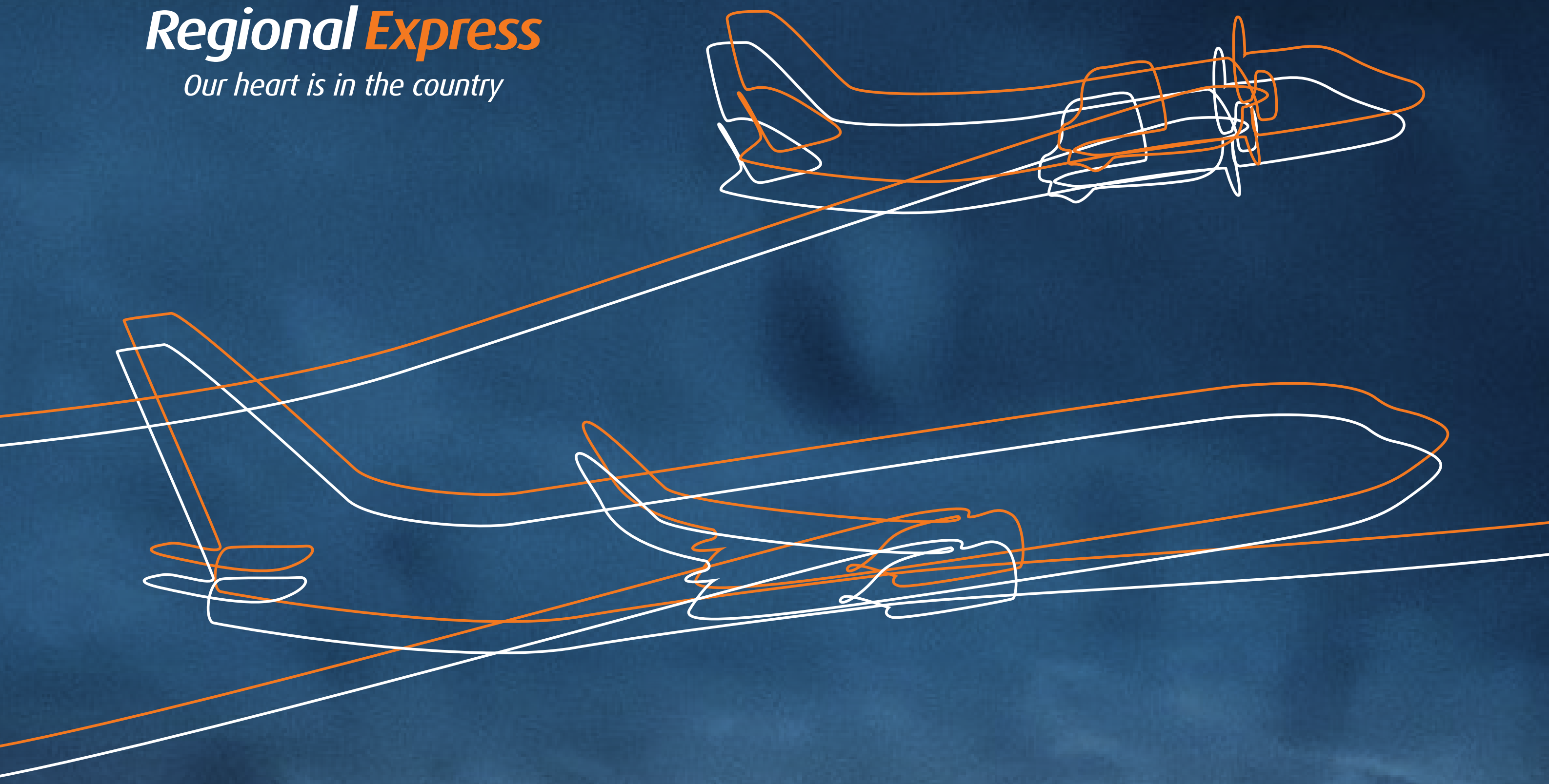
rex.
Regional Express
Our heart is in the country



OPPORTUNITY IN ADVERSITY

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 | REGIONAL EXPRESS HOLDINGS LIMITED

REGIONAL EXPRESS VALUE STATEMENT

WHAT DOES IT PROFIT A COMPANY
IF IT GAINS THE WHOLE WORLD AND LOSES ITS SOUL?

COMPANY

Staff members are part of the Rex family. This comes with both privileges and responsibilities.

We expect every staff member to take ownership of issues encountered:

- Ownership means that if something is wrong then it is everyone's job to fix it.
- Matters that cannot be handled by the staff member ought to be pursued further with senior management.
- Staff have the right to make mistakes if they act in the best interest of the customer and the company.

We strive to be a learning organisation where we actively seek to identify issues no matter how small in order to continually transform ourselves to a better organisation:

- This entails a culture where issues are highlighted as learning experiences even though they may place our colleagues in a bad light.
- An excellent airline is one that is outstanding in a thousand small ways.

We believe that we can only count on ourselves for our continued success:

- All staff members must embrace the 'can do' and 'will do' spirit that has been the defining characteristic of our initial success.
- Hard work is the cornerstone of our work ethic.
- All staff share in the profits and so all staff are expected to contribute his/her fair share.

We value open communication and will strive to create an environment that removes barriers to communication:

- Staff members have a right to be heard regardless of their position.
- Staff members are encouraged to contact directly the members of the Management Committee and Board if they see the need.

We respect the dignity of each staff member and will treat each other with respect and fairness:

- The customer does not always come first and we will stand by our staff member if the customer is unreasonable.
- While we can be single-minded in tackling issues and problems, we will focus on the issue and not the person.
- We accept that staff members may have different talents and capabilities and will strive to fit the job to the person rather than the other way around.
- Important decisions concerning staff matters are always referred to the Management Committee to ensure transparency, fairness and consistency.

We are committed to standing behind our staff members and their families and will do all we can to help them in their times of special need:

- We believe in the value of the family and will strive to create a working environment that is supportive of the family.
- All staff members have the right to appeal to the Management Committee if special assistance or consideration is needed

CUSTOMER

We are committed to providing our customers with safe and reliable air transportation with heartfelt hospitality.

As a regional carrier, we constantly strive to keep fares low through our commitment to simplicity, efficiency and good value.

We are committed to treating our customers as individuals and will respond to all their comments and complaints.

COMMUNITY

Rex is mindful of the tremendous social and economic impact its services have on the regional communities and works in partnership with these communities to balance their needs against Rex commercial imperatives.

We are also committed to giving back to the regional communities by supporting worthwhile charitable causes which are focused on helping the less fortunate.

We are committed to preserving the environment to the measure of our capabilities.

CONTRACTORS

We believe that our suppliers are partners in our business.

In all our dealings with suppliers we will seek to be fair and honest and will strive to work only with like-minded suppliers.

CAPITAL

Rex believes that its shareholders' interest is best served by pursuing a path of steady but sustainable growth of its earnings.

We believe that maximizing shareholders' returns in the long term is not incompatible with our duties and responsibilities towards our other stakeholders outlined above.

FOREWORD

THE FUTURE BECKONS

LIM KIM HAI
EXECUTIVE CHAIRMAN

What an industry to be in. During normal times the challenges are never-ending and the margins are wafer-thin. When the COVID-19 pandemic devastated almost every industry, aviation was hit the hardest.

Even Rex, which had virtually no debt and strong cash flow in the past, was brought to its knees with passenger numbers plunging below 10% of normal levels from 15 March 2020 to 28 March 2020.

In times like these, it is leadership that makes the difference between survival and collapse. I am so thankful that I have a management team that is second-to-none. Within ten days when the full effects of the pandemic was first felt in Australian aviation, we obtained from the Australian Competition and Consumer Commission (ACCC) an interim authorisation to cooperate with QantasLink on all the routes where we compete. Rex also presented several submissions to the Federal Government on the impending collapse of all independent regional carriers in Australia if Commonwealth funding was not made available immediately.

Leadership is also critical in Government, and regional Australia is fortunate to have Deputy Prime Minister Michael McCormack in charge of aviation. On 17 March 2020, the DPM acted swiftly to unveil an assistance package of over $700 million for all airlines. He later supplemented this on 27 March 2020 with an assistance package of around $300 million to enable regional airlines to meet their immediate cash flow needs and to underwrite a skeleton essential regional air service until 30 September 2020 (later extended to 28 March 2021).

On behalf of all regional aviation, I would like to place on record our gratitude to the Morrison Government and to DPM Michael McCormack for their swift and decisive actions that saved Australia's regional aviation. Without these bold measures, most regional carriers would have collapsed and regional aviation would have been irreparably damaged. Remote and regional communities would be dealt a third mortal blow following the devastating effects of the bush fires and the pandemic.

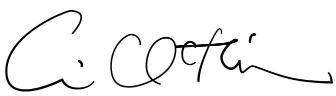
Rex makes a solemn promise that it will give back amply to the community in the future when it is strong again.

Talking about the future, it must appear strange to some that Rex is announcing bold plans to start domestic jet operations in March 2021 when it was on the brink of collapse just five months ago. Indeed, Rex is probably the only carrier in the world making plans, with the help of external funding, to increase substantially its operations.

