience as Chair of the Regional Aviation Association of Australia as well as his engineering knowledge complement the skills of the Board and the Board (other than James Davis) unanimously recommends that Shareholders vote in favour of Resolution 4.

3.5 RESOLUTION 5 – RE-ELECTION OF PROFESSOR RONALD BARTSCH AS AN INDEPENDENT DIRECTOR

Professor Bartsch has over 40 years' experience in the aviation industry in a variety of senior operational, safety and regulatory roles. He was head of safety and regulatory compliance for Qantas Airways Limited's Air Operator's Certificate and manager of the CASA Sydney Airline Transport Field Office.

Professor Bartsch is an experienced pilot and has extensive legal and regulatory experience. He has formal qualifications in law, education, philosophy and science, and is the author of the definitive legal textbook on aviation law. Professor Bartsch is an international aviation safety consultant and visiting Professor with the School of International Aviation Law at the University of South Pacific and the College of Law at the Australian National University and a Senior Visting Fellow with the School of Aviation at the University of New South Wales. He is a former aviation specialist member of the Administrative Appeals Tribunal and author of several publications including Aviation Law in Australia, International Aviation Law and Drones in Society.

The Board believes that Professor Bartsch's involvement as Chair of the Safety and Risk Management Committee and his extensive legal, regulatory and corporate governance knowledge complement the skills of the Board (other than Professor

Ronald Bartsch) and unanimously recommends that Shareholders vote in favour of Resolution 5.

4. RESOLUTION 6 – APPOINTMENT OF NEW AUDITOR

The Company, in consultation with its current auditor, Deloitte Touche Tohmatsu, has decided that it would be in the best interests of the Company to appoint a new auditor for good corporate governance reasons, noting that Deloitte Touche Tohmatsu has been appointed as the Company auditor for 15 years.

Accordingly, Deloitte Touche Tohmatsu has offered to resign as auditors and to work with the appointed new auditors to ensure a smooth transition in the half yearly review for FY 21.

Under the Corporations Act, the resignation of Deloitte is subject to the approval of ASIC and the appointment of a new auditor is subject to approval of the Shareholders at the Annual General Meeting. The Company must appoint an auditor of the Company to fill any vacancy in the office of auditor at the next Annual General Meeting following the resignation of the auditor.

The Directors have reviewed various auditing firms and recommend that BDO Audit Pty Ltd as the most appropriate auditing firm for the Company. BDO Audit Pty Ltd has consented to the proposed appointment as auditor of the Company.

In accordance with section 328B(1), the Company has received a notice of nomination of BDO Audit Pty Ltd as the auditor of the Company. A copy of this notice of nomination is set out Schedule 2.

ASIC has given its consent to the resignation of Deloitte.

Accordingly, the Company is seeking the Shareholders approval to appoint BDO Audit Pty Ltd as the auditor of the Company with effect on and from the close of the Annual General Meeting.

The Board of Directors unanimously recommends that the Shareholders vote in favour of Resolution 6 to appoint BDO Audit Pty Ltd as the auditor of the Company.

5. RESOLUTION 7 – APPROVAL OF THE PROPOSED TRANSACTION

5.1 Overview of the Proposed Transaction

The Proposed Transaction involves the initial issue of $50 million in Convertible Notes on Financial Close, and up to a further $100 million in Convertible Notes in the three years thereafter up to the Final Draw Date, the proceeds of which will be used to establish, launch, operate and expand the Domestic Services.

Under the Proposed Transaction, subject to certain regulatory and Shareholder approvals:

- the Company will be able to drawdown up to $150 million in the period of three years up to the Final Draw Date by issuing up to 150 million Convertible Notes having a face value of $1.00 each to PAG which will be redeemable, or convertible into Shares at $1.50 per Share in the Company, in accordance with the terms of the Subscription Agreement (which are summarised in Section 5.4 and Schedule 3);
- if the Company elects not to drawdown the full $150 million (**Undrawn Amount**) by the Final Draw Date, then the Company will issue such number of Warrants having an Exercise Price of $1.50 per Share which would have an aggregate total Exercise Price equal to the Undrawn Amount, which will be exercisable to acquire Shares in accordance with the Warrant terms (which are summarised in Section 5.5);
- the Company and certain subsidiaries (each an **Obligor** and **Guarantor**) will provide a first ranking security over all of their assets and undertakings and will also provide guarantees in favour of PAG to secure the Convertible Notes; and
- PAG will, subject to certain conditions, have the right to nominate up to two non-Executive directors and one alternative director to the Board. One of those directors may also be nominated as a Non-Executive Director to the RAPL Board.

The Convertible Notes and Warrants may be transferred before they are converted or exercised (as applicable) to a PAG Affiliate being PAG Asia Capital GP III Limited or its Related Bodies Corporate (being **PAG Group Companies**) or any PAG Fund Vehicle managed, operated or controlled by any PAG Group Company.

The Proposed Transaction could upon conversion of the Convertible Notes and/or exercise of the Warrants result in PAG and/or a PAG Affiliate having a shareholding in the Company:

- of approximately 23.3% if the initial $50 million tranche of Convertible Notes is fully converted; and
- up to approximately 47.6% if the full number of Convertible Notes and/or Warrants are all converted and exercised.

5.2 Proposed Domestic Services

The Company will contribute proceeds of the Convertible Notes to its subsidiary, RAPL which will then use such proceeds to establish, launch, operate and expand the Group's Australian domestic major city jet operations scheduled to commence on 1 March 2021 (**Domestic Services**).

The Domestic Services will be operated using leased Boeing 737-800NG jets with eight business class seats and either 162 or 168 economy class seats depending on the specific aircraft. The Company's business model for the Domestic Services will be replicating the Company's successful regional model. The Company calls this the "Best Value" approach. Most services offered by legacy carriers will also be offered in the Domestic Services, just as they are offered in the Company's regional services, such as meals on-board, reserved seating, free check-in baggage allowance, paid lounge access and business class for the jet services.

The Domestic Services are scheduled to commence on 1 March 2021, which will initially see the deployment of three jets servicing the Sydney to Melbourne route. By Easter 2021, it is proposed that two additional jets will be added to service the three cities of the "Golden Triangle" - being Sydney, Melbourne and Brisbane.

The fleet strength of the Domestic Services will remain at six aircraft for two to three months, following which time the Company will gauge the level of demand for such services. Should demand be sufficiently high, it is the Company's current intention that further additions to the fleet will be made in order to have eight to ten jets in total by the end of 2021. This would allow the Company's network to expand to cover a majority of the top ten domestic routes in Australia which are all based out of Sydney and Melbourne.

The Domestic Services will be fully integrated with the Company's regional service such that the passenger will be flying on one single platform – Rex. Booking on the Company's website will be fully integrated and baggage will be checked through from one Rex destination to the other regardless of the domestic or regional network flown.

Preparations for the new Domestic Services are advanced. Rex has flown a proving flight and has received approval from CASA for the new jet services in the form of a High Capacity Air Operator's Certificate (**AOC**).

An aircraft lease in relation to one aircraft, and letters of intent in relation to aircraft leases for the other five aircraft, have been signed, with the delivery of the first of these aircraft having occurred on 5 November 2020. It is expected that four aircraft will be ready prior to the 1 March 2021 launch date, with another two aircraft to be ready by 15 March 2021.

Ticket sales and promotions commenced on 2 December 2020.

The key staff for the Domestic Services have all already been recruited, and are actively involved in the start-up preparations. The rest of the cabin crew as well as the front line staff will be progressively recruited from December 2020 onwards.

The headquarters of the Domestic Services will be located in a Rex building adjacent to the Company's current headquarters in Sydney. The new premises are already operational and the new Domestic Services team is already working at this location.

5.3 Rationale for the Proposed Transaction

The Company's rationale for proceeding with the Proposed Transaction is to raise funding for the establishment, launch, operation and expansion of the Domestic Services. Having regard to the opinion of the Independent Expert and the advantages, disadvantages and risks associated with the Proposed Transaction, all Directors believe that the Proposed Transaction is in the best interests of the Company and its Shareholders for the following key reasons:

- (**Funding flexibility**) the Company will have the ability to drawdown funds flexibly to meet its funding requirements for the Domestic Services. The Company will initially drawdown $50 million and have the ability, subject to satisfying certain conditions, to drawdown up to an additional $100 million during the three year period following the First Draw Date up to the Final Draw Date (**Drawdown Period**);
- (**Favourable interest rate**) the Company will be required to pay a relatively low rate of interest on the drawndown funds at a rate of 4% per annum, payable quarterly in arrears;
- (**Improved financial position**) proceeds raised under the Convertible Notes and the Warrants (if any) will provide the Company with substantial cash reserves to fund the Domestic Services and to respond to any unexpected contingencies when establishing, launching, operating and expanding the Domestic Services;

- (**Increased likelihood for success of Domestic Services**) as noted by the Independent Expert, the Proposed Transaction is expected to increase the likelihood of the success of the Domestic Services which, if successful, would be transformative for the Rex Group and could provide significant upside to Shareholders; and
- (**Strategic partnership with PAG**) the Company will have the long-term financial backing of the PAG Group, a leading Asia-Pacific focused investment firm with over US$40 billion of assets under management. The Company will benefit in having PAG's strategic management and direction by having its nominee directors appointed to the Board and the RAPL Board.

5.4 Convertible Notes

The Company has entered into, amongst other things, a Subscription Agreement with PAG pursuant to which PAG has agreed (subject to each of the Conditions Precedent being satisfied) to provide funding to the Company through the issue of Convertible Notes. A summary of the key terms of the Subscription Agreement are set out in Schedule 3.

The material terms of the Convertible Notes are as follows:

Face Value	The Convertible Notes to be issued will have a face value of $1.00.
Conversion Price	The conversion price will be $1.50 per Share, subject to customary adjustments (**Conversion Price**).
Status	The Convertible Notes will be first-ranking secured debt obligations of the Company. The Convertible Notes will not confer any shareholder rights (including voting or dividend rights) on the holder but the holder will have such rights in respect of Shares issued upon conversion. Shares issued on conversion of the Convertible Notes (**Conversion Shares**) will be fully paid and will rank equally in all respects with the ordinary shares on issue in Company (**Shares**) as at the date of conversion. The Convertible Notes will not be quoted on the ASX or any other securities exchange.
Drawdown	The Convertible Notes will be issued to PAG as follows:

	• 50 million Convertible Notes for aggregate consideration of $50 million within 10 business days after satisfaction of all Conditions Precedent (as defined below) (**First Draw Date**); and • up to a further 100 million Convertible Notes for aggregate consideration of $100 million during the period from the First Draw Date until the date which is three years after the First Draw Date (**Final Draw Date**). Following the First Draw Date, the Company may subsequently drawdown and issue Convertible Notes in minimum tranches of $5 million (**Subsequent Draws**) subject to the satisfaction of certain conditions, including that at least 75% of the funds provided by PAG as at the date of a Subsequent Draw have been utilised by the Company. After the Company has drawndown at least $75 million, it will not be required to make any Subsequent Draws in certain circumstances. Similarly, PAG may decline to provide more than $75 million in funding in certain circumstances.
Conditions Precedent	The Company will only issue the Convertible Notes on the First Draw Date if certain conditions precedent (**Conditions Precedent**) have been satisfied, including the following key conditions: • PAG having received necessary approvals from the Foreign Investment Review Board (**FIRB**) under the Foreign Acquisitions and Takeovers Act (such approval was received by PAG on 7 December 2020); • the approval by CASA of the addition of 737 aircraft for Domestic Services to the Company's Air Operator's Certificate (such approval was received by the Company on 16 December 2020); • the Company having received approval from its Shareholders in respect of the agreement to issue Convertible Notes, Warrants and Shares issued upon conversion of such Convertible Notes or

	exercise of such Warrants (collectively **Conversion Shares**) to PAG and/or a PAG Affiliate: o under Listing Rule 7.1; and o under item 7 of section 611 of the Corporations Act (**611(7) Approval**); and • the Company and Obligors entering into all other Finance Documents as required by the Subscription Agreement.
Term	The term of the Convertible Notes (**Term**) will be five years following the First Draw Date (**Initial Term**) extendable at the election of either party by a further one year (**Extended Term**) (the last day of the Initial Term, or if extended the Extended Term, being the **Maturity Date**).
Interest	Interest will accrue on the face value of drawn Convertible Notes at a rate of 4% per annum (**Ordinary Interest**). The Company will be entitled to elect to capitalise Ordinary Interest and add it to the principal of the loan amount. If an Event of Default (as described below) occurs and is subsisting, then interest will accrue on the face value of drawn Convertible Notes at a rate of 12% per annum. If PAG elects to extend the Initial Term, then the Company will not be liable to pay any Ordinary Interest during the Extended Term.
Security and Guarantee	Cross guarantees from the Company and certain subsidiaries of the Company (**Obligors** or **Guarantors**), other than certain Excluded' Subsidiaries that are restricted under existing third party arrangements from encumbering their assets. First ranking security over all the assets and undertaking of the Company and each Guarantor subject to certain limited exceptions and PAG agreeing intercreditor arrangements with the Group's existing secured lenders.

	After the Final Draw Date, the Company will be entitled to provide a bank guarantee to PAG as consideration for PAG releasing all security and lifting certain restrictions on the Group.
Trigger Events	The Convertible Notes may be converted or redeemed prior to the Maturity Date in the event of the occurrence of certain events. **Tier 1 Trigger Event** means: • a material breach by a Group Company, or any termination or material variation by a Group Company of, a transaction document which does not constitute a Tier 3 Trigger Event (as defined below); • an Event of Default (as described below) under the Subscription Agreement, (not remedied within 20 business days of the Event of Default occurring) which has or is reasonably likely to have a material adverse effect on the Group and which does not constitute a Tier 3 Trigger Event; or • certain specified operational milestones have not been achieved by 30 June 2021. **Tier 2 Trigger Event** means: • any transaction or arrangement that, if completed, would mean one or more third parties would acquire voting power or a relevant interest (including synthetically) in 20% or more of the Shares; or • a consolidation or merger of the Company with another company or the sale, or other disposition of all, or substantially all, of the assets of the Company or Rex Airlines. **Tier 3 Trigger Event** means: • 611(7) Approval is not obtained on an as-needed basis after the First Draw Date, or is revoked, varied or circumstances otherwise exist that could be

	considered to result in such revocation or variation (**611(7) Withdrawal**); • a deliberate or reckless Event of Default (as described below); • a deliberate or reckless breach of any Finance Document; • a breach or variation of the Shareholder Voluntary Escrow Deed; or • the Company breaches its obligation to procure, to the extent legally permissible, that the Directors (other than any nominated by PAG) recommend that Shareholders vote in favour of the 611(7) Approval and vote any Shares in the Company which they own or control in favour of that resolution (subject to certain exceptions). **Tier 4 Trigger Event** means: • FIRB approval is not obtained by PAG on an as-needed basis after the First Draw Date; or • PAG being unable to comply with any changed law or regulatory requirement after the First Draw Date.

Redemption	Unless the Convertible Notes have been converted, the Convertible Notes will be redeemable by the Company for the following consideration:
	• the face value of the Convertible Notes plus any accrued but unpaid interest on drawn Convertible Notes upon the first to occur of:
	  ○ the Maturity Date (at the election of either PAG or the Company), provided that PAG has not previously elected to convert; and
	  ○ a Tier 1 Trigger Event or a Tier 4 Trigger Event (at PAG's discretion);
	• upon the occurrence of a Tier 2 Trigger Event (at PAG's discretion), the higher of:

	- face value of the Convertible Notes plus any accrued but unpaid interest; and - fair market value (being the volume weighted average price of Shares for the 3 months prior to the occurrence of the Tier 2 Trigger Event, or if a related party of the Company implements a transaction which would be a Tier 2 Trigger Event then as determined by an independent valuer (at the election of PAG)); or • upon the occurrence of a Tier 3 Trigger Event (at PAG's discretion) for the higher of: - fair market value being the volume weighted average price of Shares for the 3 months prior to the occurrence of the Tier 3 Trigger Event) or (other than in relation to a 611(7) Withdrawal) as determined by an independent valuer At the election of PAG); and - an amount to result in an internal rate of return to PAG in respect of its investments in Convertible Notes of 10% compounding per annum from the First Draw Date.
Conversion	PAG may convert all or some of the drawn Convertible Notes into Conversion Shares either: • immediately following a Tier 1 Trigger Event, Tier 2 Trigger Event or Tier 3 Trigger Event occurs ; or • at any time from the Final Draw Date, being three years after Financial Close, to 5.00pm on the Maturity Date. PAG's ability to convert its Convertible Notes into Conversion Shares is subject to the following restrictions: • the aggregate number of Conversion Shares not exceeding the 47.6% of the fully diluted Share capital of the Company;

	• the Company having any necessary approvals from its Shareholders to allow such conversion; and • PAG having any necessary FIRB approval to allow it to acquire such Conversion Shares. Based on the Company's current issued share capital: • if the first tranche of $50 million of Convertible Notes is fully converted into Conversion Shares, PAG would hold approximately 23.3% of the Company's total issued Shares; and • if the full $150 million of Convertible Notes are issued and fully converted, and/or all Warrants issued for the Undrawn Amount are fully exercised, PAG would hold approximately 47.6% of the Company's issued Shares.
Restrictions on Disposal	Prior to the third anniversary of the First Draw Date (**Relevant Anniversary**), PAG may not dispose of or transfer the Convertible Notes without the prior written consent of the Company, other than to PAG Affiliates or in certain other limited circumstances. If following the first anniversary of the First Draw Date the market price of Shares is equal to or greater than 150% of the Conversion Price of the Convertible Notes, PAG may: • (with the Company's consent) dispose of one-third of its aggregate holding of Convertible Notes in each calendar year to institutional investors; or • convert one-third of its aggregate holding of Convertible Notes in each calendar year. After the Relevant Anniversary, the Company has a right of first offer in respect of any disposal or transfer of PAG's Convertible Notes. PAG will also enter into a voluntary escrow deed with the Company (which is summarised in Schedule 4) whereby any Conversion Shares issued upon conversion of Convertible Notes or any Shares issued upon exercise of Warrants may not be disposed of for a

	period of two years after the date Shares are first issued to PAG, without the prior approval of the Company or in other specified circumstances.

5.5 Warrants

If the Company elects not to drawdown the full $150 million (**Undrawn Amount**) by the Final Draw Date, then the Company will issue to PAG such number of Warrants having an Exercise Price of $1.50 per Share (subject to customary adjustments) which would have an aggregate total Exercise Price equal to the Undrawn Amount.

The material terms of the Warrants are as follows:

Price	The Warrants will be issued to PAG for nil consideration.
Exercise Price	The exercise price will be $1.50 per Share, subject to customary adjustments (**Exercise Price**).
Entitlement to Shares	PAG is entitled on payment of the Exercise Price to acquire one Share for each Warrant exercised.
Status	The Warrants will not confer any shareholder rights (including voting or dividend rights) on the holder but the holder will have such rights in respect of Shares issued upon exercise of the Warrants. Shares issued on exercise of the Warrants will be fully paid and will rank equally in all respects with the ordinary shares on issue in Company (**Shares**) as at the date of exercise. The Warrants will not be quoted on the ASX or any other securities exchange.
Issue Date	No later than the Final Draw Date.
Expiry Date	Unless exercised prior, the Options will lapse on the Maturity Date (as defined above) (**Expiry Date**) or upon the liquidation or dissolution of the Company
Exercise Period	The Warrants are exercisable during the Exercise Period commencing on their Issue Date and continuing up to and including the Expiry Date.

Transfer of Warrants	Warrants may only be transferred in accordance with the Company's Constitution, the Corporations Act and, if applicable, the ASX Listing Rules and ASX Settlement Operating Rules in force at the relevant time. The Company has a right of first offer in respect of any proposed disposal or transfer of PAG's Warrants. PAG will also enter in a voluntary escrow deed with the Company (which is summarised in Schedule 4) whereby any Conversion Shares issued upon conversion of the Convertible Notes or any Shares issued upon exercise of Warrants may not be disposed of for a period of two years after the date Shares are first issued to PAG, without the prior approval of the Company or in other specified circumstances

5.6 Overview of PAG

5.6.1 About PAG

PAG is one of the world's largest Asia Pacific-focused private investment firms, with a network of 200 seasoned investment professionals in nine key offices in the Asia-Pacific region and around the world. With experience across industries and market cycles, PAG delivers value to investors by seeking out leading companies and investing to help them reach their full potential. PAG currently manages US$40 billion in capital on behalf of more than 150 leading institutional investors from Europe, North America, Asia, Australia and the Middle East. Previous PAG investments in Australia include Craveable Brands and The Cheesecake Shop.

5.6.2 *Future intentions of PAG for the Company*

PAG has informed the Company that its intentions in this Section 5.6 are based on the facts and information regarding the Company, its business and the general business environment which are known to PAG as at the date of the Notice of Meeting. Any future decisions regarding these matters will only be made based on all material information and circumstances at the relevant time.

Accordingly, the statements set out below are statements of current intention only which, if circumstances change or new information becomes available in the future, could change accordingly.

PAG has identified the Company as a promising investment opportunity. An investment in the Company will allow PAG to help fund an exciting business expansion while also growing its presence in the Australian market.

PAG will provide up to $150 million in funding under the Proposed Transaction. PAG Asia Capital GP III Limited has committed to provide funding to PAG so that it can fulfil its commitment to subscribe for Convertible Notes. PAG also has a first right of refusal to provide its pro rata share of funding to the Group (on commercial market terms) in the event that additional equity or debt is required to be raised.

PAG will have a right to nominate two non-Executive Directors to the Board. PAG will also have the right to nominate one of those directors to the RAPL Board.

As is typical in financing transactions, the Group will be subject to certain restrictions during the Term which are customary for transactions of this nature, including, without PAG's consent:

- not creating or permitting to subsist any security over its assets other than as permitted under the Subscription Agreement;
- not disposing of any of its material assets other than as permitted under the Subscription Agreement;
- not entering into material transactions above certain monetary thresholds other than as permitted under the Subscription Agreement;
- to significantly change the Group's existing financial , trading or dividend policies (other than as noted above); and
- not making any dividends or distributions other than as permitted under the Subscription Agreement (including as described out below).

The Company will be able to pay dividends of no more than 60% of accumulated, consolidated net after-tax profits of the Group after 1 January 2021, adjusted to exclude non-cash increases/decreases in asset values and non-recurring and one-off increases/decreases in profits.

PAG will not have any shareholder rights (including voting or dividend rights) until such time as PAG is issued Shares upon conversion of the Convertible Notes. The Convertible Notes can only be exercised after three years after Financial Close, unless certain trigger events occur before then, so there will not be any immediate dilution for Shareholders.

Other than as disclosed above or elsewhere in this Explanatory Statement, PAG has no current intention:

- of making any significant changes to the existing business of the Group. The funding is intended to only assist the expansion of the Company's Domestic Services including commencing routes between Melbourne, Sydney and Brisbane;
- to inject further capital into the Group, however PAG has the scope to provide further capital in the event the Company requires it;
- of making changes regarding the future employment of the Group's present employees. PAG perceives that additional employees will be required as the business grows;
- for any assets to be transferred between a Group Company and PAG or any person associated with it;
- to otherwise redeploy the fixed assets of the Group; and
- to significantly change the Group's existing financial, trading or dividend policies (other than as noted above).

5.7 Shareholder approval required

5.7.1 *General*

Resolution 7 seeks Shareholder approval pursuant to and in accordance with section 611 item 7 of the Corporations Act and Listing Rule 7.1 in relation to the issue of Convertible Notes and Warrants and Shares issued upon their conversion or exercise as part of the Proposed Transaction.

Resolution 7 is an ordinary resolution.

5.7.2 *Section 611 item 7 of the Corporations Act*

Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in the issued voting shares of a company if, because of the acquisition, that person's or another person's voting power in the company increases from:

- 20% or below to more than 20%; or
- a starting point that is above 20% and below 90%.

The voting power of a person in a company is the total of the votes attaching to the shares in the company in which that person and that person's associates (within the meaning of the Corporations Act) have a relevant interest.

Section 611 of the Corporations Act contains exceptions to the prohibition in section 606 of the Corporations Act. Section 611 item 7 of the Corporations Act provides a mechanism by which shareholders of a company may approve an issue of shares to a person which results in that person's or another person's voting power in the company increasing from:

- 20% or below to more than 20%; or
- a starting point that is above 20% and below 90%.

Resolution 7 seeks Shareholder approval, for the purpose of section 611 item 7 of the Corporations Act, to allow PAG to acquire a relevant interest in the Shares upon conversion or exercise (as applicable) of the Convertible Notes and/or Warrants in accordance with their terms.

5.8 Information required by section 611 item 7 of the Corporations Act

The following additional information is provided in accordance with section 611 item 7 of the Corporations Act and ASIC Regulatory Guide 74.

5.8.1 *Voting power*

PAG has confirmed to the Company that neither it nor any of its associates hold any relevant interest in Shares as at the date of this Explanatory Statement.

The table below shows the number of Shares and shareholding percentage and relevant interest of PAG on the basis of the Company's issued Shares as at the date of this Explanatory Statement and on the basis that:

(a) the Company intends to fully pay all interest when due and not accrue any interest;

(b) there is no adjustment to the Conversion Price of the Convertible Notes or the Exercise Price of the Warrants; and

(c) if PAG elects to convert or exercise (as applicable) all of its Convertible Notes and Warrants to the fullest extent possible,

in the following scenarios:

1. if only the initial $50 million is drawn down resulting in the issue of 50 million Convertible Notes and 33,333,333 Shares if fully converted; and
2. if:
   a. the full $150 million is drawn down resulting in the issue of 150 million Convertible Notes and 100,000,000 Shares if fully converted; or
   b. the full $150 million is not drawn down and the Company issues Warrants in relation to the Undrawn Amount, and all Convertible

Notes and Warrants are full converted or exercised (as applicable), resulting in the issue of 100,000,000 Shares.

	Current issued Shares	New Shares issued on conversion of Convertible Notes / exercise of Warrants	Total issued Shares	PAG's shareholding (%)
Scenario 1	110,154,375	33,333,333	143,487,708	23.23%
Scenario 2	110,154,375	100,000,000	210,154,375	47.59%

Under the Subscription Agreement and pursuant to the terms of the Convertible Notes and Warrants, PAG may elect to convert or exercise its rights at different times (for example, upon the occurrence of a Relevant Trigger Event) and may elect to convert or exercise (as applicable) some only or all of its Convertible Notes or Warrants. Accordingly, the actual effect on the share capital of the Company and the voting power of PAG may differ depending on these factors, but will not exceed the percentages shown above.

PAG has also agreed to a shareholding cap under the Subscription Agreement with the effect that if the conversion of any Convertible Notes and/or exercise of the Warrants would result in PAG acquiring an interest in more than 47.6% of Shares, the Company will pay cash to PAG instead of those Shares in excess of the shareholding cap.

Importantly, PAG has also given a standstill undertaking to the Company that it will not acquire any further Shares or any relevant interest or voting power, other than by conversion of the Convertible Notes or exercise of the Warrants, prior to conversion of all Convertible Notes and/or exercise of all Warrants that it holds or during the Term (whichever is earlier).

5.8.2 ***Details of any other relevant agreement that is conditional on (or directly or indirectly depends on) Shareholders' approval of the Proposed Transaction***

A summary of the Subscription Agreement is set out in Schedule 3.

There are also other agreements conditional or which depend on the Proposed Transaction Resolution being approved which are summarised at a high-level below and in Schedule 4.

Finance Documents

The Company and Obligors must enter into all other Finance Documents as required by the Subscription Agreement, including:

(a) a General Security Deed in favour of PAG granting security over all their assets and undertakings; and

(b) mortgages over real property owned by certain subsidiaries of the Company.

These documents will be on terms customary for these types of documents in a financing transaction.

Voluntary Escrow Deeds

In order to procure the long term commitment of major shareholders to the Company as part of the Proposed Transaction, the Company intends to enter into voluntary escrow deeds with both PAG and Lim Kim Hai (Executive Chairman) as summarised below and in Schedule 4:

(a) PAG Voluntary Escrow Deed

PAG is required to enter into a Voluntary Escrow Deed upon the first issue of Conversion Shares to PAG. Under PAG's Voluntary Escrow Deed, any Shares that are issued by the Company to PAG on conversion of Convertible Notes or exercise of the Warrants will be Restricted Securities and PAG must not for a period of two years from the date of the deed:

- Dispose of any Restricted Securities; or
- do, or omit to do, any act that has the effect of transferring effective ownership or control of the Restricted Securities.

The deed does not restrict any voting or dividend rights in respect of such Shares.

Restricted Securities are to be kept on the Company's issuer sponsored sub-register and are to have a Holding Lock applied. Certain exceptions apply for takeover bids, schemes of arrangement and off-market transfers to any PAG Affiliates.

(a) Shareholder Voluntary Escrow Deed

Mr Lim Kim Hai, the Company's Executive Chairman has entered into the Shareholder Voluntary Escrow Deed with the Company. Under the voluntary escrow, all Shares held by Lim Kim Hai (currently being 17.25% of issued Shares) and all additional shares acquired by Lim Kim Hai under a pro rata issue or bonus issue in respect of such Shares up to total of 19.9% of all issued Shares in the Company are Restricted Securities, and Lim Kim Hai must not

- Dispose of any Restricted Securities; or
- do, or omit to do, any act that has the effect of transferring effective ownership or control of the Restricted Securities.

The deed does not restrict any voting or dividend rights in respect of such Shares.

The Restricted Securities are to be kept on the Company's issuer sponsored sub-register and are to have a Holding Lock applied. Certain exceptions apply for takeover bids, schemes of arrangement and transfers to family members or personal representatives, and transfers off-market to any entities under the effective control of Lim Kim Hai.

The voluntary escrow will apply for the Term of the Convertible Notes, subject to earlier termination on certain events which are summarised in Schedule 4.

Deeds of Access and Indemnity

The Company will enter into Deeds of Access and Indemnity with each of the Directors nominated by PAG on customary terms for such deeds.

5.8.3 Listing Rules 7.1, 7.2 and 7.3

The issue of the Convertible Notes and Warrants is subject to Shareholder approval for the purposes of Listing Rules 7.1, 7.2 and 7.3.

Listing Rule 7.1 provides that a company must not (subject to specified exceptions), issue or agree to issue equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period. The Convertible Notes and Warrants comprise equity securities.

Listing Rule 7.2, exception 8 states that Listing Rule 7.1 does not apply to an issue of securities approved by Shareholders for the purposes of section 611 item 7 of the Corporations Act.

Listing Rule 7.2, exception 9 states that Listing Rule 7.1 does not apply to an issue on the conversion of convertible securities such as the Convertible Notes and exercise of Warrants. The entity must have complied with the Listing Rules when it issued the convertible securities.

By approving Resolution 7, the issue of the Convertible Notes and Warrants will be approved for the purposes of Listing Rule 7.1. Further, Shareholder approval under

Listing Rule 7.1 is not required in relation to the issue of Shares on the conversion or exercise (as applicable) of the Convertible Notes and/or Warrants as Listing Rule 7.2, exceptions 8 and 9 apply (i.e. the Shares to be issued upon the conversion or exercise (as applicable) of the Convertible Notes and/or Warrants are issued pursuant to the conversion of a convertible security and will be approved for the purposes of section 611 item 7 of the Corporations Act).

5.9 Information required by Listing 7.3

The following information is provided in accordance with Listing Rule 7.3:

- the Convertible Notes and Warrants will be issued to PAG;
- a maximum of 150 million Convertible Notes will be issued by the Company having a Face Value of $1.00 each and convertible into Shares at $1.50 per Share (subject to customary adjustments). On the First Draw Date, 50 million Convertible Notes will be issued by the Company to PAG. Subject to certain conditions, up to a further 100 million Convertible Notes will be issued by the Company to the PAG during the three year period following the First Draw Date;
- if the Company elects not to drawdown the full $150 million (**Undrawn Amount**) by the Final Draw Date, then the Company will issue to PAG such number of Warrants having an Exercise Price of $1.50 per Share (subject to customary adjustments) which would have an aggregate total Exercise Price equal to the Undrawn Amount;
- the Company will receive up to $150 million under the Proposed Transaction;
- a maximum of 100 million Shares will be issued by the Company on conversion of all Convertible Notes and/or exercise of all Warrants (subject to customary adjustments for matters such as pro rata issues of securities). See Section 5.8.1 for further details. Such Shares will be fully paid and will rank equally in all respects with the Shares on issue in Company as at the date of conversion. The Company will seek quotation for such Shares upon their issue;
- a summary of the material terms of:
  - the Convertible Notes is set out in Section 5.4 and Schedule 3 ;
  - the Warrants is set out in Section 5.5;
- neither the Convertible Notes nor Warrants will be quoted on the ASX or on any other securities exchange;
- the rationale for the Proposed Transaction is set out in Section 5.3. The proceeds of the Proposed Transaction will be used to establish, launch, operate and expand the Domestic Services; and

- a voting exclusion statement is included in the Notice of Meeting for Resolution 7.

5.10 Effect of the Proposed Transaction

5.10.1 *The effect of the issue of Convertible Notes*

The principal effects on the Company upon the issue of the Convertible Notes will be the:

- increase of the Company's cash reserves which will be used to establish, launch, operate and expand the Domestic Services;
- the Company assuming a liability equivalent to the Face Value of the Convertible Notes and an obligation to pay interest of 4% per annum payable quarterly in arrears for the five year Term of the Convertible Notes. If the Term is extended by a further year at the request of PAG, then the Company will not be liable to pay any interest for that one year period; and
- the appointment of PAG nominee Directors as further detailed in Section 5.10.5.

5.10.2 *The effect of the conversion of the Convertible Notes and/or exercise of Warrants*

The principal effects on the Company upon the conversion of the Convertible Notes will be:

- the cessation of the Company's obligation to pay the Face Value of the converted Convertible Notes and interest of 4% per annum payable quarterly in arrears on such Convertible Notes; and
- an increase in the number of Shares as a consequence of the issue of new Shares to PAG as a result of the conversion of the Convertible Notes.

The principal effects on the Company upon the exercise of the Warrants will be:

- increase of the Company's cash reserves which will be used to establish, launch, operate and expand the Domestic Services; and
- an increase in the number of Shares as a consequence of the issue of new Shares to PAG as a result of the exercise of the Warrants.

5.10.3 *The effect on the capital structure of the Company*

The effect on the capital structure of the Company of the Proposed Transaction and the conversion of the Convertible Notes and exercise of Warrants is summarised in Section 5.8.1.

5.10.4 *Pro forma balance sheet of the Company*

$'000	30-Jun-20	Pro-Forma Adjustments	50M Drawdown	Pro-Forma Adjustments	100M Drawdown
Current assets					
Cash and bank balances	11,198	49,500	60,698	94,000	154,698
Trade and other receivables	11,122		11,122		11,122
Inventories	8,410		8,410		8,410
Other current assets	7,231		7,231		7,231
Derivative financial instruments	40		-		40
Total current assets	**38,001**		**38,001**		**38,001**
Non-current assets					
Other receivables	7,114		7,114		7,114
Inventories	11,303		11,303		11,303
Property, plant and equipment	172,417		172,417		172,417
Right-of-use assets	1,283		1,283		1,283
Investments - fair value through equity	9		9		9
Intangible assets	181		181		181
Deferred tax assets	22,537		22,537		22,537
Total non-current assets	**214,844**		**214,844**		**214,844**
Total assets	**252,845**	**49,500**	**302,345**	**94,000**	**396,345**
Current liabilities					
Trade and other payables	(19,483)		(19,483)		(19,483)
Provisions	(8,117)		(8,117)		(8,117)
Unearned revenue	(16,027)		(16,027)		(16,027)
Interest bearing liabilities	(14,220)		(14,220)		(14,220)
Lease liabilities	(130)		(130)		(130)
Current tax payable	(7,689)	150	(7,539)	1800	(5,739)
Derivative financial instruments	(6,255)		(6,255)		(6,255)
Total current liabilities	**(71,921)**		**(71,771)**		**(69,971)**
Non-current liabilities					
Convertible notes					
Provisions	(2,949)	(50,000)	(50,000)	(100,000)	(150,000)
Interest bearing liabilities	-		-		-
Lease liabilities	(2,329)		(2,329)		(2,329)
Derivative financial instruments	(1,988)		(1,988)		(1,988)
Total non-current liabilities	**(7,266)**		**(57,266)**		**(157,266)**
Total liabilities	**(79,187)**		**(129,037)**		**(227,237)**
Net assets	**173,658**	**(350)**	**173,308**	**(4,200)**	**169,108**
Equity					
Issued Capital	72,024		72,024		72,024
Reserved Shares	(628)		(628)		(628)
Retained earnings	102,660	(350)	102,310	(4,200)	98,110
Share-based payments reserve	1,383		1,383		1,383
Other reserves	(1,781)		(1,781)		(1,781)
Total equity	**173,658**	**(350)**	**173,308**	**(4,200)**	**169,108**

The above Pro forma Balance Sheets are based on the following assumptions:

1. The audited Group Balance Sheet as at 30 June 2020
2. $50 million initial draw down with a cash increase of $49.5 million net of estimated transaction costs of $0.5 million
3. A further $100 million draw down at the end of year 3 reduced to $94 million to reflect interest payments of $6 million over the previous 3 years
4. The effect on retained earnings is after allowing for tax benefits on costs and interest at a company tax rate of 30%
5. For simplicity, the convertible notes are recognised on the balance sheet as bond liabilities rather than a combination of liability and equity as set out in AASB132
6. The Pro forma balance sheet does not take into account B737 operational leases

5.10.5 *Board of Directors*

(a) Current Board of the Company and RAPL

The Company's current Board members are as follows:

- Lim Kim Hai, Executive Chairman;
- The Honourable John Sharp AM, Deputy Chairman and Independent Director;
- Lee Thian Soo, Non-Executive Director;
- Neville Howell, Chief Operating Officer and Executive Director;
- Chris Hine, Executive Director and Group Flight Operations Advisor;
- James Davis, Independent Director; and
- Professor Ronald Bartsch, Independent Director.

RAPL's current board members are as follows:

- The Honourable John Sharp AM, Chairman; and
- Neville Howell.

(b) Changes to the Board of the Company and RAPL

From Financial Close until conversion or redemption of all of the Convertible Notes held by PAG, PAG will have the right to nominate:

- two non-Executive Directors to the Board (increasing the number of Directors on the Board from seven to nine); and

- one of its nominee Directors on the Board of the Company to also be a director of RAPL (increasing the number of directors on the Board of RAPL from two to three).

PAG will also have the right to appoint one of its nominee Directors to each of the Audit and Risk Committees so long as it has the right to nominate at least one Director on the Board.

PAG's right to nominate representatives to the Boards of the Company and RAPL will cease:

- upon the occurrence of a Defaulting Lender Event;
- upon the Disposal of any Convertible Notes (except to a PAG Affiliate); or
- if the total of Shares held by PAG and Shares which would be held if all Convertible Notes held by PAG were converted would represent less than 20% of the total issued Shares on a fully diluted basis (subject to certain exceptions).

(c) Information on the proposed PAG nominee directors

PAG proposes to nominate the following persons for appointment to the boards of the Company and RAPL:

- Sid Khotkar

  Sid Khotkar is a Managing Director of PAG, a leading Asia-based alternative investment fund managing over US$40bn in capital. He is a member of the Private Equity business where he leads the Australian & New Zealand investment team.

  Prior to joining PAG, Sid was an interim Director in the private equity team at the Future Fund and before that was a Principal at TPG Capital, where he worked for more than 10 years. During his time at TPG Capital, Sid was involved with the firm’s investments into several companies including Cushman & Wakefield and Alinta Energy. Prior to joining TPG Capital, Sid worked at Goldman Sachs in the Investment Banking Division.

  Sid holds an MBA from Harvard Business School and a BCom (Finance, Hons.) from the University of Melbourne.