The Rex Board has not made this decision lightly. While this is a significant increase in our scale of operations and the risks are considerable, the Rex Board believes that we are probably one of the best run, efficient and profitable airlines in the world and with our extensive infrastructure already in place, the extension to jet operations will not be a difficult step.

This is also our way of paying back to the community. We believe that Australia deserves a second domestic carrier that is safe, reliable and affordable. More importantly, Australia needs an alternative carrier that is profitable and hence sustainable so that it can go the distance against Qantas. Rex's track record will be enough to convince anyone that Rex is up to the mark - we are the only listed RPT carrier in Australia that made net statutory profits over the last 12 Financial Years.

We are excited at this next big chapter of domestic jet expansion. However, even though our operations may get much bigger, we promise our past and future passengers that our trademark country hospitality will not be diluted. Be it domestic or regional operations, *our heart will always be in the country.*



Lim Kim Hai
Executive Chairman
30 September 2020

CORPORATE

This annual report covers both Regional Express Holdings Limited as an individual entity and the consolidated entity comprising Regional Express Holdings Limited and its subsidiaries.

The Group's functional and presentation currency is AUD ($).

DIRECTORS

Lim Kim Hai

The Hon. John Sharp AM

Lee Thian Soo

Neville Howell

Chris Hine

James Davis

Prof. Ronald Bartsch

COMPANY SECRETARIES

Irwin Tan

Benjamin Ng

Richard Kwan

REGISTERED OFFICE

81 - 83 Baxter Road
Mascot, NSW 2020

(Ph): 02 9023 3555
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SHARE REGISTRY

Link Market Services Limited

Level 12, 680 George Street
Sydney, NSW 2000

SOLICITOR

Baker & McKenzie

Level 46, Tower One
International Towers Sydney
100 Barangaroo Avenue
Barangaroo, NSW 2000

BANKER

Westpac Banking Corporation

AUDITOR

Deloitte Touche Tohmatsu

CONTENTS

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DIRECTORS' REPORT

1 BOARD OF DIRECTORS

In compliance with the provisions of the *Corporations Act 2001*, the directors of Regional Express Holdings Limited ('Rex') submit herewith the annual report for Rex and its consolidated entities (the 'Group') for the Financial Year ended 30 June 2020 (FY20).

The names and particulars of the directors of Rex during or since the end of the FY are:

LIM KIM HAI | Executive Chairman

Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012, 27 November 2015, and 21 November 2018.

Mr Lim started his career as a Defence Engineer specialising in underwater warfare. After ten years he left to start his own business. Currently, he has a portfolio of investment and business interests in diverse sectors and countries. He is also the Chairman of a biomedical company in Singapore, Lynk Biotechnologies Pte Ltd.

Mr Lim obtained his Masters in Electronics Engineering from the prestigious 'Grande Ecoles' engineering colleges in France where he was awarded a French Government scholarship. He later returned to France to complete a Masters of Public Administration at the elite Ecole Nationale d'Administration in Paris on a Singapore Government scholarship. Mr Lim also holds a Masters of Business Administration from the National University of Singapore.

Mr Lim was one of the founding shareholders and directors of Rex in August 2002. He has been the Executive Chairman of the Rex Group of companies since July 2003.

THE HON. JOHN SHARP AM | Deputy Chairman & Independent Director

Appointed 14 April 2005 and re-appointed 19 November 2008, 23 November 2011, 27 November 2013, 29 November 2016, and 21 November 2019.

The Honourable John Sharp AM is an aviator, having been a licensed pilot of both fixed-wing and rotary-wing aircraft. Mr Sharp was a member of the House of Representatives of the Commonwealth Parliament for 14 years (1984 – 1998). He retired from the House of Representatives in 1998 and established his own high-level aviation and transport consulting company.

Mr Sharp is a former Chairman of the Aviation Safety Foundation of Australia. In 2001, he became a director of Airbus Group, Australia Pacific, a position he retired from in June 2015. He has retired as Chairman of the Parsons Brinkerhoff Advisory Board, an engineering and design company operating throughout Australia and the region. He is Chairman of Pel-Air Aviation Pty Ltd and is also a director of Power and Data Corporation Pty Limited, and a director of Luerssen Australia, and a director of the Australian Maritime Shipbuilding Export Group.

Mr Sharp is a Trustee and Board Member of John McKeown House. He was Honorary Federal Treasurer, National Party of Australia from 1999 to 2017 and has retired as Chairman of Winifred West Schools Foundation. He has been a member of the University of Wollongong Vice Chancellor's Advisory Board. He is also currently a director of the Tudor House Foundation. Mr Sharp was appointed a director of the Flight Safety Foundation following his receipt of the Foundation's Presidential Citation for Aviation Safety, the first Australian to receive this award. He has been a director of the French, Australian Chamber of Commerce and Industry, and Co-Chair of the Cancer Council of NSW Southern Highlands Branch. He is currently a member of the Climate Change Authority. Mr Sharp is a director of the Foundation for Rural and Regional Renewal, (FRRR), having joined the board in 2019.

Mr Sharp was named a Member of the Order of Australia for significant service to the people and Parliament of Australia, to the aviation industry, and the community during Queen's Birthday Honours in June 2018.

Mr Sharp's extensive experience in aviation, regional air services and as the former Federal Minister for Transport and Regional Development in the Federal Government, adds significantly to the expertise and standing of the Board.

LEE THIAN SOO | Non-Executive Director

Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012, 27 November 2015, and 21 November 2018.

Mr Lee has extensive international business experience and currently is the Chairman and owner of a company supplying specialty medical devices, systems and drugs to healthcare institutions in the ASEAN region.

Mr Lee was one of the founding shareholders and directors of Rex in August 2002.

NEVILLE HOWELL | Executive Director and Chief Operating Officer

Appointed 1 July 2014 as Executive Director, re-appointed 26 November 2014, and 21 November 2017.

Mr Howell has over 39 years of aviation experience and has been with the Company since its inception in August 2002. He 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 General Manager 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 has held many Civil Aviation Safety Authority (CASA) delegations 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 Regional Express 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 (AOC).

CHRIS HINE | Executive Director, Group Flight Operations Advisor and Chairman, Australian Airline Pilot Academy

Appointed 1 March 2011 as Executive Director and re-appointed 23 November 2011.
Appointed 1 July 2014 as Non-Executive Director and re-appointed 26 November 2014.
Appointed Executive Director and Group Flight Operations Advisor 18 May 2015, and re-appointed 21 November 2017.

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 Wagga, New South Wales and Ballarat, Victoria). Preceding his current role, he was the Chief Operating Officer and General Manager Flight Operations and Chief Pilot. Prior to 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.

JAMES DAVIS | Independent Director

Appointed 26 August 2004 as Executive Director.
Appointed Managing Director on 27 May 2008 and retired 1 July 2011.
Appointed 23 November 2011 as an Independent Director, re-appointed 26 November 2014, and 21 November 2017.

Mr Davis has a degree in Aeronautical Engineering and commenced his aviation career with the Civil Aviation Safety Authority (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. Mr Davis joined Hazelton Airlines in 1999 as Flight Operations and Standards Manager and later became Chief Pilot. He has been with Rex since its inception 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 (AAPA) and a former Director of Rex Group company Pel-Air Aviation Pty Ltd. He is currently Chairman of the Regional Aviation Association of Australia (RAAA) and sits on the board of Airports Coordination Australia (ACA) Pty Ltd.

PROF. RONALD BARTSCH | Independent Director

Appointed 23 November 2010 and re-appointed 23 November 2011, 26 November 2014, and 21 November 2017.

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 the Civil Aviation Safety Authority (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 of International Aviation Law at the University of South Pacific and the College of Law at the Australian National University and a Senior Visiting Fellow with the School of Aviation at the University of New South Wales. He is a former aviation specialist and Presiding Member of the Administrative Appeals Tribunal and author of several publications including *Aviation Law in Australia*, *International Aviation Law* and *Drones in Society* and contributing aviation author for *The Laws of Australia*. Professor Bartsch's latest publication, *The Corona Dilemma: 20-20 Thinking for the Next Normal*, will be released in 2020.

2 SENIOR MANAGEMENT EXECUTIVES

The names and particulars of the senior management executives of Rex during or since the end of the FY are:

NEVILLE HOWELL | Executive Director and Chief Operating Officer

Mr Howell is a member of the Rex Management Committee. A description of his qualifications, skills and experience is included on page 7.

WARRICK LODGE | General Manager, Network Strategy & Sales

Mr Lodge manages the team responsible for scheduling, pricing, revenue management, sales and commercial analysis. His duties include the monitoring of network performance and analysis of both existing and new market opportunities. Mr Lodge has 28 years of regional airline experience in the specialised areas of scheduling, pricing and revenue management and held the position of Manager Network Planning with Kendell Airlines, having joined that company in 1992. Mr Lodge has been with Rex since its inception in 2002 and is also a member of the Rex Management Committee.

IRWIN TAN | General Manager, Corporate Services

Mr Tan's background was originally in genetic research after graduating with first-class honours in biotechnology from the University of New South Wales in Sydney. Mr Tan left the field of genetic research when he joined Morrison Express Logistics in 1999 and then Singapore Airlines in 2001. He was later transferred to Singapore Airlines Cargo as an executive where he took on various appointments in product development, advertising, sales and airline alliances before taking on the role of Regional Marketing Manager for the South-West Pacific region in 2003. Mr Tan joined Rex in July 2005 and was appointed the Company Secretary on 7 September 2005. Mr Tan is also a member of the Rex Management Committee.

MAYOORAN THANABALASINGAM | General Manager, Information Technology and Communications

Mr Thanabalasingam leads a team of Information Technology (IT) professionals responsible for ensuring day-to-day operations of the airline. With over 20 years of experience and an extensive background in information technology, he has managed a range of IT projects and initiatives for Rex including the Internet Booking Engine, the Amend Booking Engine, Web Check-in and numerous Mobile/ iPad applications. Mr Thanabalasingam has a Masters of Business Administration (Computing) from Charles Sturt University. He also has a Graduate Certificate in Management (Information Technology) as well as an Associate Diploma of Electrical Engineering / Computer Engineering. He commenced with Rex in April 2004. Mr Thanabalasingam is a member of the Rex Management Committee and a Director of the Australian Airline Pilot Academy (AAPA).

PNG YEOW TAT | General Manager, Engineering

Mr Png has been in aviation engineering for more than 40 years and has many years of experience in various senior management positions. He graduated with an Honours Degree in Electrical and Electronic Engineering from the UK. Mr Png joined Rex in June 2007 as the Logistics Advisor and subsequently as the Engineering Advisor in the Chairman's Office. He became the Deputy General Manager and Part 145 Alternate Accountable Manager for the Rex and Approved Maintenance Organisations (AMO) in June 2013. He is a member of the Rex Engineering Management Committee and a member of the Rex Management Committee.

MARK BURGESS | Deputy General Manager, Engineering

Mr Burgess is a Licensed Aircraft Maintenance Engineer with over 30 years' experience and has been with the Company since its inception in 2002.

Mr Burgess' career began as an apprentice in the British Armed Forces where he maintained helicopters for 12 years and left as a Senior Rank. He continued his career in the oil and gas industry in Aberdeen, Scotland with CHC Scotia which also included Line support for British Midland Regional aircraft. He migrated to Australia in 2001 to work for Kendell Airlines in Wagga Wagga and became Production Leader coordinating maintenance and manpower on heavy checks for Saab 340 aircraft. In 2008 Mr Burgess moved to Adelaide as the Line Maintenance Supervisor and oversaw the expansion of Rex maintenance activities from line to heavy maintenance. He is a member of the Rex Engineering Management Committee.

DAVID BROOKSBY | National Airports Manager

Mr Brooksby commenced the role of National Airports Manager for Rex in 2010. Mr Brooksby has held previous senior roles in a management and operational capacity at each of Rex's major airports including Adelaide, Sydney, Brisbane and Melbourne since joining the company in April 2006. Prior to commencing employment with Rex, Mr Brooksby worked as a contracted outport agent with his family's business at Mount Gambier airport where his father is the Company's longest-standing contracted ground handling agent, having been contracted by Rex/Kendell since 1982 to provide ground handling services. Mr Brooksby graduated from the University of South Australia with a Bachelor of Management in 2003. Mr Brooksby is also a member of the Rex Management Committee.

PAUL FISHER | General Manager, Flight Operations and Chief Pilot

Mr Fisher has over 30 years of aviation experience and has been with the Company since its inception in August 2002. He has operated the Saab 340 aircraft as a First Officer and Captain for over 20 years with both Hazelton Airlines and Regional Express. Prior to his role as General Manager Flight Operations (GMFO) and Chief Pilot, Mr Fisher served in various roles within the Training and Checking department including the Adelaide Flight Operations Manager, Flight Standards Manager and the Training & Checking Manager / Deputy Chief Pilot. He holds several Civil Aviation Safety Authority (CASA) delegations. As GMFO he is responsible for all facets of the Company's flight operations and all operational matters affecting the safety of flight operations.

3 DIRECTORSHIPS OF OTHER LISTED COMPANIES

During the year under review, no directors appointed as at 30 June 2020 served as a director with any other company listed on the ASX.

4 DIRECTORS' SHAREHOLDINGS

The following table sets out each director's relevant interest in shares and options of Rex as at the date of this report. No debentures or rights exist.

Directors	Fully paid ordinary shares direct interest	Fully paid ordinary shares indirect interest	Share options
Lim Kim Hai	18,998,346	5,755,513	-
The Hon. John Sharp	50,000	275,032	-
Lee Thian Soo	7,722,181	3,727,181	-
Neville Howell	26,186	-	-
Chris Hine	79,415	-	-
James Davis	200,866	-	-
Ronald Bartsch	-	-	-

5 DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the FY and the number of meetings attended by each director (while they were a director or committee member). During the FY, seven Board meetings; one Remuneration, Nominations and Disciplinary Committee meeting; two Audit and Corporate Governance Committee meetings; and three Safety and Risk Management Committee meetings were held.

Directors	Board	Remunerations, Nominations and Disciplinary Committee	Audit & Corporate Governance Committee	Safety & Risk Management Committee
No. of Meetings Held:	7	1	2	3
Attendance:				
Lim Kim Hai	7	-	-	-
The Hon. John Sharp AM	7	1	2	-
Lee Thian Soo	5	-	-	-
Neville Howell	7	-	-	3
Chris Hine	6	-	-	3
James Davis	7	1	2	-
Ronald Bartsch	7	-	-	3

6 REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 22 to 26.

7 SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

No options were granted or exercised in FY20.

8 FORMER PARTNERS OF THE AUDIT FIRM

No directors or officers in Rex or the Group have been a partner or director of Deloitte Touche Tohmatsu, the Group's auditor.

9 COMPANY SECRETARIES

Mr Irwin Tan holds the position of Rex Company Secretary. A description of his qualifications, skills and experience is included on page 8.

Mr Benjamin Ng, having completed his Bachelor of Science followed by an MBA in the UK, started his career with the German multi-national chemical company, Henkel in Malaysia. In his eight years with Henkel/Cognis, he held various positions ranging from sales, marketing, business analysis and cost controlling. In 2001, he was posted to headquarters in Germany for just over a year where he was the cost controller for the Asia Pacific Region. Upon his return to Malaysia, he oversaw the controlling department of Cognis for three years. Mr Ng joined Rex in May 2006 and was appointed Company Secretary on 10 October 2007.

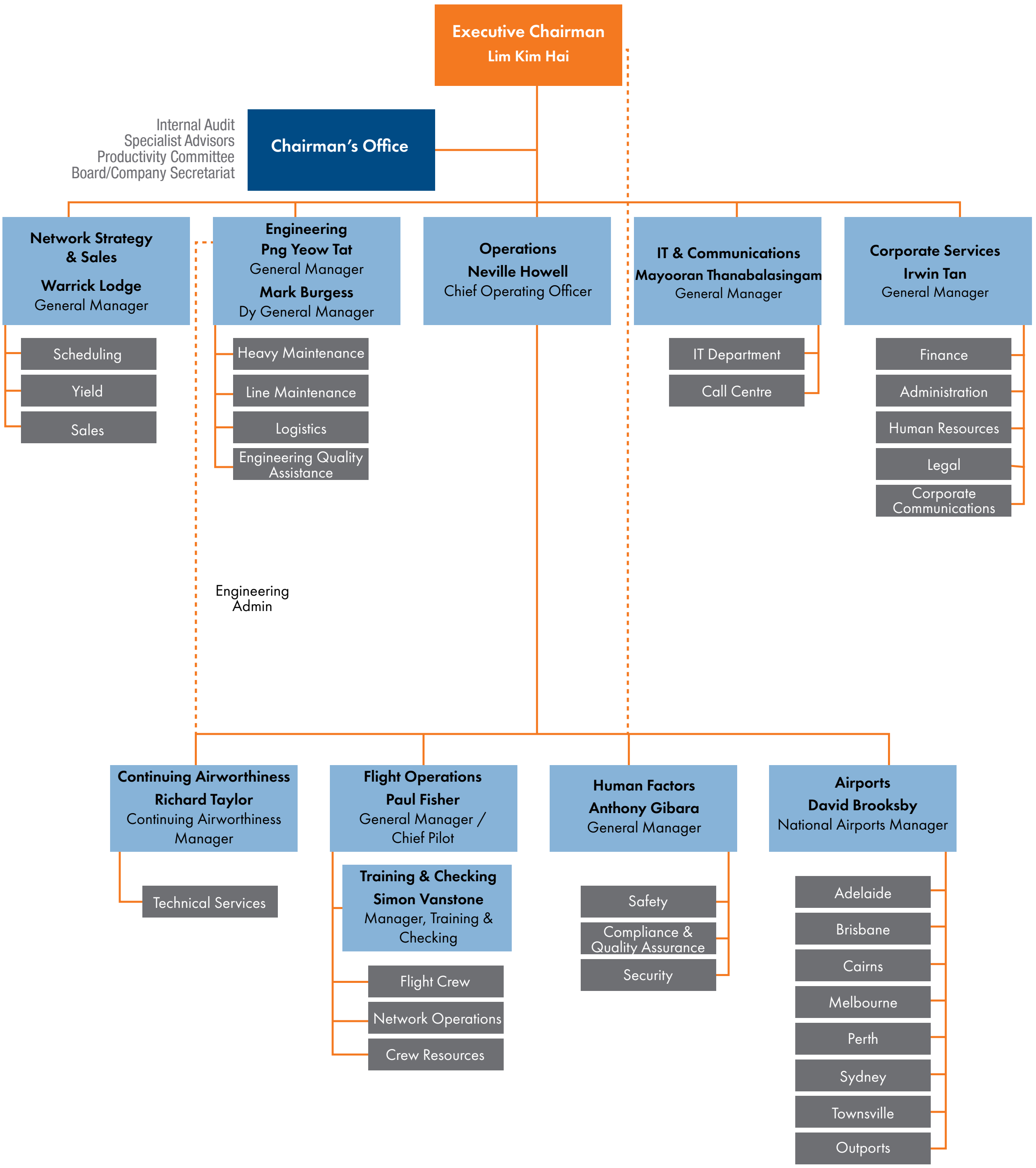
Mr Richard Kwan started his career with Rex after graduating with a Bachelor of Aviation (Hons) from the University of New South Wales (UNSW) in 2010. He has held various roles within the Corporate Services and Network Strategy & Sales departments. Specifically, Mr Kwan focusses on analysis, project and contract management within the Rex Group of companies, including the Queensland and Western Australia regulated routes and Pel-Air contracts. He has subsequently obtained a Master of Commerce from UNSW and has been certified as a PRINCE2 Practitioner. Mr Kwan was appointed Company Secretary on 26 September 2016.