  Qualifications: MBA Harvard Business School; BCom (Finance, Hons.) University of Melbourne

- Lincoln Pan

Lincoln Pan is a Partner of PAG, a leading Asia-based alternative investment fund managing over US$40bn in capital. He is a member of the Private Equity business where he co-leads the Operations team and is a member of the Investment Review Committee.

Lincoln is a member of both the investment team and the operations team. Lincoln leads portfolio management for many of PAG's overseas investments, including Edelweiss Financial Group, Gamot API, Craveable Brands, Joyson Safety Systems, Cushman & Wakefield, Lexmark International, Home Credit China, Fenix Technologies, Food Union Group, The Cheesecake Shop and Young Toys. He is on the public board of Cushman & Wakefield (NYSE: CWK) where he chairs the Nomination & Governance Committee and is a member of the Compensation Committee. He has previously supported PAG invested companies as Interim CEO and Interim CFO, including serving as Interim CFO of Fenix Technologies and Interim CEO of Young Toys.

Prior to joining PAG, Lincoln was Regional CEO, Greater China for Willis Towers Watson. He previously worked with Advantage Partners, a leading private equity firm in Japan, and he has also worked with GE Capital, McKinsey & Company and Simpson Thacher & Bartlett. Lincoln holds a JD from Harvard Law School and a BA from Williams College.

Qualifications: J.D. Harvard Law School; B.A. Williams College

Lincoln is Partner of the PAG Group and has over 20 years in investments, business strategy and directorship across a range of industries, including within Australia as a director of Craveable Brands and The Cheesecake Shop.

Lincoln has no associations with the Company or its associates and no interests in the Proposed Transaction or any other relevant agreement other than as an employee of the PAG Group.

5.11 Advantages

The Directors consider that the following key advantages may be relevant to a Shareholder's decision on how to vote on Resolution 7:

- (**Significant funding for Domestic Services**) the Proposed Transaction provides the Company with sufficient funding to establish, launch, operate and expand the Domestic Services. This includes the initial $50 million, and to the extent that the Group requires further funding for the Domestic Services in the future, the Company will be able to drawdown up to a further $100 million upon satisfaction of certain conditions;

- **(Market confidence)** the significant funding available for the Domestic Services will provide considerable assurance to suppliers (including lessors of aircraft), corporate customers and for passengers who choose to book months in advance for their flights;
- (**Increased likelihood for success of Domestic Services**) as noted by the Independent Expert, the Proposed Transaction is expected to increase the likelihood of the success of the Domestic Services which, if successful, would be transformative for the Group and could provide significant upside to Shareholders;
- (**Opportunities in the Aviation Industry**) the aviation market, in its current distressed state, presents an unique opportunity to capitalise on cheap aircraft leases, historically low jet fuel prices and reduced competition for the "Golden Triangle" route of Melbourne, Sydney and Brisbane as a result of the recent collapse of a major airline;
- (**Favourable terms**) the Proposed Transaction provides the Company with substantial funding at a relatively low interest of 4% per annum payable quarterly in arrears. Further, there is no interest payable by the Company during the Extended Term if requested PAG elects to extend the Term. Such terms assist the Company managing its financial position going forward;
- (**Premium to trading prices before announcement of Proposed Transaction**)as noted by the Independent Expert, the Conversion Price for Convertible Notes and Exercise Price of Warrants(if any) of $1.50 was at a premium to the market price of Shares traded on ASX prior to the announcement of the Proposed Transaction ,being a premium of 43% and 37% to the one month and three month VWAP of trading prices of Shares before the announcement. However, since that announcement Rex Shares have at times traded at above $1.50;
- (**Potentially increases liquidity**) as noted by the Independent Expert, the increased size of the Company if the Proposed Transaction proceeds may also help improve liquidity as the enhanced scale may increase the investor universe and facilitate coverage from sell-side research analysts;
- (**Best alternative currently available**) the Company and Board considered various alternatives for raising funding for the Domestic Services, including the sale and leaseback of aircraft. However, there are no other alternatives currently available that provide the same level of funding certainty for the Domestic Services and there have been no superior offers despite the public nature of the Proposed Transaction;

- (**Long term commitment of major investors)** the Convertible Notes have a minimum five year term (subject to certain earlier redemption events) and PAG has also agreed to a Voluntary Escrow Deed confirming PAG will not dispose of Conversion Shares for two years from the date they are first issued to PAG. Similarly, Mr Lim Kim Hai, Executive Chairman and founder of the Company, will enter into a Voluntary Escrow Deed in respect of his Shares for the Term of the Convertible Notes (subject to earlier release in certain circumstances). As a result, this helps to ensure that Mr Lim Kim Hai remains invested in the business for the near-term and is aligned to the interests of minority shareholders. Details of these escrow arrangements are set out in Section 5.8.2 and Schedule 4;
- (**Strategic Shareholder**) the issue of the Convertible Notes will result in PAG (being a leading Asia-Pacific investment firm with over US$40 billion under management) becoming a major investor in the Company. PAG is making a significant investment which indicates its long-term commitment to the Company's strategy prospects;
- (**Board experience**) when PAG becomes entitled to appoint its nominee directors to the Board and the RAPL Board, such nominees will provide additional strategic oversight, knowledge and experience to those boards;
- (**Independent Expert has concluded the Proposed Transaction is reasonable**) the Independent Expert's Report concludes that the Proposed Transaction is "not fair but reasonable" to Shareholders not associated with the Proposed Transaction in the absence of a superior proposal. This is on the basis that the Independent Expert concluded that:
    - the fair market value of a Share after the Proposed Transaction (assessed as being $1.55 to $1.75) is less that the fair market value of a Share before the Proposed Transaction (assessed as being $1.97 to $2.30) (based on various assumptions (including in relation to average fare price and fuel prices) set out in detail in Section 6 of the Independent Expert's Report), so it is not fair; but
    - the advantages of the Proposed Transaction outweigh the potential disadvantages, so that it is reasonable:
    - the Proposed Transaction is expected to increase the likelihood of the success of the Domestic Services which, if successful, would be transformative for Company and could provide significant upside to Shareholders; and
    - there are no other alternatives currently available that provide the same level of funding certainty for the Domestic Services and there

have been no superior offers despite the public nature of the Proposed Transaction.

See Section 5.16 and the Independent Expert's Report in Schedule 5.

5.12 Disadvantages

The Directors consider that the following key potential disadvantages may be relevant to a Shareholder's decision on how to vote on Resolution 7:

- (**Dilution**) after three years (or earlier if certain Trigger Events occur) if PAG elects to convert its Convertible Notes and/or exercise its Warrants, then current Shareholders will have their percentage shareholding in the Company diluted. PAG will have the ability to convert the Convertible Notes into a shareholding of about 23.3% if the entire initial $50 million in Convertible Notes is converted, and up to about 47.6% if the full further $100 million in Convertible Notes is drawn down and fully converted of if Warrants are issued and fully exercised. This will mean that the shareholding percentage and voting power of existing Shareholders will be reduced to between 76.8% and 51.4% (depending on the amount of Convertible Notes converted and/or Warrants exercised). However, there are factors which mitigate this potential dilution, including that:
    - the Convertible Notes can only be exercised after three years after Financial Close, unless certain trigger events occur before then, so there will not be any immediate dilution for Shareholders;
    - PAG has also agreed to a shareholding cap under the Subscription Agreement with the effect that if the conversion of any Convertible Notes and/or Warrants would result in PAG acquiring an interest in more than 47.6% of Shares, the Company will pay cash to PAG instead of issuing Shares in excess of the shareholding cap; and
    - PAG has also given a standstill undertaking to the Company that it will not acquire any further Shares or any relevant interest or voting power, other than by conversion of the Convertible Notes or exercise of the Warrants, prior to conversion of all Convertible Notes that it holds or during the Term (whichever is earlier).
- (**Minority shareholder risks**) if PAG becomes a substantial shareholder of the Company, its interests may not always be completely aligned with the interests of minority Shareholders. However, in these circumstances minority Shareholders would have the benefit of the certain protections provided by the Corporations Act and the Listing Rules including that:

- if PAG only acquires 23.3% then it will not be able to pass or block either an ordinary resolution (requiring a 50.1% majority) or a special resolution (requiring at least a 75% majority) on matters requiring the approval of Shareholders, such as a special resolution required to change the Constitution of the Company;
- if PAG acquires 47.6% then it will not necessarily be able to pass or block matters requiring an ordinary resolution, such as the election of directors, although it may be able to block special resolutions;
- PAG's nominee directors to be appointed to the Board or RAPL Board will only be two out of nine directors on the Board of the Company and one out of three directors on the RAPL Board, and they do not have special voting rights. Accordingly, decisions will still be able to be made by a majority of the directors of those boards;
- PAG's nominee directors to be appointed to the Board or RAPL Board are subject to requirements that they comply with their legal obligations to act in good faith, in the best interests of that company and for proper purposes, and have regard to the interests of the shareholders of that company;
- there is a requirement to obtain Shareholder approval for transactions between the Company and PAG or its affiliates in certain circumstances, which may exclude PAG and its affiliates voting on such matters;
- there is a requirement for all Directors on the Board to comply with applicable laws and Listing Rules relating to conflicts of interest;

- (**Impact on possible control transactions**) the presence of PAG as a significant shareholder with Board representation and the existence of the positive and negative covenants under the Subscription Agreement may deter other prospective acquirers from making a takeover offer for the Company other than through a transaction supported by PAG. This may reduce the opportunity for Shareholders to receive a takeover control premium in the future;
- (**Recent trading prices have exceeded $1.50**) since the announcement of the Proposed Transaction, the trading price of Shares has at times increased to levels above the Conversion Price for the Convertible Notes and exercise price of the Warrants (if any) of $1.50 per Share. The trading price as at the close of trading on ASX on the day before the date of this Explanatory Statement was $1.905). The Company believes that the Proposed Transaction has positively

affected its Share price as well as other factors previously announced to ASX, including:

- key conditions of the Proposed Transaction being satisfied, including approval being obtained from FIRB and CASA;
- the successful launch and promotion of ticket sales by the Company on 2 December 2020;
- investors recognising the value of the Company as it continues to successfully implement its plans exactly according to schedule for the launch of domestic operations, including conducting the jet proving flight for CASA on 2 December 2020;
- the recognition by investors of the Company's attractive lower cost structure relative to its competitors; and
- the more positive general sentiment in the aviation sector due to the re-opening of domestic borders which has increased demand for passenger services with all airlines;

- (**PAG has certain rights as a financier**) as is typical with a financing transaction, PAG will have the benefit of certain negative covenants and restrictions in relation to certain actions by the Company and other Group Companies. Complying with these obligations may restrict the Group's autonomy and flexibility to make and implement certain business decisions. These are summarised in Schedule 3;
- (**Funding risk**) The subsequent drawdown of funds under the Subscription Agreement is subject to satisfaction of customary requirements including the Company confirming there is no event of default. Once the Company has drawdown at least $75 million there are further requirements including that the Company must have utilised its excess cash flow to fund the Domestic Services and notified PAG there is a likely pathway to sustainable positive operating cash flow in the following 12 months. There is a risk that the Company may not be able to satisfy these requirements or that PAG may otherwise decline to provide further funding if an independent adviser concludes that there is no likely pathway for the Domestic Services to achieve sustainable positive operating cash flow in the following 12 month period. This is mitigated by provisions in the Subscription Agreement which specify that where a Defaulting Lender Event occurs and is continuing, such as PAG failing to make funding available when obliged to do so, then the Company may elect to cancel the Facility and if Convertible Notes remain outstanding, PAG will cease to have rights to receive interest or to convert the Convertible Notes. In such an event, the Company will be able to elect to

redeem and repay PAG for the outstanding Convertible Notes, and will release its security upon full repayment of such Convertible Notes, which could facilitate the Company refinancing to obtain further funding. See Schedule 3 for further details; and

- (**Independent Expert has concluded the Proposed Transaction is not fair but reasonable**) although the Independent Expert has concluded that the Proposed Transaction is "not fair", it has also concluded that the Proposed Transaction is "reasonable" as the advantages of proceeding with the Proposed Transaction outweigh the potential disadvantages. This is on the basis that the Independent Expert concluded that:

- the fair market value of a Share after the Proposed Transaction (assessed as being $1.55 to $1.75) is less that the fair market value of a Share before the Proposed Transaction (assessed as being $1.97 to $2.30) (based on various assumptions (including in relation to average fare price and fuel prices) set out in detail in Section 6 of the Independent Expert's Report), so it is not fair; but

- the advantages of the Proposed Transaction outweigh the potential disadvantages, so that it is reasonable, including because:
  - the Proposed Transaction is expected to increase the likelihood of the success of the Domestic Services which, if successful, would be transformative for Company and could provide significant upside to Shareholders; and
  - there are no other alternatives currently available that provide the same level of funding certainty for the Domestic Services and there have been no superior offers despite the public nature of the Proposed Transaction.

See Section 5.16 and the Independent Expert's Report in Schedule 5.

The Directors believe that the advantages of the Proposed Transaction outweigh the potential disadvantages.

5.13 Potential risks associated with the Proposed Transaction

In assessing the Proposed Transaction, Shareholders should consider the following non-exhaustive risk factors in connection with the Proposed Transaction:

- (**Travel industry disruption and the impact of COVID-19**) there can be no guarantee that expected benefits will materialise from using the proceeds of the Proposed Transaction to establish, launch, operate and expand the Domestic Services. The operating and financial performance of the Group is dependent on, amongst other things, certainty in the state of the aviation and broader travel industry. Any widespread downturn of domestic travel due to particular events, economic or geopolitical conditions and any other factors, may have a material adverse effect on the Group's business, financial condition and operations. The COVID-19 pandemic has caused major disruption to the aviation industry through unprecedented restrictions being placed on domestic air travel. Although some of these restrictions have been eased recently, as the COVID-19 pandemic is ongoing, there is considerable uncertainty in predicting demand levels going forward, which may have an impact on the Domestic Services. Even when government restrictions are eventually lifted, there is no certainty that the demand for the Domestic Services will be as strong as expected, or on how incumbent airlines will competitively respond to the threat of a new airline entering the "golden triangle route" of Melbourne, Sydney and Brisbane;

- (**Change of law and regulations**) the aviation industry is subject to extensive regulation. Changes in law and regulations and government policy (including relating to the COVID-19 pandemic) may impact the Group's revenue or increase the Group's operating costs;
- (**Breakdown in relations**) to maximise the benefits of the PAG partnership, there needs to be a strong working relationship between the Company and PAG. In the event that there is a breakdown of that relationship, the Company may be unable to realise the full benefits of the Proposed Transaction. However, there are strong incentives on both sides to keep relations positive and to resolve any difficulties; and
- (**ASIC enforcement action**) on 16 December 2020, ASIC issued a media release indicating that it has restricted the Company from issuing a reduced content prospectus and using exemptions for reduced disclosure in fundraising documents until 14 December 2021. These restrictions themselves do not impede the Proposed Transaction ASIC’s decision is based on its delegates' view that continuous disclosure obligations required the Company to disclose to ASX that it was considering the feasibility of commencing domestic operations, as reported in an article in the Australian Financial Review on 12 May 2020, before sharing that announcing that information to the ASX. The Company maintains a different view from ASIC and is considering its position in relation to ASIC's decision. ASIC has indicated that its investigations into the Company's conduct are ongoing. Accordingly, ASIC may take further action against the Company and its officers in the future.

5.14 What will happen if the Resolution is not passed?

5.14.1 *Assessment of alternatives*

If the Proposed Transaction is not approved by Shareholders, the Company will continue to operate as it did before the Proposed Transaction was announced.

If that occurs, the Board will continue to assess the Group's strategic objectives and alternatives. The Board is committed to proceeding with the launch of the Domestic Services and will pursue other avenues for funding, including sale-and-lease-back arrangements to fund the establishment, launch and operation of the Domestic Services. The Company has obtained proposals from two companies willing to undertake sale-and-lease-back transactions predicated on $30 million for 15 aircraft. The Company expects that it will be able to raise $30 million through this initially and will contemplate similar transactions if further funding is required.

5.15 Interests of Directors in the Resolution

None of the Directors nor their associates have any interest in the Proposed Transaction other than as Shareholders as set out below.

Name	Shareholding	Voting Power
Lim Kim Hai	18,998,346 (direct)	17.25%
The Hon. John Sharp AM	50,000 (direct) 275,032 (indirect)	0.13%
Lee Thian Soo	7,722,181 (direct)	7.01%
Neville Howell	32,075 (direct)	0.03%
Chris Hine	80,511 (direct)	0.07%
James Davis	200,866 (direct)	0.18%
Prof. Ronald Bartsch	Nil	0%

Each Director has confirmed to the Company that they intend to vote in favour of the Proposed Transaction Resolution in respect of Shares which they hold and any undirected proxies that they hold, in the absence of a superior proposal emerging.

5.16 Independent Expert's Report

The Independent Expert was commissioned by the Directors of the Company to provide an Independent Expert's Report to assess whether the Proposed Transaction is fair and reasonable to Shareholders.

The Independent Expert's Report concludes that the Proposed Transaction is "not fair but reasonable" to Shareholders not associated with the Proposed Transaction, in the absence of a superior proposal. This is on the basis that the Independent Expert concluded that:

- the fair market value of a Share after the Proposed Transaction (assessed as being $1.55 to $1.75) is less that the fair market value of a Share before the Proposed Transaction (assessed as being $1.97 to $2.30) (based on various assumptions (including in relation to average fare price and fuel prices) set out in detail in Section 6 of the Independent Expert's Report), so it is not fair; but
- the advantages of the Proposed Transaction outweigh the potential disadvantages, so that it is reasonable, including because:
  - the Proposed Transaction is expected to increase the likelihood of the success of the Domestic Services which, if successful, would be transformative for Company and could provide significant upside to Shareholders; and
  - there are no other alternatives currently available that provide the same level of funding certainty for the Domestic Services and there have been no superior offers despite the public nature of the Proposed Transaction.

The Independent Expert's Report is set out in full in Schedule 5. Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of that report, the methodology of the assessment and sources of information and assumptions made.

5.17 Recommendation of the Directors in relation to the Proposed Transaction

The Board has carefully considered the Independent Expert's report and the advantages, disadvantages and risks associated with the Proposed Transaction. Although the Independent Expert has concluded that the Proposed Transaction is "not fair", it also concluded that the Proposed Transaction is "reasonable" as the advantages of proceeding with the Proposed Transaction outweigh the potential disadvantages. The Board unanimously believes that the benefits of proceeding with this Proposed Transaction outweigh potential disadvantages, and that the Proposed Transaction is in the best interests of Shareholders. Accordingly:

- each Director recommends that Shareholders vote in favour of the Proposed Transaction Resolution;
- each Director confirms that they intend to vote any Shares that they own in favour of the Proposed Transaction Resolution; and

- the Chairman and any other Director who receives undirected proxies intend to vote any such undirected proxies in favour of the Proposed Transaction Resolutions,

in the absence of a superior proposal emerging between now and the time of the Meeting.

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6. RESOLUTION 8 – ADOPTION OF THE MANAGEMENT INCENTIVE SCHEME

6.1 Overview

Resolution 8 seeks Shareholder approval for the adoption of a Management Incentive Scheme (**MIS**) in accordance with Listing Rule 7.2, exception 13(b) and to enable Awards to be issued under the MIS to Eligible Participants (as defined in Section 6.3.1) upon certain financial performance KPIs of the Group being satisfied and the personal performance and contribution of the relevant Eligible Participant.

The Company intends to adopt the MIS in order to assist in the motivation and retention of the Eligible Participants as the Company establishes, launches, operates and expands the Domestic Services.

The MIS is designed to align the interests of the Eligible Participants with the interests of the Company by providing an opportunity for the Eligible Participants to be eligible to receive Awards under the MIS.

A special MIS Remuneration, Nomination and Disciplinary Committee (**RemCom**) will, amongst other things, be responsible for administering the MIS Plan and making determinations about the allocation and vesting of Awards. For the purpose of the MIS, this will comprise the directors Mr Lim Kim Hai and Mr Lee Thian Soo who will not be eligible to participate in the MIS.

Listing Rule 7.1 provides that a company must not (subject to specified exceptions) issue or agree to issue more Shares during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

Listing Rule 7.2, exception 13(b) sets out an exception to Listing Rule 7.1, which provides that issues under an employee incentive scheme are exempt for a period of three years from the date on which shareholders approve the issue of Shares under the scheme as an exception to Listing Rule 7.1.

If Resolution 8 is passed, the Company will be able to issue Awards under the MIS to Eligible Participants over a period of three years without impacting on the Company's ability to issue up to 15% of its total Shares without Shareholder approval in any 12 month period. Any issue of Awards under the MIS to a Director or other related party or person whose relationship with the Company or the related party is, in ASX's opinion, such that approval should be obtained will require additional Shareholder approval under Listing Rule 10.14 at the relevant time.

Resolution 8 is an ordinary resolution**.**

6.2 Proposed allocation approach

The Company intends to allocate up to 12,000,000 Awards being Performance Rights which will convert into no more than 10,000,000 Shares under the MIS which will be subject to a restriction on their disposal for one year after the date that they are issued to Eligible Participants.

The total number of 12,000,000 Awards reflect stretch targets for exceptional performance but Eligible Participants collectively will only ever receive up to 10,000,000 Shares under the MIS.

The Awards will have a term of seven years from their date of issue to provide a long term incentive to grow the Domestic Services and other aspect of the Group's business by achieving profitable growth in meeting the financial KPIs summarised below, which will benefit all Shareholders.

The proposed issue of Awards under the MIS will be subject to the following Group financial KPIs:

- if the Group achieves statutory Profits before Tax (**PBT**) of at least $50 million in a full Financial Year (**FY**), then 10% of Awards will be available to be vested but only 1,000,000 Awards in total will ever be vested to Eligible Participants, who could convert these, if they choose to exercise their options, into up to 1,000,000 Shares; and
- thereafter, if the Group achieves statutory PBT of:
    - $100 million in a full Financial Year, a further 30% of Awards will be available to be vested but only 3,000,000 Awards in total will ever be vested to Eligible Participants, who could convert these Awards, if they choose to exercise their Awards, into up to 3,000,000 Shares; thereafter,
    - $150 million in a full Financial Year, a further 30% of Awards will be available to be vested but only 3,000,000 Awards in total will ever be vested to Eligible Participants, who could convert these Awards, if they choose to exercise their Awards, into up to 3,000,000 Shares; thereafter,
    - $200 million in a full Financial Year, a further 30% of Awards will be available to be vested but only 3,000,000 Awards in total will ever be

vested to Eligible Participants, who could convert these Awards, if they choose to exercise their Awards, into up to 3,000,000 Shares.

After the Company's audited financial statements are completed and released to ASX, the RemCom will determine if one or more of the above financial KPIs have been satisfied and the total amount of Awards that will be available to be vested and converted into Shares in respect of that FY. The first full Financial Year in which these Group financial KPIs will be applied will be the Financial Year ending 30 June 2022 so that the first vesting of Awards and conversion to Shares will only occur on 30 September 2022 and then on 30 September of each subsequent year. The Awards will have a term of seven years from their date of issue during which these financial KPIs can be satisfied and Awards can vest and be converted into Shares.

If more than one vesting condition is achieved in any Financial Year, then the Awards available to be vested will be the accumulation of the Awards for each relevant vesting condition that is satisfied. For example, if after reaching $50 million in one Financial Year, the following Financial Year a statutory PBT of $90 million is achieved, and then in the third Financial Year a statutory PBT of $150 million, then 10% of Awards will be available to be vested for the first Financial Year, none for the following Financial Year, and 60% of Awards will be available to be vested for the third Financial Year.

After determining the total amount of Awards that will be available to be vested in respect of that Financial Year, the RemCom will then consider and determine the number of Awards in that round that will vest for each of the Eligible Participants, based on the personal performance and contribution of relevant Eligible Participant. For instance, if the first KPI above is satisfied, then 10% of each Eligible Participant's Awards will be eligible for vesting (**Participant Eligible Awards**) to the Eligible Participant. The RemCom may decide to vest none, some or all of the Participant Eligible Awards to the Eligible Participant but the total number of Awards actually vested for this first round to all Eligible Participants will not be more than 1,000,000 Awards which could be exercised and converted to 1,000,000 Shares.

If the total number of Awards vested is less than the number allowed for vesting for the round, then the RemCom will have the discretion to reallocate and vest the remaining Awards to other Eligible Participants or to any other manager, subject always to the limit of the maximum number of Shares that can be issued in respect of that round of Awards.

For any Awards that are intended to be allocated to any Directors or other related parties, Shareholder approval will be sought for the issue of such Awards to each such proposed recipient in accordance with the requirements of the ASX Listing Rules at an Annual General Meeting of the Company - see Resolutions 9 to 13.

All Awards will be issued to the Eligible Participants as Performance Rights which convert into Shares which will have a restriction on disposal of those Shares for a period of one year from their date of issue and they will be subject to a holding lock for that period before they can be sold or disposed of. These Performance Rights will be subject to the MIS Rules which are summarised below.

6.3 Key terms of the MIS Rules

Set out below is a summary of the key terms of the MIS Rules. A copy of the MIS Rules will be made available on the Company's website at www.rex.com.au.

6.3.1 Eligibility

Offers of Awards under the MIS may be made at the RemCom's discretion to:

- members of the Board (except Mr Lim Kim Hai and Mr Lee Thian Soo);
- members of the Management Committee;
- certain other designated Managers of the Group; and
- a Nominated Party who may hold Awards where transferred in accordance with an Offer,

(together, the **Eligible Participants**).

PAG's nominee directors to be appointed to the Board will not eligible to participate in the MIS.

6.3.2 Awards

Under the MIS, the Company may, in its discretion, offer or issue to Eligible Participants:

- Options;
- Performance Rights; or
- Deferred Share Awards.

(together, the **Awards**).

The proposed current issue of Awards will comprise Performance Rights and will entitle Eligible Participants to be issued with Shares upon the satisfaction of relevant Vesting Conditions and subject to a restriction on disposal for a period of one year from the date the Shares are issued.

6.3.3 Issue Price

Unless the Board determines otherwise, no payment is required for a grant of Awards under the MIS.

6.3.4 Offers

The RemCom will decide:

- the recipients of the Awards; and
- the number of Awards to be vested for each recipient.

For the proposed current issue of Awards, it is intended that 74% of Awards will be allocated to eligible executives and management.

Any offer documents must contain the information required by the MIS Rules.

6.3.5 Vesting Conditions

The Awards will be subject to Vesting Conditions relating to satisfaction of both Group financial KPIs and an assessment of the personal performance and contributions of the relevant Eligible Participant as assessed by the RemCom and any other vesting conditions specified in the offer document. In addition, the Awards only vest if, at the applicable Vesting Date, the Eligible Participant either:

- remains employed as an employee or is a Director of a Group Company (as applicable); or
- or ceased to do so before the applicable Vesting Date in circumstances where the person was a Good Leaver.

However, the Board has a broad discretion in relation to the treatment of entitlements on cessation of employment. It is intended that individual offer documents will provide more specific information on how the entitlements will be treated if the Eligible Participant ceases employment.

The RemCom will determine the extent to which any Vesting Conditions are satisfied and the number of Awards that will vest for each Eligible Participant.

Subject to the Vesting Conditions being satisfied, an Eligible Participant is entitled to exercise an Award on or after applicable Vesting Date.

6.3.6 Rights attaching to Awards

Performance Rights held by an Eligible Participant will not give any right to the Eligible Participant:

- to receive any dividends declared by the Company; or

- to receive notice of, or to vote or attend at, a meeting of the shareholders of the Company,

until the Eligible Participant's Shares are issued and registered in the name of the Eligible Participant before the record date for determining entitlements to the dividend or the date of the meeting of the Company's shareholders (as the case may be).

Performance Rights held by an Eligible Participant will not be transferrable except to a Nominated Party where specifically permitted in an Offer.

6.3.7 Clawback and preventing inappropriate benefits

If any Vesting Conditions of any Awards are mistakenly waived or deemed satisfied when in fact they were not satisfied, then in accordance with the terms of the MIS, the Board may, amongst other things, determine that:

- the relevant Awards expire and are incapable of being exercised; or
- it may otherwise recover from the Eligible Participant some or all Shares issued upon exercise of the Awards or any proceeds received from the sale of those Shares.

The MIS also provides the Board with broad "clawback" powers if, for example, the Eligible Participant has acted fraudulently or dishonestly or there is a material misstatement on behalf of a Group Company.

6.3.8 Cash Settlement

Exercised Awards may be satisfied at the absolute discretion of the Company in cash rather than Shares by payment to the Eligible Participant of the Cash Equivalent Value.

6.3.9 Variation of share capital

If prior to the exercise of any Awards, the Company undergoes a reorganisation of capital or bonus issue, the terms of the Awards will be changed to reflect such change to the extent permitted by the Listing Rules.

6.3.10 Restrictions on dealing

Prior to vesting, the MIS Rules provide that Eligible Participants must not sell, transfer, encumber, hedge or otherwise deal with their Awards.

After vesting, Eligible Participants will be free to deal with their Awards, following the conclusion of a one year escrow period and subject to the Employee Securities Trading Policy.

6.3.11 Other terms

The MIS Rules contains customary and usual terms of dealing with administration, variation and suspension and termination of the MIS.

6.4 Information required by Listing Rule 7.2

Pursuant to and in accordance with Listing Rule 7.2, exception 13(b), the following information is provided:

- the material terms of the MIS are summarised in section 6.3 above;
- this is the first approval sought under Listing Rule 7.2, exception 13(b) with respect to the MIS and therefore, no Awards have previously been issued under the MIS;
- the maximum number of Shares proposed to be issued by way of Awards under the MIS within the three year period following Shareholder approval is 10,000,000 Shares, being about 9% of the total number of Shares on issue as at the date of the Notice of Meeting. This percentage will be further reduced if the Convertible Notes and/or the Warrants are converted or exercised (as applicable) in accordance with their terms. This maximum is not intended to be a prediction of the actual number of Shares to be issued under the MIS, but simply a ceiling for the purposes of Listing Rule 7.2, exception 13(b). Once that number is reached, any additional issues of Shares under the MIS would not have the benefit of Listing Rule 7.2, exception 13 without fresh Shareholder approval; and a voting exclusion statement is included in the Notice of Meeting for Resolution 8.

6.5 Recommendation

Mr Lim Kim Hai and Mr Lee Thian Soo, not being Eligible Participants, (with all other Directors abstaining) recommend that Shareholders vote in favour of Resolution 8.

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7. Resolutions 9 to 13: Approval of grant of Awards to Directors under the Management Incentive Scheme

7.1 Background

Resolutions 9 to 13 seek Shareholder approval for the issue of 4,000,000 Awards, and Shares upon the vesting and exercise of such Awards to Eligible Participants who are Directors, subject to and in accordance with the terms and conditions of the Management Incentive Scheme.

The Company intends to issue these Awards to assist in the motivation and retention of Eligible Participants as the Company establishes, launches, operates and expands the Domestic Operations. The Awards are intended to provide a long term incentive to Eligible Participants subject to the achievement over many years of certain Group financial KPIs set out in Section 6.2 Subject to achieving those KPIs, the MIS RemCom will then determine how many Awards will vest for each of the Eligible Participants, based on the personal performance and contribution of relevant Eligible Participant. The Company considers that the grant of such Awards is reasonable remuneration given the time commitment and effort that will be required in order to achieve those financial KPIs.

7.2 Listing Rule 10.14

Listing Rule 10.14 requires shareholder approval for the issue of Awards to directors under an employee incentive scheme. If Resolutions 9 to 13 are passed, it will mean that the grant of Awards and Shares issued on vesting and exercise of those Awards under the MIS will not utilise any of the Company's placement capacity under Listing Rule 7.1.

7.3 Listing Rule 10.15

In accordance with Listing Rule 10.15, the following information is provided in respect of all Resolutions 9 to 13

- (**Material terms of the MIS**) a summary of the material terms of the MIS is set out in Section 6.
- (**No previous issue of awards**) As the MIS is being approved for the first time pursuant to Resolution 8, no person has previously been issued Awards under the MIS.
- (**Timing of issue of Awards**) Subject to Shareholders approving Resolution 8 and Resolutions 9 to 13, the Awards will be issued to Eligible Participants by 30 June 2021.
- (**No price for each Award**) No consideration is payable by Eligible Participants for the grant of any of the Awards or subsequent issue of Shares if such Awards are vested and exercised.
- (**No loan**) The Company will not be providing any loan to any Eligible Participants in connection with the issue or acquisition of Awards.
- Details of any securities issued under the MIS will be published in the Company's annual report relating to the period in which they were issued, along with a statement that approval for the issue was obtained under Listing Rule 10.14.
- Any additional persons covered by Listing Rule 10.14 who become entitled to participate in an issue of securities under the MIS after the Resolution is

approved and who were not named in this Notice of Meeting will not participate until approval is obtained under that rule.

- Voting exclusion statement are included in the Notice in respect of all Resolutions 9 to 13.

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8. Resolution 9: Approval of grant of Awards to Neville Howell under the Management Incentive Scheme

8.1 Background

Resolution 9 seeks Shareholder approval for the issue of up to 1,100,000 Awards to Neville Howell, with Shares being issued upon the vesting and exercise of such Awards in accordance with the allocation approach summarised in Section 6.2, subject to and in accordance with the terms and conditions of the Management Incentive Scheme.

8.2 Listing Rule 10.15

In addition to the information set out in Section 7.3, in accordance with Listing Rule 10.15, the following information is provided in respect of Resolutions 9:

- (**Person to whom Awards will be issued**) The Awards will be issued to Neville Howell, Executive Director of the Company and Chief Operating Officer. Approval is sought on the basis that Neville Howell falls within the scope of Listing Rule 10.14.1.
- (**Maximum number and class of securities**) The Company will grant 1,100,000 Awards to Neville Howell, with Shares being issued upon the vesting and exercise of such Awards in accordance with the allocation approach summarised in Section 6.2.
- (**Current total remuneration package**) *Note: this was the remuneration package set out in the Remuneration Report for the year ended 30 June 2020*

Cash salary & fees	$232,225
Cash profit sharing & other bonuses	$51,370
Pension & superannuation	$20,812
Long service leave	$3,627
Share gift issued	$4,300
Total	$312,334

8.3 Recommendation

The Directors (with Neville Howell abstaining) recommend that Shareholders vote in favour of Resolution 9.

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9. Resolution 10: Approval of grant of Awards to Chris Hine under the Management Incentive Scheme

9.1 Background

Resolution 10 seeks Shareholder approval for the issue of up to 500,000 Awards, and up to 5000,000 Shares upon the vesting and exercise of such Awards to Chris Hine, subject to and in accordance with the terms and conditions of the Management Incentive Scheme.

9.2 Listing Rule 10.15

In addition to the information set out in Section 7.3, in accordance with Listing Rule 10.15, the following information is provided in respect of Resolutions 10:

- (**Person to whom Awards will be issued**) The Awards will be issued to Chris Hine, Executive Director and Group Flight Operations Advisor. Approval is sought on the basis that Chris Hine falls within the scope of Listing Rule 10.14.1.
- (**Maximum number and class of securities**) The Company will grant 500,000 Awards with Shares being issued upon the vesting and exercise of such Awards in accordance with the allocation approach summarised in Section 6.2.
- (**Current total remuneration package**) *Note: this was the remuneration package set out in the Remuneration Report for the year ended 30 June 2020*

Cash salary & fees	$139,362
Cash profit sharing & other bonuses	$14,794
Pension & superannuation	$14,645
Long service leave	$2,785
Share gift issued	$2,199
Total	$173,785

9.3 Recommendation

The Directors (with Chris Hines abstaining) recommend that Shareholders vote in favour of Resolution 10.

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10. Resolution 11: Approval of grant of Awards to James Davis under the Management Incentive Scheme

10.1 Background

Resolution **Error! Reference source not found.** seeks Shareholder approval for the issue of 500,000 Awards, and up to 500,000 Shares upon the vesting and exercise of such Awards to James Davis, subject to and in accordance with the terms and conditions of the Management Incentive Scheme.

10.2 Listing Rule 10.15

In addition to the information set out in Section 7.3, in accordance with Listing Rule 10.15, the following information is provided in respect of Resolutions 11

- (**Person to whom Awards will be issued**) The Awards will be issued to James Davis, Non-Executive Director of the Company. Approval is sought on the basis that James Davis falls within the scope of Listing Rule 10.14.1.
- (**Maximum number and class of securities**) The Company will grant 500,000 Awards with Shares being issued upon the vesting and exercise of such Awards in accordance with the allocation approach summarised in Section 6.2.
- (**Current total remuneration package**) *Note: this was the remuneration package set out in the Remuneration Report for the year ended 30 June 2020*

Cash salary & fees	$38,154
Pension & superannuation	$3,624
Total	$41,778

10.3 Recommendation

The Directors (with James Davis abstaining) recommend that Shareholders vote in favour of Resolution 11.

11. Resolution 12: Approval of grant of Awards to Professor Ronald Bartsch under the Management Incentive Scheme

11.1 Background

Resolution **Error! Reference source not found.** seeks Shareholder approval for the issue of 500,000 Awards, and up to 5000,000 Shares upon the vesting and exercise of such Awards to Professor Ronald Bartsch, subject to and in accordance with the terms and conditions of the Management Incentive Scheme.

11.2 Listing Rule 10.15

In addition to the information set out in Section 7.3, in accordance with Listing Rule 10.15, the following information is provided in respect of Resolutions 12:

- (**Person to whom Awards will be issued**) The Awards will be issued to Professor Ronald Bartsch, Non-Executive Director of the Company. Approval is sought on the basis that Professor Ronald Bartsch falls within the scope of Listing Rule 10.14.1.
- (**Maximum number and class of securities**) Up to 500,000 Awards with Shares being issued upon the vesting and exercise of such Awards in accordance with the allocation approach summarised in Section 6.2.
- (**Current total remuneration package**) *Note: this was the remuneration package set out in the Remuneration Report for the year ended 30 June 2020*

Cash salary & fees	$93,385
Pension & superannuation	$3,171
Total	$36,556

11.3 Recommendation

The Directors (with Ronald Bartsch abstaining) recommend that Shareholders vote in favour of Resolution 12.

12. Resolution 13: Approval of grant of Awards to The Honourable John Sharp AM under the Management Incentive Scheme

12.1 Background

Resolution **Error! Reference source not found.** seeks Shareholder approval for the issue of up to 1,600,000 Awards, and up to 1,600,000 Shares upon the vesting and exercise of such Awards to The Honourable John Sharp AM, subject to and in accordance with the terms and conditions of the Management Incentive Scheme.

12.2 Listing Rule 10.15

In addition to the information set out in Section 7.3, in accordance with Listing Rule 10.15, the following information is provided in respect of Resolutions 12:

- (**Person to whom Awards will be issued**) The Awards will be issued to The Honourable John Sharp AM, Deputy Chairman of the Company. Approval is sought on the basis that Professor The Honourable John Sharp AM falls within the scope of Listing Rule 10.14.1.
- (**Maximum number and class of securities**) Up to 1,600,000 Awards with Shares being issued upon the vesting and exercise of such Awards in accordance with the allocation approach summarised in Section 6.2.
- (**Current total remuneration package**) *Note: this was the remuneration package set out in the Remuneration Report for the year ended 30 June 2020*

Cash salary & fees	$114,461
Pension & superannuation	$10,874
Total	$125,335

12.3 Recommendation

The Directors (with The Honourable John Sharp AM abstaining) recommend that Shareholders vote in favour of Resolution 13.