10 PRINCIPAL ACTIVITIES

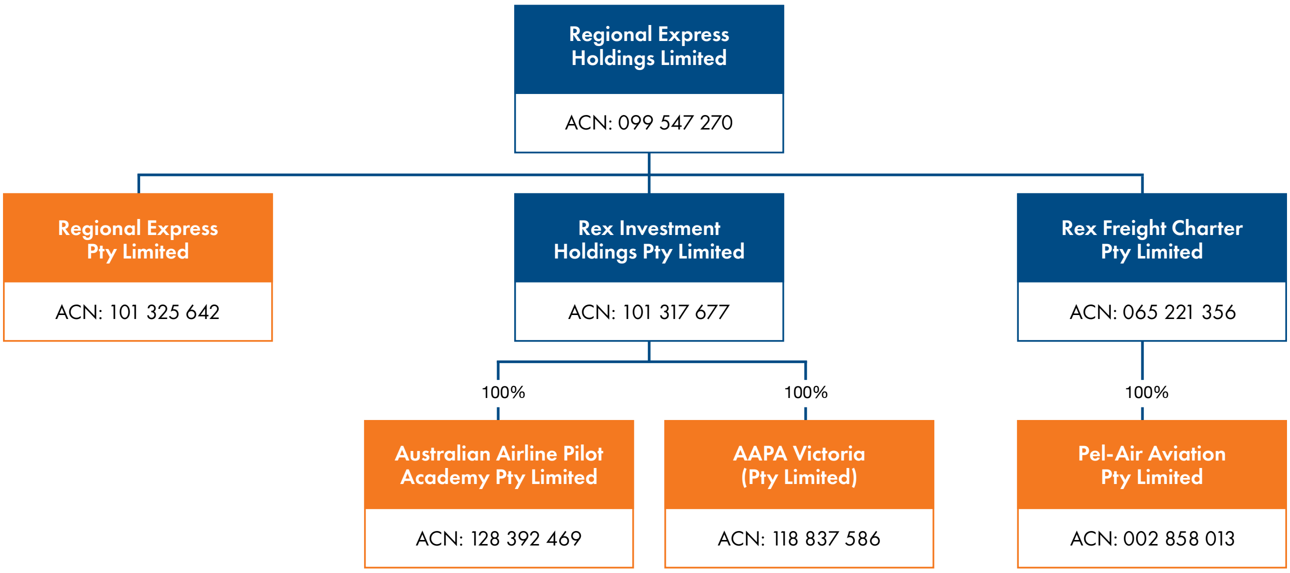
The Group's principal activity during the FY was the provision of air services principally for the transportation of passengers and freight.

11 ORGANISATION & GROUP STRUCTURES

REGIONAL EXPRESS AIRLINE ORGANISATION STRUCTURE



REGIONAL EXPRESS GROUP HOLDINGS STRUCTURE



Holds an Air Operator's Certificate (AOC)

12 REVIEW OF OPERATIONS

SUMMARY

At the commencement of FY20, the Rex regular public transport (RPT) network serviced 60 airports throughout all states of Australia. Also at the commencement of the reporting period, Rex had rolled-out its highly successful Rex Community Fare (CF) Scheme to the following 15 regional communities in partnership with the local councils:

1. Albany to Perth $139
2. Esperance to Perth $139
3. Broken Hill to Sydney and Melbourne $199, to Adelaide $139
4. Burnie to Melbourne $129
5. Moruya to Sydney $119
6. Parkes to Sydney $99
7. Mount Isa to Cairns $200
8. Orange to Sydney $109
9. Monkey Mia (Shark Bay) to Perth $157
10. Carnarvon to Perth $198
11. Mt Gambier to Adelaide and Melbourne $129
12. Griffith to Sydney $129
13. Narrandera-Leeton to Sydney $129
14. Mildura to Adelaide $128
15. Kangaroo Island to Adelaide $99

The CF Scheme is an initiative pioneered by Rex as a way to ensure fare affordability and to foster passenger growth. As a result of entering into new partnership agreements with local councils and airport owners, Rex further expanded the Rex Community Fare Scheme to the following communities in the 1H FY20:

16. Ceduna to Adelaide $149
17. Albury to Melbourne $99
18. King Island to Melbourne $99
19. Port Lincoln to Adelaide $109
20. Armidale to Sydney $119

21-40. All Queensland regulated route communities including Bedourie, Birdsville, Boulia, Burketown, Charleville, Cunnamulla, Doomadgee, Hughenden, Julia Creek, Longreach, Mount Isa, Normanton, Quilpie, Richmond, St George, Thargomindah, Townsville, Wellcamp (Toowoomba), Windorah and Winton.

The launch of the CF Scheme across the Queensland regulated route network was undertaken in partnership with the Queensland Government and most of the local councils and airport operators.

In the 2H FY20, the CF Scheme was withdrawn from Ceduna (SA) and Mt Gambier (SA) due to the termination of partnership agreements between Rex and the local councils triggered by COVID-19.

The CF Scheme has, however, played an extremely important role in assisting with the recovery of regional passenger numbers due to the COVID-19 pandemic and as a result, Rex extended the CF on the following routes during 4Q FY20:

- Albury to Sydney $128
- Bathurst to Sydney $99
- Ballina (Byron Bay) to Sydney $99
- Bamaga (NPA) to Cairns $199
- Dubbo to Sydney $128
- Grafton to Sydney $129
- Merimbula to Melbourne and Sydney $129
- Mildura to Melbourne $129
- Wagga Wagga to Melbourne $129 and Sydney $128
- Whyalla to Adelaide $109

This FY20 saw a sharp decline in the pilot attrition rate compared to the previous year due to the sudden drop in demand for domestic and international operations as a result of COVID-19. Internal training was wound back for 2H FY20 to match demand and the period under review saw 21 pilots upgraded to the rank of Captain, and 32 pilots checked to line as First Officers. The collapse of airlines locally and abroad has released a significant number of eligible pilots available for recruitment and Rex will capitalise on this opportunity to bolster pilot establishment numbers.

The Electronic Flight Bag (EFB) has received further enhancements tailored to match our operational requirements and provide efficiencies. The EFB and associated applications have allowed us to progressively remove hard copy manuals from the flight deck of our 60 strong Saab 340 fleet, which has translated into a reduction in man-power costs for the amending of technical manuals and a modest weight reduction which has resulted in fuel savings.

The Department of Home Affairs issued the Rex Group a five-year Labour Agreement in November 2019. The Labour Agreement will allow the Rex Group to recruit overseas Pilots, Aircraft Maintenance Engineers and Flight Instructors who satisfy prescribed immigration requirements. The Rex Group will continue to afford priority for skilled workers in Australia that meet the necessary requisites of the position required.

Australian Airline Pilot Academy (AAPA) Cadet Graduation

Graduating cohorts Rex022 (L) and Rex023 (R), pictured with Hon John Sharp AM, Rex Deputy Chairman (far left); Guest of Honour, the Hon Michael McCormack MP, Deputy Prime Minister (centre); and Chris Hine, AAPA Executive Chairman (far right).

MATERIAL RISK AND RISK MANAGEMENT

The Company recognises that it has a responsibility to conduct its activities in an environmentally and socially responsible manner. The Group's Environmental Management Program available on the Rex website details the Environmental Management Program (EMP), incorporating the Group's environmental policy, targets, prevention of pollution, management strategies to mitigate the risk of environmental impact and continuous environmental improvement (ASX Recommendation 7.4).