Schedule 1: Glossary

The following terms and abbreviations used in this Explanatory Statement (including the Notice of Meeting) have the meanings given to them below, unless the context otherwise requires:

Annual General Meeting or **Meeting**	means the annual general meeting convened by the Notice of Meeting.
Annual Report	means the annual report of the Company for the year ended 30 June 2020.
ASIC	means the Australian Securities and Investments Commission.
ASIC Regulatory Guide	means a regulatory guide published by ASIC.
ASX	means ASX Limited or the securities market which it operates, as the case may be.
ASX Announcement	means an announcement by the ASX.
ASX Settlement Operating Rules	means the operating rules of ASX's settlement facility for the purposes of the Corporations Act.
Auditor	means the Company's auditor from time to time (being Deloitte Touche Tohmatsu as at the date of this Notice) and subject to Shareholder approval will be BDO Audit Pty Ltd following the Meeting.
Auditor's Report	means the Auditor's report on the Financial Report.
Awards	means an Award issued to an Eligible Participant under the MIS which will vest and convert into Shares upon satisfaction of specified Vesting Conditions.
Award Exercise Price	means the price payable (if any) per Share to exercise an Award.
Board	means the board of Directors of the Company.

Business Days	means a day (other than a Saturday or Sunday) on which banks are open for general business in Sydney, Australia and Singapore.
CASA	means Civil Aviation and Safety Authority.
Cash Equivalent Value	means a cash amount equal to the Market Price of the Share that would otherwise have been issued to the Eligible Participant at the date of exercise, less the Exercise Price.
Closely Related Party	means, as defined in the Corporations Act, a closely related party of a member of the Key Management Personnel being: (a) a spouse or child of the member; (b) a child of the member's spouse; (c) a dependant of the member or of the member's spouse; (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity; (e) a company the member controls; or (f) a person prescribed by the Corporations Regulations.
Company or **Rex**	means Regional Express Holdings Limited.
Company Secretary	means the company secretary of the Company.
Conditions Precedent	has the same meaning as set out in Section 5.4 and Schedule 3.
Constitution	means the constitution of the Company.
Conversion Price	means the price per Share applied upon conversion of Convertible Notes being $1.50 per Share (subject to customary adjustments).
Conversion Shares	means Shares issued by the Company to PAG or a PAG Affiliate on conversion of Convertible Notes or exercise of the Warrants in accordance with the Subscription

	Agreement and the Convertible Note Deed Poll or the Warrant terms (as applicable).
Convertible Note Deed Poll	means the convertible deed poll pursuant to which Convertible Notes will be issued and which sets out the rights of Noteholders, the material terms of which are summarised in Schedule 3.
Convertible Notes	means the secured convertible notes to be issued by the Company to PAG in accordance with the Subscription Agreement and Convertible Note Deed Poll.
Corporations Act	means the *Corporations Act 2001* (Cth).
Corporations Regulations	means the *Corporations Regulations 2001* (Cth).
Default	means an Event of Default or any event or circumstance described as such in Schedule 3 which would be an Event of Default.
Defaulting Lender Event	means the occurrence of an event where PAG, being obliged to do so under the Subscription Agreement, fails to make funding available or has notified the Company that it will not be making a relevant funding available by the relevant Draw Date of that funding unless: (a) its failure to pay is caused by administrative or technical error; (b) payment is made within 10 Business Days of its due date; or (c) PAG is disputing in good faith whether it is contractually obliged to make the relevant funding available.
Deferred Share Award	means a Share issued to an Eligible Participant under the MIS which is subject to a restriction on disposal for a specified period.
Deloitte	means Deloitte Touche Tohmatsu, being the Company's auditor for the financial year ending 30 June 2020.
Director	means a director of the Company.

Directors' Report	means the annual directors' report prepared under Chapter 2M of the Corporations Act for the Company and its controlled entities.
Dispose	means to sell, assign, novate, encumber, create an interest in (including under trust) or otherwise transfer, realise a position in respect of, or wind up, an asset (including tangible and non-tangible assets), loans or other receivables (by way of refinancing of such receivables or otherwise), interest, undertaking or business (whether by a voluntary or involuntary single transaction or series of transactions).
Dollar or **$**	means Australian dollars, the lawful currency of the Commonwealth of Australia.
Domestic Services or Domestic Operations	means the Group's Australian domestic Regular Public Transport jet operations scheduled to commence on 1 March 2021.
Eligible Participants	has the meaning given to it in Section 6.3.1.
Employee Securities Trading Policy	means the Company's Employee Securities Trading Policy document dated August 2018.
Event of Default	has the meaning given to it in Schedule 3.
Excluded Subsidiaries	means NAA Pty Ltd, VAA Pty Ltd and Pel-Air Aviation Pty Ltd
Executive Director	means an executive Director of the Company.
Exercise Price	means the price payable per Share to exercise a Warrant, being $1.50 per Share (subject to customary adjustments).
Face Value	means the face value of Convertible Notes, being $1 each.
Facility Limit	means $150 million.
Fair Market Value	means, in respect of a Convertible Note: (a) VWAP; or

(b) if a referral is made to the Valuer in accordance with the Subscription Agreement, the value specified by the Valuer in the Valuer's certificate.

Final Draw Date means the date that is three years after the First Draw Date, or any other date agreed in writing between the Parties.

Finance Documents means the:

(a) Subscription Agreement;

(b) Convertible Note Deed Poll;

(c) any Convertible Note;

(d) any Security Document;

(e) any other document or agreement designated to be a Finance Document as agreed in writing between the Company and PAG; and

(f) any document or agreement entered into, given under or in connection with, or for the purpose of, amending or novating any such documents.

Financial Close means the completion of the First Draw in accordance with the terms of the Subscription Agreement.

Financial Report means the annual financial report prepared under Chapter 2M of the Corporations Act for the Company and its controlled entities.

Financial Statements means the financial statements of the Company for the year ended 30 June 2020.

FIRB means the Foreign Investment Review Board.

First Draw Date means the date that is no later than 10 Business Days after the satisfaction or waiver of the final condition precedent in the Subscription Agreement, or such date as otherwise agreed in writing between the Company and PAG.

Foreign Acquisitions and Takeovers Act means the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

FY	means a financial year.
General Security Deed	means the general security deed to be entered into by the Company and the Obligors in favour of PAG granting security over all their assets and undertakings.
Good Leaver	means an Eligible Participant who ceases to be employed by, contracted by, or a director of, the Group as a result of: (a) genuine redundancy; (b) total or permanent disablement, or an illness which persists for at least three months, which in either case prevents the person from carrying out their previous functions as an Employee, contractor or director of the Group; (c) death; or (d) other factors determined by the Board in its discretion to constitute sufficient reason to treat that person as a Good Leaver.
Group or Rex Group	means the Company and each of its subsidiaries and **Group Company or Rex Group Company** means any one of them.
High Capacity AOC	means an Air Operator's Certificate for high capacity aircraft as defined in the *Civil Aviation Act 1988* (Cth), *Civil Aviation Regulations 1988* (Cth) and Civil Aviation Order 82.0 Instrument 2014 as amended.
Holding Lock	has the meaning given in section 2 of the operating rules of ASX Settlement Pty Ltd (ACN 008 504 532).
Immediate Family Members	has the meaning given to that term as set out in section 9 of the Corporations Act.
Independent Expert	means Leadenhall Corporate Advisory Pty Ltd.
Independent Expert's Report	means the report on the Proposed Transaction prepared by the Independent Expert which is included as Schedule 5.

Key Management Personnel	means those people described as Key Management Personnel in the Company's Remuneration Report and includes all directors.
KPI	means key performance indicators set out in Section 6.2 of the Explanatory Statement.
Link Market Service Limited	means Link Market Services Limited, being the Company's share registry.
Listing Rule	means a listing rule of the ASX.
Management Committee	means the management committees of each subsidiary of the Group.
Management Incentive Scheme or **MIS**	means the management incentive scheme proposed to be adopted by the Company as described in Section 6.
Management Incentive Scheme Rules or **MIS Rules**	means the management investment scheme rules governing the Management Investment Scheme summarised in Section 6.
Market Price	means the weighted average sale price of Shares on the ASX over the five trading days immediately preceding the relevant date at which the market price is to be determined, or another pricing method determined by the Company.
Material Adverse Effect	means a material adverse effect on: (a) the consolidated business, operation, property, assets or financial condition (financial or otherwise) or prospects of the Group (taken as a whole); (b) the ability of an the Obligors (taken as a whole) to perform its any of their material obligations under the Finance Documents; (c) subject to typical reservations, the validity or enforceability of the whole or any part of any Finance Documents or any rights or remedies of PAG under the Finance Documents;

	(d) the effectiveness or priority of any Security Document.
Maturity Date	means the date which is the last day of the Term, or Extended Term if applicable) as set out in Section 5.4 and Schedule 3.
Nominated Party	means: (a) an Immediate Family Member of the Eligible Participant; (b) a company whose members comprise no persons other than the Eligible Participant or Immediate Family Members of the Eligible Participant; or (c) a trust whose beneficiaries include no persons other than the Eligible Participant or Immediate Family Members of the Eligible Participant or a company referred to in paragraph (b).
Non-Executive Director	means a non-executive Director of the Company.
Notice of Meeting or **Notice**	means the notice of meeting for the Annual General Meeting which accompanies this Explanatory Statement.
Obligor	means a Group Company other than an Excluded Subsidiary.
Option	means the right to be issued a Share under the MIS upon payment of a specified exercise price and satisfaction of certain vesting conditions.
PAG	means PAGAC Regulus Holding Pte. Ltd.
PAG Advisor	means PAG Asia Capital GP III Limited.
PAG Affiliate	any PAG Group Company (other than the PAG Advisor) and any PAG Fund Vehicle.
PAG Fund Vehicle	means a partnership, limited partnership, venture capital limited partnership, trust, managed investment scheme, limited liability company or body corporate or other fund or entity of which any PAG Advisor Group Company is the

	manager, trustee, responsible entity, general partner, investment manager or investment advisor.
PAG Group	means the PAG Advisor and its Related Bodies Corporate and **PAG Group Company** means any of them.
Performance Right	means an Award issued to an Eligible Participant under the MIS which will vest and covert into Shares upon satisfaction of specified Vesting Conditions
Proposed Transaction	means transaction pursuant to which the Company will, amongst other things, issue the Convertible Notes and Warrants to PAG and Shares upon conversion of the Convertible Notes and exercise of the Warrants to PAG and/or PAG Affiliates in accordance with the Subscription Agreement.
Proxy Form	means the Proxy Form attached to the Notice.
RAPL	means Rex Airlines Pty Ltd.
RAPL Board	means the board of directors of RAPL.
Regular Public Transport	means flight operations performed for remuneration and conducted to fixed schedules over specifics routes, and on which seats and / or cargo space is available to the general public.
Relevant Trigger Event	has the same meaning as set out in Section 5.4 and Schedule 3.
Remuneration Report	means the remuneration report of the Company for the year ended 30 June 2020.
Resolutions	mean each of the resolutions to be voted on at the Meeting.
Restricted Securities	means any securities that are restricted under the Voluntary Escrow Deeds.
Schedule	means a schedule to this Explanatory Statement.
Section	means a section in this Explanatory Statement.
Security Documents	means any document entered into by the Company and any Obligor creating or expressed to create any security

	over all or any part of their assets and undertakings in respect of the obligations under the Subscription Agreement, Convertible Note Deed Poll and Convertible Notes, including any mortgage over real property owned by a Group Company.
Subscription Agreement	means the subscription agreement between the Company and PAG (which incorporates the Convertible Note Deed Poll) under which the Company will issue the Convertible Notes and Warrants to PAG and Shares upon conversion of the Convertible Notes and exercise of the Warrants to PAG and/or PAG Affiliates for the purposes of the Proposed Transaction.
Share	means a fully paid ordinary share in the Company.
Shareholder	means a holder of Shares.
Tier 1 Trigger Event	has the same meaning as set out in Section 5.4 and Schedule 3.
Tier 2 Trigger Event	has the same meaning as set out in Section 5.4 and Schedule 3.
Tier 3 Trigger Event	has the same meaning as set out in Section 5.4 and Schedule 3.
Tier 4 Trigger Event	has the same meaning as set out in Section 5.4 and Schedule 3.
Valuer	means a relevantly experienced independent chartered accountant of at least 15 years' standing nominated by, at the request of the Lender, the managing partner (or similar officer or partner) in Australia of: (a) KPMG; or (b) PwC.
Voluntary Escrow Deeds	means the PAG Voluntary Escrow Deed and Shareholder Voluntary Escrow as summarised in Schedule 4.
VWAP	means the volume weighted average price of the Company's Shares.

Warrants	means the zero-cost options to be issued by the Company to PAG if the Company has elected not to draw down the full $150 million by the Final Draw Date.

Schedule 2: Nomination of Auditor

23 December 2020

The Directors
Regional Express Holdings Limited (**Company**)
81-83 Baxter Road
MASCOT NSW 2020

Dear Directors,

NOMINATION OF AUDITOR

In accordance with section 328B of the *Corporations Act 2001* (Cth), I, being a shareholder of the Company, hereby nominate BDO Audit Pty Ltd as the proposed auditor of the Company for consideration at the 2020 Annual General Meeting of the company

Yours faithfully,

Irwin Tan

Schedule 3: Subscription Agreement, Convertible Note Deed Poll and Convertible Note Terms

Set out below is a summary of the material terms of the Secured Note Subscription Agreement and terms of the Convertible Notes (as applicable):

Facility	Australian-dollar convertible note facility
Face Value	The Convertible Notes to be issued will have a face value of $1.00. PAGAC Regulus Holding Pte. Ltd. (**PAG**) has agreed to subscribe for up to $150 million of Convertible Notes in aggregate (**Proposed Transaction**) pursuant to the terms of a subscription agreement (**Subscription Agreement**) and convertible note instrument.
Conversion Price	The conversion price will be $1.50 per Share, subject to customary adjustments (**Conversion Price**).
Purpose	The funds raised pursuant to the issue of Convertible Notes will be used by the Company and its subsidiary, Rex Airlines Pty Ltd (**Rex Airlines**), for: • matters relating to the establishment, operation and expansion by the Group of Australian domestic Regular Public Transport services by jet (**Domestic Operations**); • implementing matters relating to security arrangements in place with Westpac in relation to certain government contracts to which the Group Companies are party, to facilitate the Company and Obligors entering into the Security Documents; • payment of interest on the Convertible Notes; • redemption of the Convertible Notes; and • any other purposes with the consent of PAG.
Status	The Convertible Notes will be first-ranking secured debt obligations of the Company. The Convertible Notes will not confer any shareholder rights (including voting or dividend rights) on the holder but the holder will have such rights in respect of Shares issued upon conversion.

	Shares issued on conversion of the Convertible Notes (**Conversion Shares**) will be fully paid and will rank equally in all respects with the ordinary shares on issue in Company (**Shares**) as at the date of conversion. The Convertible Notes will not be quoted on the ASX or any other securities exchange.
Drawdown	The Convertible Notes will be issued to PAG as follows: • 50 million Convertible Notes for aggregate consideration of $50 million within 10 business days after satisfaction of all Conditions Precedent (as defined below) (**First Draw Date**); and • up to a further 100 million Convertible Notes for aggregate consideration of $100 million during the period from the First Draw Date until the date which is three years after the First Draw Date (**Final Draw Date**). Following the First Draw Date, the Company may subsequently drawdown and issue Convertible Notes in minimum tranches of $5 million (**Subsequent Draws**) subject to the satisfaction of certain conditions, including that at least 75% of the funds provided by PAG as at the date of a Subsequent Draw have been utilised by the Company. After the Company has drawn down at least $75 million, it will not be required to make any Subsequent Draws if it has issued PAG with at least 75 million Convertible Notes, and: • the Company notifies PAG that it intends to cease Domestic Operations within 6 months and irrevocably notifies all relevant lessors of jet aircraft for Regular Public Transport Domestic Operations of its intention to terminate the leases for such jet aircraft; and an independent advisor concludes that there is no likely pathway for the Domestic Operations to achieve sustainable operating cash flow in the following 12 months. After the Company has issued 75 million Convertible Notes to PAG, it will not be entitled to make any Subsequent Draws unless: • the Company has utilised its excess cash flow to finance the operating cash needs of the Domestic Operations; and

	• the Company notifies PAG there is a likely pathway to sustainable positive operating cash flow in the following 12 months.
Conditions Precedent	The Company will only issue the Convertible Notes on the First Draw Date if certain conditions precedent (**Conditions Precedent**) have been satisfied, including the following key conditions: • PAG having received necessary approvals from the Foreign Investment Review Board (**FIRB**) under the Foreign Acquisitions and Takeovers Act (such approval was received by PAG on 7 December 2020); • the approval by CASA of the addition of 737 aircraft for Domestic Operations to the Company's Air Operator's Certificate (such approval was received by the Company on 16 December 2020); • the Company having received approval from its Shareholders (**Shareholder Approval**) in respect of the agreement to issue Convertible Notes, Warrants and Shares issued upon conversion of such Convertible Notes or exercise of such Warrants (collectively, **Conversion Shares**) to PAG and/or a PAG Affiliate: o under Listing Rule 7.1; and o under item 7 of section 611 of the Corporations Act (**611(7) Approval**); and • the Company and Obligors entering into all other Finance Documents as required by the Subscription Agreement.
Term	The term of the Convertible Notes (**Term**) will be five years following the First Draw Date (**Initial Term**) extendable at the election of either party by a further one year (**Extended Term**) (the last day of the Initial Term or if extended the Extended Term, being the **Maturity Date**).
Interest	Interest will accrue on the face value of drawn Convertible Notes at a rate of 4% per annum (**Ordinary Interest**). The Company will be entitled to elect to capitalise Ordinary Interest and add it to the principal of the loan amount. If an Event of Default (as described below) occurs and is subsisting, then interest will accrue on the face value of drawn Convertible Notes at a rate of 12% per annum.

	If PAG elects to extend the Initial Term, then the Company will not be liable to pay any Ordinary Interest during the Extended Term.
Security and Guarantee	Cross guarantees from the Company and certain operating subsidiaries of the Company (**Obligors** or **Guarantors**), other than certain Excluded' Subsidiaries that are restricted under existing third party arrangements from encumbering their assets. First ranking security over all the assets and undertakings of the Company and each Guarantor subject to certain limited exceptions and PAG agreeing intercreditor arrangements with the Group's existing secured lenders. After the Final Draw Date, the Company will be entitled to provide a bank guarantee to PAG as consideration for PAG releasing all security and lifting certain operating restrictions on the Group.
Defaulting Lender Events	If PAG fails to make a payment to the Company when required under the Subscription Agreement (other than in certain circumstances) (**Defaulting Lender Event**), then the Company may cancel the undrawn balance of the $150 million commitment and elect at any time until the end of the Term to redeem and repay some or all of the issued Convertible Notes. In the event the Company elects not to redeem and repay some or all of the Convertible Notes, then: • interest will not be payable on the issued Convertible Notes; • PAG will have no rights to convert the issued Convertible Notes; • all obligations of the Obligors, other than to redeem the Convertible Notes at the end of the Term, are released and cease; • PAG must promptly take all steps to release all security and all restrictions on the Obligors; • PAG must remove its nominee directors from the Board; and • the Term may only be extended by the Company in its absolute discretion

Warrants	If the Company elects to drawdown less than the full $150 million (**Undrawn Amount)** by the Final Draw Date (being three years after Financial Close), except in certain circumstances which result in termination of the Subscription Agreement or if a Defaulting Lender Event, then the Company will issue to PAG such number of Warrants having an Exercise Price of $1.50 per Share (subject to customary adjustments) which would have an aggregate total Exercise Price equal to the Undrawn Amount.
Trigger Events	The Convertible Notes may be converted or redeemed prior to the Maturity Date in the event of the occurrence of certain events. **Tier 1 Trigger Event** means: • a material breach by a Group Company, or any termination or material variation by a Group Company of, a transaction document which does not constitute a Tier 3 Trigger Event (as defined below); • an Event of Default (as described below) under the Subscription Agreement, (not remedied within 20 business days of the Event of Default occurring) which has or is reasonably likely to have a material adverse effect on the Group and which does not constitute a Tier 3 Trigger Event; or • certain specified operational milestones have not been achieved by 30 June 2021. **Tier 2 Trigger Event** means the occurrence of: • any transaction or arrangement that, if completed, would mean one or more third parties would acquire voting power or a relevant interest (including synthetically) in 20% or more of the Shares; or • a consolidation or merger of the Company with another company or the sale, or other disposition of all, or substantially all, of the assets of the Company or Rex Airlines. **Tier 3 Trigger Event** means: • 611(7) Approval is not obtained on an as-needed basis after the First Draw Date, or is revoked, varied or circumstances otherwise exist that could be considered

	to result in such revocation or variation (**611(7) Withdrawal**); • a deliberate or reckless Event of Default (as described below); • a deliberate or reckless breach of any finance document; • a breach or variation of the Shareholder Escrow Deed entered into in connection with the First Draw; or • the Company breaches its obligation to procure, to the extent legally permissible, that the Directors (other than any nominated by PAG) recommend that Shareholders vote in favour of the 611(7) Approval and vote any Shares in the Company which they own or control in favour of that resolution (subject to certain exceptions): **Tier 4 Trigger Event** means: • FIRB approval is not obtained by PAG on an as-needed basis after the First Draw Date; or • PAG being unable to comply with any changed law or regulatory requirement after the First Draw Date.

Redemption	Unless the Convertible Notes have been converted, the Convertible Notes will be redeemable by the Company for the following consideration:
	• the face value of the Convertible Notes plus any accrued but unpaid interest on drawn Convertible Notes upon the first to occur of:
	    o the Maturity Date (at the election of either PAG or the Company), provided that PAG has not previously elected to convert; and
	    o a Tier 1 Trigger Event or Tier 4 Trigger Event (at PAG's discretion);
	• upon the occurrence of a Tier 2 Trigger Event (at PAG's discretion), the higher of:
	    o face value of the Convertible Notes plus any accrued but unpaid interest; and
	    o fair market value ((being the volume weighted average price of Shares for the 3 months prior to the occurrence of the Tier 2 Trigger Event, or if a related party of the Company implements a

	transaction which would be a Tier 2 Trigger Event then as determined by an independent valuer (at the election of PAG)); or
	• upon the occurrence of a Tier 3 Trigger Event (at PAG's discretion) for the higher of:
	  o fair market value (being the volume weighted average price of Shares for the 3 months prior to the occurrence of the Tier 3 Trigger Event, or (other than in relation to 611(7) Withdrawal) as determined by an independent valuer (at the election of PAG)); and
	  o an amount to result in an internal rate of return to PAG in respect of its investments in Convertible Notes of 10% compounding per annum from the First Draw Date.

Conversion	PAG may convert all or some of the drawn Convertible Notes into Conversion Shares either: • immediately following a Tier 1 Trigger Event, Tier 2 Trigger Event or Tier 3 Trigger Event and ending at 5.00pm on the Maturity Date; or • at any time from the Final Draw Date, being three years after Financial Close, to 5.00pm on the Maturity Date. PAG's ability to convert its Convertible Notes into Conversion Shares is subject to the following restrictions: • the aggregate number of Conversion Shares and other Shares held by PAG not exceeding the 47.6% of the fully diluted Share capital of the Company; • the Company having any necessary approvals from its Shareholders to allow such conversion; and • PAG having any necessary FIRB approval to allow it to acquire such Conversion Shares.
Restrictions on Disposal	Prior to the third anniversary of the First Draw Date (**Relevant Anniversary**), PAG may not dispose of or transfer the Convertible Notes without the prior written consent of the Company, other than to PAG Affiliates or in certain other limited circumstances.

	If following the first anniversary of the First Draw Date the market price of Shares is equal to or greater than 150% of the conversion price of the Convertible Notes, PAG may: • (with the Company's consent) dispose of one-third of its aggregate holding of Convertible Notes in each calendar year to institutional investors (**Noteholders**); or • convert one-third of its aggregate holding of Convertible Notes in each calendar year. After the Relevant Anniversary, the Company has a right of first offer in respect of any disposal or transfer of PAG's Convertible Notes and Warrants (as applicable). PAG will also enter into a voluntary escrow deed with the Company (which is summarised in Schedule 4) whereby any Conversion Shares issued upon conversion of Convertible Notes may not be disposed of for a period of two years after they are issued, without the prior approval of the Company or in other specified circumstances.
Board representation	From the First Draw Date, PAG has the right: • to nominate two representatives to be appointed to the Board of the Company as non-executive directors; and • to nominate one of its representatives to the Board of Rex Airlines. PAG's Board nomination rights cease upon the occurrence of certain events, including: • if the Convertible Notes held by PAG represent less than 20% of the total issued Shares on a fully diluted basis (subject to certain exceptions); and • upon the occurrence of a Defaulting Lender Event.
Undertakings	The Group will be subject to certain restrictions during the Term which are customary for transactions of this nature, including: • not creating or permitting to subsist any security over its assets other than as permitted under the Subscription Agreement; • not disposing of any of its material assets other than as permitted under the Subscription Agreement;

	• not entering into material transactions above certain monetary thresholds other than as permitted under the Subscription Agreement; and' • not making any dividends or distributions other than as permitted under the Subscription Agreement (including as described out below). The Company will be able to pay dividends of no more than 60% of accumulated, consolidated net after-tax profits of the Group after 1 January 2021, adjusted to exclude non-cash increases/decreases in asset values and non-recurring and one-off increases/decreases in profits.
Events of Default	The Subscription Agreement sets out certain "Events of Default" which are customary for a transaction of this nature, including: • Non-payment by the Group on the due date of any amounts payable under any Finance Documents; • Unremedied breaches of the Finance Documents; • Failure of any Group Company to comply with applicable laws in material respects which would have a Material Adverse Effect on the Group; • Revocation of Material Authorisations; • Insolvency events occurring in relation to a Group Company; • Misrepresentation; • Cross default; • Creditors' process; • Judgements and settlements; • Repudiation of Finance Documents; • Vitiation of Finance Documents; • Ceasing Business; • Changes to capital structure; and • Removal or suspension from ASX quotation.
Funding Participation	PAG has the right to participate in any pro rata issues of Shares by the Company with reference to its holding of

	Shares and Convertible Notes and Warrants on a fully diluted basis.
Standstill	The Company and PAG have agreed that PAG will not become the majority Shareholder of the Company at any time (including after conversion of its Convertible Notes). PAG agrees that during the Term it will not acquire any shares, securities or any other similar economic interest (including derivatives) in the Company other than Convertible Notes, Conversion Shares or Warrants.
Further Shareholder Approvals	If any further Shareholder Approvals are required to allow conversion of the Convertible Notes or exercise of the Warrants (as applicable) by PAG, the Company must use best endeavours to obtain that Shareholder Approval as soon as practicable. The Company must not, directly or indirectly, initiate or assist any third party to initiate any action that requires subsequent Shareholder Approvals to be obtained to allow conversion or exercise of the Warrants (as applicable) by PAG If the Company receives an alternative proposal from a third party which the Board determines is more favourable to Shareholders than the Proposed Transaction, then PAG has the right to make a revised offer to the Company.
Commitment Fee	PAG has agreed to pay the Company $2 million in the event that PAG withdraws from the Proposed Transaction, or does not proceed with the Proposed Transaction by 28 February 2021 (subject to certain exceptions).
Governing law	New South Wales

Schedule 4: Voluntary Escrow Deeds

Relevant agreements that are conditional or depend Shareholders' approval of the Proposed Transaction

Set out below is a summary of the material terms of the Shareholder Voluntary Escrow Deed between the Company and Executive Chairman, Lim Kim Hai:

Parties	Regional Express Holdings Limited Lim Kim Hai
Escrow Period start date	The date on which Financial Close occurs.
Escrow Period end date	The earlier of: • the conclusion of the Term; • when PAG converts all its Convertible Notes; • when PAG sells all its Convertible Notes and Shares; or • upon the occurrence of a Defaulting Lender Event.
Particulars of Restricted Securities	A minimum of 18,998,346 Shares in the capital of the Company, currently being 17.25% of the issued capital, and all additional Shares acquired or received by the Lim Kim Hai pursuant to a pro rata issue or bonus issue from time-to-time up to 19.9% of all issued Shares in the Company.
Escrow Restrictions	Subject to any exceptions, Lim Kim Hai must not: • Dispose of, or agree or offer to Dispose of, all or any part of the Restricted Securities; or • do, or omit to do , any act if the act or omission would have the effect of transferring effective ownership or control of all or any part of the Restricted Securities. Lim Kim Hai agrees that the Restricted Securities are to be kept on the Company's issuer sponsored sub-register and are to have a Holding Lock applied.
Exceptions to Escrow	• The deed does not remove or change: o voting rights; o rights to receive dividends or distributions; or o rights to participate in the issue by the Company of securities on a pro rata basis or as a bonus issue,

	in respect of the Restricted Securities. • Lim Kim Hai can accept a Takeover Bid if holders of at least half of unrestricted securities have accepted. • Restricted Securities may be transferred or cancelled as part of: ○ a merger by way of scheme of arrangement; or ○ an equal access share buy-back or an equal reduction of share capital. • Restricted Securities may be transferred to: ○ personal representatives ○ spouses or family members; or ○ to any controlled entity of Lim Kim Hai (off-market), provided that the recipient of those Shares enters into a deed in substantially similar form to the Shareholder Voluntary Escrow Deed and agrees to be bound in respect of dealings with Restricted Securities.
Consequences of Breach	If it appears to the Company that Lim Kim Hai may breach this Deed, the Company may take the steps necessary to prevent the breach and to enforce the Deed.

Set out below is a summary of the material terms of the PAG Voluntary Escrow Deed between the Company and PAG:

Parties	Regional Express Holdings Limited PAGAC Regulus Holding Pte. Ltd.
Escrow Period start date	The Deed will be entered into by PAGAC Regulus Holding Pte. Ltd. upon the first Conversion Shares being issued to PAG.
Escrow Period end date	2 years after the date of the deed.
Particulars of Restricted Securities	All Conversion Shares issued upon conversion of Convertible Notes and Shares issued upon exercise of Warrants.
Escrow Restrictions	Subject to any exceptions, PAGAC Regulus Holding Pte. Ltd. must not: • Dispose of, or agree or offer to Dispose of, all or any part of the Restricted Securities; or

	• do ,or omit to do , any act if the act or omission would have the effect of transferring effective ownership or control of all or any part of the Restricted Securities.
Exceptions to Escrow	• The deed does not remove or change: ○ voting rights; ○ rights to receive dividends or distributions; or ○ rights to participate in the issue by the Company of securities on a pro rata basis or as a bonus issue, in respect of the Restricted Securities. • PAGAC Regulus Holding Pte. Ltd. can accept a Takeover Bid if holders of at least half of unrestricted securities have accepted. • Restricted Securities may be transferred or cancelled as part of: ○ a merger by way of scheme of arrangement; or ○ an equal access share buy-back or an equal reduction of share capital. • Restricted Securities may be transferred to any PAG Affiliate (off-market).
Consequences of Breach	If it appears to the Company that PAGAC Regulus Holding Pte. Ltd may breach the deed, the Company may take the steps necessary to prevent the breach and to enforce the deed.

REGIONAL EXPRESS HOLDINGS LIMITED

Issue of Convertible Notes to PAGAC Regulus Holding Pte Ltd

Independent Expert's Report and Financial Services Guide

23 December 2020

23 December 2020

The Directors
Regional Express Holdings Limited
81-83 Baxter Road
Mascot NSW 2020

Dear Directors,

Independent Expert's Report for Regional Express Holdings Limited

1. Introduction

Regional Express Holdings Limited ("**REX**") is a public company listed on the Australian Securities Exchange ("**ASX**") that has operated a regional airline in Australia since 2002.

Due to the turmoil in the domestic airline sector caused by the COVID-19 pandemic coupled with the insolvency of Virgin Australia Limited ("**Virgin**") in May 2020, the board of REX identified an opportunity to expand the business to provide regular public transport ("**RPT**") jet operations to capital cities in the domestic market, in particular between Sydney, Melbourne and Brisbane in the first instance ("**Domestic Services**"). The current environment was seen to be ideal to take advantage of a unique market opportunity to leverage the abundance of airport slots, infrastructure, aircraft, pilots, engineers and low fuel prices. On 13 May 2020, REX announced its intention to explore the possibility of establishing domestic capital city routes.

As part of the process to launch the Domestic Services, REX considered a number of funding alternatives including sale and leaseback of owned fleet, debt funding and equity and other capital injections from existing shareholders and other third parties. After considering the various options, management's preferred funding arrangement was via convertible notes from PAGAC Regulus Holding Pte Ltd ("**PAG**").

On 22 September 2020, REX announced that it had signed a long form term sheet with PAG, a fund affiliated with PAG Asia Capital (Hong Kong) Limited, regarding an investment, via convertible notes, of up to $150 million ("**Proposed Transaction**") to support the launch of the Domestic Services. The funding is proposed to comprise first ranking senior secured convertible notes ("**Convertible Notes**"). It is proposed that an initial funding tranche of $50 million will be drawn at completion, with the balance to be drawn over the following three years if required. The notes will be convertible at $1.50 per share. If REX does not utilise the full $150 million offered pursuant to the facility within three years post completion, PAG will be issued with warrants for nil consideration with an exercise price of A$1.50 per share for the difference between the facility amount and the balance drawn ("**Warrants**").

Based on issued share capital at 12 November 2020, if the $50 million first tranche is fully converted, PAG would hold approximately 23.3% of REX's total issued shares, and 47.6% if the full facility is drawn and converted. Further details of the Proposed Transaction are set out in Section 1 of our detailed report.

2. Purpose of the report

If the Proposed Transaction is approved, and the Convertible Notes are converted and/or Warrants exercised, PAG will acquire an interest of between 23.3% and 47.6% in REX, depending on the loan amount converted and the number of Warrants exercised. An acquisition of securities that enables a shareholder to increase its relevant interests in a listed company from below 20% to above 20% is prohibited, except in certain circumstances. One of the exceptions is if the acquisition is approved at a general meeting of the target company. The approval of the Proposed Transaction is therefore being sought at a general meeting of REX's shareholders.

In order to assist REX's shareholders ("**Shareholders**") evaluate the Proposed Transaction, the directors of REX have engaged Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**") to prepare an independent expert's report assessing whether the Proposed Transaction is fair and reasonable to Shareholders. This report is to be included in the notice of meeting regarding the Proposed Transaction ("**NOM**").

Further information regarding our scope and purpose is set out in Section 2 of our detailed report.

3. Basis of evaluation

In accordance with *Regulatory Guide 111: Content of Expert Reports* ("**RG111**") issued by ASIC we have assessed the Proposed Transaction as if it was a takeover offer for REX. Accordingly, in order to assess whether the Proposed Transaction is fair and reasonable to shareholders, we have:

- Assessed it as fair if the value of a REX share after the Proposed Transaction is greater than or equal to the value of a REX share before the Proposed Transaction. Our valuation before the Proposed Transaction has been undertaken on a control basis whereas our valuation after the Proposed Transaction has been undertaken on a minority basis in accordance with RG111.
- Assessed it as reasonable if it is fair, or if despite not being fair, the advantages to shareholders outweigh the disadvantages.

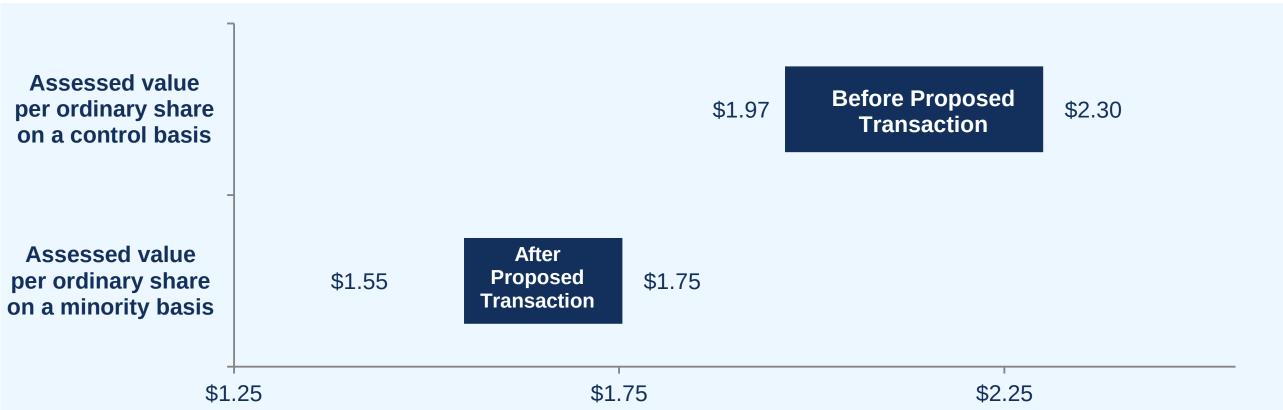
Further details of the basis of evaluation are provided in Section 2 of this report.

4. The Proposed Transaction is not fair

Summary

The following figure shows a comparison of our assessed value of a REX share before the Proposed Transaction (on a control basis) and our assessed value of a REX share after the Proposed Transaction (on a minority basis):

Figure 1: Assessment of fairness



Source: Leadenhall analysis

As the fair market value of a REX share after the Proposed Transaction is less than the fair market value of a REX share before the Proposed Transaction, we have assessed the Proposed Transaction as being not fair.

Value of REX before the Proposed Transaction

We have assessed the enterprise value of REX based on a cash flow model using separate assumptions for each part of the business. In conjunction with management, we have developed multiple potential scenarios for the Domestic Services expansion (including a potential failure of the business) and applied appropriate probability weightings to the outcomes.

We applied a discount rate of 11.0% (nominal, post-tax, WACC) to the projected cash flows to determine the value.

We undertook a sensitivity analysis to highlight which assumptions had the greatest impact on the valuation conclusion. The assumptions with the greatest impact are average fare and fuel prices as set out in Section 6. We note that any alternative reasonable set of assumptions would not impact our conclusion on the fairness or reasonableness of the Proposed Transaction.

Further details of our valuation of REX before the Proposed Transaction are provided in Section 6 of our detailed report.

Value of REX after the Proposed Transaction

Our assessment of the value of a REX share after the Proposed Transaction was based on the same discounted cash flow analysis, adjusted for the impact of the Proposed Transaction.

In order to estimate the fair market value of REX if the Proposed Transaction proceeds, we have made the following adjustments to the value of REX prior to the Proposed Transaction:

- We have applied a lower probability of failure of the Domestic Services due to the funding certainty provided by the Proposed Transaction and a higher weighting to the high case to reflect the reduced risks for successfully implementing the Domestic Services.
- We applied a discount rate of 10.25% to the projected cash flows to reflect the increased scale and lower funding costs of REX if the Proposed Transaction proceeds.
- We have calculated the dilutionary impact of the conversion rights provided by the Convertible Notes and the Warrants using a Black Scholes option pricing model.
- Applied a discount for lack of control ("**DLOC**") as market trading in REX shares after the Proposed Transaction would be on a non-controlling or minority basis.

Further details of our valuation of REX after the Proposed Transaction are provided in Section 7 of our detailed report.

5. The Proposed Transaction is reasonable

In accordance with ASIC guidelines, we have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, the advantages to shareholders outweigh the disadvantages. We have therefore considered the following advantages and disadvantages of the Proposed Transaction to shareholders.

Advantages

Limited alternatives available to provide the financial flexibility offered by the Proposed Transaction

REX's management has considered various funding alternatives both to establish the Domestic Services and for future growth opportunities. It was seen as important for the board to demonstrate that the business was fully funded for the foreseeable future to provide comfort to stakeholders (such as travel agents, etc.) and to ensure any competitive response could be adequately absorbed. It was also important to the board to ensure there are adequate funds available to provide capital in the event that unforeseen economic or industry downside risks eventuated and alternative funding sources (such as sale and leaseback or equity capital markets) were not available.

As part of the fundraising process REX considered proposals from private equity, high-net worth and other institutional investors as well as raising funding internally through a combination of debt, equity and the sale and leaseback of existing owned aircraft. To this end, REX negotiated terms for a sale and leaseback transaction which could provide approximately $30 million in near-term funding. However, based on discussions with existing lenders, there was limited debt funding available to establish the Domestic Services.