Like all Australian airlines, the Company is subject to economic risks. The Company identifies the following risks that could adversely affect the entity's prospects for future FYs (ASX Recommendation 7.1):

- Fuel price – The Group hedged part of its fuel requirements in FY20. The Group continues to closely monitor Brent Crude prices. The FY21 fuel requirement has been hedged.
- Foreign exchange rates – The Group's main financial risk is its exposure to the US dollar, and hence, its main objective is to minimise the impact of USD fluctuation on its operations. The Group will monitor the exchange rate closely and will hedge whenever the rates are favourable.
- COVID-19 impact - The Board and Senior Management took measures to reduce their costs to the company in response to the worsening trading conditions brought about by COVID-19. These measures included voluntary salary reductions, leave without pay and clearing of annual leave balances. Please refer to Note 4 to the Consolidated Financial Statements for further commentary.

The Company also faces the risk of pilot attrition in the long-term. This has been mitigated by the establishment of Rex's pilot cadet training programme which has been operating successfully from its pilot training academy AAPA in Wagga Wagga, NSW. More than half of the active pilot strength within Rex is made up of graduates from this programme.

ROUTE NETWORK DEVELOPMENTS

On 23 December 2019, Rex announced an increase in the number of Cape York services between Bamaga and Cairns with effect from 10 February 2020, after Skytrans exited the route in early January 2020. Rex increased its services from six to eight return services per week, adding a Monday afternoon and a Friday morning return services, representing a 33% increase in capacity, and approximately 6,000 additional seats per year. The increase was implemented in partnership with the Northern Peninsula Area Regional Council (NPARC).

Qantas announced on 17 January 2020 that it would mount services on the Sydney to Ballina route, with a launch date of 29 March 2020. The schedule of Qantas' new service directly targeted the only service that Rex operated between Sydney and Ballina (an early morning departure from Ballina and a late evening departure from Sydney). The Rex service had approximately 10,000 passengers annually, serviced by Rex with 18,000 annual seats. The additional 36,000 annual seats from QantasLink would mean the load factor would plummet to below 20% at these time slots.

On 31 January 2020, Rex raised an official complaint to the Australian Competition and Consumer Commission (ACCC) about Qantas' behaviour of dumping excessive capacity on routes that are already extremely marginal, with the impact of this conduct being to force out the smaller competitor and substantially lessen competition. As a result of this anti-competitive conduct, Rex announced that it would exit the Adelaide to Kangaroo Island and Sydney to Ballina routes.

Subsequently, Rex announced on 5 February 2020 that its services between Sydney and Ballina would cease from 29 March 2020, and on 10 February 2020 announced that its services between Kangaroo Island and Adelaide would cease from 1 July 2020.

In mid-March 2020 the Rex network was impacted by the COVID-19 outbreak, which came on the heels of the devastating bushfires and unprecedented and prolonged drought conditions. Following a significant reduction in passenger numbers, on 19 March 2020, Rex announced that it had finalised the first stage of network capacity reductions with effect from 6 April 2020. Under the first stage of decreased schedule frequency, Rex reduced capacity by 45% which included the suspension of the Adelaide to Mildura, Adelaide to Port Augusta, Sydney to Newcastle and Sydney to Armidale routes.

As passenger numbers continued to drastically fall because of the COVID-19 pandemic, Rex made the announcement on 23 March 2020 that it would be forced to shut down its entire expansive regular public transport (RPT) network in all states except Queensland, (where the services are regulated and underwritten by the Queensland Government), with effect from 6 April 2020 unless the Federal and State Governments were willing to underwrite the losses.

On 27 March 2020 the Hon Rita Saffioti MLA, Minister for Transport Western Australia, took the bold step to put in place an assistance package that would allow Rex to maintain a minimum reduced schedule for three months, until the end of June 2020. Minister Saffioti's assistance package was the very first intervention from any level of Government to facilitate the continued provision of minimum essential air services to link Albany, Esperance, Carnarvon and Monkey Mia (Shark Bay) to Perth. As a result of this critical support, Rex made a commitment to keeping its Western Australia services going for at least three months, albeit at a reduced schedule to match the significant drop in demand.

On 28 March 2020, the Deputy Prime Minister (DPM) and the Leader of the Nationals, the Hon Michael McCormack MP, announced a comprehensive regional aviation rescue initiative tailored to ensure that critical and essential regional aviation services continued to be provided amid the worst operating conditions the aviation industry has ever seen.

The two support programs announced for regional airlines were the Regional Airline Network Support (RANS) Program and the Regional Airline Funding Assistance (RAFA) program. The RANS Program supports a barebones minimum schedule and the RAFA Program is to assist regional carriers to overcome the sudden cash crunch brought about by the near drying up of all passenger demand and revenue. RAFA seeks to give regional carriers the best chance of staving off insolvency and going into administration.

Rex announced on 6 April 2020 that it was working with the Federal Government to develop a minimum barebones schedule which would be operated under the RANS program; and that it was also working with the Queensland and Western Australia State Governments on ways in which the states could provide assistance, in parallel to the RANS program, to ensure the best possible community and regional air service outcomes within Queensland and Western Australia.

On 8 April 2020, an agreement was reached between Rex and the Queensland Government for the provision of a reduced schedule, a variation on the existing service contract which encompasses the Northern 1 & Northern 2 routes from Townsville, the Western 1 & Western 2 routes from Brisbane, and the Gulf route linking Cairns to Mount Isa via the Gulf. The reduced schedule resulted in all of the Queensland regulated route communities receiving at least one return service a week.

On 20 April 2020, Rex signed a Commonwealth Grant Agreement under the COVID-19 RANS Program that had been announced by DPM, the Hon Michael McCormack, on 28 March 2020. Under the Grant Agreement, Rex receives funding to operate two to three return services a week to most destinations on the network.

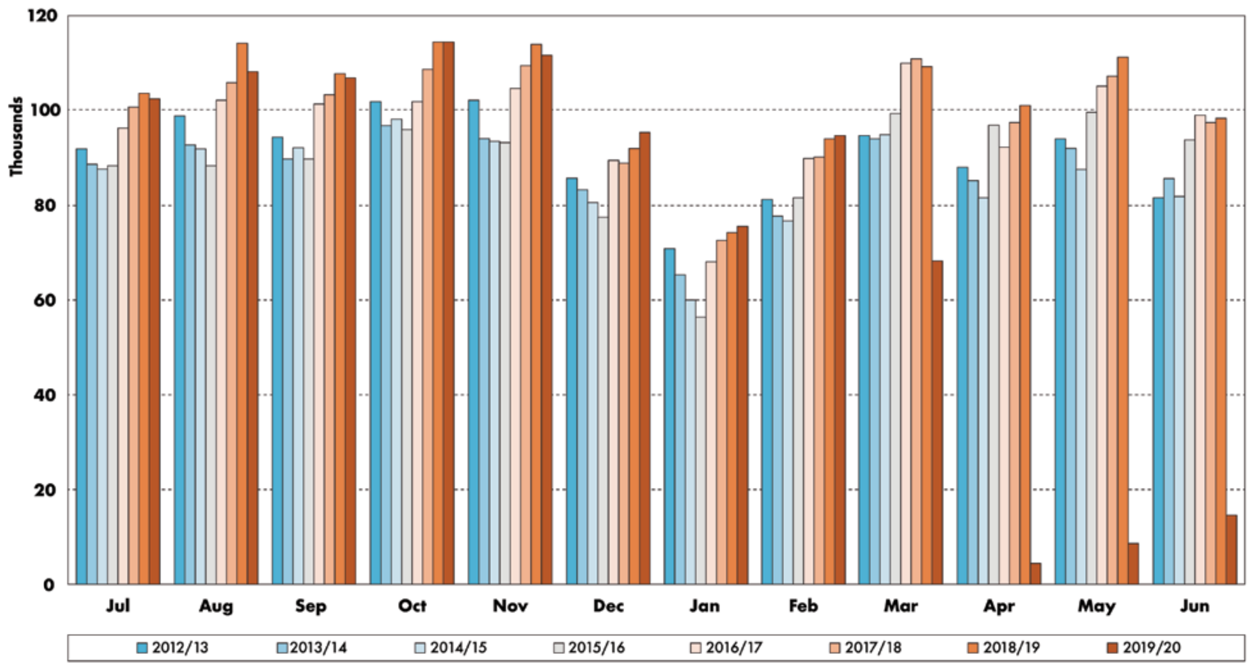
Rex announced a full list of ports and the frequency of Rex's weekly services that would operate under the RANS program, which in summary was 61 weekly return services on non-regulated routes, seven weekly return services on regulated Western Australia routes, and eight weekly return services on regulated Queensland routes, for a total of 76 weekly return services across the entire Rex network. Rex also continued to operate on the Adelaide to Kangaroo Island, and Sydney to Ballina routes, despite the earlier announcement to withdraw from these routes. This decision was made in the interests of providing a barebones minimum schedule to support the local communities doing it tough during the unprecedented pandemic.

Three State Governments, being Queensland, Western Australia and South Australia, also committed to funding additional services on top of what the Federal Government Programs provided. As a result of the continued work with the Federal Government and the three prior mentioned State Governments, on 29 April 2020, Rex announced that it had increased the number of total weekly return services from 76 to 88 under the various funding arrangements.

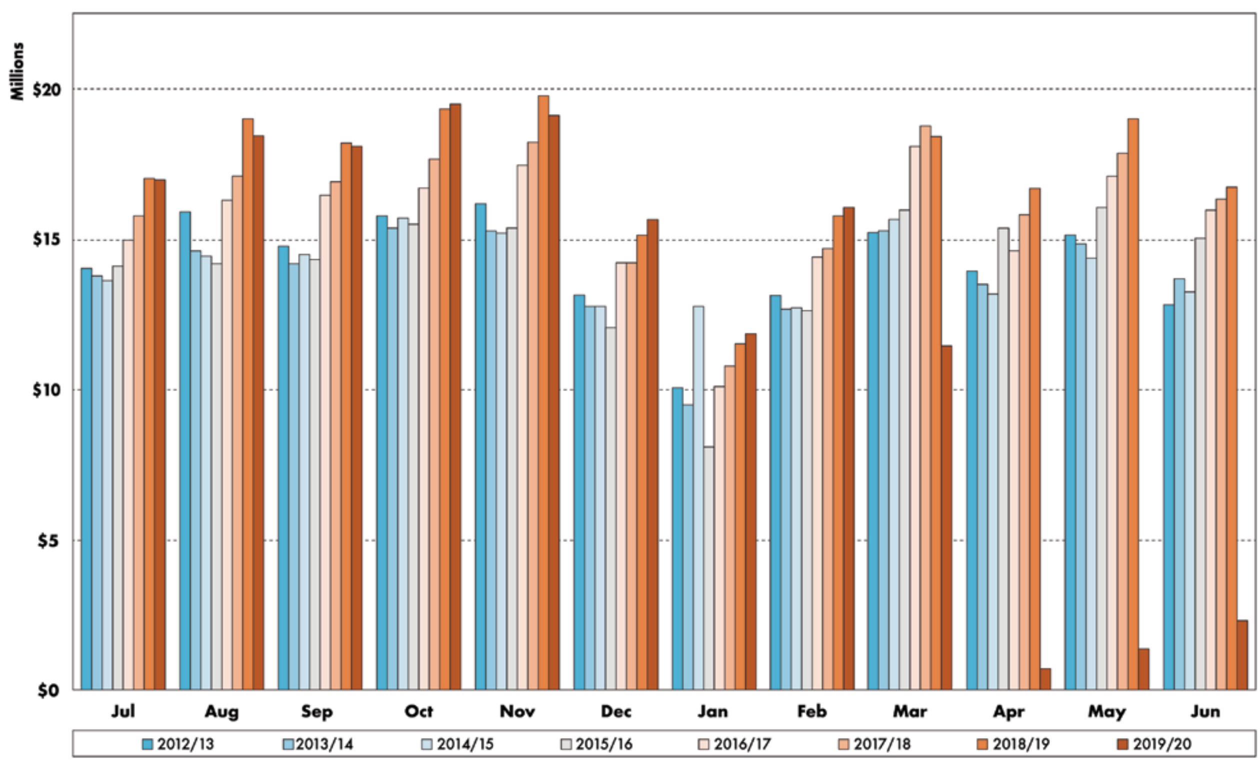
On 5 June 2020, Rex announced that it would increase its flying schedule in response to QantasLink more than doubling its flights on routes which compete with Rex. From 6 July 2020, Rex began to provide daily weekday return services on these competitive routes, with twice-daily return services on certain days to facilitate same-day return travel. The additional capacity was reluctantly added however Rex had no choice but to stand its ground, or risk losing market share which may not be recoverable when the market returns to pre-COVID levels.

The graphs below set out the evolution in monthly passenger carriage and monthly passenger revenue over the last eight FYs.

Monthly Passengers - Total Network



Monthly Revenue - Total Network



FLEET CHANGES

During 1H FY20, at the time of acquiring its wholly owned subsidiary, the Australian Airline Pilot Academy (Victoria) (AAPA Victoria Pty Ltd), formally known as ST Aerospace Academy (Australia) Pty Ltd, the Group acquired an aircraft fleet consisting of 14 Cessna 172s, five Piper Seminoles and one Cessna 152; with an additional two Piper Seminoles and three Cessna 172s on lease. The three Cessna 172 aircraft were subsequently returned. Further to this, the Group also acquired a King Air C90 in March of 2H FY20 for the purposes of High Performing Aircraft Training (HPAT).

ENTERPRISE AGREEMENTS (EA)

The Rex Flight Attendant, Engineers and Airline Services Enterprise Agreements remain in operation. Rex is in negotiations with the ramp and catering staff on a new Enterprise Agreement while the Rex Pilot Agreement is under renegotiation due to an unsuccessful vote on the Agreement.

Rex was granted a five -year Labour Agreement by the Department of Home Affairs in November 2019.

OPERATIONAL AND SERVICE STANDARDS

The measure for Operational and Service Standards is extracted from the Bureau of Infrastructure, Transport and Regional Economics (BITRE).

BITRE suspended its on-time performance reports, effective from April 2020. As such, the below results are derived from BITRE reports between July 2019 and March 2020.

In 1Q-3Q FY20, Rex recorded 83.75% on-time departure performance as reported by BITRE. This placed it first in on-time performance rankings, in comparison with all carriers (major and regional) in Australia. QantasLink and Virgin Australia Regional Airlines ranked second and third, respectively.

Over the same period, Rex's cancellation rate of 2.89%, ranked it third behind Virgin Australia Regional Airlines, and QantasLink, respectively. This follows six consecutive years of Rex recording the lowest cancellation rate of all Australian airlines.

Airline	On-Time Departure		Cancellation Rate (%)	
	Q1-Q3 FY20	FY 2019	Q1-Q3 FY20	FY 2019
rex. Regional Express	1st	2nd	2.89%	0.99%
QantasLink	2nd	1st	2.87%	1.62%
Virgin Australia Regional Airlines	3rd	5th	2.10%	2.13%
Qantas	5th	4th	4.33%	2.40%
Virgin Australia	4th	3rd	4.27%	1.96%
Jetstar	6th	6th	5.74%	2.52%
Tigerair	7th	7th	3.04%	4.29%

COMMUNITY INVOLVEMENT

During FY20 Rex contributed $290 thousand in sponsorships to worthy charitable and community causes across the network. Sponsorships were suspended during 4Q FY20 in consideration of the deteriorating business conditions arising from COVID-19.

Affirming that the Company's ethos '*Our Heart is in the Country*', remains as true as ever, Rex provided sponsorship to more than 100 worthy applicants - from corporate partnerships, cultural events and community fundraisers, to natural disaster relief and cases of personal hardship, including fare assistance for residents travelling to seek medical treatment.

Rex once again partnered with the Foundation for Rural & Regional Renewal (FRRR) in FY20. The FRRR is Australia's only national philanthropic foundation dedicated to rural and regional Australia. In light of the devastating bushfire crisis experienced during the summer, Rex undertook a fundraising campaign, collecting donations for the FRRR's Disaster Resilience and Recovery Fund, both in-flight and on the ground. The campaign raised more than $20 thousand for the FRRR. The FRRR has a long history of supporting disaster-affected communities, with funds going towards recovery efforts identified by the local communities as most pressing.

Some of the organisations, causes and events supported by Rex during FY20 were:

- Heart of Australia, Queensland
- Break the Drought Luncheon (Care Balonne Assoc Inc), St George, QLD
- A Woman's Calling (Empowering Women Empowering Communities), Doomadgee, QLD
- Can Assist, NSW
- Cooma Show (Cooma Pastoral and Agricultural Association), Cooma NSW
- 2020 New South Wales Regional Woman of the Year (WOTY) Award, Department of Family and Community Services
- Batemans Bay Volunteer Rural Fire Service Fundraiser (Eurobodalla Renal Support Group and Organ Donor Awareness), Moruya, NSW
- Therapy Work in Regional Aboriginal Preschools (Gunawirra), NSW
- Country Hope Annual Golf Day (Country Hope), Wagga Wagga, NSW
- New Year's Eve Carnival (Burnie Athletic Club Inc.), Burnie, TAS
- Tulip Festival Wynyard (Waratah Wynyard Council), Burnie, NSW
- Tunarama Festival (Port Lincoln Tunarama INC), Port Lincoln SA
- RIDBC Indigenous Outreach Program (The Royal Institute for Deaf and Blind Children), SA
- MSWA Albany Ride (MSWA), Albany, WA
- Children's Week Carnarvon (Gascoyne Early Years Network/ Every Where Travel), Carnarvon WA

Rex Airlines' Regional Woman of the Year finalists (including winner, Krystaal Hinds centre left); pictured with Donna Griffith, National Flight Attendant Manager, Rex Airlines (far left); and NSW Minister for Women, The Hon. Bronwyn Taylor MLC (centre right).

Passengers and crew from the Hound Dog Express, a special dedicated service bound for the Parkes Elvis Festival, of which Rex is a proud sponsor.

Staff and cadets from the Australian Airline Pilot Academy at Cancer Council's Relay for Life in Wagga Wagga.

Rex sponsors the Port Lincoln Tunarama Festival, home of Port Lincoln's World Famous Tuna Toss where men and women attempt to throw the rubberised fish the furthest to win the coveted title.