Any capital raising from existing shareholders was expected to be constrained by the following factors:

- REX's discussions with its major shareholders indicated that many of the large shareholders were unlikely to be able to participate in a capital raising of the size required.
- The vast majority of REX's shareholders are retail investors (including company management and directors). The lack of institutional investors is likely to limit the take-up of any capital raising from existing shareholders.

As a result of the above factors, funding the Domestic Services through a combination of equity raising, debt funding and sale and leaseback transactions would be subject to significant risks in respect of raising sufficient capital to launch and sustain the Domestic Services until profitability and accessing future capital when and if needed. Furthermore, despite a process undertaken to find third party capital providers, we understand that no alternate offers have been received by REX.

Favourable interest rate

The Convertible Notes have a coupon rate of 4% payable quarterly in arrears with no further interest payable if the term is extended by 12 months at PAGs' request, lowering the effective interest rate below 4% in this instance. This rate is favourable compared to the likely cost if REX were to source debt funding through alternate means. For example, Qantas recently issued $500 million of 10-year corporate bonds with a coupon of 5.25%. Due to its smaller size and higher degree of business concentration, the borrowing costs for REX would be at a significant premium to those of Qantas.

The benefit of the reduced interest cost needs to be considered in conjunction with the significant value to be provided to PAG in the form of conversion options as set out in our fairness assessment.

Reduces risks for successfully implementing the Domestic Services expansion

The funding available to REX pursuant to the Proposed Transaction provides greater certainty of executing the Domestic Services expansion plan since:

- The availability of the funding provides important assurance to suppliers (including lessors of aircraft), corporate customers and passengers who choose to book in advance.
- Access to future funding also ensures that REX is sufficiently capitalised to endure any sustained competitive response from the incumbent operators, thereby reducing the risk of a highly aggressive response. Given the limited history of having three domestic airlines in Australia we consider this risk to be significant.

Raising equity at a premium

The conversion price for the Convertible Notes of $1.50 per share represents a premium of 43% and 37% to the 1 month and 3-month VWAP of REX before the announcement of the Proposed Transaction.

This is in contrast to equity raisings which typically occur at discounts to recent market trading prices. Furthermore, given the size of the funding requirement for REX represents a significant proportion of its market capitalisation prior to the announcement of the Proposed Transaction, it is likely that the discount for REX in this instance would be magnified.

Whilst more recent trading in REX shares has increased to levels above the Conversion Price for the Convertible Notes and the exercise price of the Warrants we consider this would be at least partially attributable to the progress of the Proposed Transaction.

Share price may decline

Since the Proposed Transaction was announced, the share price in REX has increased approximately 75% from $1.09 per share on 21 September 2020 to $1.91 per share on 22 December 2020.

Whilst some of this increase is likely attributed to the announcement of the Domestic Services expansion as well as general improvement in market sentiment (including the easing of COVID-19 restrictions and increased visibility of a timeline for vaccine deployment which should facilitate an increase in interstate travel), it is likely that the share price of REX will decline below current levels if the Proposed Transaction does not proceed.

Proposed Transaction increases alignment with key shareholder and Executive Chairman

As part of the Proposed Transaction, Mr Lim Kim Hai, Executive Chairman and founder of REX, has entered into an escrow deed in respect of his shareholding in REX for the term of the Convertible Notes (unless extended) subject to certain exceptions including if PAG sells all its notes and shares.

As a result, the Proposed Transaction ensures Mr Lim Kim Hai remains invested in the business for the near-term and is aligned to the interests of minority shareholders.

May provide prospect for additional liquidity

The vast majority of existing REX shareholders are retail investors (including company management and directors). Currently, institutional investors comprise a very small proportion of the issued shares of REX.

Support from a large institutional investor such as PAG may provide a positive signal to other institutional investors which may improve the liquidity of REX shares over time.

Furthermore, the increased size of REX if the Proposed Transaction proceeds may also help improve liquidity as the enhanced scale may increase the investor universe and facilitate coverage from sell-side research analysts, etc. For example, since the announcement of the Proposed Transaction, the average daily value traded has risen from approximately $100,000 per day for the 12 months prior to the Proposed Transaction to over $350,000 per day since the announcement of the Proposed Transaction, an increase of over 200%.

Disadvantages

The main disadvantages of the Proposed Transaction are:

Impact on control

If the full amount of the Convertible Notes and/or Warrants are issued and then fully converted and exercised (which would be three years post completion at the earliest unless a trigger event such as a default event by REX or a takeover of REX), PAG would have an interest of up to 47.6% in REX at that time (based on the existing shares on issue). As the Proposed Transaction envisages REX either drawing the full amount of the facility or Warrants being issued for any amount of the facility which is undrawn, it is likely that PAG will have the ability to obtain a 47.6% interest in REX in the future. PAG has agreed to a standstill arrangement whereby its shareholding in REX will not exceed 47.6%. Due to PAG's potential shareholding, it is unlikely that any other prospective acquirers would make a takeover offer for REX without support from PAG. This may reduce the opportunity for Shareholders to receive a control premium in the future.

Whilst PAG's interest in REX will be below 50%, given the wide spread of other shareholdings, if the Proposed Transaction proceeds, PAG would likely become the largest individual shareholder of REX in the future. PAG will also be able to appoint two directors to the board of REX which will comprise nine directors. Whilst the PAG nominee directors do not have any special voting rights, given the potential shareholding of PAG in the future, PAG may be able to exert practical control over certain decisions of REX which are subject to an ordinary resolution. PAG's interest in these matters may not be aligned to the interests of minority shareholders, subject to compliance with relevant laws and regulations.

Furthermore, as is typical for financing transactions, there are some restrictions on certain actions without PAG's consent such as incurring indebtedness outside of the ordinary course of operations and entering into related party transactions. Therefore, PAG's position as financier may not always be entirely aligned with the interests of minority shareholders.

Conclusion on reasonableness

In considering whether the Proposed Transaction is reasonable we considered the relative weight of the above factors.

In particular, it is likely that the Proposed Transaction will result in PAG obtaining a 47.6% interest in REX irrespective of the actual funding requirements of REX due to the presence of the Warrants. However, we consider the advantages of the Proposed Transaction outweigh the disadvantages, in particular:

- The Proposed Transaction is expected to increase the likelihood of the success of the Domestic Services which, if successful would be transformative for REX and could provide significant upside to Shareholders.
- The Proposed Transaction facilitates REX raising capital at a significant premium to the share price of REX prior to the announcement of the transaction. If this amount of equity were to be raised by REX through a traditional equity raising, it is likely that it would be at a significant discount to the prevailing share price of REX.
- We understand that there are no other alternatives currently available that provide the same level of funding certainty for the Domestic Services and there have been no superior offers despite the public nature of the Proposed Transaction.

After considering the above factors, we have concluded that, on balance, the advantages of the Proposed Transaction outweigh the disadvantages, and therefore in our opinion, the Proposed Transaction is reasonable to Shareholders in the absence of a superior proposal.

6. Opinion

In our opinion, the Proposed Transaction is not fair but reasonable to Shareholders in the absence of a superior proposal.

This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully

Dave Pearson
Director

Andrew Steere
Director

Note: All amounts stated in this report are in Australian dollars unless otherwise stated.

Tables in this report may not add due to rounding.

LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In providing this report, we are required to issue this Financial Services Guide ("**FSG**") to retail clients. This FSG is designed to help you to make a decision as to how you might use this general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

Financial Services We are Licensed to Provide

We hold Australian Financial Services Licence 293586 which authorises us to provide financial product advice in relation to securities (such as shares and debentures), managed investment schemes and derivatives.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product. Our report will include a description of the circumstances of our engagement and the party who has engaged us. You will not have engaged us directly but will be provided with a copy of the report because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial service licensee authorised to provide the financial product advice contained in that report.

General Financial Product Advice

The advice produced in our report is general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

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We charge fees for providing reports. These fees will be agreed with the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Leadenhall is entitled to receive a fixed fee of $145,000 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the Proposed Transaction.

Except for the fees referred to above, neither Leadenhall, nor any of its directors, consultants, employees or related entities, receive any pecuniary or other benefit, directly or indirectly, for or in connection with the provision of this report.

Remuneration or Other Benefits Received by our Employees, Directors and Consultants

All our employees receive a salary. Our employees are eligible for bonuses which are not based on the outcomes of any specific engagement or directly linked to the provision of this report. Our directors and consultants receive remuneration based on time spent on matters.

Referrals

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the reports that we are licensed to provide.

Complaints Resolution

As the holder of an Australian Financial Services Licence, we are required to have a system in place for handling complaints from persons to whom we have provided reports. All complaints must be in writing, to the following address:

Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

We will try to resolve your complaint quickly and fairly and will endeavour to settle the matter within 14 days from the time the matter is brought to our attention.

If you do not get a satisfactory outcome, you have the option of contacting the Financial Ombudsman Service ("**FOS**"). The FOS will then be able to advise you as to whether or not they can assist in this matter. The FOS can be contacted at the following address:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Telephone: 1300 780 808
Email: info@fos.org.au

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

23 December 2020

CONTENTS

1 THE PROPOSED TRANSACTION

1.1 Background

REX is a public company listed on the ASX that is engaged in operating a regional airline within Australia.

On 13 May 2020, REX announced its intention to explore the possibility of establishing domestic capital city major routes. On 29 June 2020, the board of REX approved management to commence preparations for the operation of an initial fleet of five to ten jet aircraft to service the Sydney-Melbourne-Brisbane routes with a targeted start date of 1 March 2021. At the time, the board of REX approved an initiative to raise funding, through a range of sources for the launch of the Domestic Services.

On 22 September 2020, REX announced the Proposed Transaction whereby PAG would make an initial investment of $50 million and a total investment of up to $150 million to support the launch of the Domestic Services.

The funding is proposed to comprise first ranking senior secured convertible notes. If REX does not utilise the full $150 million offered pursuant to the facility within three years post completion, PAG will be issued with zero-cost warrants with an exercise price of A$1.50 per share for the difference between the facility amount and the balance drawn.

Based on the current shares on issue of REX, if the $50 million first tranche is fully converted, PAG would hold approximately 23.3% of REX's total issued shares, and if the full $150 million is drawn and converted, PAG would hold approximately 47.6% of REX's issued shares.

1.2 Terms of the Convertible Notes

A summary of the key terms of the Convertible Notes is presented in the table below. Further details are set out in Schedule 3 of the NOM.

Term	Description
Face value and limit	The Convertible Notes will have a face value of $1.00 per Convertible Note and an aggregate facility limit of $150 million.
Use of proceeds	The proceeds from the issue of the Convertible Notes are for the establishment, launch, operation and expansion of the Domestic Services.
Drawdown	50 million Convertible Notes will be issued to PAG for $50 million on completion of the conditions precedent summarised below ("First Drawdown Date"). Provided that at least 75% of the funding previously provided by PAG has been utilised, up to a further 100 million Convertible Notes may be issued to PAG during the three-year period following the First Drawdown Date. Once $75 million is drawn pursuant to this facility, further drawdowns are subject to confirmation that the Domestic Services have a likely pathway to sustainable positive operating cash flow over the next 12 months, unless unanimously agreed by the board.
Maturity	Five years following the First Drawdown Date ("**Maturity Date**"), extendable at the election of either party by a further one year ("**Extended Term**").
Security	The Convertible Notes will be secured by a first ranking security over all the assets and undertakings of all the entities within the REX Group other than NAA Pty Ltd, VAA Pty Ltd and Pel-Air Aviation Pty Ltd. A guarantee will also be provided by each of the applicable REX Group entities in favour of PAG.

Term	Description
Interest rate	Interest will be payable at 4% per annum payable on the face value of drawn Convertible Notes, quarterly in arrears. If the term is extended by a further year at the election of PAG, then REX will not be liable to pay any interest on the Face Value of the drawn Convertible Notes for that further one-year period. In an event of default interest will accrue at a rate of 12% per annum.
Conversion price	The conversion price will be $1.50 per share, subject to customary adjustments ("**Conversion Price"**).
On-sale	Prior to the third anniversary of completion, the Convertible Notes are not transferable without the prior written consent of REX. After the third anniversary, any transfer of the Convertible Notes by PAG will be subject to a right of first offer in favour of REX. If, after the first anniversary of completion, the market price of REX shares is equal to or greater than 150% of the conversion price of the Convertible Notes, PAG may dispose of up to one-third of its notes to institutional investors (with REX's consent) or convert up to one-third of the notes.
Conversion	Subject to necessary shareholder and other approvals being obtained, PAG may convert the Convertible Notes to ordinary REX shares at any time from the third anniversary of the First Drawdown Date to the Maturity Date. PAG may convert all or a portion of the Convertible Notes. Conversion may occur prior to the third anniversary of the First Drawdown Date upon certain trigger events primarily associated with a material breach of the agreement with PAG, an event of default, a change of control transaction or where Domestic Operations for the Northern Summer Scheduling 2021 with 5 aircraft have not commenced by 30 June 2021. Shares issued on conversion of the Convertible Notes will be fully paid and will rank equally in all respects with ordinary shares of REX.
Redemption	PAG can elect to redeem the Convertible Notes and receive the redemption amount, being the face value and accrued interest on drawn Convertible Notes, on the Maturity Date or prior to the Maturity Date in the event certain trigger events occur. These trigger events primarily relate to material breaches of the agreement, an event of default, relevant approvals not being granted (including shareholder approval of the Proposed Transaction) and Domestic Operations for the Northern Summer Scheduling 2021 with 5 aircraft not having commenced by 30 June 2021. On redemption at the Maturity Date PAG will receive the face value and accrued interest in drawn Convertible Notes. In the event of a control transaction for REX and the share price of REX at the time is not representative of fair value, PAG may be eligible to redeem the Convertible Notes and receive a higher amount based on the fair market value of the Convertible Notes.
Warrants	If REX does not utilise the full $150 million offered pursuant to the facility within three years post completion, PAG will be issued with zero-cost warrants with an exercise price of A$1.50 per share for the difference between the facility amount and the balance drawn except in certain limited instances, namely REX determining to cease the Domestic Operations or if PAG fails to provide funds under the facility when it is obliged to do so.
Other funding	PAG will have a first right of refusal to provide its pro rata share of funding to REX (on commercial market terms) in the event that additional equity or debt is required to be raised.
Director Appointment	PAG will have a right to nominate up to two non-executive directors to the board. If the Proposed Transaction proceeds it is expected that the REX board which will comprise nine directors which will include four independent directors, three executive directors and two PAG-appointed directors.

Source: REX

1.3 Conditions precedent

The Proposed Transaction is subject to the following conditions precedent:

- PAG obtaining approval from the Foreign Investment Review Board in accordance with the Foreign Acquisitions and Takeovers Act
- REX obtaining:
    - Shareholder approval in accordance with item 7 of section 611 of the Corporations Act
    - All approvals required from ASX or under the Listing Rules
    - Approval from the Civil Aviation Safety Authority ("**CASA**") in the form of a High Capacity Air Operator's Certificate ("**AOC**")

The first drawdown of $50 million and issue of 50 million Convertible Notes will occur within 10 business days after satisfaction of all Conditions Precedent.

1.4 Future intentions of PAG

PAG is part of an Asia Pacific focused private investment firm with over $40 billion in funds under management across three major businesses:

- Private equity buyout and growth funds
- Real estate investments
- Absolute return including private debt and public market strategies.

As disclosed in the NOM, PAG has no current intention to:

- Make any significant changes to the existing business of REX
- Inject further capital into REX although additional capital is available in the event it is required
- Make changes regarding the future employment of REX's present employees
- Transfer any assets between REX and itself or any person associated with it
- Otherwise redeploy the fixed assets of REX
- Change REX's existing financial or dividend policies significantly

2 SCOPE

2.1 Purpose of the report

An acquisition of securities that enables a shareholder to increase its relevant interests in a listed company from below 20% to above 20% is prohibited under Section 606 of the Corporations Act 2001 ("**s606**"), except in certain circumstances. In the event that PAG exercises its option to convert the Convertible Notes and/or exercise the Warrants, it will own up to 47.6% of the shares in REX. Currently PAG does not hold any interest in REX.

One of the exceptions to s606 is where the acquisition is approved at a general meeting of the target company in accordance with item 7 ("**Item 7**") of Section 611 of the Corporations Act 2001 ("**s611**"). Approval for the Proposed Transaction is therefore being sought at a general meeting of REX's shareholders in accordance with Item 7.

Item 7 requires shareholders to be provided with all of the information known to the company and to the potential acquirer that is material to the shareholders' decision. *Regulatory Guide 74: Acquisitions Approved by Members* ("**RG74**") issued by the Australian Securities and Investment Commission ("**ASIC**") provides additional guidance on the information to be provided to shareholders. RG74 states that the directors of the target company should provide shareholders with an independent expert's report or a detailed directors' report in relation to transactions to be approved under Item 7*. Regulatory Guide 111: Content of Expert Reports* ("**RG111**") issued by ASIC requires an independent expert assessing a transaction that has a similar effect to a takeover bid to assess whether the transaction is fair and reasonable.

The directors of REX have therefore requested Leadenhall to prepare an independent expert's report assessing whether the Proposed Transaction is fair and reasonable to REX's shareholders. This report has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Transaction.

2.2 Basis of evaluation

Introduction

RG111.25 requires an independent expert to evaluate an issue of securities under s611 that has a similar effect to a takeover offer as if it was a takeover offer. As PAG will hold greater than 20% of the shares outstanding in REX should the Proposed Transaction be approved and the Convertible Notes are converted and/or the Warrants are exercised, we have assessed the Proposed Transaction as a control transaction. RG111 requires a separate assessment of whether a control transaction under s611 is '*fair*' and whether it is '*reasonable*'. We have therefore considered the concepts of '*fairness*' and '*reasonableness*' separately. The basis of assessment selected and the reasons for that basis are discussed below.

Fairness

RG111.11 defines a takeover offer as being fair if the value of the consideration is equal to, or greater than, the value of the securities subject to the offer. Accordingly, we have assessed whether the Proposed Transaction is fair by comparing the value of a REX share before the Proposed Transaction with the consideration offered to Shareholders. As Shareholders would retain their interest in REX if the Proposed Transaction proceeds (as opposed to exchanging them for cash or the acquirer's scrip as in a takeover offer) the effective consideration is the continued ownership of a REX share.

The value of a REX share before the Proposed Transaction has been determined on a control basis (i.e. including a control premium). This is consistent with the requirement of RG111.11 that the comparison for a takeover must be made assuming a 100% interest in the target company.

After the Proposed Transaction, Shareholders will retain their interest in REX. This has been assessed on a minority interest basis (i.e. excluding a control premium) as Shareholders would own a minority stake in REX should the Proposed Transaction occur and the Convertible Notes are converted and/or the Warrants are exercised.

We have assessed the values of a REX share before and after the Proposed Transaction at fair market value, which is defined by the International Glossary of Business Valuation Terms as:

> *The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.*

While there is no explicit definition of value in RG111, this definition of fair market value is consistent with basis of value described at RG111.11 and common market practice.

Special value is defined as the amount a specific purchaser is willing to pay in excess of fair market value. A specific purchaser may be willing to pay a premium over fair market value as a result of potential economies of scale, reduction in competition or other synergies they may enjoy arising from the acquisition of the asset. However, to the extent a pool of hypothetical purchasers could all achieve the same level of synergies the value of those synergies may be included in fair market value. Special value is typically not considered in forming an opinion on the fair market value of an asset. Our valuation of REX before and after the Proposed Transaction does not include any special value.

Reasonableness

In accordance with RG111, we have defined the Proposed Transaction as being reasonable if it is fair, or if, despite not being fair, Leadenhall believes that there are sufficient reasons for Shareholders to vote for the proposal. We have therefore considered whether the advantages to Shareholders of the Proposed Transaction outweigh the disadvantages. To assess the reasonableness of the Proposed Transaction we have considered the following significant factors recommended by RG111.13:

- The liquidity of the market in REX's shares
- Any special value of REX to PAG
- The likely market price of REX shares if the Proposed Transaction is rejected
- The value of REX to an alternative bidder and the likelihood of an alternative offer

We have also considered other significant advantages and disadvantages to Shareholders of the Proposed Transaction.

2.3 Individual circumstances

We have evaluated the Proposed Transaction for Shareholders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Proposed Transaction is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the Proposed Transaction on their specific financial circumstances.

3 INDUSTRY ANALYSIS

3.1 Introduction

The domestic passenger aviation industry in Australia is dominated by two airlines, the Qantas Group, including its low-cost carrier Jetstar, and Virgin Australia which finalised the acquisition of low-cost carrier Tigerair in 2014. These two airlines typically account for approximately 90%[1] of domestic market share. There are a number of smaller domestic and charter airlines which predominantly service regional markets, in particular tourism and mining hubs. In 2020, the aviation industry in Australia has been severely impacted by COVID-19. Various travel restrictions at both a national and state level have reduced passenger numbers from an average of 5.1 million domestic travellers per month in the calendar year 2019 to just 145,895 in April 2020, recovering to 727,979 in July 2020[2]. Furthermore, the restrictions associated with COVID-19 caused Virgin Australia to enter voluntary administration on 21 April 2020. A sale to Bain Capital has subsequently been negotiated, however it is yet to be seen what impact this will have on industry competition going forward. As domestic COVID-19 restrictions are eased, the sector expects a rapid recovery as pent up demand and continuing restrictions on international travel are likely to result in record levels of domestic tourism.

3.2 General Characteristics

The airline industry exhibits the following key characteristics:

- Businesses operating in the industry have a high degree of operating leverage as a high proportion of costs are fixed. This can result in relatively high earnings volatility compared to other industries.
- A high degree of operational complexity in terms of both day to day business management (e.g. scheduling, staffing, passenger and luggage handling and maintenance and safety requirements) and long-term capital planning (e.g. fleet and financing requirements).
- The industry is subject to a high degree of government regulation and policy (particularly in relation to international traffic rights, ownership restrictions and safety regulation).
- There is a high level of capital intensity which, along with government restrictions, creates high barriers to entry for potential new entrants.
- It is labour intensive with highly unionised workforces.
- It is highly susceptible to international shocks, particularly those which restrict international travel. Over the last 20 years the industry has been impacted by pandemics (e.g. SARS and COVID-19), global terrorism and dramatic fluctuations in fuel prices.

As a result of the above, earnings fluctuate dramatically in the industry from year to year.

Business models

As noted above, the domestic airline industry in Australia is a duopoly dominated by Qantas and Virgin Australia. Qantas and Virgin Australia are considered full-service airlines, whilst Jetstar (a subsidiary of Qantas) and Tigerair (a subsidiary of Virgin Australia) are the domestic low-cost carriers. However, in August 2020, Virgin Australia announced that the Tigerair brand will be discontinued as part of its restructure strategy. To date Virgin Australia has not announced whether it intends to offer an alternative low-cost service in the future.

[1] *IBISWorld, Domestic Airlines in Australia*
[2] *Bureau of Infrastructure, Transport and Regional Economics*

The key characteristics of the two types of carrier are set out in the table below:

Table 1: Characteristics of low cost and full-service airlines

Low cost	Full Service
♦ Low fares ♦ Use it or lose it rules (travel dates cannot be changed) ♦ Ancillary fees for extras ♦ Use of secondary airports ♦ No loyalty programs ♦ No airport lounges ♦ Single-class cabins ♦ Online direct booking ♦ No corporate deals ♦ Limited interline arrangements	♦ Generally higher fares ♦ Special corporate deals ♦ More inclusions e.g. luggage and meals ♦ More extensive routes ♦ Loyalty programs ♦ Airport lounges ♦ Global alliances ♦ Multi-class cabins

Source: QBT Travel and Leadenhall analysis

As at March 2020, 67.2% of industry revenue was generated by full-service carriers, 22.2% was generated by low cost carriers and freight transport and other services account for the remaining 10.6%[3].

3.3 Competitors

Qantas, Virgin and Qantas subsidiary Jetstar are the three largest domestic airlines in Australia. Outside of these carriers, there is REX which currently services regional hubs throughout Australia.

A summary of key information for the major players in the industry is set out in the table below.

Table 2: Summary of major domestic Australian Airlines

	Qantas Domestic	Virgin[2]	Jetstar[3]	REX
Main hub	Sydney	Brisbane	Melbourne	Sydney
Destinations[1]	55	33	21	60
Flights per week[1]	4,500	Over 3,000	Over 5,000	1,500
Number of aircraft[1]	221	99	87	60
On time departure[4] (FY19/FY20)	4th / 5th	3rd / 4th	6th / 6th	2nd / 1st
Cancellation Rate (FY19/FY20)	2.4% / 4.33%	1.96% / 4.27%	2.52% / 5.74%	0.99% / 2.89%
Revenue (FY19/FY20)	\$4,672 / \$6,098 million	\$3,915 / n/a million	\$3,006 / \$3,961 million	\$260 / \$322 million[5]
Underlying EBIT (FY19/FY20)	\$778 / \$173 million	\$133 / n/a million	\$400 / (\$26) million	\$26.2 / (\$27)[6] million
ASK's (FY19/FY20)	25,773 / 33,866 million	51,203 / n/a million[7]	35,613 / 47,993 million	808 / 630 million
Load factor (FY19/FY20)	75.9% / 77.8%	80.2%[7] / n/a	84.3% / 86.1%	63.1% / 59.5%

Source: FY20 annual reports for Qantas and REX, FY19 annual report for Virgin and airline websites.
Notes:
1. *Destinations, flights per week and number of aircraft pre-COVID-19 and pre-Virgin administration figures.*
2. *FY20 financial results are not available due to the appointment of administrators in April 2020.*
3. *Jetstar includes international operations.*

[3] *IBISWorld, Domestic Airlines in Australia*

4. On time departure rankings also include QantasLink, Virgin Australia Regional Airlines and Tigerair. FY20 on time departure rankings are for the period 1 July 2019 to 31 March 2020.
5. FY20 revenue excludes $62 million in government grants received
6. REX underlying EBIT excludes government grants received in FY20, if these were included underlying EBIT would be $35 million.
7. Figures are for the entire Virgin group including international operations and Tigerair.

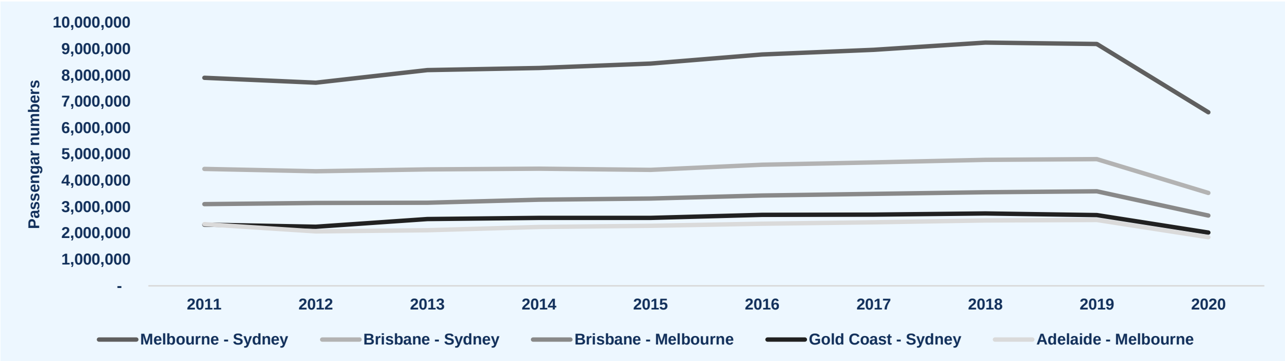
Beside COVID-19, the biggest change in the competitive landscape of the Australian airline industry in 2020 was the collapse of Virgin which was placed in voluntary administration in April 2020 following years of underperformance and the impacts of COVID-19 on domestic and international travel. Subsequently the administrators sold the business to private equity firm Bain Capital for $3.5 billion[4]. There is relatively little publicly available information on the future strategic direction of Virgin under new ownership. To date it has been disclosed that[5]:

- Focus will be on the core domestic and short-haul international business
- There will be cost base reductions to meet sector uncertainty and COVID-19 market conditions
- 3,000 jobs will be lost permanently whilst 6,000 will be secured post market recovery
- Most 737's will be retained as well as the regional and charter fleet with other aircraft types removed
- The Tigerair brand will be discontinued with the Air Operator Certificate and necessary support maintained to provide an option for ultra-low-cost operation when the market recovers
- There is a continued commitment to regional and charter flying
- For regional routes, there is often limited competition from other carriers with the main competition being from road transport such as buses or self-driving

3.4 Popular routes

The most popular domestic route is between Melbourne and Sydney, the two largest commercial centres of Australia, which is one of the busiest airline routes in the world. Travel between state capitals dominates the top flight routes in Australia. According to The Bureau of Infrastructure and Transport Research Economics ("**BITRE**"), load factors have grown steadily on most popular flight routes over the past five years which has promoted higher airfares and improved profitability. The top five routes by number of passengers is set out in the figure below.

Figure 1: Top five domestic flight routes by passenger number



Source: BITRE

In percentage terms, the fastest growing routes over the past five years have primarily been leisure destinations. These routes include Melbourne-Sunshine Coast, Ballina-Sydney and Hobart-Sydney. In contrast there have been sharp declines in trips to and from significant mining destinations, such as Karratha and Gladstone, as the mining sector moves away from fly-in-fly-out production toward automated operations.

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[4] Australian Financial Review, "Creditors approve $3.5b Virgin sale to Bain", 4 September 2020
[5] VAH ASX release, "Virgin Australia Group Announces Plan to Focus on Core Strengths, Re-Establishing Itself as an Iconic Australian Airline", 5 August 2020

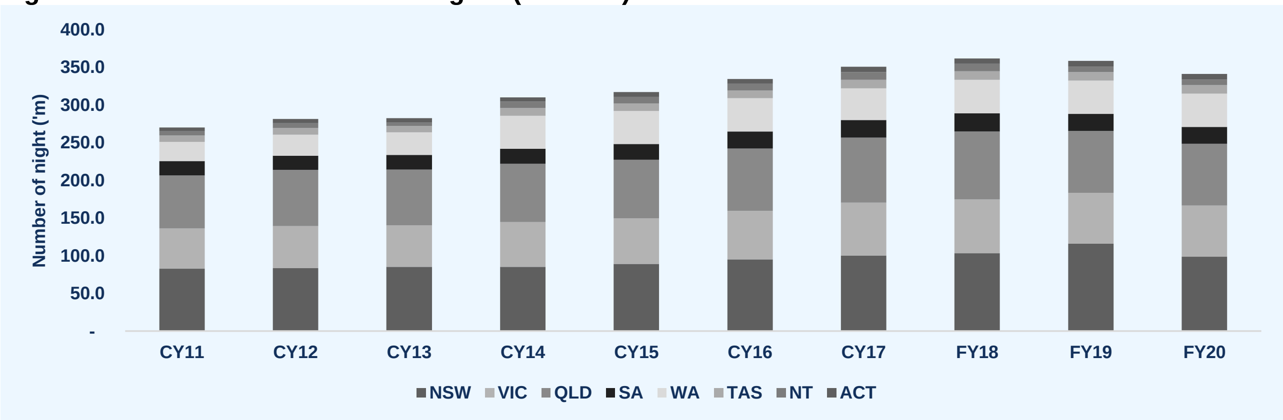
3.5 Industry drivers

The summary below sets out the key external drivers of domestic Australian airline financial performance.

Domestic tourist visitor nights

Measures overnight stays at locations more than 40 kilometres from home. Domestic air travel tends to increase when the number of domestic tourist visitor nights rises. Historical visitor nights are shown in the figure below.

Figure 2: Domestic tourist visitor nights (millions)



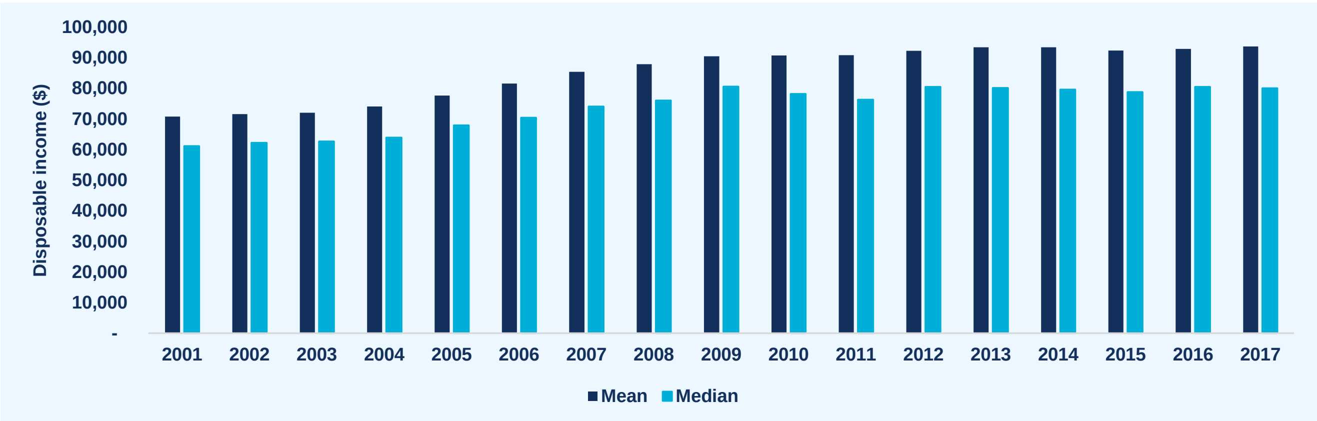
Source: Tourism Research Australia

In July 2020, domestic visitor nights were down 35% on the same month in the previous year due to the effects of COVID-19. Case numbers have remained low for a number of months allowing for state-based tourism to resume. As national borders reopen, pent up demand for travel will fuel growth in the local industry. In the medium term, domestic travel will be buoyed by a lack of international travel options which are not expected to resume until a COVID-19 vaccine is available and widely administered globally.

Real household discretionary income

When income growth is strong, households tend to increase spending on discretionary items such as holidays. Historical levels of discretionary income are shown in the figure below.

Figure 3: Real household disposable income (2017 AUD)



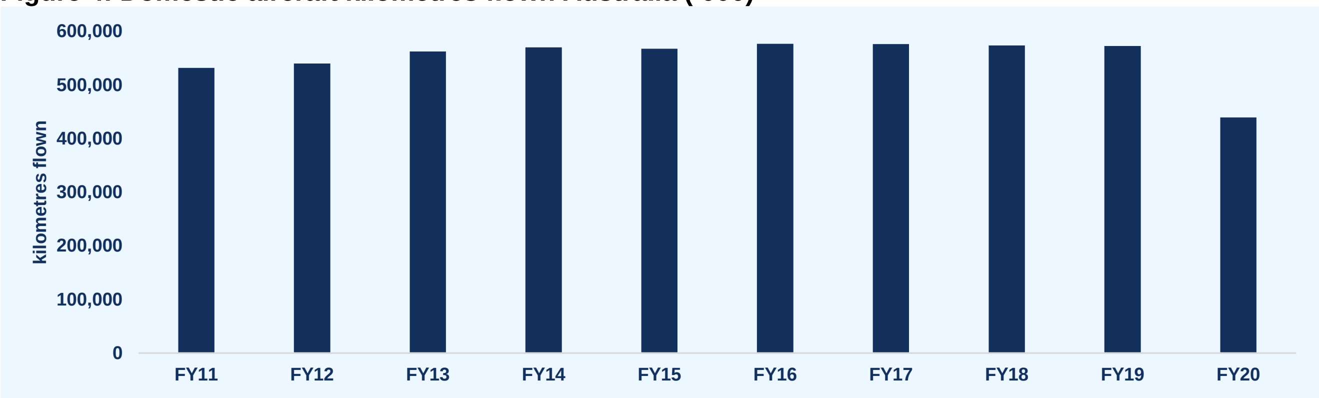
Source: The Household, Income and Labour Dynamics in Australia Survey, 2019

Median real household disposable income has stagnated in the current decade primarily due to the impacts of the global financial crisis early in the decade followed by low wages growth and trends towards a greater reliance on casual and part-time workers. The impact of COVID-19 on household finances has been somewhat cushioned by government support packages. Nevertheless, the RBA expects unemployment to peak at 10% or over 1.3 million by the end of 2020 (up from 700,000 in December 2019) and stay at these levels until mid-2021. This increase in unemployment will likely negatively impact spending capacity despite government assistance.

Aircraft kilometres flown

This is used as a measure of domestic aviation activity. An increase in this measure indicates an increase in passengers and freight which tends to boost industry revenue. Historical levels are shown in the figure below.

Figure 4: Domestic aircraft kilometres flown Australia ('000)



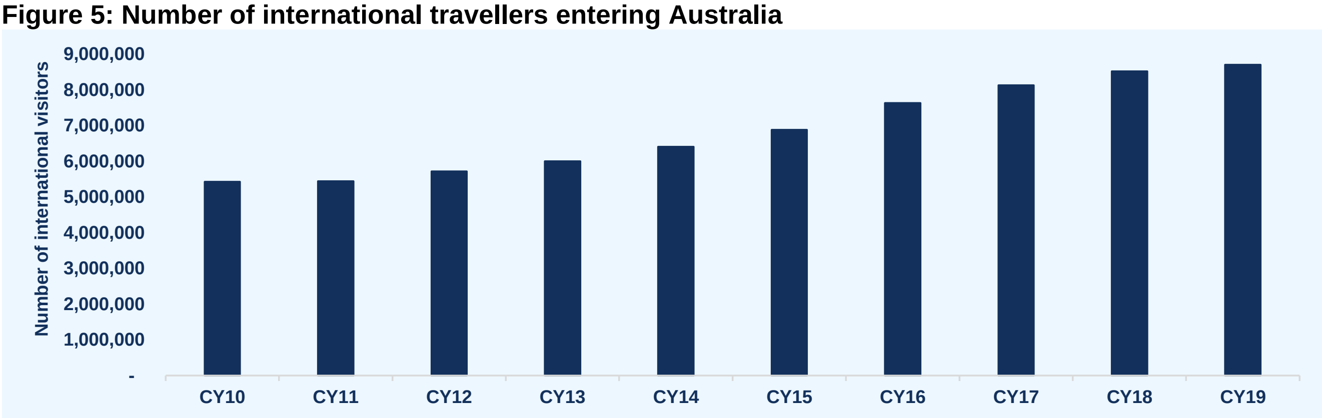
Source: Bureau of Infrastructure, Transport and Regional Economics

Aircraft kilometres flown are were reasonably stable over the past 10 years until COVID-19 grounded the majority of domestic flights from April 2020, resulting in a significant drop in activity in FY20. Aircraft kilometres are not expected to recover as quickly as tourist nights as state-based border closures are still significantly restricting interstate air travel. In particular, the three most popular routes in Australia are currently subject to significant restrictions. Currently, domestic border and quarantine restrictions seem likely to be in place at least until the end of 2020, with some states indicating border restriction will not ease until well into 2021. In addition, any further mass outbreaks would result in new border closures.

International travel to Australia

International travellers are an important source of demand as they often take domestic flights to visit different parts of Australia. Full service airlines often align themselves with international carriers to facilitate transfers between international and domestic flights. Historical international traveller numbers are shown in the figure below.

Figure 5: Number of international travellers entering Australia



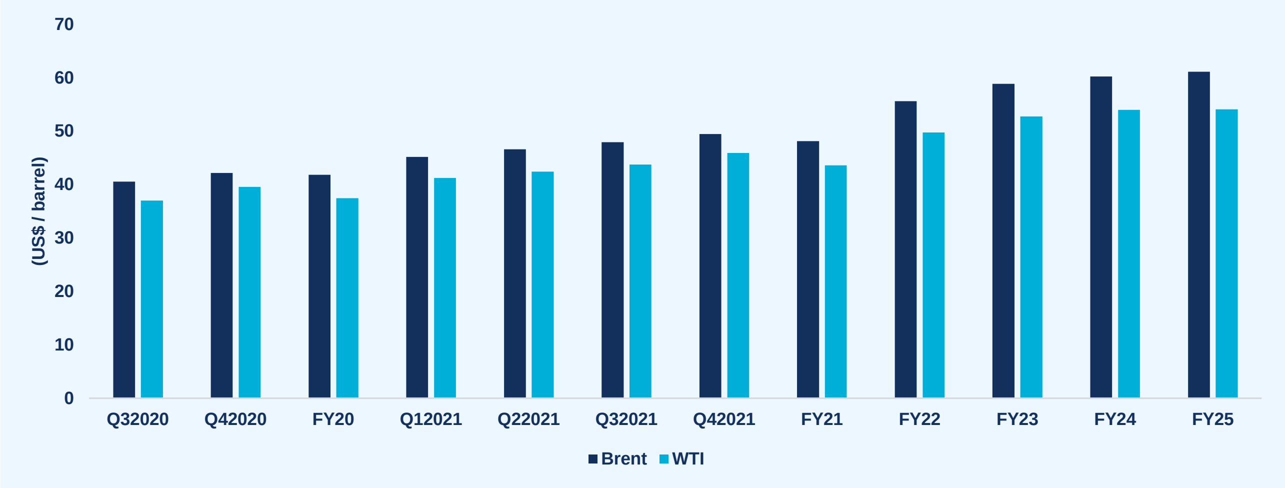
Source: Tourism Research Australia

International tourist numbers have risen steadily over the last ten years from 5.4 million in 2010 to 8.7 million in 2019. The biggest increase has been in visitors from China which grew from 0.43 million in 2010 to 1.33 million in 2019. The international travel industry has been decimated by COVID-19 with most countries closing their borders to tourists. Australia has taken a particularly strong stance to its international border closure in order to protect from mass outbreaks which have been fuelled by international arrivals throughout the COVID-19 pandemic. Qantas announced that it does not expect to resume full international services until 2022. However, limits on international travel are not expected to have a significant impact on the domestic industry as local consumers are expected to travel domestically more frequently during this period.

Fuel Prices

Fuel is one of the most significant costs for airlines. Airlines generally use hedging contracts to lock in short-term fuel costs to assist with pricing decisions. Increases in fuel price place downward pressure on profits whilst the benefits of decreases can take some time to filter through to performance due to hedging strategies. Fuel prices are closely linked to the oil price. Forecast oil prices are set out in the figure below.

Figure 6: Forecast crude oil price (US$/barrel)



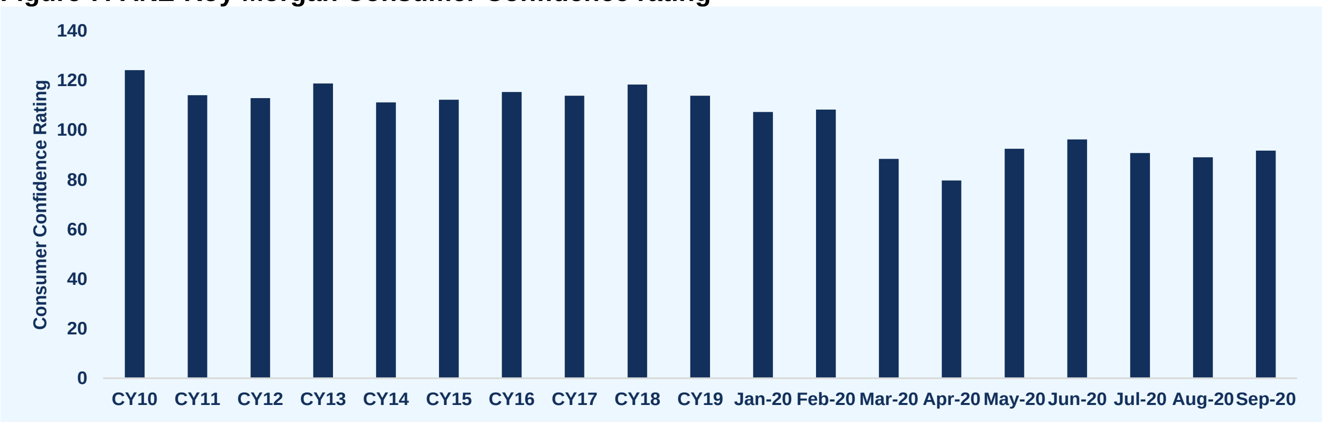
Source: S&P CapIQ, average of broker forecasts as at 12 November 2020

Between March 2011 and September 2014, Brent oil generally traded between US$100 and US$120/barrel. By January 2015 Brent prices had dropped to US$25/barrel due to an increase in global supply. Oil prices recovered to reach US$92/barrel in October 2018 before trading in the range of US$60 to US$80 until the COVID-19 pandemic and the Russia/Saudi price war resulted in a ten year low price for Brent of US$20/barrel in April 2020. Analysts expect oil prices to remain subdued over the medium term as travel restrictions are expected to heavily impact demand. Airlines generally hedge oil price exposure, effectively locking in future prices. Therefore, the current decline in oil prices may not be fully realised by airlines in the short term.

Consumer Sentiment Index

The Consumer Sentiment Index measures households' opinions regarding their financial situation and the economy. Negative consumer sentiment tends to reduce demand as pessimistic consumers are more likely to defer travel and businesses may seek to cut costs. Historical index levels are set out in the figure below.

Figure 7: ANZ-Roy Morgan Consumer Confidence rating



Source: Roy Morgan

Consumer confidence was relatively stable over the ten years to 2019. As expected, COVID-19 caused a significant decline in consumer confidence in March and April 2020 as households across the country endured lockdown restrictions. Consumer confidence has been slow to recover since the peak of COVID-19 restrictions. Recovery has been hampered by the second wave in Victoria which resulted in a more modest fall from July to September 2020. In contrast, business confidence had recovered to near pre COVID-19 levels by October 2020. The potential for more significant falls in both consumer and business confidence were largely offset by significant government stimulus. In the absence of an effective vaccine and/or an efficient testing process, it is expected that consumers will remain cautious and business travel will remain subdued whilst the risk of further outbreaks remains. A significant reduction in government spending would likely also have a negative impact.

3.6 Industry trends

Current performance

Prior to the COVID-19 outbreak, the industry's major operators benefitted from a mostly upward trend in domestic passenger traffic over the last five years. Increased route efficiencies have led to higher airfares and more refined business strategies and market segmentation have driven profitability. Furthermore, the depreciation of the Australian dollar reduced local demand for international travel in favour of domestic travel, whilst also attracting international visitors. IBISWorld estimated that industry revenue will fall 15.3% in FY20 as a result of the east coast bushfires and COVID-19.

Rising airfares

At the beginning of the last decade, domestic airfares fluctuated due to price wars between Qantas and Virgin as both sought to increase market share on key domestic routes. However, direct price competition between the two has reduced over the past five years with a greater focus on profitability rather than market share. This has contributed to a strong rise in airfares over this period, despite a decline in household discretionary income. Both Qantas and Virgin have successfully targeted the small-to-medium business market, with positive business confidence over the period supporting demand growth. According to the BITRE, in June 2019, the full-economy airfare index reached its highest point since October 2007. However, prices of business class airfares have dropped substantially over the same time on the back of softening demand.

Fuel prices

Fluctuations in fuel prices can significantly influence industry profit margins. The price of aviation fuel increased from a low base over the four years through FY19. This trend was exacerbated by a decline in the Australian dollar as fuel is priced in US dollars. However, the price of fuel has dipped sharply in FY20 due to the COVID-19 outbreak. Additional downward price pressure has resulted from a price war between the significant oil producing nations of Saudi Arabia and Russia.

Profit

Over the last five years, industry participants have engaged in significant cost cutting exercises to increase profit. The cost cutting initiatives have focused on headcount reductions, wage freezes and cutting excess costs. Furthermore, a renewed focus on defining and focusing on core markets has contributed to a focus on profitability.

3.7 Outlook

COVID-19

2020 saw a marked increase in domestic flights, however the emerging recovery was hampered by a significant COVID-19 outbreak in Melbourne which prompted domestic border closures which still have not been fully withdrawn. In addition to short-term industry disruption, COVID-19 may contribute to structural changes in the industry in particular in respect of lucrative business travellers. The rise in the successful use of virtual communication technology during the COVID-19 crisis may be a long-lasting trend which could significantly impact the level of business travel in the future. There is some evidence that the recovery in business travel is lagging the recovery in leisure travel in China where domestic leisure travel has almost returned to pre COVID-19 levels.

Domestic travel recovery in Australia is facing headwinds from a period of prolonged state border closures, preventing the re-establishment of the most popular business and tourism routes in Australia. As of the date of this report, there were plans in place to re-open most state borders. In the absence of growing case numbers, airlines and analysts expect domestic travel to begin to increase in early to mid-2021, with industry participants reporting expectations of steady growth until 2019 levels anticipated to be reached by FY23 or FY24. The recovery is expected to be driven by domestic tourism as international travel restrictions are expected to extend until a vaccine is available and widely administered globally.

Currently domestic airlines are receiving the following government support packages:

- Australian Airline Financial Relief Package will operate over a period of nine months from 1 April 2020 to 31 December 2020 and includes the refunding and ongoing waiving of a range of government charges including aviation fuel excise, Airservices Australia charges and domestic and regional aviation security charges. The package is worth $715 million.
- Domestic Aviation Network Support and Regional Airline Network Support programs provide shortfall subsidies to eligible airlines maintaining a minimum air transport network during COVID-19.
- Regional Airlines Funding Assistance program provides $100 million as a last resort cash flow assistance to regional airlines that provide essential services to regional and remote locations.
- The Regional Air Network Assistance Package which provides $198 million to ensure core regional routes for domestic air freight will remain open and essential workers employed.

Government funding has been critical in maintaining the viability of the domestic airline sector, particular for smaller airlines. Early termination of assistance programs could jeopardise the recovery of the industry.

Profit

During the COVID-19 recovery period, available seat kilometre capacity will be higher than demand in the short-term leading to strong competition for market share until passenger demand more closely reflects pre COVID-19 demand levels. Post COVID-19, demand for domestic travel is anticipated to increase over the next five years, primarily underpinned by rising discretionary income and greater demand for domestic tourism as international borders take longer to reopen than domestic borders. Over this period, profit margins are expected to remain strong as airlines continually focus on cost reduction and fleet efficiency.

Airlines are expected to continue to phase out older aircraft in favour of new fuel-efficient aircraft which is expected to reduce fuel and maintenance costs. Although the Qantas Virgin price war ended in 2015, moderated price competition is anticipated to continue. On the other hand, the absence of Tigerair in the low-cost segment will likely reduce price competition in this sector.

Competition

Post-administration, the Virgin offering is expected to be significantly reduced as demonstrated by the reduction in the number of aircraft taken on by the new owners. Furthermore, competition in the low cost segment will significantly change in the post COVID-19 and Virgin administration era as Virgin has announced the retirement of the Tigerair brand, however Virgin will maintain the ability to launch a low cost service in the future.

In June 2020, REX obtained board approval to launch the Domestic Services in Australia. The plan involves an initial fleet of five to ten narrow-body jet aircraft to be based out of Sydney and/or Melbourne to service the golden triangle (Sydney-Melbourne-Brisbane) with a target start date of 1 March 2021, subject to regulatory approval.

In May 2015, the federal government proposed plans to allow foreign airlines to fly domestic routes in Northern Australia to encourage economic development. This proposal was scrapped following intense lobbying from incumbent airlines. As such, it seems unlikely that foreign players would be allowed to enter the domestic market in the short to medium term. The number of smaller local industry participants is expected to rise over the next five years as tourism growth encourages industry expansion in rural areas. Airlines are anticipated to open more flight routes to regional areas over the next five years in response to increasing demand from international tourists.

Subscription-based private flight providers, which charge a monthly fee for unlimited flights between several domestic airports, represent a potential, albeit small, disruptor to the industry. Similarly, technology-based airline services that pool customers to allow lower per person prices are likely to become more common. For instance, Uber Air, an aerial ridesharing platform, has indicated Melbourne will be one of three international cities to host demonstrator flights, with commercial flights expected to become available to the public in 2023.

Opportunities

Technological changes offer significant opportunity for airlines to increase efficiency and improve customer experience through the following:

- Fleet upgrades to focus on fuel efficient aircraft
- Focus on advances in big data to analyse patterns in human behaviour to personalise flying experiences as well as reducing costs through predictive analytics in relation to future demand, route optimisation and load factor improvements
- Use of smart phone apps and other digital media to provide customised service and product offers

Regional airlines have opportunities to continue to fill niche tourist routes between major population centres to popular tourist destinations. In the longer-term, regional airlines may benefit from subcontracting relationships with major airlines, leaving them to concentrate on competing for market share on the main passenger routes.

4 PROFILE OF REX

4.1 Background

REX is Australia's largest independent regional airline. REX was established in 2002 upon the merger between regional airlines, Hazelton Airlines and Kendell Airlines following the collapse of the Ansett Group. REX owns and operates a fleet of 60 Saab 340 aircraft, flying 1,500 weekly flights (pre-COVID) to 60 destinations throughout all states in Australia. In addition to the airline business, REX provides a variety of air services including charter, freight and aeromedical services through its wholly owned subsidiary, Pel-Air Aviation (**"Pel-Air"**). REX also offers pilot training programs through The Australian Airline Pilot Academy (**"AAPA"**) at two locations, Wagga Wagga, NSW and Ballarat, Victoria.

On 29 June 2020, REX announced its intention to commence the Domestic Services in Australia following the board approval. The plan involves an initial fleet of five to ten narrow-body jet aircraft to be based out of Sydney and/or Melbourne to service the golden triangle (Sydney-Melbourne-Brisbane) starting 1 March 2021.

4.2 Corporate Timeline

A brief history is REX is set out in the table below:

Table 3: REX's Corporate Timeline

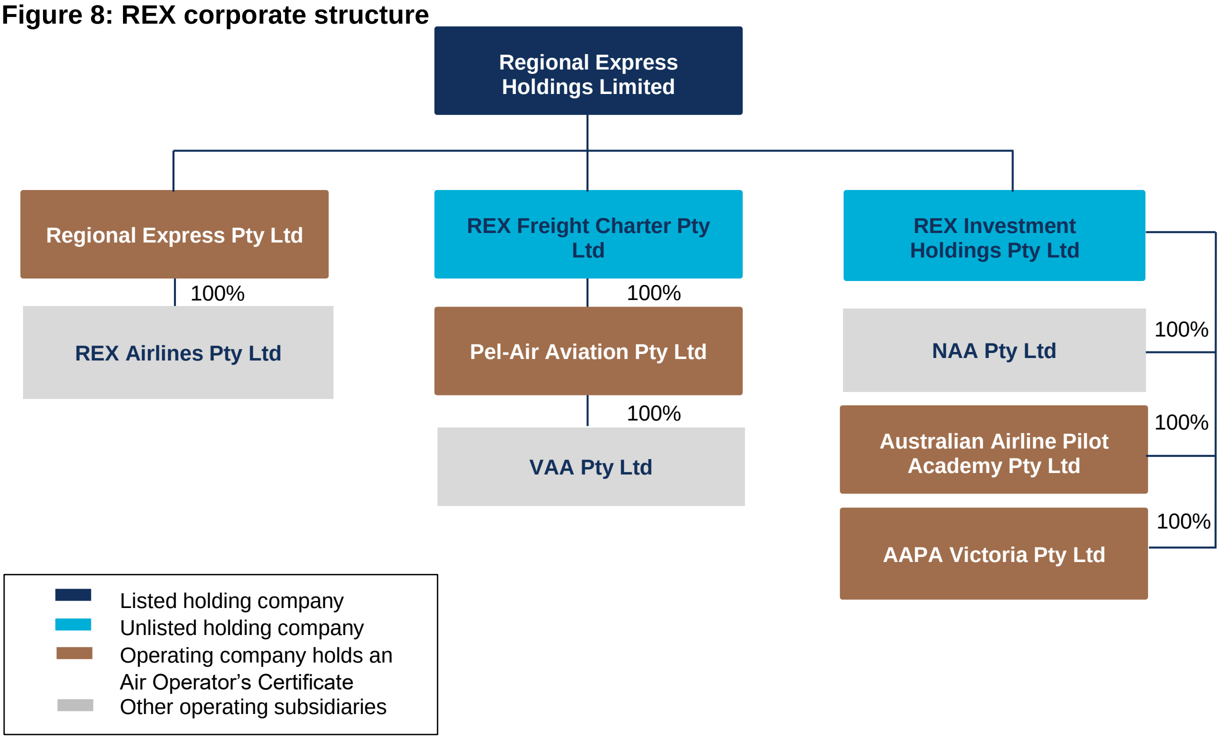
Year	Event
2002	♦ Incorporation
2005	♦ Acquisition of 50% stake in Pel-Air
	♦ Listed on the ASX
	♦ Acquisition of 100% of Air Link Pty Ltd (**"Air Link"**), a Dubbo-based regional airline
2007	♦ Acquisition of the remaining 50% stake in Pel-Air
	♦ Establishment of Civil Aviation Training Academy Pty Ltd ("**CATA**") through a Joint Venture with Mangalore Airport Pty Ltd
2008	♦ Acquisition of the remaining 50% stake in CATA which was then renamed to AAPA
2010	♦ Pel-Air was awarded a 10-year contract for the provision of Fixed Wing Patient Transport Services by Ambulance Victoria, commencing in mid-2011
2011	♦ Pel-Air was awarded a 3-year contract for the provision of jet aircraft services to support Australian Defence Force Training, commencing in October 2011
2018	♦ Sale of Air Link
2019	♦ Pel-Air's contract extension with Ambulance Victoria until 2023
	♦ Acquisition of Aviation Training Academy Australia Pty Ltd (**"ATAA"**) and The Australian Airline Pilot Academy Victoria Pty Ltd (**"AAPAV"**) from Singapore Technologies Engineering Ltd for $9.4 million
2020	♦ Pel-Air was awarded a 10-year contract for the provision of Fixed Wing Patient Transport Services by NSW Ambulance, commencing in 2022
	♦ Board approved plans for the Domestic Services commencing in March 2021

Source: REX

4.3 Corporate Structure

The corporate structure of REX is set out in the figure below:

Figure 8: REX corporate structure



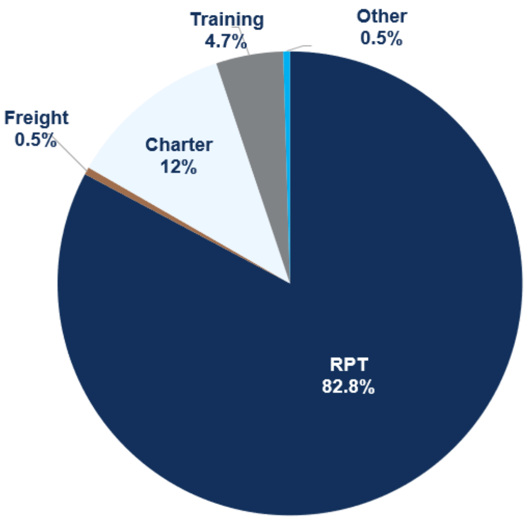
Source: REX

4.4 Overview of Operations

REX engages in the provision of a range of air services including transportation of passengers, freight, aeromedical services, and pilot training, employing over 1,000 people. It operates through two main segments, Regular Public Transport ("**RPT**") through the Regional Express branded airline and Charter through the Pel-Air business with RPT accounting for the largest portion of total revenue (FY20: 83%).

The breakdown of FY20 revenue is as follows:

Figure 9: FY20 Revenue breakdown



Source: REX

Further information in respect of the operations of each of the REX businesses is set out below.

Regional Express Airline (Regional Express)

Regional Express was founded in 2002 through the purchase and combination of two smaller regional airlines after the collapse of Ansett. Today, Regional Express is the largest regional carrier (outside of the Qantas group of companies) in Australia and the fourth largest airline by revenue employing over 900 staff.

Prior to COVID-19, Regional Express serviced 60 destinations across all states of Australia via 60 fully owned aircraft, flying 78,000 flights per year and servicing over 1.2 million passengers per annum (pre-COVID). NSW represented the largest market with over 40% of passengers. The figure below sets out the extensive flight network of REX.

Figure 10 Regional Express' flight network

Source: REX

In addition to the legacy regional operations, REX announced its intention to launch the Domestic Services, initially covering the three cities of the "Golden Triangle" being Sydney, Melbourne and Brisbane commencing 1 March 2021.

The Domestic Services will initially involve three jets servicing the Sydney to Melbourne route. By Easter 2021, it is proposed that two additional jets will be added to service the Golden Triangle.

Subject to market demand, REX is expected to deploy up to ten jets in total by the end of 2021. This would allow REXs network to expand to cover a majority of the top ten domestic routes in Australia which are all based out of Sydney or Melbourne.

Over the past 5 years, Regional Express has been Australia's most reliable airline when combining on time performance and cancellation rates.

Pel-Air Aviation Pty Limited (Pel-Air)

Pel-Air is a wholly owned subsidiary of REX with a fleet of 16 aircraft and access to additional fleet within the Group. It operates both turboprop and jet aircraft in Australia and overseas. The company specialises in various air charter services such as FIFO, Corporate Jet, Air tours and freight. It also provides defence support missions and aeromedical transport services.

In February 2020, Pel-Air was awarded a 10-year contract to provide Fixed Wing Patient Transport Services to NSW Ambulance, commencing in January 2022, which involves the supply of five fixed-wing aircraft, pilots and engineering support to enable the aerial transport of NSW Ambulance medical personnel and patients throughout regional NSW.

Pel-Air currently has a similar contract with Ambulance Victoria which is due to expire in 2023.

The Australian Airline Pilot Academy (AAPA)

Founded in 2007, AAPA is a Registered Training Organisation (**"RTO"**) for pilots in Wagga Wagga, NSW. It has also been accredited by several civil aviation regulatory bodies around the world including Australia, China, Vietnam, Singapore, and United Arab Emirates to deliver various qualifications such as Integrated Commercial Pilot Licence (**"CPL"**), Air Transport Pilot Licence (**"ATPL"**) and Multi Crew Cooperation (**"MCC"**).

The company offers intensive training programs for pilots from Australian and international airlines as well as private candidates. On completion of the programs, students will graduate with a CPL, Multi-Engine Rating, Instrument Rating and other skills that cater to the needs of different airlines. Over half of REX's active pilot strength are made up of graduates from these programs.

In November 2019, REX acquired ATAA which then became AAPAV located in Ballarat, Victoria. AAPA and AAPAV have a total combined capacity of over 400 cadets a year for its residential CPL programme.

4.4.1 Key Personnel

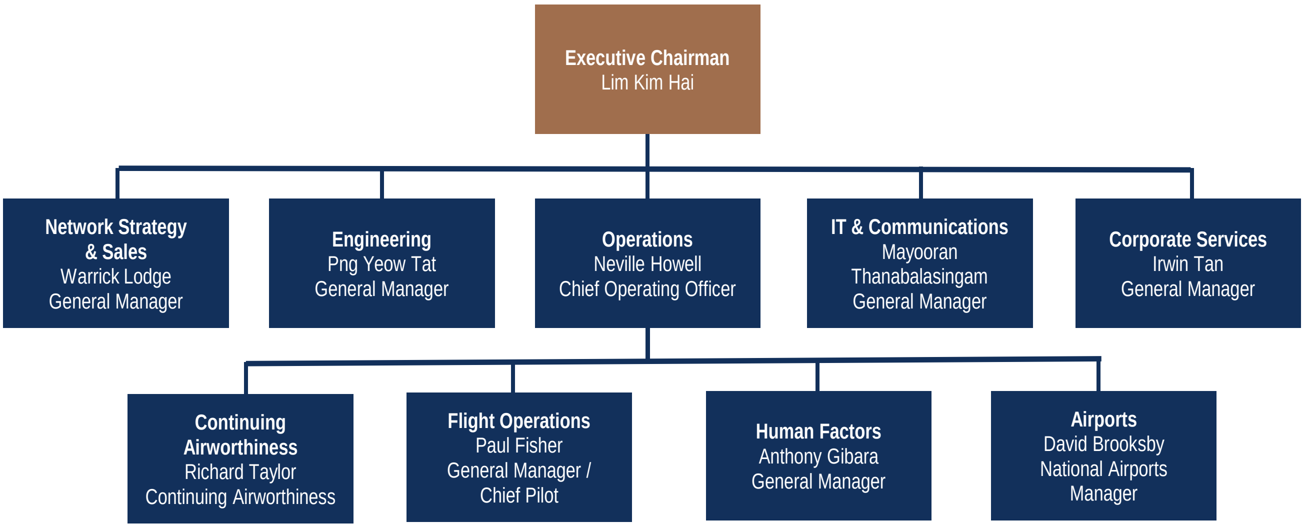
The board of directors and senior management of REX comprises:

Table 4: The board of directors of REX

Name	Title	Details
Lim Kim Hai	Executive Chairman	Mr Lim was one of the founding shareholders and directors of REX and has been the Executive Charmain of the REX Group of companies since July 2003.
The Hon. John Sharp AM	Deputy Chairman and Independent Director	First appointed as a director of REX in 2005, Mr Sharp is an aviator, having been a licensed pilot of both fixed-wing and rotary-wing aircraft. He is also the former Federal Minister for Transport and Regional Development in the Federal Government.
Lee Thian Soo	Non-executive Director	Mr Lee was one of the founding shareholders and directors of REX in August 2002.
Neville Howell	Chief Operating Officer	Mr Howell is a highly qualified and experienced simulator and aircraft instructor. He is also the Accountable Manager for the REX Air Operator Certificate.
Chris Hine	Group Flight Operations	Mr Hine joined REX in 2002 and worked in various roles within the company including General Manager Flight Operations, Chief Pilot and COO. He is also the Executive Chairman of AAPA.
James Davis	Independent Director	Mr Davis has 26 years' experience as a pilot flying around Australia and overseas. Since joining REX in 2002, Mr Davis worked in several positions within the group such as managing director and chairman of AAPA.
Prof. Ronald Bartsch	Independent Director	Professor Bartsch has over 40 years' experience in the aviation industry in a variety of senior operational, safety and regulatory roles. He was head of safety and regulatory compliance for Qantas Airways Limited's AOC and manager of CASA's Sydney Airline Transport Field Office.

Source: REX

Figure 11: REX's senior management structure



Source: REX

4.5 Financial performance

The audited statements of financial performance for the financial reporting periods between 30 June 2017 and 30 June 2020 are set out below.

Table 5: REX's financial performance

$'000	FY17	FY18	FY19	FY20
Revenue	**279,048**	**293,413**	**314,353**	**257,423**
Other income	2,113	2,413	4,407	1,478
Government grants	-	-	-	62,095
Total revenue	**281,161**	**295,826**	**318,760**	**320,996**
Operating costs				
Direct costs of providing services	(124,539)	(129,573)	(145,625)	(141,407)
Salaries and employee-related	(105,533)	(107,726)	(112,238)	(103,938)
Selling and marketing	(7,465)	(7,948)	(8,797)	(6,686)
Administration	(7,540)	(7,681)	(7,838)	(8,684)
Other costs	-	-	-	(3,387)
EBITDAR	**36,084**	**42,898**	**44,262**	**56,894**
Non cancellable operating lease payment/ Leases related D&A[1]	(801)	(783)	(822)	(385)
EBITDA	**35,283**	**42,115**	**43,440**	**56,509**
Depreciation and amortisation	(16,268)	(16,218)	(17,178)	(21,547)
Impairment	-	-	-	(62,084)
EBIT	**19,015**	**25,897**	**26,262**	**(27,122)**
Finance income	770	1,153	895	556
Finance costs	(1,975)	(1,975)	(1,956)	(850)
Profit before tax	**17,810**	**25,075**	**25,201**	**(27,416)**
Tax (expense) / benefit	(5,190)	(8,162)	(7,684)	8,019
Profit after tax	**12,620**	**16,913**	**17,517**	**(19,397)**
Other metrics				
ASKS ('m)	*814*	*785*	*808*	*630*
Load factor	*57%*	*61%*	*63%*	*60%*
EBITDAR Margin %	*13%*	*15%*	*14%*	*18%*
EBITDA Margin %	*13%*	*14%*	*14%*	*18%*
EBIT Margin %	*7%*	*9%*	*8%*	*-8%*

Source: REX
Note 1: This relates to the depreciation and amortisation expenses recognised on right-of-use assets under AASB 16 Leases

In relation to the historical financial performance of REX set out above, we note the following:

- REX demonstrated consistent growth in profitability between FY17 and FY19 due to an improvement in passenger numbers coupled with a growing contribution from FIFO operations. The substantial loss in FY20 was largely due to the disruption to the operation of the business and the recognition of impairment losses as a result of the onset of COVID-19 in early 2020.
- Revenue consists of revenue from passenger transportation, charter services, freight and pilot training. The sharp decline in FY20 is attributable to government-imposed travel restrictions and inter-state border closures as part of the pandemic-related measures significantly impeding demand for RPT services.
- Other income primarily makes up of sales of engineering parts and rent.
- Government grants in FY20 relates to a number of grants such as Regional Airline Funding Assistance ("**RAFA**"), Regional Airline Network Support Program ("**RANS**") and Jobkeeper in order to fund continued operation of key regional services during the pandemic.

- Direct costs of providing services are the largest cost for REX. These pertain to the flight and port operations, fuel, engineering and maintenance of aircraft. These costs have decreased slightly in FY20, due to the decline in fuel and other operating costs from reduced schedule frequency. The impact of these reductions was partially offset by higher maintenance costs in FY20 which relate to the aircraft and other assets acquired with the AAPA business.
- Salaries and employee-related costs have decreased in FY20 as most of the operational staff were stood down with the remaining non-operational staff working reduced hour as part of the cost-cutting initiatives for COVID-19.
- Other costs relate to the impact of de-designating the portion of the fuel swap hedges which are in excess of the projected activity and therefore ineffective.
- The increase in depreciation and amortisation expenses in FY20 primarily pertains to the assets acquired as part of the acquisition of AAPAV. In addition, the adoption of AASB 16 Leases during the year resulted in $385,000 of depreciation expenses being recognised on right-of-use assets (namely, leased property and aircraft).
- Impairment losses were recognised on various assets pertaining to the RPT business in FY20 as management expect COVID-19-related demand constraint to prevail through to FY23. These include goodwill, property, plant and equipment, right-of-use assets, other intangible assets and consumable inventories.

4.6 Financial position

The audited statements of financial position as at 30 June 2017, 30 June 2018, 30 June 2019 and 30 June 2020 are set out in the table below.

Table 6: REX's financial position

$'000	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20
Current assets				
Cash and bank balances	26,257	24,019	21,727	11,198
Trade and other receivables	9,531	10,166	12,069	11,122
Inventories	12,793	11,778	13,439	8,410
Other current assets	1,274	3,861	4,605	7,231
Derivative financial instruments	140	-	360	40
Total current assets	**49,995**	**49,824**	**52,200**	**38,001**
Non-current assets				
Other receivables	6,515	5,808	6,679	7,114
Inventories	11,852	12,356	8,055	11,303
Property, plant and equipment	203,584	204,805	203,278	172,417
Right-of-use assets	-	-	-	1,283
Investments - fair value through equity	9	9	9	9
Intangible assets	853	824	731	181
Deferred tax assets	-	1,585	1,897	22,537
Total non-current assets	**222,813**	**225,387**	**220,649**	**214,844**
Total assets	**272,808**	**275,211**	**272,849**	**252,845**
Current liabilities				
Trade and other payables	(18,330)	(18,813)	(20,939)	(19,483)
Provisions	(7,172)	(8,124)	(9,217)	(8,117)
Unearned revenue	(22,698)	(24,693)	(24,502)	(16,027)
Interest bearing liabilities	(7,075)	(7,509)	(3,852)	(14,220)
Lease liabilities	-	-	-	(130)
Current tax payable	(1,172)	(5,728)	(2,452)	(7,689)
Derivative financial instruments	(70)	-	-	(6,255)
Total current liabilities	**(56,517)**	**(64,867)**	**(60,962)**	**(71,921)**
Non-current liabilities				
Provisions	(1,371)	(1,815)	(2,248)	(2,949)
Interest bearing liabilities	(16,551)	(9,045)	(4,220)	-
Lease liabilities	-	-	-	(2,329)
Derivative financial instruments	(1,924)	-	-	(1,988)
Total non-current liabilities	**(19,846)**	**(10,860)**	**(6,468)**	**(7,266)**
Total liabilities	**(76,363)**	**(75,727)**	**(67,430)**	**(79,187)**
Net assets	**196,445**	**199,484**	**205,419**	**173,658**
Other metrics				
Net tangible operating assets	*270,532*	*268,932*	*265,247*	*221,564*
Net debt	*2,631*	*9,411*	*15,623*	*(3,433)*
Net working capital	*3,994*	*3,131*	*4,569*	*49*
Net assets per share ($)	*1.8*	*1.8*	*1.9*	*1.6*

Source: REX

In relation to the historical financial position of REX set out above, we note the following:

- Cash and cash equivalents decreased year on year due to dividends paid and a high level of capital expenditure consistent with the nature of the industry. The significant reduction in the cash balance in FY20 is primary driven by a combination of the impact of COVID-19 hampering passenger demand, the acquisition of AAPAV and the purchase of new aircraft for the NSW Air Ambulance contract.
- Trade and other receivables are non-interest bearing with 30-day payment terms. Over 90% of the outstanding trade receivables balance is within its payment terms. The reduction in the receivable balances in FY20 is in line with the fall in revenue.
- Inventories relate to consumables or parts required for the maintenance and repair of aircraft, engines, equipment, and other components, recorded at the lower of cost and net realisable value.
- Other current assets include prepayments and term deposit held for workers compensation obligations.
- Derivative financial instruments pertain to forward foreign exchange contracts, jet fuel price swaps and interest rate swaps. The carrying values of these instruments are recorded at amortised cost which approximates their fair values.
- Property, plant and equipment ("**PP&E**") is largely comprised of aircraft, rotable assets and land/buildings. The fall in FY20 is attributable to $52 million of impairment losses recognised on the REX CGU offsetting the PP&E acquired as part of the purchase of ATAA which included 15 aircraft and other fixed assets.
- REX adopted AASB 16 Leases as at 1 July 2019. As a result, right-of-use assets and corresponding lease liabilities are recognised for business premises and aircraft leases.
- The substantial increase in deferred tax assets in FY20 is due to the impairment losses recognised during the year as the accounting impairment does not impact the tax carrying values.
- Trade and other payables represent liabilities for goods and services received by REX that remain unpaid at the end of the reporting period. These liabilities have payment terms of 7 to 30 days. The balance has decreased in line with lowered activity level due to COVID-19.
- Unearned revenue is made up of passenger and charter revenue which are flights booked but not yet flown as well as training revenue.
- Current interest-bearing liabilities consist of:
  - The Victorian Air Ambulance debt facility of $5.5 million, at an effective interest rate of 9.10%, $4.2 million of which has been drawn down as at 30 June 2020. The facility relates to the acquisition of aircraft for the Victorian Air Ambulance operations.
  - An advance of $10 million provided by NSW Air Ambulance, at an effective interest rate of 0.15% to assist REX in meeting the capital expenditure needs for the NSW medical evacuation contract beginning in FY22.The advance is repayable from December 2020 to June 2021.

4.7 Cash flows

The audited statements of cash flows for the financial reporting periods between 30 June 2017 and 30 June 2020 are set out below.

Table 7: REX's cash flows

$'000	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20
Receipts from customers	312,112	324,122	344,970	275,594
Proceeds from government grants and subsidies	-	-	-	64,318
Payments to suppliers, employees and others	(280,218)	(279,926)	(299,417)	(292,909)
Interest paid	(1,912)	(1,526)	(1,056)	(850)
Income tax paid	(3,869)	(7,115)	(11,456)	(5,311)
Net cash flows from operating activities	**26,113**	**35,555**	**33,041**	**40,842**
Interest received	770	1,153	895	556
(Payments for acquisition) / proceeds from disposal of business	-	-	908	(8,650)
Proceeds from disposal of property, plant and equipment	2,262	1,951	2,403	27
Payments for aircraft for tendered contract	-	-	-	(21,845)
Payments for property, plant and equipment	(20,576)	(18,677)	(18,030)	(17,874)
Net cash flows used in investing activities	**(17,544)**	**(15,573)**	**(13,824)**	**(47,786)**
Dividends paid	-	(15,062)	(13,027)	(8,725)
Shares purchased as reserve shares	(2,488)	(86)	-	(623)
Lease liabilities paid	-	-	-	(385)
Repayment of interest bearing liabilities - non-related parties	(6,645)	(7,072)	(8,482)	(20,375)
Proceeds from interest bearing liabilities - non-related parties	-	-	-	26,523
Net cash flows used in financing activities	**(9,133)**	**(22,220)**	**(21,509)**	**(3,585)**
Net decrease in cash held	**(564)**	**(2,238)**	**(2,292)**	**(10,529)**
Cash at the beginning of the financial year	26,821	26,257	24,019	21,727
Cash at the end of the financial year	26,257	24,019	21,727	11,198

Source: REX

In relation to the historical cash flows position of REX set out above, we note the following:

- REX has experienced net cash outflow in each of the periods presented above. This arose due to dividends paid and capital investment exceeding operating cash inflows for the period.
- The substantial net cash outflow in FY20 is largely attributable to the acquisition of ATAA and the purchase of new aircraft in relation to the NSW Air Ambulance contract coupled with the decline in revenue from weakened passenger demand and reduced services. The cash outflow is moderated by various government grants and subsidies, a reduction in dividend payments and the advance from NSW Air Ambulance.

4.8 Capital structure and shareholders

As at 7 October 2020 REX had a total of 110,154,375 ordinary shares on issue. The following table sets out details of REX's substantial shareholders as at that date:

Table 8: REX's substantial shareholders

Shareholder	Number of shares	% Total interest
Mr Lim Kim Hai	18,998,346	17.25%
BNP Paribas Nominees Pty Ltd	16,234,094	14.74%
Thian Soo Lee	7,722,181	7.01%
Joo Chye Chua	7,454,362	6.77%
Ming Yew See Toh & Hui Ing Tjoa	7,454,362	6.77%
Ms Hui Ling Tjoa	5,755,513	5.22%
Other Shareholders	46,535,517	42.25%
Total	**110,154,375**	**100.00%**

Source: REX

According to Capital IQ, over 50% of the shares are held by individuals which includes senior management of REX and their related parties. We understand that the majority of shareholders are resident overseas.

4.9 Share price performance

The following chart shows the share market trading of REX shares, for the 12 months to 9 December 2020:

Figure 12: REX's share performance

Source: CapIQ

In relation to the trading of REX shares over the past 12 months, we note the following:

- Shares have been relatively thinly traded with an average daily value of approximately $164,450 over the twelve months to 9 December 2020.
- Between 17 March 2020 and 20 March 2020, the share price fell from $0.83 to $0.56. The sharp fall was the result of the withdrawal of the original profit guidance released on 28 February 2020 due to the high level of uncertainty posed by the COVID-19 pandemic and near-term risks to the viability of the business subject to government intervention. Subsequent announcements of the decreased schedule frequency and potential suspension of all passenger air services pushed the share price down to $0.40 in late March 2020.
- The spike in trading volume and share price on 30 March 2020 related to the announcement of the RANS program and the RAFA program which totalled $298 million.
- The share price gradually recovered during April and mid May 2020 following REX obtaining funding from governments to maintain a minimum weekly flight service.
- On 13 May 2020, the media coverage of REX's aspiration to launch the Domestic Services to compete with Qantas, Jetstar and Virgin led to a surge in trading volumes and the share price rose from $0.90 per share to $1.19 per share the following day.
- The share price increased above $1.00 per share following the board approval of the plan for the Domestic Services at the end of June.
- In September 2020, several progress updates on the Domestic Services were announced, including the Proposed Transaction as well as the jet aircraft lease arrangements lifting the share price back to pre COVID levels, just under $1.40 per share.
- Over the twelve-month period observed, share price has generally traded below the company's net tangible assets of $1.57 per share.
- Since 1 December 2020, the share price of REX has increased significantly which is likely due to a number of factors including:
  - The successful launch and promotion of ticket sales for Domestic Services.
  - Further progress of the Proposed Transaction including FIRB approval being granted.
  - Improved sentiment in the aviation sector due to the re-opening of domestic borders which has increased demand for passenger services.
  - The lack of liquidity of REX shares which can cause significant short-term share price movements.

4.10 Outlook

The combination of cheap aircraft leases in a distressed aviation market, historically low jet fuel prices and reduced competition arising from the Virgin collapse, presents a unique opportunity for REX to pursue the Domestic Services. However, the success of the expansion is largely dependent on the easing of COVID-19 related restrictions such as quarantine requirement, border closures and subsequent recovery of domestic air travel volumes as well as the competitive response from incumbent airlines.

5 VALUATION METHODOLOGY

5.1 Available Valuation Methodologies

To estimate the fair market value of REX, we have considered common market practice and the valuation methodologies recommended in RG 111. There are a number of methods that can be used to value a business including:

- The discounted cash flow method
- The capitalisation of future maintainable earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

Each of these methods is appropriate in certain circumstances and often more than one approach is applied. The choice of methods depends on several factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and availability of the required information. A detailed description of these methods and when they are appropriate is provided in Appendix 2.

5.2 Selected Methodology

In selecting an appropriate valuation methodology for REX (both before and after the Proposed Transaction), we have considered the following:

Table 9: Consideration of methodologies

Method	Considerations	Approach
Discounted cash flow	♦ REX's regional business is currently loss-making and the future profitability is dependent on the timing and extent of recovery in regional travel. Furthermore, the launch of the Domestic Services is a start-up operation which represents a significant change in the business model of REX. Due to the variability in near-term earnings, capital costs and cash flows in the short to medium term we consider that the value of REX is best evaluated with a discounted cash flow method. ♦ We have been provided with financial projections for REX prepared by REX management. We have used the projections as a basis for our own cash flow model	Selected
Capitalisation of earnings	♦ There are a limited number of transactions (market trading and M&A) involving regional airlines. ♦ Due to the impact of COVID-19 and the expected expansion of the business to incorporate the Domestic Services, REX has experienced operating losses recently which may persist in the near-term. Therefore, the capitalisation of earnings method is not likely to result in meaningful conclusions.	Not considered
Asset based methods	♦ Asset based methods are generally not appropriate for operating businesses as they ignore the value of most internally generated intangible assets. However, due to the capital-intensive nature of REX's business, we have considered net assets as a high-level cross-check	High-level cross-check

Method	Considerations	Approach
Share trading	♦ Share market trading in REX shares has been reasonably liquid. However, we do not consider that an analysis of share market trading is as reliable as the discounted cash flow method as a primary valuation methodology in assessing the intrinsic value of a REX share. ♦ As a broad cross-check to the discounted cash flow valuation: • **Before the Proposed Transaction** – we have analysed share market trading in REX shares before announcement of the Proposed Transaction and the control premium implied by our assessed value per share. • **After the Proposed Transaction** – we have compared our analysis of share market trading in REX shares since the announcement of the Proposed Transaction with our assessed value per share on a minority basis.	Cross-check

6 VALUATION OF REX BEFORE THE PROPOSED TRANSACTION

6.1 Background

We have assessed the fair market value of REX using the discounted cash flow method, with cross-checks by reference to net assets, and an analysis of share marketing trading in REX shares leading up to the announcement of the Proposed Transaction. This assessment has been made on a control basis in accordance with RG 111, as PAG may acquire an interest in excess of 20% if the Proposed Transaction proceeds.

6.2 Discounted cash flow analysis

6.2.1 Approach

In order to determine the value of a REX share on a control basis prior to the Proposed Transaction using the discounted cash flow method, we considered the following:

- Projected cash flows for REX
- An appropriate discount rate
- Terminal value beyond the projected cash flow period
- The value of any surplus assets or non-operating liabilities

These are discussed below.

6.2.2 Projected cash flows

Introduction

REX management have prepared projections for the regional business as well as for the domestic expansion under a number of scenarios ("**REX Projections**"). We have used the REX Projections in order to prepare our own cash flow model which we consider is appropriate for valuation purposes as reasonably representative of the assumptions that could be adopted by a potential acquirer of REX ("**LCA Model**").

In preparing the LCA Model we have undertaken a detailed analysis of the REX Projections and have discussed the key assumptions with REX management. We have considered supporting information, available market data and other relevant information in order to determine the reasonableness of the cash flow projections and considered the residual risks associated with achieving the projections. Based on these discussions and analysis, we consider the assumptions adopted in the LCA Model to be reasonable for the purposes of our analysis.

The detailed projections are not included in this report due to commercial sensitivity. However, the key assumptions underpinning the projections and the information considered in assessing the reasonableness of these assumptions are discussed below.

We note that preparing projections for regional and domestic airlines is subject to considerable uncertainty as these businesses generally operate in highly competitive environments and are susceptible to external shocks. These challenges are exacerbated due to the impacts of COVID-19 on the domestic aviation sector and the changing competitive landscape as a consequence of the collapse of Virgin. In preparing the LCA model we have therefore considered:

- The current activity level of the regional business and the path to recovery to pre COVID-19 levels under a low scenario and high scenario
- Several potential scenarios for the Domestic Services expansion with different capacity, price and demand characteristics.

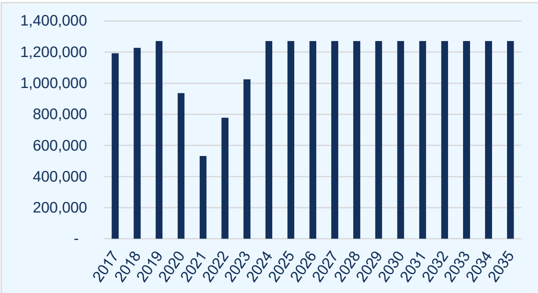
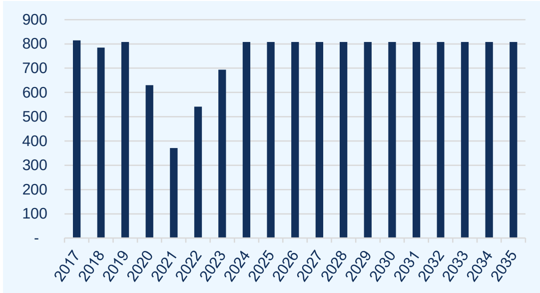
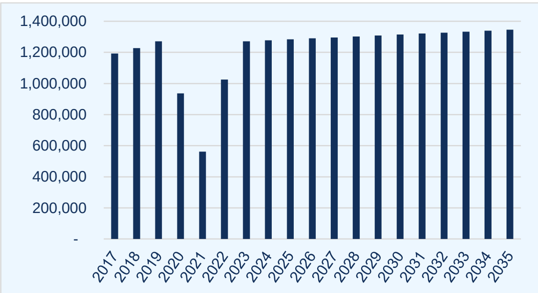
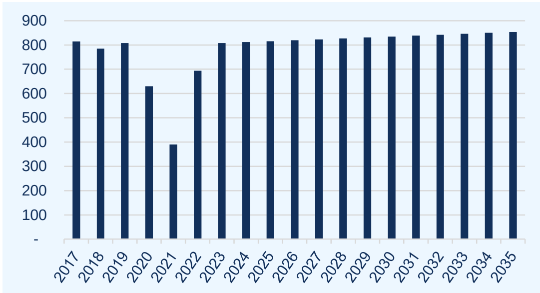
Regional business projections and assumptions

REX's regional aviation business is operating at activity levels significantly below the level of operating activity prior to the outbreak of COVID-19. Revenue and expense projections are based on FY19 results (being the last full year of operations prior to the impact of COVID 19), adjusted to reflect:

- Expected inflation
- Changes in the level of operating activity, measured by passenger numbers or available seat kilometres ("**ASK**")
- Changes In the price of jet fuel

The historical and projected activity levels are summarised below:

Table 10: Activity level scenarios

<table>
<tr><th>Scenario</th><th>Passenger numbers</th><th>Million ASK</th></tr>
<tr><td>Low</td><td>
</td><td>
</td></tr>
<tr><td>High</td><td>
</td><td>
</td></tr>
</table>

Source: REX, Leadenhall Analysis

The low case assumes the activity in the second quarter of FY21 remains constant from actual activity as at November 2020, and that passenger numbers and ASK recover to 2019 levels by FY24. It is expected that ASK recovers initially at a slightly faster rate than passengers. No further growth in activity is assumed beyond 2019 levels.

The high case assumes the activity in the second quarter of FY21 remains constant from actual activity as at November 2020, and that passenger numbers and ASK recover to 2019 levels by FY23. Similar to the low case, it is expected that ASK recovers initially at a slightly faster rate than passengers. Growth in activity beyond FY23 (passenger numbers and ASK) is modest at 1% every 2 years.

Other detailed model assumptions are summarised below:

Table 11: LCA Model assumptions

Item	Assumption
Expected life of aircraft	♦ REX operates a fleet of Saab 340 aircraft with technical characteristics supporting a life that may exceed 20 years ♦ 15 years has been adopted as the economic life of the aircraft, consistent with the lower end of REX management's estimate
Revenue	♦ Revenue per passenger is calculated by adjusting the FY19 actual revenue for inflation and fuel price movements
Fuel cost	♦ Fuel cost is calculated by adjusting the FY19 cost for the level of activity (ASK) and fuel price ♦ Fuel prices are calculated based on the prevailing fuel swap rates, after which the brent crude curve is adopted as discussed further below
Labour cost	♦ Staffing levels return to pre COVID-19 levels in line with the projected increase in ASK, adjusted for wage indexation ♦ Wage cost escalation at 2% p.a. or in accordance with existing enterprise bargaining agreements
Government grants	♦ Assistance under both the RAFA program and the RANS program will continue to be received to the extent granted to REX or publicly announced by the relevant government bodies ♦ Jobkeeper support will continue to be received to the extent publicly announced by relevant government bodies
Capital expenditure	♦ Capital expenditure is based on maintenance capex over the projection period ♦ Expansionary capital expenditure has been excluded consistent with the activity level assumptions
Other airline costs	♦ Port costs, selling costs and maintenance/engineering costs return to pre COVID-19 levels in line with the recovery (increase) in ASK ♦ Marketing and corporate costs are assumed to be fixed and increase in line with inflation
Pel-Air & training	♦ Pilot training continues at pre COVID-19 levels ♦ Charter and freight operations continue at pre COVID-19 levels ♦ Victorian Air Ambulance contract concludes in FY23 ♦ NSW Air Ambulance contract commences in FY22

Domestic Services projections and assumptions

The Domestic Services assumptions have been developed based on the REX Projections and other assumptions provided by REX management regarding the level of activity, together with other revenue and cost drivers.

For the purpose of our discounted cash flow analysis we developed 4 scenarios to recognise the wide range of potential outcomes associated with the Domestic Services. The projections are over the 4 years to FY25 consistent with management projections, allowing for a period of establishment of REX in the domestic market and for passenger demand to fully recover from the effects of COVID-19.

Table 12: Summary of Cash Flow Scenarios

Scenario	Activity	Pricing and load factor[1]
Low	5 Boeing 737-800 aircraft operating 30 flights a day across the Golden Triangle routes	♦ Average price remains at the low end of management expectations at $105 per passenger ♦ Average load factor commences at 70% increasing to 75% by FY25

Scenario	Activity	Pricing and load factor[1]
Base	7 Boeing 737-800 aircraft operating 42 flights a day across the Golden Triangle routes	♦ Average price commences at the low end of management expectations at \$105 per passenger, increasing to \$120 per passenger ♦ Average load factor commences at 72.5% increasing to 77.5% by FY25
High	7 Boeing 737-800 aircraft operating 42 flights a day across the Golden Triangle routes	♦ Average price commences at the low end of management expectations at \$105 per passenger, increasing to the high end of management expectations at \$135 per passenger ♦ Average load factor commences at 75% increasing to 80.25% by FY24

Source: Leadenhall analysis
Note: Prices are exclusive of airport aeronautical charges and GST.

In addition, we considered a 'failure' scenario in which the expansion into domestic routes is unsuccessful, and REX management determined there was no likely pathway toward generating positive operating cashflow and therefore generates a net loss on this venture.

The major assumptions in the LCA Model are summarised below:

Table 13: LCA Model assumptions

Item	Assumption
Revenue	♦ Passenger numbers derived from assumptions regarding number of aircraft, sectors flown, available seats per aircraft and average load factors under each scenario ♦ Passenger revenue is based on average prices per passenger under each scenario ♦ Other revenue includes lounge membership, freight and commissions
Fuel cost	♦ Fuel cost is based on fuel consumption estimated per block hour and the expected fuel price ♦ Fuel prices are calculated based on the prevailing fuel swap rates, after which the brent crude curve is adopted as discussed further below
Labour cost	♦ Based on cost per crew-set and number of crew-sets required to service destinations and required block hours under each scenario, together with management and overhead
Operating lease costs	♦ All aircraft are assumed to be leased ♦ Lease costs per aircraft are consistent with the jet aircraft lease arrangements announced, and based on the number of aircraft assumed in each scenario
Capex	♦ Minimal capital expenditure is planned due to REX having existing infrastructure and as aircraft are assumed to be leased
Port Costs	♦ Navigation and slot charges are calculated based on the number of aircraft flying under each scenario ♦ Airport ground handling and passenger/baggage security is calculated based on expected passenger numbers under each scenario

Item	Assumption
Other airline costs	♦ Maintenance/engineering costs scale with aircraft and flight time and include all costs subject to maintenance reserving under the jet aircraft lease arrangements announced ♦ Selling costs scale with the number of passengers and revenue ♦ Marketing and corporate costs scale with additional aircraft and passengers, and include an allowance for initial marketing of the Domestic Services in year 1 of operation
Mobilisation and start-up costs	♦ Based on a cost per aircraft to allow for test flights, liveries, IT system infrastructure and simulation and training ♦ Additional marketing budget allowed during the start-up period

Source: Leadenhall Analysis

The following table summarises high level metrics for the base case scenario:

Table 14: Summary of Cash Flow Scenarios

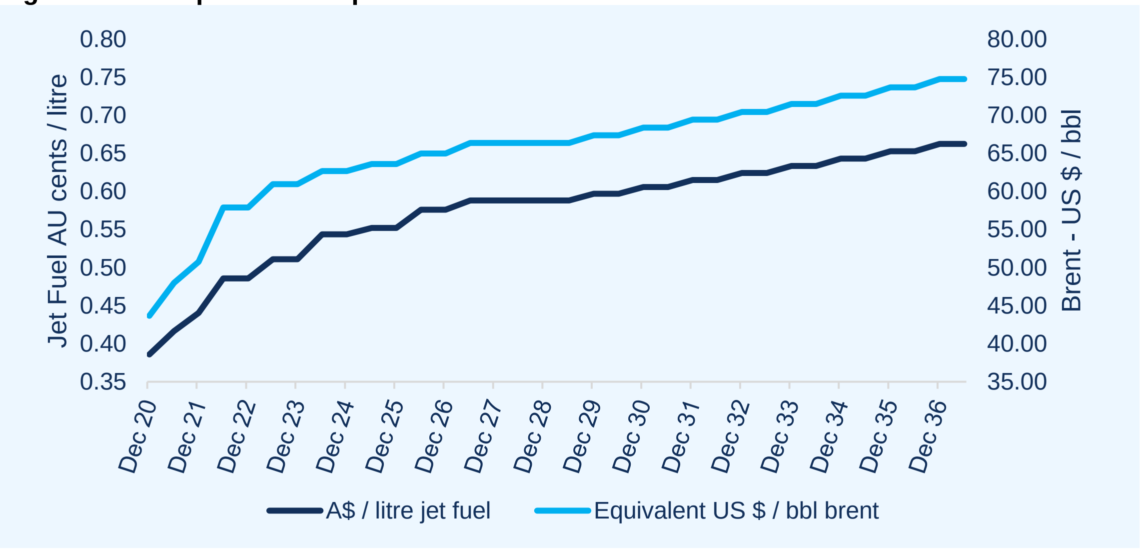
	FY22	FY23	FY24	FY25
Passenger Numbers	1,918,350	1,951,425	1,984,500	2,050,650
ASK	1,922	1,922	1,922	1,922
Load factor	72.5%	73.8%	75.0%	77.5%
RASK (all revenue)	0.134	0.153	0.161	0.172

Source: Leadenhall Analysis
Notes: RASK = Revenue per ASK and CASK = Cost per ASK

Fuel price

Jet fuel prices have fallen substantially since FY19 as a result of the global economic downturn triggered by the outbreak of COVID-19 and price competition between Russia and Saudi Arabia, recovering as Saudi Arabia and Russia agreed to production cuts. The following figure presents our jet fuel assumptions:

Figure 13: Fuel price assumptions



Source: CapIQ, Consensus Economics, Leadenhall analysis

The main assumptions underlying the fuel price in the LCA Model are:

- The price of fuel in the short term (18 months to Dec 21) is based on swap prices
- Fuel prices beyond December 21 are indexed based on consensus economic forecast movements in Brent oil prices and general inflation beyond the consensus forecast period, after adjusting for movements in exchange rates between AUD and USD.

Other assumptions

Other general assumptions applied in LCA Model include:

- General cost inflation of 1.5% throughout the period
- Corporate income tax at 30% consistent with the Australian general corporate tax rate
- The USD / AUD exchange rate is assumed to rise to 75 cents by the first half of FY24. After which, the exchange rate is expected to gradually settle at the long-term average of 71 cents by FY26. Foreign exchange rates are relevant for determining AUD costs for fuel and many engineering costs.
- Working capital is typically negative and consists of payables, prepaid fares, receivables, and inventory. Inventory levels are assumed to be held constant in real terms. Payables, prepaid fares and receivables increase as activity levels increase.

Reasonableness of assumptions

While we have not undertaken a review of management projections in accordance with AUS 804 – The Audit of Prospective Financial Information, we have undertaken a detailed review of the projections prepared by management and have discussed the key assumptions with management. Based on this analysis we consider these assumptions to be reasonable for the purposes of our analysis. We note that any reasonable alternate assumptions adopted would not change our conclusions on the Proposed Transaction.

6.2.3 Discount rate

We have applied a discount rate of 11.0% (nominal, post-tax, WACC) to the projected cash flows. We calculated the discount using the capital asset pricing model based on the assumptions set out in Appendix 3.

6.2.4 Terminal value

The terminal value represents the value of the cash flows beyond the projection period. Terminal values are commonly calculated based on the expected long-term growth rate of future cash flows. In determining an appropriate terminal growth rate, we have considered the following factors:

- **Regional business**: the economic life of the existing aircraft is expected to be between 15 to 20 years. There is no significant residual (sale) value for the aircraft expected at the end of the economic life. We have not included a terminal value as we assume any replacement fleet will earn REX no more than its cost of capital
- **Domestic expansion plan**: The domestic business is currently an expansion plan, based on a 4-year projection. At the date of this report REX has not committed any significant capital to the Domestic Services expansion. For the low scenario and base case scenario we have not included a terminal value, assuming that REX may generate economic profits in the short term, but generating returns in excess of the cost of capital injected over the longer term may be unlikely. This is consistent with the experience in the airline industry over the longer term. For the high case we have assumed a terminal value based on FY25 projections and no growth in earnings beyond the terminal year. The zero earnings growth reflects that the industry experiences a decline in RASK in real terms over time as aircraft become more efficient, while operating costs are likely to rise. Applying a zero-growth rate and the above discount rate implies a terminal EBITDAR multiple of 4.75 times which we do not consider to be unreasonable.

6.2.5 Probability weightings

Due to the wide range of potential outcomes for the Domestic Services, in order to estimate a reasonable valuation range, we have assigned probabilities to each of the identified scenarios for Domestic Services. In estimating the probability weightings for each scenario we have identified the risks associated with each scenario and held discussions with REX management. Based on this analysis we have adopted the following probabilities for each scenario:

Table 15: Domestic Services Scenarios

Domestic Services Scenario	Probability
Low	25.0%
Base	60.0%
High	5.0%
Unsuccessful	10.0%
Total	**100.0%**

Source: Leadenhall Analysis

While the above probabilities are somewhat subjective, any reasonable alternate assessment of the probabilities would not change our conclusions on the Proposed Transaction.

6.2.6 Discounted cash flow summary

Based on the analysis above, we have assessed the enterprise value of REX share to be in the range of $227.3 million to $264.2 million. The low end of this range is based on the low case activity level for the regional business and the expected (probability weighted) scenario for the Domestic Services, whereas the high end of the range is based on the high case activity level for the regional business and the expected scenario for the Domestic Services.

6.2.7 Surplus Assets & Non-operating Liabilities

In order to assess the equity value of REX, it is necessary to identify any non-operating assets and liabilities not used in generating the enterprise value. These can be:

- **Surplus assets**: assets held by the company that are not utilised in its business operation. This could be investments, unused plant and equipment held for resale, or any other assets not required to run the operating business. It is necessary to ensure that any income from surplus assets (i.e. rent / dividends) is excluded from the business value.
- **Non-operating liabilities**: liabilities of a company not directly related to its current business operations, although they may relate to previous business activities, for example claims against the entity.

As at 30 September 2020, REX has the following surplus assets and non-operating liabilities.

Table 16: Surplus assets summary

($'000)	
Surplus assets	6,000
Fuel hedge liability	(2,302)
Excess tax liability	(10,000)
Surplus assets/(liabilities)	**(6,302)**

Source: Leadenhall analysis

- **Surplus assets:** includes four King Air aircraft valued at $1.5 million each, which will become available at the end of Victorian Air Ambulance contract.

- **Fuel hedge liability**: relates to the jet fuel swap contracts for the notional monthly purchases of 3.5 million litres of fuel to June 2021.
- **Excess tax liability**: includes income tax liability for FY20 and the PAYG instalments for the quarter ended 30 September 2020, to the extent they are more than outstanding tax payments typically observed under the PAYG instalment system.

6.2.8 Net debt position

The net debt position of REX, as at 30 September 2020, is set out in the table below:

Table 17: Net debt summary

($'000)	
Cash	19,011
Borrowings	(23,501)
Net cash/(debt)	**(4,490)**

Source: Leadenhall analysis

- **Cash**: reflects cash and bank balances held by group entities. There are no restrictions on the use of cash balances.
- **Borrowings**: includes $21.1 million in loans and $2.4 million in lease liabilities associated with property leases.

6.2.9 Shares on issue before the Proposed Transaction

In our consideration of the number of shares before the Proposed Transaction, we have included 110,154,375 ordinary shares on issue as detailed in section 4.8.

As at the date of this valuation, there are no options on issue. A management incentive scheme ("**MIS**") has been proposed for approval at the annual general meeting. The MIS has not been reflected in our valuation and if included would have no impact on our conclusions.

6.3 Assessed Value Before the Proposed Transaction

Summary

The value of a REX share before the Proposed Transaction, on a control basis is set out in the following table:

Table 18: Assessed value of a REX share before the Proposed Transaction

($'000)	Low	High
Enterprise value	**227,273**	**264,201**
Surplus assets / (liabilities)	(6,302)	(6,302)
Net cash / (debt)	(4,490)	(4,490)
Total equity value including conversion option	**216,481**	**253,410**
Total shares on issue	110,154	110,154
Assessed value per share ($)	**1.97**	**2.30**

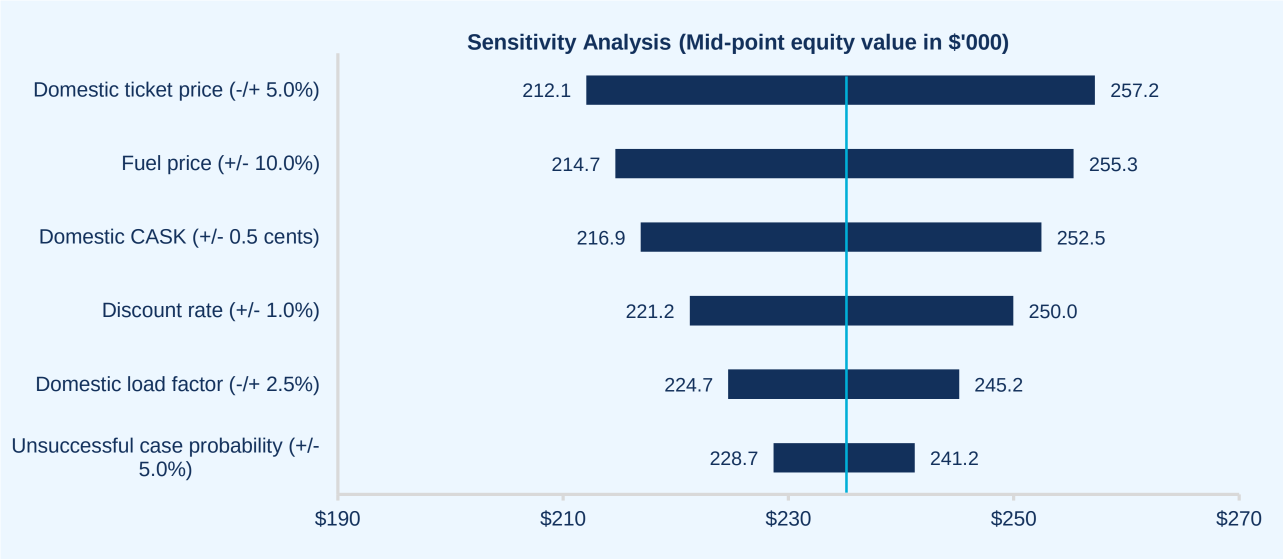
Source: Leadenhall analysis

Sensitivity analysis

As discussed above, the values from the discounted cash flow analysis demonstrate a relatively wide range across the different scenarios, highlighting the sensitivity to relatively small changes in assumptions.

In particular, the analysis above is highly sensitivity to average domestic passenger fare and fuel prices as set out below:

Figure 14: Sensitivity analysis



Source: Leadenhall analysis

We note that any reasonable alternate assumptions for the above valuation inputs would not alter our conclusions on the Proposed Transaction.

6.4 Cross-checks

6.4.1 Net assets

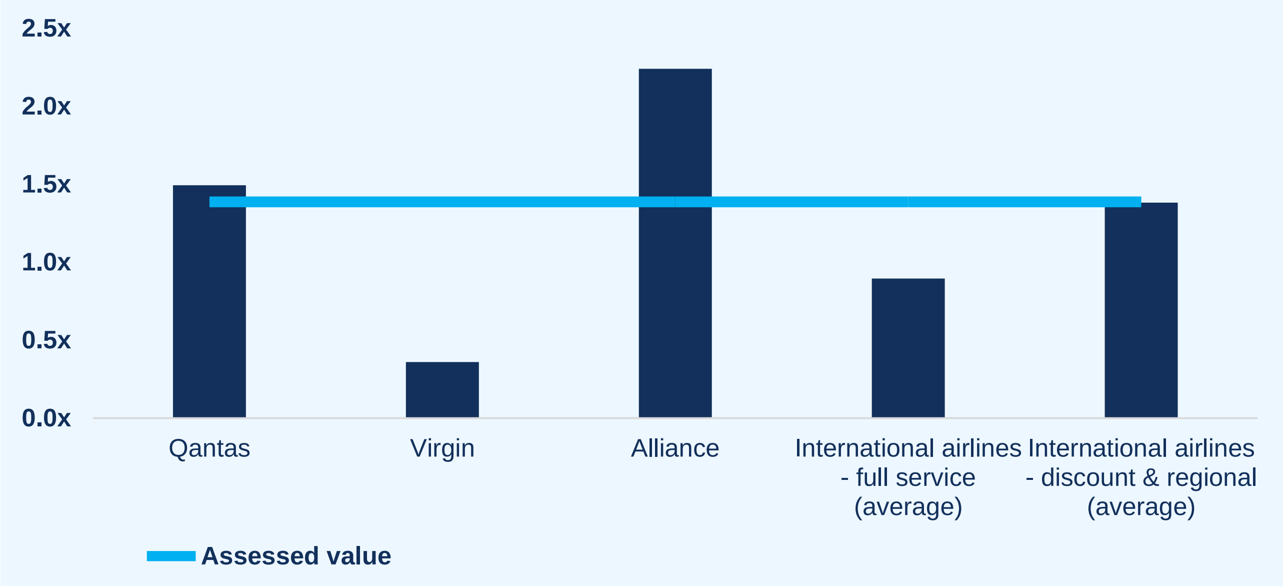
The net assets and net tangible assets per share for REX as at 30 June 2020 are presented below.

Table 19: REX's net assets and net tangible assets per share as at 30 June 2020

$'000	30-Jun-20
Total tangible assets	252,664
Other assets	181
Total assets	252,845
Total liabilities	(79,187)
Net assets	**173,658**
Net tangible assets	**173,477**
Net debt	**3,433**
Net assets per share ($)	**1.58**
Net tangible assets per share ($)	**1.57**
Ungeared net tangible assets per share ($)	**1.61**

Source: REX

Figure 15:Comparable company ungeared net tangible assets (UNTA) multiples



Source: CapIQ and Leadenhall analysis
Notes
1. UNTA Multiple represents ungeared net tangible multiple. It is calculated as gross market capitalisation (market capitalisation + borrowings – cash) divided by ungeared net tangible assets (Shareholder's funds – intangible assets + borrowings – cash)
2. Qantas Airways Limited ("Qantas"); Virgin Australia Holdings ("Virgin"); Alliance Aviation Services ("Alliance").

The net assets and net tangible assets for REX as at 30 June 2020 were $1.58 per share and $1.57 per share respectively compared to the assessed midpoint value of $2.13 per share. We do not consider this unreasonable since:

- The NTA does not include any value attributable to the Domestic Services whereas our assessed value of REX does
- Our assessed value multiple is based on control value whereas the comparable airlines multiples are on a minority basis.
- The comparable airlines are trading at an average UNTA multiple of 1.91x indicating, in general, that the market value of airline companies exceeds the book values of their tangible assets.
- Since REX owns all of its aircraft (for the regional business) this could have a downward impact on the UNTA multiple for REX as leasing aircraft is more common among the comparable airlines. Should REX lease more of its aircraft, we would expect a higher multiple.

Having regard to the above, this provides broad support to our valuation conclusion.

6.4.2 Implied control premium

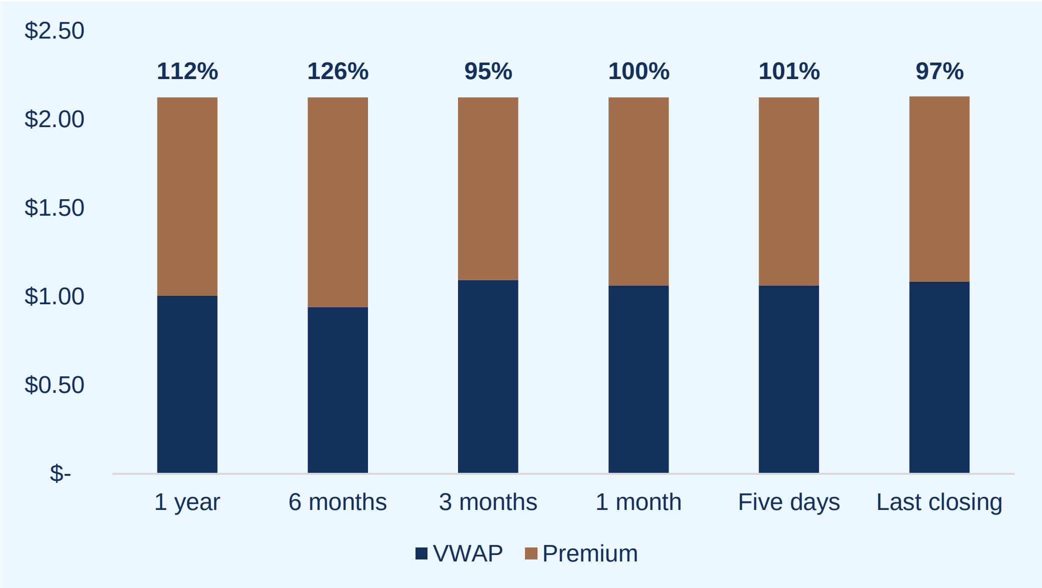
Market trading in REX shares prior to the announcement of the Proposed Transaction provides an indication of the market's assessment of the value of REX prior to the Proposed Transaction on a minority basis. We have presented an analysis of recent trading in REX shares in Section 4.9 above. When assessing market trading, it is necessary to consider whether the market is informed and liquid. In this regard, we note:

- REX shares are closely held by REX's management and their associates. This is in line with the relatively low average daily value traded observed over the twelve-month period prior to the announcement, at approximately $99,359. This level is below the level at which many institutional investors may wish to trade and may be seen as a deterrent for other significant investors.
- REX is a listed company with continuous disclosure obligations under the ASX Listing Rules, thus the market is reasonably informed about its activities.
- REX has no sell-side research coverage and limited institutional investors which limits the liquidity of its shares.

Having regard to the above, we consider the market trading in REX shares to be reasonably well informed and moderately liquid. We have therefore undertaken only a high-level analysis of share market trading, by assessing the level of control premium implied by our valuation range compared to the volume weighted average price ("**VWAP**") of a REX share over the year leading up to the announcement of the Proposed Transaction on 21 September 2020, as set out in the figure below.

The figure below sets out the control premium implied by the mid-point of our valuation range:

Table 20: Implied control premium to market trading prices



Source: CapIQ and Leadenhall analysis

The generally observed range for control premiums is between 20% and 40%. Further information on observed control premiums and takeover premiums is included in Appendix 6.

The control premium implied by our assessed value of a REX share exceeds the generally observed range. However, we do not consider this to be unreasonable given the following factors:

- It is likely that the market might have priced in significant funding and/or insolvency risk for the company prior to the announcement of the Proposed Transaction given the significant losses announced by the company in FY20, the uncertainty over the availability of government grants and subsidies as well as the ongoing impact of COVID-19 related restrictions on the aviation industry and the business operation in the near-term.
- The substantial risks in successfully implementing the Domestic Services in a distressed market as a result of COVID-19.
- Since the announcement of the Proposed Transaction, there have been further easing of COVID restrictions across Australia and REX have made further announcements in respect of the plans for the Domestic Services. These factors would not be reflected in REX's share price prior to the Proposed Transaction but are reflected in our assessed value of REX.

6.5 Conclusion on value before Proposed Transaction

Based on our DCF analysis we have selected a valuation range for a share in REX of between $1.97 and $2.30, on a control basis.

7 VALUATION OF REX AFTER THE PROPOSED TRANSACTION

7.1 Introduction

If the Proposed Transaction is approved, REX shareholders will continue to own their REX shares. However, RG111.25 requires an independent expert to evaluate an issue of securities under s611 as if it was a takeover offer.

Accordingly, the value of a REX share after the Proposed Transaction has been assessed on a minority interest basis (i.e. excluding a control premium).

7.2 Assessed Value After the Proposed Transaction

Our assessment of the value of a REX share after the Proposed Transaction was based on the discounted cash flow analysis set out in Section 6, adjusted for the impact of the Proposed Transaction.

In order to estimate the fair market value of REX if the Proposed Transaction proceeds, we have made the following adjustments to the value of REX prior to the Proposed Transaction:

- We have applied a lower probability of failure of the Domestic Services due to the funding certainty provided by the Proposed Transaction and a higher weighting to the high case to reflect the reduced likelihood competitors would enter into a protracted price or capacity war.
- We applied a discount rate of 10.25% (compared to 11% before the Proposed Transaction) to reflect the increased scale and reduced funding costs for REX if the Proposed Transaction proceeds, as set out in Appendix 3
- We have calculated the dilutionary impact of the conversion feature of the Convertible Notes ("**Conversion Option**") and/or the Warrants using a Black Scholes option pricing model as discussed further below
- Applied a DLOC as discussed further below as market trading in REX shares after the Proposed Transaction would be on a non-controlling, or minority, basis.

The value of a REX share after the Proposed Transaction is as follows:

Table 21: Assessed value of a REX share after the Proposed Transaction

($'000)	Low	High
Enterprise value	**261,774**	**299,883**
Surplus assets / (liabilities)	(6,302)	(6,302)
Net cash / (debt)	(4,490)	(4,490)
Total equity value including Conversion Option	**250,982**	**289,091**
Minority discount	(50,196)	(57,818)
Total equity value including Conversion Option - minority	**200,786**	**231,273**
Allocation to Conversion Options	(30,203)	(38,041)
Value allocated to shares	**170,583**	**193,231**
Total shares on issue	110,154	110,154
Assessed value per share ($)	**1.55**	**1.75**

Source: Leadenhall analysis

Dilutionary impact of the Convertible Notes and Warrants

In estimating the value of the Conversion Option using the Black-Scholes option pricing model, we have utilised the following inputs into the model:

- **Spot Price**: $1.55 to $1.75 as set out in the table above.
- **Exercise Price**: $1.50 per share being the Conversion Price of the Convertible Notes and exercise price of the Warrants.
- **Term:** based on the terms of the Convertible Notes being up to six years (including the Extended Term).
- **Dividend yield**: of 7.5% consistent with the expected performance of the regional business and Domestic Services but lower than historical dividend yield of REX (of 8.5 to 9% in FY17 to FY19), reflecting the path to recovery following the impact of COVID-19 and the required investment in the Domestic Services expansion.
- **Risk-free rate:** of approximately 0.31% based on the yield on Australian treasury bonds matching assumed life of the Convertible Notes
- **Volatility:** of 45% based on analysis of observed historical volatility of a range of comparable entities, as well as that of REX as set out in Appendix 7.

For the purpose of our analysis we have assumed dilution for the facility amount of $150 million. In certain limited instances, the total of the face value of the Convertible Notes and Warrants issued may be less than $150 million. As there is limited value attributable to the optionality of these instruments in these scenarios, the impact on our analysis would be negligible and would not impact our conclusions on the Proposed Transaction.

Discount for lack of control ("DLOC")

As REX shareholders would retain their REX shares if the Proposed Transaction proceeds, they would continue to own a minority stake in REX. Consistent with the requirements of RG 111, the value of the consideration must be determined on a minority interest basis. In order to estimate the value of a minority interest it is necessary to apply a DLOC to the value of a 100% equity interest in the business. This discount takes into account the lack of control that a minority shareholder has over the affairs of a company and is described in more detail in Appendix 6.

A DLOC is effectively the inverse of a control premium. Australian studies have indicated that control premiums generally range from 20% to 40%. This implies a range for DLOC of approximately 17% to 29%. In selecting a suitable DLOC, we have considered:

Table 22: Factors affecting DLOC

DLOC considerations	
Factors indicative of lower DLOC	**Factors indicative of higher DLOC**
♦ If the Proposed Transaction proceeds the REX Board would comprise nine members, two of which would be PAG appointees and four would be independent. The existence of independent directors would tend to reduce the level of DLOC.	♦ The Proposed Transaction would result in PAG having a potential shareholding in REX of between 23.3% and 47.6%. Thus, its degree of control at a shareholder level would be significant but not absolute as PAG would be able to block special resolutions at a minimum but would be unable to pass a special resolution without the support of other shareholders. ♦ Under the Proposed Transaction there would be two PAG representatives on the board, thus increasing PAG's ability to control REX. ♦ Shares in REX are widely dispersed over a large number of holders. A wider dispersion of holdings generally increases the DLOC. ♦ REX has had an inconsistent dividend history. A low dividend pay-out typically results in a higher DLOC.

Source: Leadenhall analysis

As a result of these considerations, we have selected a DLOC of 20%. Any reasonable assumption for the DLOC does not impact our conclusion on the Proposed Transaction.

7.3 Cross-Check

Market trading in REX shares since the announcement of the Proposed Transaction provides an indication of the market's assessment of the value of REX on a minority basis. When assessing market trading, it is necessary to consider whether the market is informed and liquid. In this regard, we note:

- There was an increase in liquidity since the announcement of the Proposed Transaction. The average daily values traded have more than doubled to approximately $368,966 on 22 December 2020
- REX has announced further progress in respect of the Domestic Services in particular executing lease arrangements for new aircraft to be utilised for the new routes.

Having regard to the above, we consider the market trading in REX shares to be reasonably well informed and moderately liquid. After the Proposed Transaction was announced REX shares have traded in the range of $1.14 to $2.28 with a VWAP of $1.69. The VWAP implied by more recent trading is consistent with our assessed range which we consider provides broad support for our assessed range.

7.4 Conclusion on Value After the Proposed Transaction

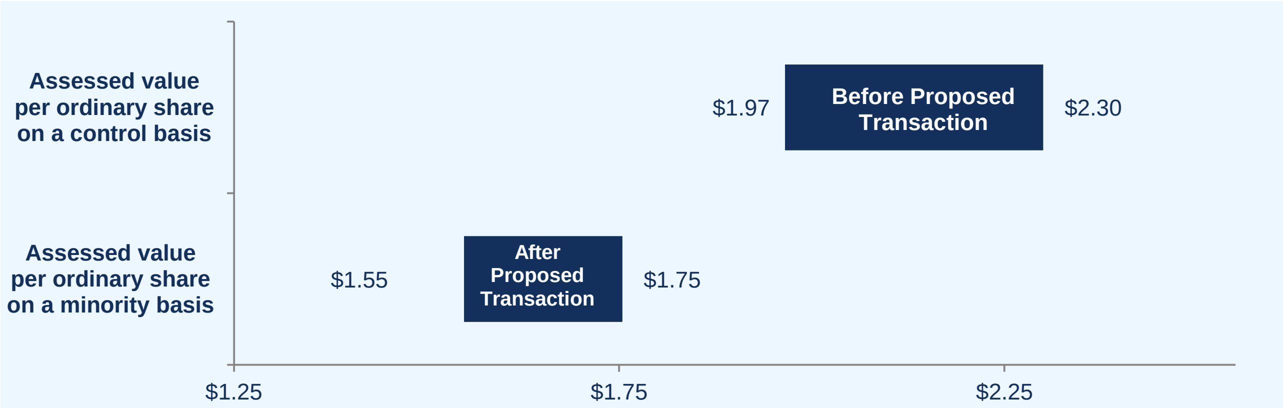
Based on our DCF analysis set out above we have selected a valuation range for a share in REX of between $1.55 and $1.75 after the Proposed Transaction, on a minority basis.

8 EVALUATION

8.1 Fairness

We have assessed the Proposed Transaction as fair if the fair market value of a REX share before the Proposed Transaction (on a control basis) is less than or equal to the fair market value of a REX share after the Proposed Transaction (on a minority basis). This comparison is shown in the following figure:

Figure 1: Assessment of fairness



Source: Leadenhall analysis

As the value of a REX share after the Proposed Transaction (on a minority basis) is less than the assessed value of a REX share before the Proposed Transaction (on a control basis), we have assessed the Proposed Transaction as being not fair.

8.2 Reasonableness

We have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for REX's shareholders to vote for the proposal. We have therefore considered the following advantages and disadvantages of the Proposed Transaction to shareholders.

Advantages

Limited alternatives available to provide the financial flexibility offered by the Proposed Transaction

REX's management has considered various funding alternatives both to establish the Domestic Services and for future growth opportunities. It was seen as important for the board to demonstrate that the business was fully funded for the foreseeable future to provide comfort to stakeholders (such as travel agents, etc.) and to ensure any competitive response could be adequately absorbed. It was also important to the board to ensure there are adequate funds available to provide capital in the event that unforeseen economic or industry downside risks eventuated and alternative funding sources (such as sale and leaseback or equity capital markets) were not available.

As part of the fundraising process REX considered proposals from private equity, high-net worth and other institutional investors as well as raising funding internally through a combination of debt, equity and the sale and leaseback of existing owned aircraft. To this end, REX negotiated terms for a sale and leaseback transaction which could provide approximately $30 million in near-term funding. However, based on discussions with existing lenders, there was limited debt funding available to establish the Domestic Services.

Any capital raising from existing shareholders was expected to be constrained by the following factors:

- REX's discussions with its major shareholders indicated that many of the large shareholders were unlikely to be able to participate in a capital raising of the size required.
- The vast majority of REX's shareholders are retail investors (including company management and directors). The lack of institutional investors is likely to limit the take-up of any capital raising from existing shareholders.

As a result of the above factors, funding the Domestic Services through a combination of equity raising, debt funding and sale and leaseback transactions would be subject to significant risks in respect of raising sufficient capital to launch and sustain the Domestic Services until profitability and accessing future capital when and if needed. Furthermore, despite a process undertaken to find third party capital providers, we understand that no alternate offers have been received by REX.

Favourable interest rate

The Convertible Notes have a coupon rate of 4% payable quarterly in arrears with no further interest payable if the term is extended by 12 months by PAG, lowering the effective interest rate below 4% in this instance. This rate is favourable compared to the likely cost if REX were to source debt funding through alternate means. For example, Qantas recently issued $500 million of 10-year corporate bonds with a coupon of 5.25%. Due to its smaller size and higher degree of business concentration, the borrowing costs for REX would be at a significant premium to those of Qantas.

The benefit of the reduced interest cost needs to be considered in conjunction with the significant value to be provided to PAG in the form of conversion options as set out in our fairness assessment.

Reduces risks for successfully implementing the Domestic Services expansion

The funding available to REX pursuant to the Proposed Transaction provides greater certainty of executing the Domestic Services expansion plan since:

- The availability of the funding provides important assurance to suppliers (including lessors of aircraft), corporate customers and passengers who choose to book in advance.
- Access to future funding also ensures that REX is sufficiently capitalised to endure any sustained competitive response from the incumbent operators, thereby reducing the risk of a highly aggressive response. Given the limited history of having three domestic airlines in Australia we consider this risk to be significant.

Raising equity at a premium

The conversion price for the Convertible Notes of $1.50 per share represents a premium of 43% and 37% to the 1 month and 3-month VWAP of REX before the announcement of the Proposed Transaction.

This is in contrast to equity raisings which typically occur at discounts to recent market trading prices. Furthermore, given the size of the funding requirement for REX represents a significant proportion of its market capitalisation prior to the announcement of the Proposed Transaction, it is likely that the discount for REX in this instance would be magnified.

Whilst more recent trading in REX shares has increased to levels above the Conversion Price for the Convertible Notes and the exercise price of the Warrants we consider this would be at least partially attributable to the progress of the Proposed Transaction.

Share price may decline

Since the Proposed Transaction was announced, the share price in REX has increased approximately 75% from $1.09 per share on 21 September 2020 to $1.91 per share on 22 December 2020.

Whilst some of this increase is likely attributed to the announcement of the Domestic Services expansion (including the more recent announcements about the successful launch and promotion of ticket sales) as well as general improvement in market sentiment (including the easing of COVID-19 restrictions and increased visibility of a timeline for vaccine deployment which should facilitate an increase in interstate travel), it is likely that the share price of REX will decline below current levels if the Proposed Transaction does not proceed.

Proposed Transaction increases alignment with key shareholder and Executive Chairman

As part of the Proposed Transaction, Mr Lim Kim Hai, Executive Chairman and founder of REX, has entered into an escrow deed in respect of his shareholding in REX for the term of the Convertible Notes (unless extended) subject to certain exceptions including if PAG sells all its notes and shares).

As a result, the Proposed Transaction ensures Mr Lim Kim Hai remains invested in the business for the near-term and is aligned to the interests of minority shareholders.

May provide prospect for additional liquidity

The vast majority of existing REX shareholders are retail investors (including company management and directors). Currently, institutional investors comprise a very small proportion of the issued shares of REX.

Support from a large institutional investor such as PAG may provide a positive signal to other institutional investors which may improve the liquidity of REX shares over time.

Furthermore, the increased size of REX if the Proposed Transaction proceeds may also help improve liquidity as the enhanced scale may increase the investor universe and facilitate coverage from sell-side research analysts, etc. For example, since the announcement of the Proposed Transaction, the average daily value traded has risen from approximately $100,000 per day for the 12 months prior to the Proposed Transaction to over $350,000 per day since the announcement of the Proposed Transaction, an increase of over 200%.

Disadvantages

The main disadvantages of the Proposed Transaction are:

Impact on control

If the full amount of the Convertible Notes and/or Warrants are issued and then fully converted and exercised (which would be three years post completion at the earliest unless a trigger event such as a default event by REX or a takeover of REX), PAG would have an interest of up to 47.6% in REX (based on the existing shares on issue). As the Proposed Transaction envisages REX either drawing the full amount of the facility or Warrants being issued for any amount of the facility which is undrawn, it is likely that PAG will have the ability to obtain a 47.6% interest in REX in the future. PAG has agreed to a standstill arrangement whereby its shareholding in REX will not exceed 47.6%. Due to PAG's potential shareholding, it is unlikely that any other prospective acquirers would make a takeover offer for REX without support from PAG. This may reduce the opportunity for Shareholders to receive a control premium in the future.

Whilst PAG's interest in REX will be below 50%, given the wide spread of other shareholdings, if the Proposed Transaction proceeds, PAG would likely become the largest individual shareholder of REX in the future. PAG will also be able to appoint two directors to the board of REX which will comprise nine directors. Whilst the PAG nominee directors do not have any special voting rights, given the potential shareholding of PAG in the future, PAG may be able to exert practical control over certain decisions of REX which are subject to an ordinary resolution. PAG's interest in these matters may not be aligned to the interests of minority shareholders, subject to compliance with relevant laws and regulations.

Furthermore, as is typical for financing transactions, there are some restrictions on certain actions without PAG's consent such as incurring indebtedness outside of the ordinary course of operations and entering into related party transactions. Therefore, PAG's position as financier may not always be entirely aligned with the interests of minority shareholders.

Conclusion on reasonableness

In considering whether the Proposed Transaction is reasonable we considered the relative weight of the above factors.

In particular, it is likely that the Proposed Transaction will result in PAG obtaining a 47.6% interest in REX irrespective of the actual funding requirements of REX due to the presence of the Warrants. However, we consider the advantages of the Proposed Transaction outweigh the disadvantages, in particular:

- the Proposed Transaction is expected to increase the likelihood of the success of the Domestic Services which, if successful would be transformative for REX and could provide significant upside to REX shareholders.
- the Proposed Transaction facilitates REX raising capital at a significant premium to the share price of REX prior to the announcement of the transaction. If this amount of equity were to be raised by REX through a traditional equity raising, it is likely that it would be at a significant discount to the prevailing share price of REX
- we understand that there are no other alternatives currently available that provide the same level of funding certainty for the Domestic Services and there have been no superior offers despite the public nature of the Proposed Transaction.

After considering the above factors, we have concluded that, on balance, the advantages of the Proposed Transaction outweigh the disadvantages, and therefore in our opinion, the Proposed Transaction is not fair but reasonable to Shareholders in the absence of a superior proposal.

8.3 Opinion

The Proposed Transaction is not fair but reasonable to Shareholders.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by their own particular circumstances. If in doubt, the shareholder should consult an independent financial adviser.

APPENDIX 1: GLOSSARY

Term	Meaning
AAPA	Australian Airline Pilot Academy
AAPAV	AAPA Victoria Pty Ltd
Air Link	Air Link Pty Ltd
AOC	Air Operator's Certificate
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATAA	Aviation Training Academy Australia Pty Ltd
ATPL	Air Transport Pilot Licence
AUD	Australian Dollar
BITRE	Bureau of Infrastructure and Transport Research Economics
CASA	Civil Aviation Safety Authority
CATA	Civil Aviation Training Academy Pty Ltd
Conversion Price	Of the Convertible Notes being $1.50 per share, subject to customary adjustments
Convertible Notes	First ranking senior secured convertible notes
Corporations Act	The Corporations Act 2001
CPL	Commercial Pilot Licence
Domestic Services	Limited domestic major city jet operations
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDAR	Earnings before interest, tax, depreciation, amortisation, and aircraft rent
First Drawdown Date	The date on which the first $50 million of Convertible Notes are issued to PAG
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial year
Item 7	Item 7 of Section 611 of the Corporations Act
LCA Model	The cash flow model prepared by Leadenhall using the REX projection
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
Maturity Date	Five years following the First Drawdown Date
MC / UNTA	Market Capitalisation / Ungeared net tangible assets
MCC	Multi Crew Cooperation
NOM	Notice of Meeting
NPAT	Net profit after tax
P / E	Price to Earnings
PAG	PAG Asia Capital
PBT	Profit before tax
Pel-Air	Pel-Air Aviation Pty Ltd
PP&E	Property, plant and equipment
RAFA	Regional Airline Funding Assistance
RANS	Regional Airline Network Support Program
REX	Regional Express Holdings Pty Ltd
RG111	Regulatory Guide 111: Content of Expert Reports
RG74	Regulatory Guide 74: Acquisitions Approved by Members
RTO	Registered Training Organisation
s606	Section 606 of the Corporations Act 2001
S611	Section 611 of the Corporations Act 2001
Shareholders	Current holders of REX securities
USD	US Dollar
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital

APPENDIX 2: VALUATION METHODOLOGIES

In preparing this report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- The discounted cash flow method
- The capitalisation of earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

The selection of an appropriate valuation method to estimate fair market value should be guided by the actual practices adopted by potential acquirers of the company involved.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- A forecast of expected future cash flows
- An appropriate discount rate

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- Early stage companies or projects
- Limited life assets such as a mine or toll concession
- Companies where significant growth is expected in future cash flows
- Projects with volatile earnings

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if:

- Reliable projections of cash flow are not available and cannot be determined
- There is an inadequate return on investment, in which case a higher value may be realised by liquidating the assets than through continuing the business

Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- A level of future maintainable earnings
- An appropriate capitalisation rate or multiple.

A multiple can be applied to any of the following measures of earnings:

Revenue – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

EBITDA - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

EBITA - in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.

EBIT - whilst commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).

NPAT - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value whole businesses for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing minority interests in a company.

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources. Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX. The merger and acquisition method is a method whereby multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. It is also possible to build a multiple from first principles.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- There are no suitable listed company or transaction benchmarks for comparison
- The asset has a limited life
- Future earnings or cash flows are expected to be volatile
- There are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets

Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset-based methods including:

- Orderly realisation
- Liquidation value
- Net assets on a going concern basis
- Replacement cost
- Reproduction cost

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business' assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- An enterprise is loss making and is not expected to become profitable in the foreseeable future
- Assets are employed profitably but earn less than the cost of capital
- A significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments)
- It is relatively easy to enter the industry (for example, small machine shops and retail establishments)

Asset based methods are not appropriate if:

- The ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets
- A business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets

Analysis of Share Trading

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.

Industry Specific Rules of Thumb

Industry specific rules of thumb are used in certain industries. These methods typically involve a multiple of an operating figure such as eyeballs for internet businesses, numbers of beds for hotels etc. These methods are typically fairly crude and are therefore usually only appropriate as a cross-check to a valuation determined using an alternative method.

APPENDIX 3: DISCOUNT RATE

Introduction

The selected discount rate applied in our discounted cash flow analysis for REX is a weighted average cost of capital. We have estimated the cost of equity with the capital asset pricing model ("**CAPM**"). The CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk-free investments (such as government bonds). The cost of equity, K_e, is the rate of return that investors require to make an equity investment in a firm.

The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta \times (R_m - R_f) + \alpha$$

The components of the CAPM formula are:

Table 23: Components of CAPM

Input	Definition
K_e	The required post-tax return on equity
R_f	The risk-free rate of return
R_m	The expected return on the market portfolio
EMRP	The market risk premium ($R_m - R_f$)
β	The beta, the systematic risk of a stock (this is an equity or levered beta)
α	The specific company risk premium

Each of the components in the above equation is discussed below.

Post-tax weighted average cost of capital (WACC)

WACC reflects the rate of return expected for an asset, adjusted for its underlying funding structure, such as relative components of debt and equity, calculated as follows:

$$WACC = (K_e \times E/V) + (K_d \times D/V + (1 - t_c))$$

The components of the WACC formula are:

Table 24: Components of WACC

Input	Definition
WACC	The post-tax weighted average cost of capital
K_e	The required post-tax return on equity
t_c	The corporate tax rate
K_d	The required pre-tax return on debt
D	The market value of debt
E	The market value of equity
V	The market value of business, where V = D + E

Each of the components in the above equation is discussed below.

Risk-free rate (R_f)

The relevant risk-free rate of return is the return on a risk-free security, typically over a long-term period. In practice, long dated government bonds are an acceptable benchmark for the risk-free security. We have selected a risk-free rate of 1.02%, being the yield on 10-year Australian Government bonds as at 8 December 2020.

Equity market risk premium (EMRP)

The EMRP ($R_m - R_f$) represents the additional return that investors expect from an investment in a well-diversified portfolio of assets (such as a market index). It is the excess return above the risk-free rate that investors demand for their increased exposure to risk, when investing in equity securities.

Leadenhall undertakes a review of the EMRP at least every six months, taking account of market trading levels and industry practice at the time. Our most recent analysis of the implied EMRP in Australia was as at November 2020. As a result, we are currently recommending an EMRP of 7.25% to 7.75% for Australia.

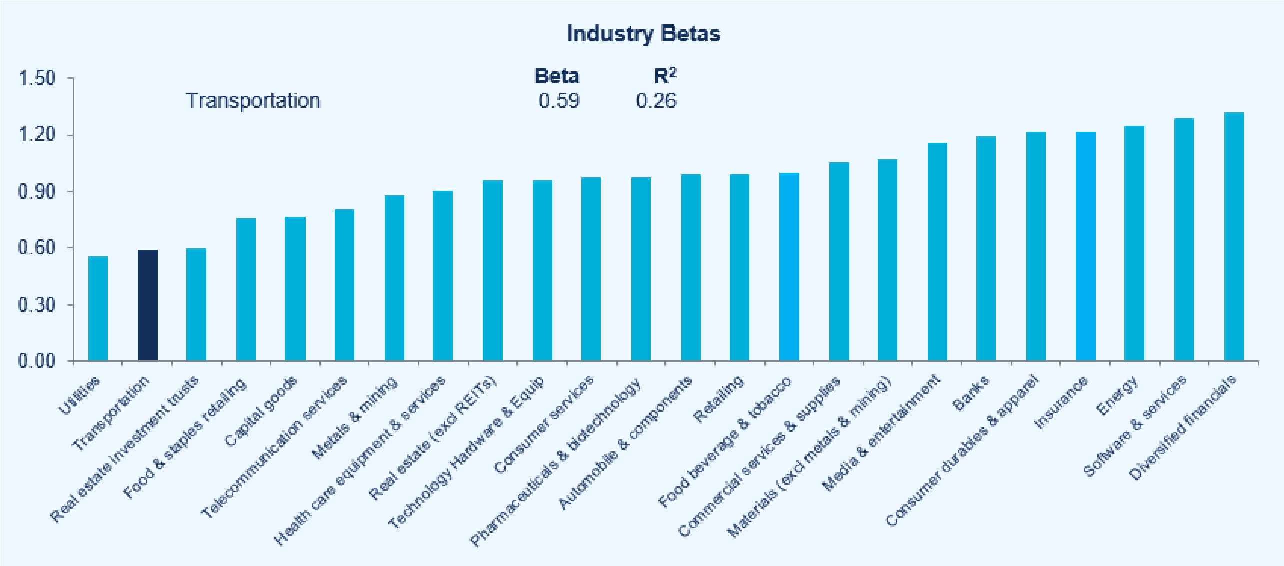
Beta estimate (β)

Description

The beta factor is a measure of the risk of an investment or business operation, relative to a well-diversified portfolio of assets. The only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or uninsurable risk.

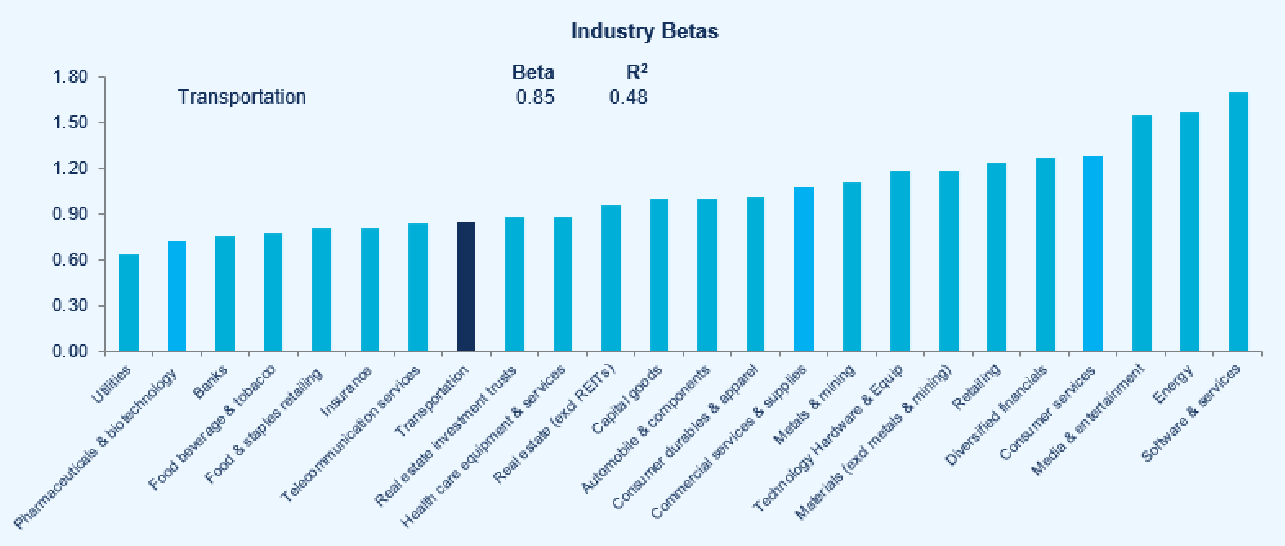
Beta is a measure of the relative riskiness of an asset in comparison to the market as a whole – by definition the market portfolio has an equity beta of 1.0. The equity betas of various Australian industries listed on the Australian Stock Exchange are reproduced below. Given the significant unusual market movements driven by COVID-19 in early 2020, we have considered data for December 2019 (pre-COVID-19) as well as October 2020 (Valuation Date) in estimating our beta.

Figure 16: Industry betas as at 31 December 2019



Source: SIRCA

Figure 17: Industry betas as at 30 June 2020



Source: SIRCA

Betas derived from share market observations represent equity betas, which reflect the degree of financial gearing of the company. In order to eliminate the impact of differing capital structures, analysts often 'unlever' observed betas to calculate an asset beta. The selected asset beta is then 'relevered' with a target level of debt. The betas of companies comparable to REX are included in the following table.

Table 25: Comparable company betas

	As at 20 October 2020								As at 31 December 2019					
Company	**Market Cap**	**Enterprise Value**	**SIRCA**		**Capital IQ**		**Leadenhall**		**SIRCA**		**Capital IQ**		**Leadenhall**	
	AU$m	AU$m	Equity beta	R^2	Equity beta	R^2	Equity beta	R^2	Equity beta	R^2	Equity beta	R^2	Equity beta	R^2
Regional Express Holdings	157	163	2.17	0.52	1.89	0.36	2.28	0.41	0.33	0.01	0.22	0.01	0.61	0.07
Australian airlines														
Qantas Airways Limited	8,183	13,201	1.54	0.45	1.31	0.31	1.83	0.41	0.33	0.01	0.24	0.01	0.70	0.08
Virgin Australia Holdings	726	4,908	0.89	0.14	0.67	0.08	1.03	0.20	1.29	0.09	1.03	0.06	0.68	0.04
Alliance Aviation Services	558	522	1.35	0.28	1.46	0.34	1.80	0.42	0.58	0.02	0.31	0.01	0.71	0.05
Median (excluding outliers)	**726**	**4,908**	**1.45**		**1.39**		**1.81**		**0.46**		**0.28**		**0.71**	
Average (excluding outliers)	**3,156**	**6,210**	**1.45**		**1.39**		**1.81**		**0.46**		**0.28**		**0.71**	
Average	**3,156**	**6,210**	**1.26**		**1.15**		**1.55**		**0.73**		**0.53**		**0.70**	
International airlines - full service														
Delta Air Lines, Inc.	28,802	58,599	n/a	n/a	1.35	0.37	1.55	0.39	n/a	n/a	1.30	0.31	1.17	0.22
United Airlines Holdings, Inc.	14,879	43,404	n/a	n/a	1.51	0.33	1.89	0.38	n/a	n/a	1.33	0.23	1.24	0.19
Singapore Airlines Limited	10,879	20,493	n/a	n/a	1.09	0.39	0.88	0.17	n/a	n/a	0.44	0.23	0.51	0.14
American Airlines Group Inc.	9,231	52,105	n/a	n/a	1.80	0.43	2.07	0.47	n/a	n/a	1.87	0.37	1.90	0.35
International Consolidated Airlines Group	9,747	27,299	n/a	n/a	2.28	0.37	2.76	0.38	n/a	n/a	0.92	0.09	1.50	0.23
Deutsche Lufthansa AG	8,241	20,602	n/a	n/a	1.34	0.31	1.55	0.31	n/a	n/a	1.21	0.20	1.45	0.20
Alaska Air Group, Inc.	7,001	9,102	n/a	n/a	1.69	0.51	1.99	0.52	n/a	n/a	1.27	0.25	1.31	0.24
Air Canada	5,100	10,545	n/a	n/a	1.96	0.29	2.34	0.34	n/a	n/a	0.78	0.03	1.28	0.14
Copa Holdings, S.A.	3,142	3,919	n/a	n/a	1.31	0.27	1.72	0.35	n/a	n/a	0.78	0.07	0.97	0.10
Air New Zealand Limited	1,584	4,632	n/a	n/a	2.95	0.44	2.82	0.46	n/a	n/a	0.31	0.01	0.46	0.04
Hawaiian Holdings, Inc.	928	2,063	n/a	n/a	2.37	0.51	2.76	0.54	n/a	n/a	1.76	0.25	1.83	0.24
Median (excluding outliers)	**8,241**	**20,493**	**n/a**		**1.43**		**1.72**		**n/a**		**1.06**		**1.26**	
Average (excluding outliers)	**9,049**	**22,978**	**n/a**		**1.51**		**1.66**		**n/a**		**1.00**		**1.18**	
Average	**9,049**	**22,978**	**n/a**		**1.79**		**2.03**		**n/a**		**1.09**		**1.24**	
International airlines - discount & regional														
Southwest Airlines Co.	33,591	29,390	n/a	n/a	1.26	0.32	1.37	0.35	n/a	n/a	1.60	0.38	1.69	0.40
Ryanair Holdings plc	23,405	24,922	n/a	n/a	1.40	0.59	1.61	0.53	n/a	n/a	1.32	0.50	1.28	0.24
Wizz Air Holdings Plc	5,423	6,641	n/a	n/a	1.83	0.40	2.13	0.57	n/a	n/a	0.76	0.06	1.24	0.20
JetBlue Airways Corporation	4,751	8,516	n/a	n/a	1.63	0.47	1.95	0.51	n/a	n/a	1.19	0.23	1.24	0.23
easyJet plc	4,354	5,212	n/a	n/a	2.27	0.45	2.58	0.51	n/a	n/a	0.99	0.08	1.87	0.27
Allegiant Travel Company	3,040	4,372	n/a	n/a	1.81	0.42	2.05	0.47	n/a	n/a	1.48	0.26	1.33	0.19
Spirit Airlines, Inc.	2,370	6,321	n/a	n/a	1.76	0.30	2.23	0.34	n/a	n/a	0.53	0.04	0.24	0.01
SkyWest, Inc.	2,209	5,807	n/a	n/a	1.95	0.50	2.14	0.49	n/a	n/a	1.59	0.30	1.66	0.30
Median (excluding outliers)	**4,553**	**6,481**	**n/a**		**1.76**		**1.95**		**n/a**		**1.32**		**1.33**	
Average (excluding outliers)	**9,893**	**11,398**	**n/a**		**1.66**		**1.82**		**n/a**		**1.28**		**1.47**	
Average	**9,893**	**11,398**	**n/a**		**1.74**		**2.01**		**n/a**		**1.18**		**1.32**	
Airline Indices														
NYSE Arca Airline Index	61	n/a	n/a	n/a	n/a	n/a	2.15	0.63	n/a	n/a	n/a	n/a	1.43	0.52
STOXX Europe Total Market Airlines	109	n/a	n/a	n/a	n/a	n/a	1.79	0.57	n/a	n/a	n/a	n/a	1.24	0.28

Source: S&P Capital IQ as at 31 December 2019 and 20 October 2020; SIRCA as at 31 December 2019 and 30 June 2020
Notes:
1. *Leadenhall equity betas are calculated by regressing against MSCI World Index, except for REX, which is regressed against S&P/ASX All Ordinaries Index.*
2. *The outliers are highlighted in grey.*

Selected beta (β)

In selecting an appropriate beta for REX, we have considered the following:

- The outbreak of COVID-19 in early 2020 has introduced significant variability into beta estimation. The impact of the pandemic varies across industries. We have therefore also considered pre-COVID data as at 31 December 2019 for our estimation.
- The Australian transportation industry is a broad category therefore we have not relied on the industry beta in selecting the appropriate beta for REX.
- Having regard to REX's cost structure and operation which is Australia-focused, we consider REX to be more comparable to the listed Australian comparable airlines as well as the international discount and regional airlines. We have therefore placed greater reliance on the betas for these two groups of comparable airlines in selecting an equity beta of 1.20 to 1.30.

- Despite being larger in size, Southwest and Ryanair are considered more comparable to REX due to the similar cost structure and operations. Both airlines provide low cost, short haul flights with bundled services, primarily using a single type aircraft being Boeing 737. They also owned 80-90% of their aircraft.

Specific company risk premium (α)

Size premium

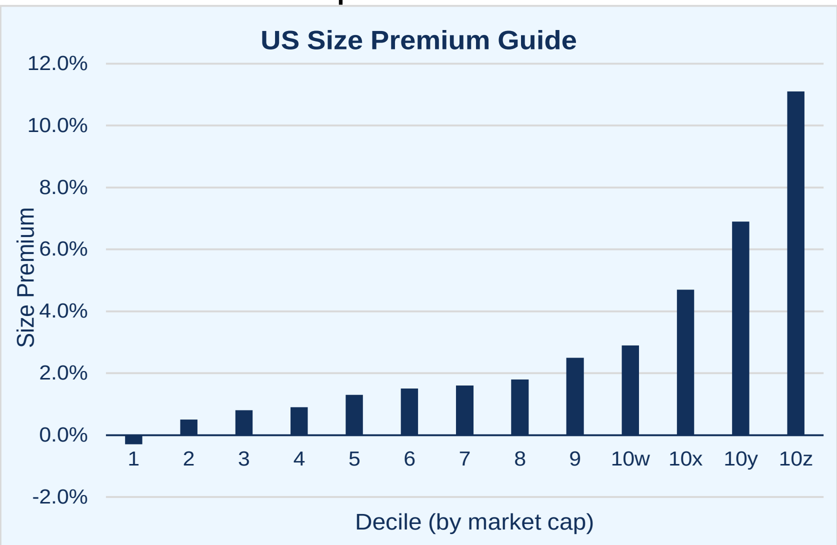
The size premium is the additional return that investors require for the risks of investing in small businesses. To date, whilst it has not been possible to isolate the specific causes of size premiums (other than simply size), many factors have been suggested, including:

- Depth of management
- Reliance on key personnel
- Weak market position
- Reliance on key customers
- Reduced access to capital
- Deeper pool of investors for larger companies
- Reliance on key suppliers
- Lack of geographic diversification
- Limited access to technology
- Absence of broker analysis
- Supplier concentration
- Investors in large companies often more diversified

The size premium can be observed in earnings multiples of listed companies, with large companies trading on higher multiples than small companies, all else being equal. Size premiums are observed consistently across time, across different markets and across a very wide range of company values.

A number of studies have been undertaken attempting to measure the size premium, in particular in the US. The Duff & Phelps Cost of Capital Navigator is an online application that provides guidance in estimating cost of capital. It contains calculations of the size premium for each decile of market capitalisation. As the size premium is most significant for very small companies, the tenth decile is then further divided into four equal segments. The following chart summarises the size premium data from the Duff & Phelps Cost of Capital Navigator.

Table 26: Evidence of size premium



Source: Duff & Phelps Cost of Capital Navigator, data through 31 December 2018
Note: The first decile represents the largest companies while the 10z decile represents the smallest companies by market capitalisation.

As mentioned above, the existence of the size premium has been well documented. However, there are limited studies setting out the appropriate bands of size premium and the quantum of size premium applicable to each band. For this reason, the above table should be taken as broad support for the size effect and not an exact guide to the extent of any particular discount or premium that should be applied.

Although there is considerable evidence from the US, in the Australian context, the relatively small size of the Australian equity market makes it more difficult to observe the existence of this phenomenon.

Leadenhall and others have conducted a number of high-level studies which have confirmed the existence of the size effect in the Australian market. However, we are not aware of any Australian studies that have been performed with the same detail and rigour as the US studies, such as the Duff & Phelps data presented above. Based on the evidence from US studies and our knowledge of prices actually paid in Australian transactions, from which a discount rate can be implied, we believe the size premium ranges in the below table are appropriate. This table should be taken as a guide to the appropriate size premium for a given business and needs to be considered in conjunction with the specific circumstances of a particular business.

Table 27: Leadenhall size premium bandings

Size Premium Guide for Australia				
Size	**Mkt Cap Range (AU$m)**		**Size Premium**	
	Low	***High***	***Low***	***High***
Largest	4,000	Above	-	-
Large	1,000	4,000	-	1.0%
Mid-cap	300	1,000	1.0%	2.0%
Low-cap	100	300	2.0%	3.0%
Small-cap	50	100	3.0%	5.0%
Micro-cap	10	50	5.0%	8.0%
Medium private [1]	*5*	*10*	*8.0%*	*11.0%*
Small private [1]	*2*	*5*	*11.0%*	*15.0%*
Smallest [1]	*-*	*2*	*15.0%*	*20.0%*

Source: Leadenhall analysis

Note 1: We do not generally consider the CAPM model to be reliable for entities of this size as they often do not meet the background assumptions underpinning the CAPM. Investors are often not diversified, and it is rarely possible to lend or borrow stock of entities this size. These suggested size premiums are therefore presented as an approximate guide only as alternate models, studies and rules of thumb are commonly utilised for these types of companies.

Based on market capitalisation, REX would be considered a low cap company and as such a size premium of between 2% and 3% would generally apply. We have therefore selected a size premium of 3.0% and 2.5% for before and after the Proposed Transaction, respectively.

Other company specific risks

The specific company risk premium adjusts the cost of equity for company specific factors, including unsystematic risk factors such as reliance on key customers, reliance on key suppliers, existence of contingent liabilities etc. We have not allowed for specific risk premiums for REX as we believe that the risk inherent in the business has been adequately reflected in the other components of the valuation analysis, in particular the DCF scenarios adopted and probability weightings applied for the Domestic Services.

Dividend Imputation

Since July 1987, Australia has had a dividend imputation system in place, which aims to remove the double taxation effect of dividends paid to investors. Under this system, domestic equity investors receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is now not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be added to any analysis of value.

However, in our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive. There are diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Due to the uncertainty surrounding the extent to which acquirers of assets factor in dividend imputation, we have taken the conservative approach and not factored in dividend imputation (in both the before and after Proposed Transaction valuation).

Conclusion on cost of equity

The following table sets out our cost of equity estimate for REX based on the assumptions and inputs discussed above:

Table 28: Estimated cost of equity for REX

Discount Rate Summary	Pre-transaction Low	Pre-transaction High	Post-transaction Low	Post-transaction High
Risk free rate (R_f)	1.02%	1.02%	1.02%	1.02%
Equity beta (β_E)	1.20	1.30	1.20	1.30
Equity market risk premium (EMRP)	7.25%	7.75%	7.25%	7.75%
Size premium (α_{size})	3.00%	3.00%	2.50%	2.50%
Specific risk premium (α_c)	0.00%	0.00%	0.00%	0.00%
Assessed cost of equity (k_e)	**12.72%**	**14.10%**	**12.22%**	**13.60%**

Source: Leadenhall analysis

Corporate tax rate (t_c)

The corporate tax rate in Australia is 30% and we have adopted this rate in calculating the WACC for REX.

Cost of debt capital (K_d)

The cost of borrowing is the expected future borrowing cost of the relevant project and/or business. It is related to the size of the business, the level of gearing and the riskiness of lending to the business.

The RBA provides indicative lending rates for small and large businesses presented in the table below:

Table 29: RBA Indicator Lending rates

Debt category	Small Business	Large Business
Overdraft	6.51%	N/A
Small Overdraft	7.92%	N/A
Weighted average rate on credit	5.20%	3.09%
BBB three-year yield on non-financial corporate bonds	N/A	1.56%
BBB five-year yield on non-financial corporate bonds	N/A	1.90%

Source: RBA

Based on the RBA indicators, REX would be considered a medium sized business and attract a cost of debt of between 3.09% to 5.20%. As part of our assessment, we have also taken into account REX's current borrowing costs As at 22 October 2020, the weighted average interest rate on borrowings for REX is 9.1% per annum on a 10-year bank loan which was fully repaid in August 2020, as well as the terms of recent aircraft leases. In consideration of the above data, we have therefore selected a rate of 7% to 8% as the cost of debt for REX before the Proposed Transaction. Having regard to the proposed interest rate on the Convertible notes, the cost of debt for REX would expect to decrease should the Proposed Transaction proceed. We have therefore selected a rate of 6.5% to 7.5% as the cost of debt for REX before Proposed Transaction and a rate of 5% to 6% as the cost of debt for REX after the Proposed Transaction.

Debt and equity mix

The selection of an appropriate capital structure is a subjective exercise. The tax deductibility of the cost of debt means that the higher the proportion of debt, the lower the WACC for a given cost of equity. However, at significantly higher levels of debt, the marginal cost of borrowing would increase due to the greater risk which debt holders are exposed to. In addition, the cost of equity would also be likely to increase due to equity investors requiring a higher return given the higher degree of financial risk that they have to bear.

Ultimately for each company there is likely to be a level of debt/equity mix that represents the optimal capital structure for that company. In estimating the WACC, the debt/equity mix assumption should reflect what would be the optimal or target capital structure for the relevant asset.

An analysis of relevant comparable companies' gearing levels (net debt to enterprise value) is presented in Appendix 5. We note that:

- The accounting standard, IFRS 16 - Leases (or in the case of Australian companies, AASB 16) became effective as at 1 January 2019. This standard changes the accounting for operating leases which are capitalised post adoption of IFRS 16, in addition to the creation of Right of Use Assets. The airline industry is one of the industries which are the most heavily impacted by the adoption of IFRS 16. As a result, the five-year averages are not representative of the optimal gearing levels for the future. Therefore, we have placed greater reliance on the most recent gearing levels as at the valuation date in determining the optimal capital structure.
- Companies with zero or negative or abnormally high D/V ratios have been excluded from the average. We have calculated the average gearing for companies that have adopted IFRS 16 as at 20 October 2020.
- Since the onset of COVID-19, the market capitalisation of many companies has fallen while debt levels have remained fairly constant. This leads to an increase in gearing as a percentage of market capitalization. However, given the current economic conditions, the levels of debt that would be available to many borrowers will be lower than the levels of debt actually held. As a result, we have not factored the apparent increase in gearing levels into our market efficient capital structures.

Based on the above analysis, we have selected a capital structure with debt in the range of 25% to 30% for REX which is more comparable to those of discount and regional airlines' gearing level.

Calculation of Weighted Average Cost of Capital (WACC)

The following table sets out our cost of equity estimate for REX based on the assumptions and inputs discussed above:

Table 30: Estimated WACC for REX

Discount Rate Summary	Pre-transaction		Post-transaction	
	Low	High	Low	High
Risk free rate (R_f)	1.02%	1.02%	1.02%	1.02%
Equity beta (β_E)	1.20	1.30	1.20	1.30
Equity market risk premium (EMRP)	7.25%	7.75%	7.25%	7.75%
Size premium (α_{size})	3.00%	3.00%	2.50%	2.50%
Specific risk premium (α_c)	0.00%	0.00%	0.00%	0.00%
Assessed cost of equity (k_e)	**12.72%**	**14.10%**	**12.22%**	**13.60%**
Cost of debt (K_d)	6.50%	7.50%	5.00%	6.00%
Gearing (D/V)	30.00%	25.00%	30.00%	25.00%
Tax rate (t)	30.00%	30.00%	30.00%	30.00%
Calculated WACC	**10.27%**	**11.88%**	**9.60%**	**11.25%**
Selected WACC	**11.00%**		**10.25%**	

Source: Leadenhall analysis

Based on the assessed gearing level of 25% to 30%, we have therefore assessed a WACC of 11.0% for REX before the Proposed Transaction and a WACC of 10.25% after the transaction. We note that any reasonable alternate assumptions for the assessed WACC above would not alter our conclusions on the Proposed Transaction.

APPENDIX 4: COMPARABLE COMPANIES

The following company descriptions are extracted from descriptions provided by S&P Capital IQ.

Company	Description
Air Canada	Air Canada provides domestic, U.S. transborder, and international airline services.
Air New Zealand Limited	Air New Zealand Limited provides passenger and cargo transportation services on scheduled airlines primarily in New Zealand, Australia, the Pacific Islands, the United Kingdom, Europe, Asia, and the United States.
Alaska Air Group, Inc.	Alaska Air Group, Inc., through its subsidiaries, provides passenger and cargo air transportation services.
Allegiant Travel Company	Allegiant Travel Company, a leisure travel company, provides travel services and products to residents of under-served cities in the United States.
Alliance Aviation Services Limited	Alliance Aviation Services Limited provides aviation services to tourism, resources, mining, education, government, corporate, and sporting sectors in Australia and internationally.
American Airlines Group Inc.	American Airlines Group Inc., through its subsidiaries, operates as a network air carrier.
Copa Holdings, S.A.	Copa Holdings, S.A., through its subsidiaries, provides airline passenger and cargo services.
Delta Air Lines, Inc.	Delta Air Lines, Inc. provides scheduled air transportation for passengers and cargo in the United States and internationally.
Deutsche Lufthansa AG	Deutsche Lufthansa AG operates as an aviation company in Germany and internationally.
easyJet plc	easyJet plc, together with its subsidiaries, operates as an airline carrier primarily in Europe.
Hawaiian Holdings, Inc.	Hawaiian Holdings, Inc., through its subsidiary, Hawaiian Airlines, Inc., engages in the scheduled air transportation of passengers and cargo.
International Consolidated Airlines Group, S.A.	International Consolidated Airlines Group, S.A., together with its subsidiaries, engages in the provision of passenger and cargo transportation services in the United Kingdom, Spain, Ireland, the United States, and rest of the world.
JetBlue Airways Corporation	JetBlue Airways Corporation, a passenger carrier company, provides air transportation services.
Qantas Airways Limited	Qantas Airways Limited provides passenger and freight air transportation services in Australia and internationally.
Ryanair Holdings plc	Ryanair Holdings plc, together with its subsidiaries, provides scheduled-passenger airline services in Ireland, the United Kingdom, Italy, Spain, Germany, and Other European countries.
Singapore Airlines Limited	Singapore Airlines Limited, together with subsidiaries, provides passenger and cargo air transportation services under the Singapore Airlines, SilkAir, and Scoot brands in East Asia, the Americas, Europe, South West Pacific, West Asia, and Africa.
SkyWest, Inc.	SkyWest, Inc., through its subsidiaries, operates a regional airline in the United States.

Source: S&P Capital IQ

Company	Description
Southwest Airlines Co.	Southwest Airlines Co. operates a passenger airline that provides scheduled air transportation services in the United States and near-international markets.
Spirit Airlines, Inc.	Spirit Airlines, Inc. provides low-fare airline services.
United Airlines Holdings, Inc.	United Airlines Holdings, Inc., through its subsidiaries, provides air transportation services in North America, Asia, Europe, Africa, the Pacific, the Middle East, and Latin America.
Virgin Australia Holdings Limited	Virgin Australia Holdings Limited engages in the operation of domestic and international passenger and cargo airline business in Australia.
Wizz Air Holdings Plc	Wizz Air Holdings Plc, together with its subsidiaries, provides passenger air transportation services on scheduled short-haul and medium-haul point-to-point routes across Europe and the Middle East. As of June 03, 2020, it operated a fleet of 122 aircraft that offered services for approximately 710 routes from 25 bases connecting 155 airports in 45 countries.

Source: S&P Capital IQ

APPENDIX 5: COMPARABLE COMPANIES GEARING AND MULTIPLES

The gearing level and trading multiples for the comparable companies are set below:

Company	Gearing	Recent Gearing	EBITDAR Multiple		EBIT Multiple		NTA Multiple
	D/EV	D/EV	FY21	FY22	FY21	FY22	MC/UNTA
Regional Express Holdings	-2%	4%	n/a	n/a	n/a	n/a	0.9x
Australian airlines							
Qantas Airways Limited	32%	40%	11.9x	4.4x	nmf	11.8x	1.5x
Virgin Australia Holdings	51%	47%	12.5x	7.3x	nmf	21.1x	0.4x
Alliance Aviation Services	24%	-7%	6.3x	5.1x	11.5x	9.2x	2.2x
Median (excluding outliers)	**32%**	**44%**	**11.9x**	**5.1x**	**11.5x**	**11.8x**	**1.5x**
Average (excluding outliers)	**35%**	**44%**	**10.2x**	**5.6x**	**11.5x**	**14.0x**	**1.4x**
Average	**35%**	**27%**	**10.2x**	**5.6x**	**11.5x**	**14.0x**	**1.4x**
International airlines - full service							
Delta Air Lines, Inc.	21%	29%	9.2x	6.6x	nmf	9.4x	2.3x
United Airlines Holdings, Inc.	35%	42%	10.6x	5.3x	nmf	9.8x	0.5x
Singapore Airlines Limited	6%	58%	nmf	8.6x	nmf	nmf	0.6x
American Airlines Group Inc.	56%	71%	13.3x	5.6x	nmf	12.9x	0.3x
International Consolidated Airlines Group	20%	46%	5.5x	3.2x	nmf	6.2x	0.6x
Deutsche Lufthansa AG	33%	48%	6.1x	3.1x	nmf	10.2x	0.4x
Alaska Air Group, Inc.	9%	17%	5.7x	4.0x	18.4x	7.9x	1.5x
Air Canada	43%	21%	5.8x	3.6x	nmf	9.7x	1.7x
Copa Holdings, S.A.	16%	10%	7.3x	4.8x	24.9x	9.1x	1.1x
Air New Zealand Limited	38%	79%	10.7x	5.0x	nmf	nmf	0.4x
Hawaiian Holdings, Inc.	13%	38%	5.1x	3.2x	nmf	10.6x	0.4x
Median (excluding outliers)	**33%**	**40%**	**6.7x**	**4.8x**	**21.6x**	**9.7x**	**0.6x**
Average (excluding outliers)	**31%**	**37%**	**7.9x**	**4.8x**	**21.6x**	**9.5x**	**0.9x**
Average	**26%**	**42%**	**7.9x**	**4.8x**	**21.6x**	**9.5x**	**0.9x**
International airlines - discount & regional							
Southwest Airlines Co.	0%	0%	9.1x	5.0x	23.8x	7.5x	3.5x
Ryanair Holdings plc	2%	4%	nmf	8.5x	nmf	15.8x	2.5x
Wizz Air Holdings Plc	-70%	32%	nmf	4.9x	nmf	9.8x	1.5x
JetBlue Airways Corporation	16%	26%	7.0x	4.4x	nmf	9.4x	0.5x
easyJet plc	-4%	7%	8.6x	3.0x	nmf	6.3x	1.2x
Allegiant Travel Company	22%	26%	8.5x	6.3x	17.4x	10.3x	1.3x
Spirit Airlines, Inc.	18%	50%	5.8x	4.4x	22.3x	11.1x	0.3x
SkyWest, Inc.	51%	47%	5.7x	4.9x	16.5x	11.0x	0.3x
Median (excluding outliers)	**18%**	**32%**	**7.7x**	**4.9x**	**19.8x**	**10.0x**	**1.2x**
Average (excluding outliers)	**21%**	**36%**	**7.4x**	**5.2x**	**20.0x**	**10.2x**	**1.4x**
Average	**4%**	**24%**	**7.4x**	**5.2x**	**20.0x**	**10.2x**	**1.4x**

Source: S&P Capital IQ

APPENDIX 6: CONTROL PREMIUM

The outbreak of COVID-19 and the consequential general decline in share prices is likely to have an impact on implied control premiums in the current environment. Although there is anecdotal evidence from previous economic downturns of control premiums being higher than the long-term average in times of economic distress, it is difficult to quantify the impact of the current environment on long-term estimates based on currently available data. We have therefore presented our analysis of control premiums prior to the outbreak of COVID-19 noting that any reasonable range of control premiums does not impact our conclusion on the Proposed Transaction.

Background

As discussed above, the difference between the control value and the liquid minority value of a security is the control premium. The inverse of a control premium is a minority discount (also known as a discount for lack of control). A control premium is said to exist because the holder of a controlling stake has several rights that a minority holder does not enjoy (subject to shareholders agreements and other legal constraints), including the ability to:

- Appoint or change operational management
- Appoint or change members of the board
- Determine management compensation
- Determine owner's remuneration, including remuneration to related party employees
- Determine the size and timing of dividends
- Control the dissemination of information about the company
- Set strategic focus of the organisation, including acquisitions, divestments and any restructuring
- Set the financial structure of the company (debt / equity mix)
- Block any or all of the above actions

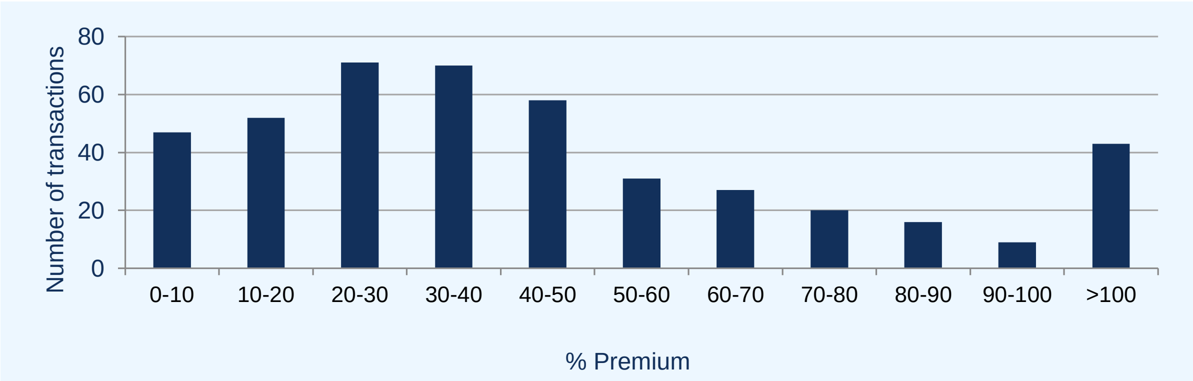
The most common approach to quantifying a control premium is to analyse the size of premiums implied from prices paid in corporate takeovers. Another method is the comparison between prices of voting and non-voting shares in the same company. We note that the size of the control premium should generally be an outcome of a valuation and not an input into one, as there is significant judgement involved.

Takeover Premiums

Dispersion of premiums

The following chart shows the spread of premiums paid in takeovers between 2007 and 2017. We note that these takeover premiums may not be purely control premiums, for example the very high premiums are likely to include synergy benefits, while the very low premiums may be influenced by share prices rising in anticipation of a bid.

Figure 18: Takeover premium by size



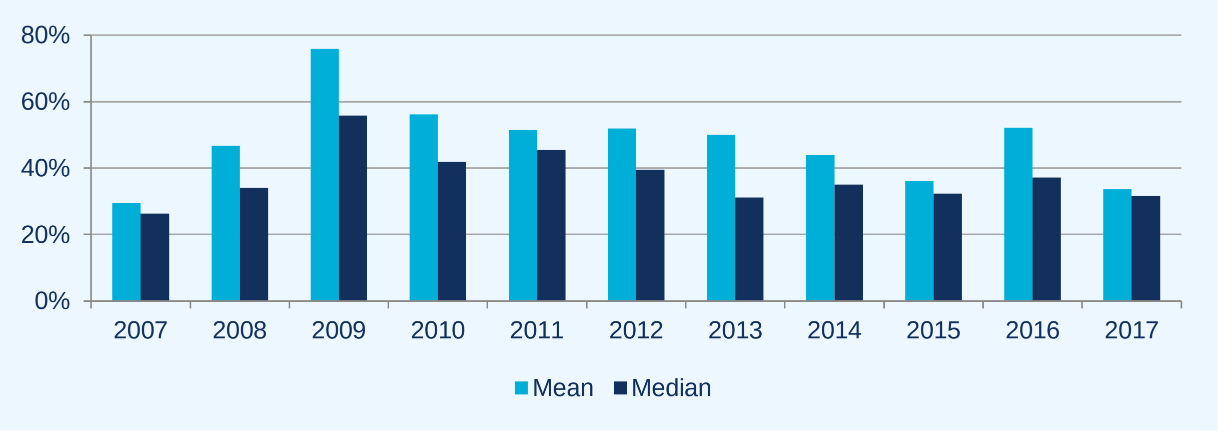
Sources: S&P Capital IQ, Leadenhall analysis

This chart highlights the dispersion of premiums paid in takeovers. The chart shows a long tail of high premium transactions, although the most common recorded premiums are in the range of 20% to 40%, with approximately 65% of all premiums falling in the range of 0% to 50%.

Premiums over time

The following chart shows the average premium paid in completed takeovers compared to the price one month before the initial announcement.

Figure 19: **Average takeover premium (1 month)**



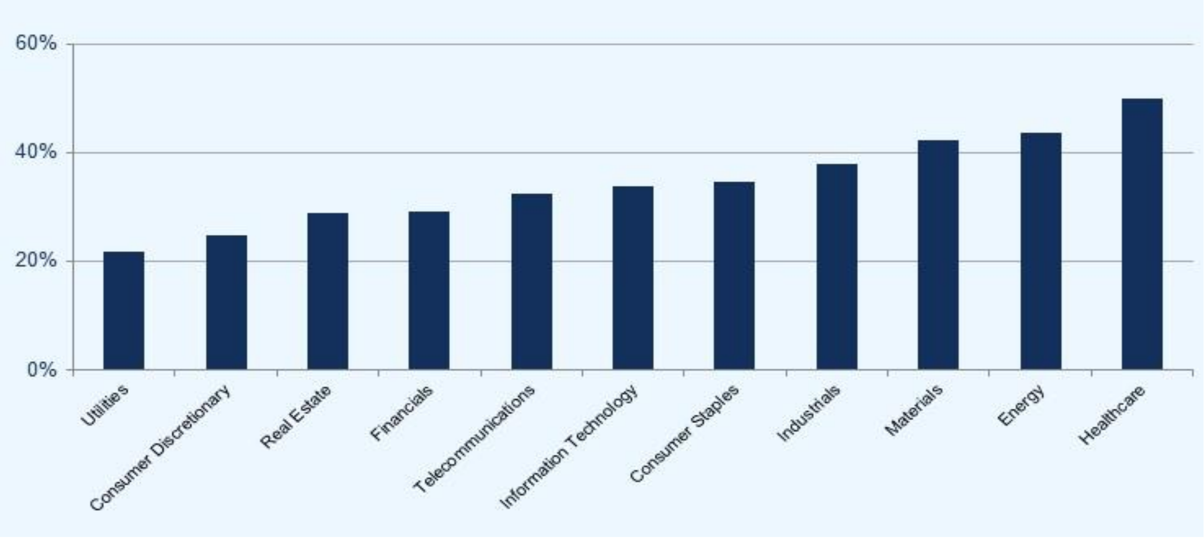
Sources: S&P Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude transactions with implied control premiums below zero and transactions which we consider to be outliers.

The chart indicates that while premiums vary over time, there is no clearly discernible pattern. The mean is higher than the median due to a small number of high premiums.

Premiums by industry

The following chart shows the average takeover premium by industry, compared to the share price one month before the takeover was announced. Most industries show an average premium of 20% to 40%.

Figure 20: Average takeover premium (2007 to 2017)



Sources: S&P Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude specific transactions with implied control premiums below zero or over 100% which we consider to be outliers.

Key factors that generally lead to higher premiums being observed include:

- Competitive tension arising from more than one party presenting a takeover offer.
- Favourable trading conditions in certain industries (e.g. recent mining and tech booms).
- Significant synergistic special or strategic value.
- Scrip offers where the price of the acquiring entity's shares increases between announcement and completion.

Industry Practice

In Australia, industry practice is to apply a control premium in the range of 20% to 40%, as shown in the following list quoting ranges noted in various independent experts' reports.

- Deloitte - 20% to 40%
- Ernst & Young - 20% to 40%
- Grant Samuel - 20% to 35%
- KPMG - 25% to 35%
- Lonergan Edwards - 30 to 35%
- PwC - 20% to 40%

The range of control premiums shown above is consistent with most academic and professional literature on the topic.

Alternative View

Whilst common practice is to accept the existence of a control premium in the order of 20% to 40%, certain industry practitioners (particularly in the US) disagree with the validity of this conclusion. Those with an alternate viewpoint to the fact that very few listed companies are acquired each year as evidence that 100% of a company is not necessarily worth more than the proportionate value of a small interest. Those practitioners agree that the reason we see some takeovers at a premium is that if a company is not well run, there is a control premium related to the difference in value between a hypothetical well run company and the company being run as it is.

Impact of Methodologies Used

The requirement for an explicit valuation adjustment for a control premium depends on the valuation methodology and approach adopted and the level of value to be examined. It may be necessary to apply a control premium to the value of a liquid minority value to determine the control value. Alternatively, in order to estimate the value of a minority interest, it may be necessary to apply a minority discount to a proportional interest in the control value of the company.

Discounted cash flow

The discounted cash flow methodology generally assumes control of the cash flows generated by the assets being valued. Accordingly, such valuations reflect a premium for control. Where a minority value is sought a minority discount must therefore be applied. The most common exception to this is where a discounted dividend model has been used to directly determine the value of an illiquid minority holding.

Capitalisation of earnings

Depending on the type of multiple selected, the capitalisation of earnings methodology can reflect a control value (transaction multiples) or a liquid minority value (listed company trading multiples).

Asset based methodologies

Asset based methodologies implicitly assume control of the assets being valued. Accordingly, such valuations reflect a control value.

Intermediate Levels of Ownership

There are a number of intermediate levels of ownership between a portfolio interest and 100% ownership. Different levels of ownership/strategic stakes will confer different degrees of control and rights as shown below.

- 90% - can compulsory purchase remaining shares if certain conditions are satisfied
- 75% - power to pass special resolutions
- 50% - gives control depending on the structure of other interests (but not absolute control)
- 25% - ability to block a special resolution
- 20% - power to elect directors, generally gives significant influence, depending on other shareholding blocks
- < 20% generally has only limited influence

Conceptually, the value of each of these interests lies somewhere between the portfolio value (liquid minority value) and the value of a 100% interest (control value). Each of these levels confers different degrees of control and therefore different levels of control premium or minority discount.

50%

For all practical purposes, a 50% interest confers a similar level of control to holdings of greater than 50%, at least where the balance of the shares are listed and widely held. Where there are other significant holders, such as in a 50/50 joint venture, 50% interests involve different considerations depending upon the particular circumstances.
Strategic parcels do not always attract a control premium. In fact, if there is no bidder, the owner may be forced to sell the shares through the share market, usually at a discount to the prevailing market price. This reflects the fact that the sale of a parcel of shares significantly larger than the average number of shares traded on an average day in a particular stock generally causes a stock overhang, therefore there is more stock available for sale than there are buyers for the stock and in order to clear the level of stock available, the share price is usually reduced by what is referred to as a blockage discount.

20% to 50%

Holdings of less than 50% but more than 20% can confer a significant degree of influence on the owner. If the balance of shareholders is widely spread, a holding of less than 50% can still convey effective control of the business. However, it may not provide direct ownership of assets or access to cash flow. This level of holding has a strategic value because it may allow the holder significant influence over the company's management, possibly additional access to information and a board seat.

<20%

Holdings of less than 20% are rarely considered strategic and would normally be valued in the same way as a portfolio interest given the stake would not be able to pass any ordinary or special resolution on their own if they were against the interests of the other shareholders. Depending on the circumstances, a blockage discount may also apply.
As explained above, the amount of control premium or minority discount that would apply in specific circumstances is highly subjective. In relation to the appropriate level of control premium, Aswath Damodaran notes "the value of controlling a firm has to lie in being able to run it differently (and better)". A controlling shareholder will be able to implement their desired changes. However, it is not certain that a non-controlling shareholder would be able to implement changes they desired. Thus, following the logic of Damodaran and the fact that the strategic value of the holding typically diminishes as the level of holding decreases, the appropriate control premium for a non-controlling shareholder should be lower than that control premium for a controlling stake.

Key Factors in Determining a Reasonable Control Premium

Key factors to consider in determining a reasonable control premium include:

- **Size of holding** – Generally, larger stakes attract a higher control premium
- **Other holdings** – The dispersion of other shareholders is highly relevant to the ability for a major shareholder to exert control. The wider dispersed other holdings are, the higher the control premium
- **Industry premiums** – Evidence of premiums recently paid in a given industry can indicate the level of premium that may be appropriate
- **Size** – medium sized businesses in a consolidating industry are likely to be acquired at a larger premium than other businesses
- **Dividends** – a high dividend pay-out generally leads to a low premium for control
- **Gearing** – a company that is not optimally geared may attract a higher premium than otherwise, as the incoming shareholder has the opportunity to adjust the financing structure
- **Board** – the ability to appoint directors would increase the control premium attaching to a given parcel of shares. The existence of independent directors would tend to decrease the level of premium as this may serve to reduce any oppression of minority interests and therefore support the level of the illiquid minority value
- **Shareholders' agreement** - the existence and contents of a shareholder's agreement, with any protection such as tag along and drag along rights offered to minority shareholders lowers the appropriate control premium.

APPENDIX 7: VOLATILTIY ANALYSIS

In selecting expected prospective volatility, we have considered the observed historical volatility of a range of comparable entities, as well as that of REX. We consider this approach preferable to relying on REX's historical volatility only, due to the significant uncertainty in any single observation. The historical volatility of companies with comparable operations to REX are set out in the table below.

Table 31: Historical volatility of comparable companies

Comparable Company Volatility					
Company	Market Cap (A$m)	Annualised volatility (%) 3 Year	4 Year	5 Year	6 Year
Australian airlines					
Regional Express Holdings Limited	150	53%	49%	47%	44%
Qantas Airways Limited	8,089	41%	37%	36%	37%
Virgin Australia Holdings Limited	726	58%	53%	51%	48%
Alliance Aviation Services Limited	520	47%	46%	46%	56%
Median	**623**	**50%**	**48%**	**46%**	**46%**
Mean	**2,371**	**50%**	**46%**	**45%**	**46%**
International airlines - full service					
Delta Air Lines, Inc.	27,273	50%	45%	43%	41%
United Airlines Holdings, Inc.	13,967	63%	57%	53%	51%
Singapore Airlines Limited	10,422	30%	27%	25%	24%
American Airlines Group Inc.	8,087	64%	58%	54%	52%
International Consolidated Airlines	8,773	57%	51%	50%	47%
Deutsche Lufthansa AG	7,521	43%	40%	39%	38%
Alaska Air Group, Inc.	6,724	51%	46%	43%	42%
Air Canada	4,761	52%	49%	48%	46%
Copa Holdings, S.A.	2,892	59%	53%	52%	51%
Air New Zealand Limited	1,467	45%	41%	39%	38%
Hawaiian Holdings, Inc.	893	62%	57%	54%	53%
Median	**7,521**	**52%**	**49%**	**48%**	**46%**
Mean	**8,435**	**52%**	**47%**	**45%**	**44%**
International airlines - discount & regional					
Southwest Airlines Co.	32,207	41%	38%	37%	36%
Ryanair Holdings plc	23,024	42%	38%	38%	37%
Wizz Air Holdings Plc	5,154	47%	43%	42%	41%
JetBlue Airways Corporation	4,645	53%	48%	46%	44%
easyJet plc	4,217	54%	49%	48%	46%
Allegiant Travel Company	2,977	54%	49%	47%	45%
Spirit Airlines, Inc.	2,443	73%	66%	62%	59%
SkyWest, Inc.	2,051	70%	64%	60%	58%
Median	**4,431**	**53%**	**48%**	**46%**	**45%**
Mean	**9,590**	**54%**	**49%**	**47%**	**46%**
Airline indices					
NYSE Arca Airline Index	N/a	47%	42%	39%	37%
STOXX Europe Total Market Airlines	N/a	39%	35%	36%	34%
Median	**4,761**	**52%**	**48%**	**46%**	**44%**
Mean	**7,782**	**52%**	**47%**	**45%**	**44%**

Source: Capital IQ as at 2 November 2020

In relation to assessing volatility we note:

- As REX would undergo a significant transformation (that has included significant organic growth, announcement and completion of highly strategic acquisitions and substantial capital raisings), we expect the future volatility of REX to decline compared to historical levels, other things being equal.
- Historical volatility is impacted by COVID 19 and therefore fairly high, especially for shorter periods.
- We anticipate COVID-19 volatility to persist for some time in the future.
- Generally small companies have higher volatilities than larger companies and REX is at the smaller end of the comparable companies.
- We believe a volatility of 45.0% is reasonable.

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APPENDIX 8: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for REX's shareholders for the purpose of assessing the fairness and reasonableness of the Proposed Transaction. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by REX being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to REX's management for confirmation of factual accuracy.

Prospective information

To the extent that this report refers to prospective financial information, we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Leadenhall's consideration of this information consisted of enquiries of REX's personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards, or any other standards. Nothing has come to our attention as a result of these enquiries to suggest that the financial projections for REX, when taken as a whole, are unreasonable for the purpose of this report.

We note that the forecasts and projections supplied to us are, by definition, based upon assumptions about events and circumstances that have not yet transpired. Actual results in the future may be different from the prospective financial information of REX referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly, we give no assurance that any forecast results will be achieved. Any future variation between the actual results and the prospective financial information utilised in this report may affect the conclusions included in this report.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range

Indemnities

In recognition that Leadenhall may rely on information provided by REX and their officers, employees, agents or advisors, REX has agreed that it will not make any claim against Leadenhall to recover any loss or damage which it may suffer as a result of that reliance and that it will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by REX and their officers, employees, agents or advisors or the failure by REX and their officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Dave Pearson, BCom., CA, CFA, CBV, ASA, M.App.Fin, Andrew Steere, BBus, CA, MCom, Grad Dip App.Fin, Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin, and Katy Lawrence, BCom., CA, Vicky Lau, BCom., CA.

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and this report is a valuation engagement in accordance with that standard and the opinion is a Conclusion of Value.

Independence

Leadenhall has acted independently of REX. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.

Leadenhall and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with REX, PAG or any related entities or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

In the previous two years we have provided valuation advice to REX for impairment testing purposes in order to assist REX management in satisfying their financial reporting requirements. This work did not involve Leadenhall participating in setting the terms of, or any negotiations leading to, the Proposed Transaction.

Regional Express

REGIONAL EXPRESS HOLDINGS LIMITED
ABN 18 099 547 270

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
Regional Express Holdings Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
02 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

ALL ENQUIRIES TO
Telephone: +61 1300 735 980

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given above by **2:00pm (Sydney time) on Wednesday, 27 January 2021,** being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE
www.linkmarketservices.com.au
Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

BY MOBILE DEVICE
Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link **www.linkmarketservices.com.au** into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.

QR Code

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name and email address of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting Virtually the appropriate "Certificate of Appointment of Corporate Representative" must be received at vote@linkmarketservices.com.au prior to admission in accordance with the Notice of Annual General Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

NAME SURNAME
ADDRESS LINE 1
ADDRESS LINE 2
ADDRESS LINE 3
ADDRESS LINE 4
ADDRESS LINE 5
ADDRESS LINE 6

X99999999999

PROXY FORM

I/We being a member(s) of Regional Express Holdings Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐ **the Chairman of the Meeting (mark box)**

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name and email of the person or body corporate you are appointing as your proxy

Name

Email

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **2:00pm (Sydney time) on Friday, 29 January 2021** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Meeting will be conducted as a virtual meeting and you can participate by logging in: Online at https://agmlive.link/REX20 (refer to details in the Virtual Annual General Meeting Online Guide).

Important for Resolution 1: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 1, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Ordinary Business

	Ordinary Business	For	Against	Abstain*
1	Adoption of Remuneration Report			
2	Re-election of Neville Howell as an Executive Director			
3	Re-election of Christopher Hine as an Executive Director			
4	Re-election of James Davis as an Independent Director			
5	Re-election of Professor Ronald Bartsch as an Independent Director			
6	Appointment of BDO Audit Pty Ltd as the auditor of the Company			

Special Business

	Special Business	For	Against	Abstain*
7	Approval of the Proposed Transaction			
8	Adoption of the Management Incentive Scheme			
9	Approval of grant of Awards and Shares to Neville Howell under the Management Incentive Scheme			
10	Approval of grant of Awards and Shares to Christopher Hine under the Management Incentive Scheme			
11	Approval of grant of Awards and Shares to James Davis under the Management Incentive Scheme			
12	Approval of grant of Awards and Shares to Professor Ronald Bartsch under the Management Incentive Scheme			
13	Approval of grant of Awards and Shares to The Honourable John Sharp AM under the Management Incentive Scheme			

ⓘ * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

LINK Group

Virtual Meeting
Online Guide

Before you begin

Ensure your browser is compatible. Check your current browser by going to the website: **whatismybrowser.com**

Supported browsers are:

- Chrome – Version 44 & 45 and after
- Firefox – 40.0.2 and after
- Safari – OS X v10.9 & OS X v10.10 and after
- Internet Explorer 9 and up

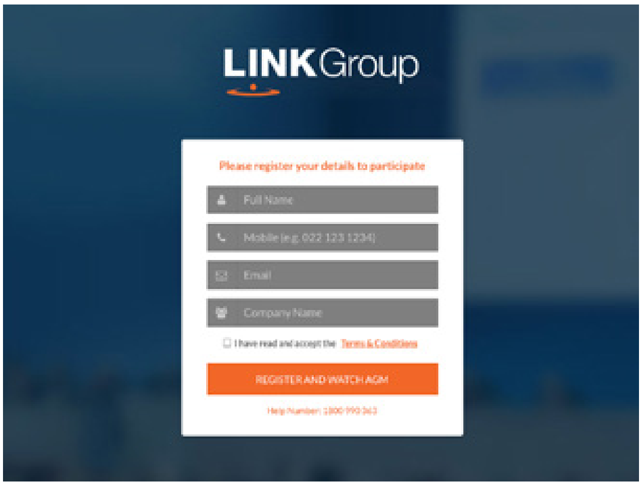
To attend and vote you must have your securityholder number and postcode.

Appointed Proxy: Your proxy number will be provided by Link before the meeting.

Please make sure you have this information before proceeding.

Corporate Markets

Virtual Meeting Online Guide



Step 1

Open your web browser and go to https://agmlive.link/REX20 and select the relevant meeting.

Step 2

Log in to the portal using your full name, mobile number, email address, and company name (if applicable).

Please read and accept the terms and conditions before clicking on the blue **'Register and Watch Meeting'** button.

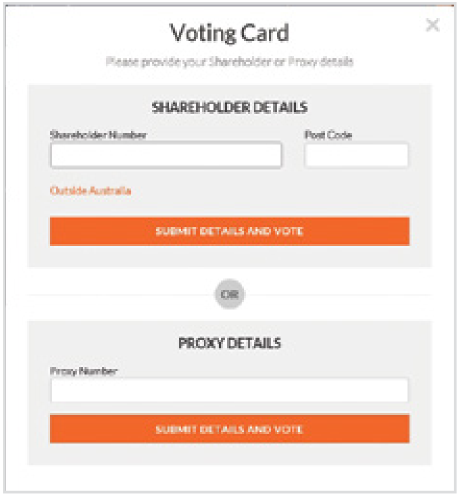
- On the left – a live video webcast of the Meeting
- On the right – the presentation slides that will be addressed during the Meeting
- At the bottom – buttons for 'Get a Voting Card', 'Ask a Question' and a list of company documents to download

Note: If you close your browser, your session will expire and you will need to re-register. If using the same email address, you can request a link to be emailed to you to log back in.

1. Get a Voting Card

To register to vote – click on the 'Get a Voting Card' button.

This will bring up a box which looks like this.

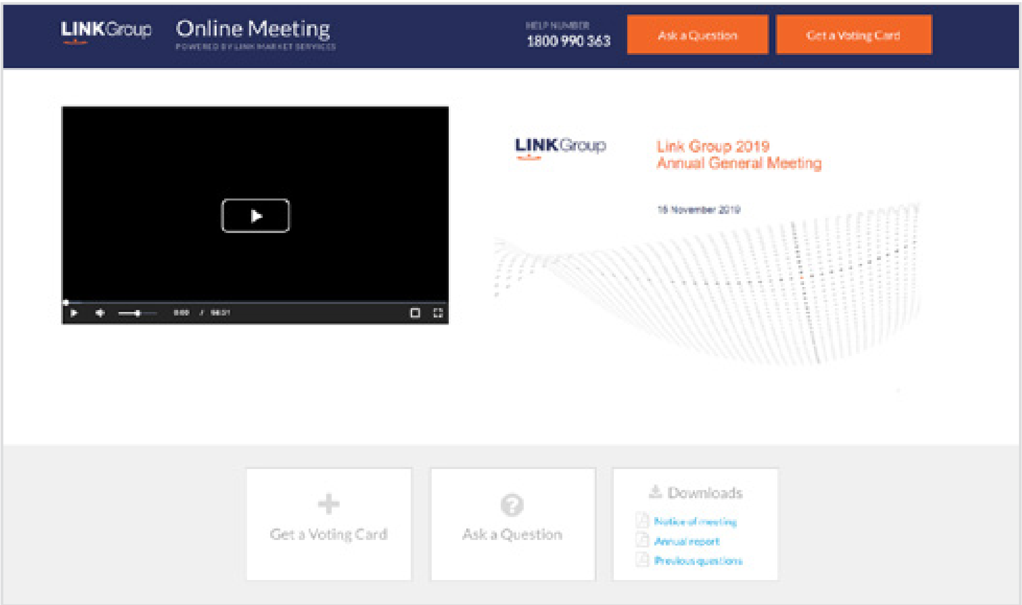


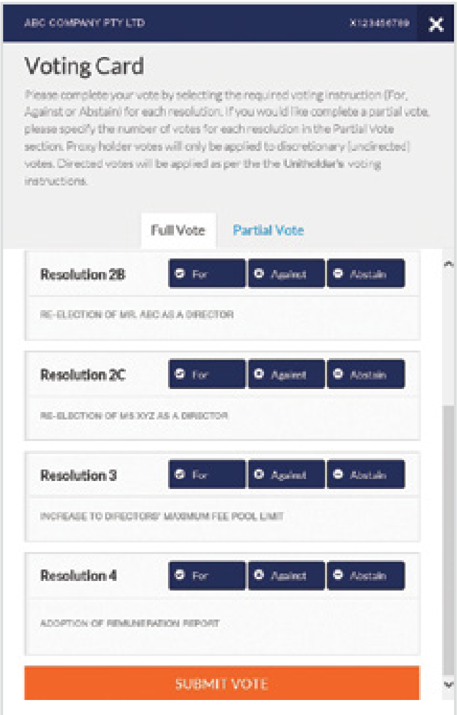
If you are an individual or joint securityholder you will need to register and provide validation by entering your securityholder number and postcode.

If you are an appointed Proxy, please enter the Proxy Number issued by Link in the PROXY DETAILS section. Then click the **'SUBMIT DETAILS AND VOTE'** button.

Once you have registered, your voting card will appear with all of the resolutions to be voted on by securityholders at the Meeting (as set out in the Notice of Meeting). You may need to use the scroll bar on the right hand side of the voting card to view all resolutions.

Securityholders and proxies can either submit a Full Vote or Partial Vote.





Full Votes

To submit a full vote on a resolution ensure you are in the **'Full Vote'** tab. Place your vote by clicking on the **'For'**, **'Against'**, or **'Abstain'** voting buttons.

Partial Votes

To submit a partial vote on a resolution ensure you are in the **'Partial Vote'** tab. You can enter the number of votes (for any or all) resolution/s. The total amount of votes that you are entitled to vote for will be listed under each resolution. When you enter the number of votes it will automatically tally how many votes you have left.

Note: If you are submitting a partial vote and do not use all of your entitled votes, the un-voted portion will be submitted as No Instruction and therefore will not be counted.

Once you have finished voting on the resolutions scroll down to the bottom of the box and click on the **'Submit Vote'** or **'Submit Partial Vote'** button.

Note: You can close your voting card without submitting your vote at any time while voting remains open. Any votes you have already made will be saved for the next time you open up the voting card. The voting card will appear on the bottom left corner of the webpage. The message **'Not yet submitted'** will appear at the bottom of the page.

You can edit your voting card at any point while voting is open by clicking on **'Edit Card'**. This will reopen the voting card with any previous votes made.

Once voting has been closed all voting cards will automatically be submitted and cannot be changed.

At the conclusion of the Meeting a red bar with a countdown timer will appear at the top of the Webcast and Slide windows advising the remaining voting time. Please make any changes and submit your voting cards.

2. How to ask a question

Note: Only securityholders are eligible to ask questions.

You will only be able to ask a question after you have registered to vote. To ask a question, click on the 'Ask a Question' button either at the top or bottom of the webpage.

The **'Ask a Question'** box will then pop up with two sections for completion.

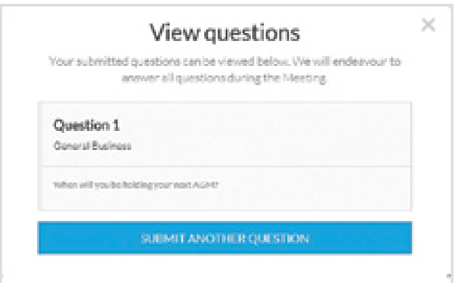
In the **'Regarding'** section click on the drop down arrow and select the category/resolution for your question.

Click in the **'Question'** section and type your question and click on 'Submit'.

A **'View Questions'** box will appear where you can view your questions at any point. Only you can see the questions you have asked.

If your question has been answered and you would like to exercise your right of reply, you can submit another question.

Note that not all questions are guaranteed to be answered during the Meeting, but we will do our best to address your concerns.



3. Downloads

View relevant documentation in the Downloads section.

Voting closing

Voting will end 5 minutes after the close of the Meeting.

At the conclusion of the Meeting a red bar with a countdown timer will appear at the top of the Webcast and Slide screens advising the remaining voting time. If you have not submitted your vote, you should do so now.

At the close of the meeting any votes you have placed will automatically be submitted.

Contact us

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