13 CHANGES IN STATE OF AFFAIRS

In November 2019, the Group acquired wholly owned subsidiary the Australian Airline Pilot Academy (Victoria) (AAPA Victoria Pty Ltd), formally known as ST Aerospace Academy (Australia) Pty Ltd.

Rex subsidiary Pel-Air Aviation was awarded the contract to provide Fixed Wing Patient Transport Services to New South Wales Ambulance in February 2020. The contract 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 NSW regional communities, with a 10-year operational phase beginning in January 2022.

Signing ceremony for the acquisition of the Australian Airline Pilot Academy Victoria (AAPA Victoria)

Rex Deputy Chairman, The Hon. John Sharp AM (front left) and STAA Executive Vice President, Aviation and Training Services, Goh Yong Kiat (front right) with Rex and ST Engineering dignitaries in attendance, including guest of honour, The Hon. Andrew Gee MP, Member for Calare and Assistant to the Deputy Prime Minister (rear, centre left).

14 SUBSEQUENT EVENTS

Subsequent to the year end there were further restrictions on movement as a result of increased cases of COVID-19 in a number of states in which the Group operates, particularly Victoria. The imposition of these lockdowns and border closures has had an effect on passenger demand of the Group's regular public transport (RPT) services, however as the majority of the Group's RPT services are intra-state the impact is largely limited to the restrictions within each state.

The key assumptions used in the impairment modelling as set out in Note 13 and the going concern forecast set out in Note 4 are largely in line with the actual passenger demand, and the impact in the financial year to date has been limited given that the Group's network in the affected states is supported by the Regional Airline Network Support (RANS) program.

In July 2020, having contractually committed to the project prior to March 2020, Rex completed modifications to an existing building located next to its Sydney head office which will house a Saab 340 Full Flight Simulator (FFS) owned by Ansett Aviation Training (AAT). The Sydney Simulator Flight Training Centre is now in readiness to accept the installation of the FFS. The Simulator Flight Training Centre has been designed to allow for future expansion and provisioning is in place for the installation of another type- specific aircraft FFS.

On the 21 September 2020, Rex signed a long-form term sheet with PAG Asia Capital for the investment of up to AUD150 million to be used exclusively to support the launch of Rex's domestic major city jet operations scheduled to commence on 1 March 2021.

The Funding is proposed to comprise first ranking senior secured convertible notes.

It is proposed that an initial Funding tranche of AUD50 million will be drawn on completion of the Transaction, targeted for the end of December 2020, with the balance of the Funding drawn over the following three years. The Funding is subject to completion of due diligence by PAG; to agreement and execution of long-form documentation; to customary conditions including Rex shareholder approval for the purposes of section 611 (Item 7) of the *Corporations Act 2001* (Cth) and the ASX Listing Rules, which is intended to be sought at Rex's Annual General Meeting that is tentatively scheduled for early December 2020; as well as to the Foreign Investment Review Board and any other required regulatory approvals. The terms of the Funding will also be reviewed by an independent expert.

The Notes will be convertible at AUD1.50 per share, subject to certain adjustments. Based on Rex's current issued share capital, if the AUD50 million tranche is fully converted into shares, PAG would hold approximately 23% of Rex's total issued shares and if the full AUD150 million is drawn down and fully converted, PAG would hold approximately 48% of Rex's issued shares.

Upon Completion, PAG will be entitled to nominate two directors to the Rex board.

On 29 September 2020 the Group signed Letters of Intent (LOIs) with two lessors for the lease of six Boeing 737-800 NG jets. The Group intends to lease these aircraft for the launch of domestic jet operations and expects to take delivery of the first jet on or around 1 November 2020.

The LOIs are non-binding apart from a refundable security payment and are subject to various conditions including the preparation and execution of lease agreements. The directors expect these aircraft will be deployed in the first phase of the launch of domestic jet operations which will see three aircraft deployed on 1 March 2021.

15 FUTURE DEVELOPMENTS

Rex will be expanding its Sydney Hangar over the next year to provide more space to support the Rex fleet including aircraft and personnel for the New South Wales Ambulance Contract. It will also be big enough to accommodate jets.

Rex is advancing its plans to commence domestic jet operations and is working both internally and externally with the relevant key stakeholders in preparation to launch domestic services on 1 March 2021. On the 21 September 2020, Rex signed a long-form term sheet with PAG Asia Capital for the investment of up to AUD150 million to be used exclusively to support the launch of Rex's domestic major city jet operations. The Funding is proposed to comprise first ranking senior secured convertible notes (see further details in Subsequent Events section).

The Funding is subject to the completion of due diligence by PAG; to agreement and execution of long-form documentation; to customary conditions including Rex shareholder approval for the purposes of section 611 (Item 7) of the *Corporations Act 2001* (Cth) and the ASX Listing Rules, which is intended to be sought at Rex's Annual General Meeting scheduled for early December 2020; as well as approval from the Foreign Investment Review Board and any other required regulatory approvals. The terms of the Funding will also be reviewed by an independent expert. Upon Completion, PAG will be entitled to nominate two directors to the Rex board.

16 ENVIRONMENTAL REGULATIONS

During FY20, Rex continued to be an active participant in programs aimed at maximising energy efficiency and reducing greenhouse gas emissions in accordance with the National Greenhouse Energy Reporting Act 2007 (NGER).

Rex is due to submit its 11th NGER report to the Clean Energy Regulator in October 2020.

17 DIVIDENDS

No final dividends will be paid out for FY20 due to the impact of COVID-19 on the operational and financial performance of the Group.

18 INDEMNIFICATION OF OFFICERS AND AUDITORS

During the FY, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretaries (as named above), and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the FY, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

19 REMUNERATION REPORT

REMUNERATIONS, NOMINATIONS AND DISCIPLINARY COMMITTEE

Rex's board of directors has established a Remunerations, Nominations and Disciplinary Committee for the purpose of determining and reviewing compensation arrangements for the directors and the senior management executives of the Group. This committee has a process for performance evaluation of the board, its committees and key executives of Rex. The committee's role is to assess the appropriateness of the nature and amount of remuneration of directors and senior management executives on a periodic basis.

REMUNERATION POLICY

Remuneration levels are set to enable Rex and its subsidiaries to attract and retain appropriately qualified and experienced directors and senior management executives, who will create sustainable value for shareholders and other stakeholders. They also fairly and responsibly reward directors and senior management, having regard to the performance of the Group, the performance of the individual and the external compensation environment.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, a distinction has been drawn between the remuneration structure of Rex's non-executive directors and that of its senior management executives. This enables Rex to maintain the independence of non-executive directors and reward senior management executives for their performance of duties and their dedication.

Rex has set in place a remuneration model for all staff, which calls for staff accepting a lower fixed annual salary increase in exchange for a profit share and a share plan.

PROFIT SHARE INCENTIVE PLAN

The profit share incentive scheme, established in FY06, continues to award eligible employees a share of Rex's profit before tax (PBT) based on an agreed percentage (excluding contributions from subsidiaries and associates) for the FY immediately preceding the award. The profit share is allocated on an equal share basis. Permanent part-time employees receive an amount proportional to their employment hours.

SHARE GIFT PLAN

Rex established the share gift plan (effective from FY06) for its executive directors and eligible employees. The plan is offered to EA groups that opt for the plan and all non-EA employees who are not the subject of an adverse recommendation by the Remunerations, Nominations and Disciplinary Committee. This plan is not based on any performance measures (other than eligibility for non-EA employees). The plan was established to show its recognition of employees' contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders. As such, the share gift plan entitles eligible employees to a fixed value of shares equivalent to a percentage of their base salaries. There are no vesting conditions attached to the share gift.

DIRECTOR AND SENIOR MANAGEMENT DETAILS

The following persons acted as directors of the Company during or since the end of the FY:

Lim Kim Hai (Chairman)

The Hon. John Sharp AM (Deputy Chairman)

Lee Thian Soo

Neville Howell

Chris Hine

James Davis

Prof. Ronald Bartsch

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the FY and since the end of the FY:

Neville Howell (Chief Operating Officer)

Warrick Lodge (General Manager, Network Strategy & Sales)

Irwin Tan (General Manager, Corporate Services / Company Secretary)

Mayooran Thanabalasingam (General Manager, Information Technology & Communications)

Png Yeow Tat (General Manager, Engineering)

Mark Burgess (Deputy General Manager, Engineering)

Paul Fisher (General Manager, Flight Operations & Chief Pilot)

David Brooksby (National Airports Manager)

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The directors and other nominated key management personnel received the following amounts as compensation for their services as directors and executives of the Company and/or the Group during the year:

		Short-term benefits		Post employment benefits	Long-term benefits	Share gift provision	
	FY	Cash salary & fees $	Cash profit sharing & other bonuses $	Pension & super-annuation $	Long service leave $	Share gift issued $	Total $
EXECUTIVE DIRECTORS							
LIM KIM HAI	2020	-	-	-	-	-	-
Executive Chairman	2019	-	-	-	-	-	-
CHRIS HINE	2020	139,362	14,794	14,645	2,785	2,199	173,785
Executive Director & Group Flight Operations Advisor	2019	139,887	1,388	13,421	2,749	2,158	159,603
NEVILLE HOWELL	2020	232,225	51,370	20,812	3,627	4,300	312,334
Executive Director & Chief Operating Officer	2019	229,419	51,735	20,441	3,581	4,200	309,376
NON-EXECUTIVE DIRECTORS							
JOHN SHARP	2020	114,461	-	10,874	-	-	125,335
Deputy Chairman	2019	107,307	-	10,194	-	-	117,501
LEE THIAN SOO	2020	28,615	-	-	-	-	28,615
Non-Executive Director	2019	30,000	-	-	-	-	30,000
RONALD BARTSCH	2020	33,385	-	3,171	-	-	36,556
Non-Executive Director	2019	35,000	-	3,325	-	-	38,325
JAMES DAVIS	2020	38,154	-	3,624	-	-	41,778
Non-Executive Director	2019	40,000	-	3,800	-	-	43,800
SENIOR MANAGEMENT EXECUTIVES							
WARRICK LODGE	2020	180,847	51,370	18,434	3,037	3,600	257,288
GM, Network Strategy & Sales	2019	179,164	51,735	18,232	2,998	3,500	255,629
IRWIN TAN	2020	188,834	51,370	18,864	3,037	3,600	265,705
GM, Corporate Services	2019	193,289	51,735	19,151	2,998	3,400	270,573
MAYOORAN THANABALASINGAM	2020	187,146	51,370	18,879	3,037	3,600	264,032
GM, IT and Communications	2019	185,317	51,735	18,692	2,998	3,500	262,242
PAUL DAVID FISHER	2020	205,553	52,775	20,203	5,161	4,076	287,768
GM, Flight Operations & Chief Pilot	2019	203,654	49,746	19,866	5,095	4,000	282,361
PNG YEOW TAT	2020	176,737	51,370	17,901	3,037	3,600	252,645
GM, Engineering	2019	177,012	51,735	18,102	2,998	3,400	253,247
MARK BURGESS	2020	135,972	29,409	14,828	3,603	2,846	186,658
Deputy GM, Engineering	2019	142,177	29,132	15,521	3,557	2,793	193,180
DAVID BROOKSBY	2020	164,522	51,370	17,219	2,615	3,100	238,826
National Airports Manager	2019	161,380	51,735	19,215	2,581	2,800	237,711
TOTAL	2020	1,825,813	405,198	179,454	29,939	30,921	2,471,325
	2019	1,823,606	390,676	179,960	29,555	29,751	2,453,548

RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

In addition to the profit share and share gift schemes that apply to all non-EA staff, a Key Manager bonus, fixed by the Remunerations, Nominations and Disciplinary Committee, was given to selected members of executive management based on an assessment of the recipient's performance during the year.

The tables below set out summary information about the Group's results and movements in shareholder wealth for the five years to June 2020:

	30 June 2020 $'000	30 June 2019 $'000	30 June 2018 $'000	30 June 2017 $'000	30 June 2016 $'000
Revenue	321,820	317,649	295,536	280,967	261,906
Net profit / (loss) before tax	(27,416)	25,201	25,075	17,810	(10,703)
Net profit / (loss) after tax	(19,397)	17,517	16,913	12,620	(9,557)

	30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016
Share price at start of year	$1.37	$1.46	$1.04	$0.77	$1.04
Share price at end of year	$1.19	$1.42	$1.43	$1.11	$0.77
Interim dividend	-	$0.04	$0.04	-	-
Final dividend [1, 2]	-	$0.08	$0.08	-	-
Basic earnings / (loss) per share	(17.8 cps)	16.1 cps	15.7 cps	11.7 cps	(8.8 cps)
Diluted earnings / (loss) per share	(17.8 cps)	16.1 cps	15.7 cps	11.7 cps	(8.8 cps)

[1] The final dividend is per share fully franked and after corporate tax of 30%.

[2] Declared after the balance date and reflected in the financial statements of the year of payment.

KEY TERMS OF EMPLOYMENT CONTRACTS

Employment contracts between the senior management executives and the Group do not have a specified duration. A notice of four weeks must be given for senior management executives to terminate their contract. There are no extraordinary termination payments set out in the contracts of the senior management executives of the Group.

KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS

The following table details the shareholdings (total of direct and indirect shareholdings) of directors and key management personnel in the Group:

	Balance at 1 July 2019	Increase / (Decrease) during the year	Balance at 30 June 2020
Directors:			
Lim Kim Hai	24,753,859	-	24,753,859
The Hon. John Sharp	325,032	-	325,032
Lee Thian Soo	11,449,362	-	11,449,362
Neville Howell	27,936	(1,750)	26,186
Chris Hine	77,855	1,560	79,415
James Davis	200,866	-	200,866
Key management personnel:			
Warrick Lodge	160,848	2,553	163,401
Irwin Tan	36,562	2,553	39,115
Mayooran Thanabalasingam	89,210	2,553	91,763
Paul Fisher	46,240	2,891	49,131
Png Yeow Tat	29,903	2,553	32,456
Mark Burgess	23,467	2,018	25,485
David Brooksby	23,519	2,199	25,718

During the financial year, no options were granted to (2019: nil), nor exercised (2019: nil) by key management personnel for ordinary Rex shares. No options remained unpaid or to be exercised at the year-end.

Loans have been provided to two key management personnel totalling $91,799 which were issued in prior years. There have been no changes to the principal amount of the loans and interest paid during the year was $4,776.

20 PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought on behalf of the Group, nor has any application been made in respect of the Group under s.237 of the *Corporations Act 2001*.

21 NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 27 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in Note 27 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

22 ROUNDING OFF AMOUNTS

In accordance with Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial statements, amounts in the financial statements have been rounded to the nearest hundred thousand dollars in accordance with that Legislative instrument, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.298 (2) of the *Corporations Act 2001*.

On behalf of the Directors,

Neville Howell
Chief Operating Officer
Sydney, 30 September 2020

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Regional Express Holdings Limited
81 – 83 Baxter Road
MASCOT NSW 2020

30 September 2020

Dear Board Members

Regional Express Holdings Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Regional Express Holdings Limited.

As lead audit partner for the audit of the financial report of Regional Express Holdings Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Damien Cork
Partner
Chartered Accountants

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CORPORATE GOVERNANCE STATEMENT

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CORPORATE GOVERNANCE STATEMENT

The Board is committed to sound corporate governance to ensure shareholder expectations are met and that Regional Express Holdings (the Company) is in compliance with the Australian Securities Exchange (ASX) Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Recommendations).

As required by the ASX Listing Rules this statement sets out the extent to which the Company has complied with the ASX Recommendations during the FY to 30 June 2020 and identifies any of the ASX Recommendations not followed and the reason why the Company has not adopted the ASX Recommendations. This statement adopts the ordering and numbering of the ASX Recommendations. The Board acknowledges the revised ASX Recommendations set out in the 4th Edition of the Corporate Governance Principles and Recommendations in February 2019, the revised ASX Recommendations has been partially implemented in FY20 and will be fully effective in FY21.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board has adopted a charter that details the roles and responsibilities of the Board and those of the Management Committee to achieve the objectives of delivering shareholder value. The Board regularly reviews the division of functions between the Board and management to ensure that it continues to be appropriate to the needs of the company (ASX Recommendation 1.1). The Remunerations, Nominations and Disciplinary Committee undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director. The biography of each director standing for election or re-election is expressly mentioned in the Notice of Meeting of the company's AGM (ASX Recommendation 1.2). The Directors and Management Committee have a clear understanding of their roles and responsibilities and of the company's expectations of them as set out in their employment contracts (ASX Recommendation 1.3). The Company Secretaries are integral in advising the Board and its committees on governance matters, ensuring that board and committee policy and procedures are followed, and helping to organise and minuting discussions of board and committee meetings (ASX Recommendation 1.4).

The performance of each Management Committee member is evaluated against goals and objectives with the assistance of the Remunerations, Nominations and Disciplinary Committee. The performance of the Management Committee was reviewed in FY20 (ASX Recommendation 1.7). The performance of the Directors and Board Committees are reviewed periodically with the assistance of the Remunerations, Nominations and Disciplinary Committee. The performance and the composition of the Board Committees were reviewed in FY20 (ASX Recommendation 1.6).

The Board's Charter, Board Committee Charters, Share Trading Policy, Continuous Disclosure Policy and Code of Conduct are available for access by shareholders and the general public in the corporate governance section of the Company's website (ASX Recommendation 3.5).

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The **Remunerations, Nominations and Disciplinary Committee** has been established by the Board of the Company (ASX recommendation 2.1) and applies to the Company and its subsidiaries to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by endeavouring to ensure that:

- the directors and senior management of the Group are remunerated fairly and appropriately;
- the Group's remuneration policies and outcomes strike an appropriate balance between the interests of the Company's shareholders, and rewarding and motivating the Group's executives and employees in order to secure the long term benefits of their energy and loyalty;
- the human resources policies and practices are consistent with and complementary to the strategic direction and objectives of the Company as determined by the Board;
- it reviews and advises the Board on the composition of the Board and its Committees;
- it reviews the performance of the Board, the chairman of the Board, the executive and non-executive directors, and other individual members of the Board; and
- proper succession plans are in place for consideration by the Board.

This Committee is chaired by James Davis and has one other member, the Hon. John Sharp AM. The Committee had one meeting during the FY attended by all members of the Committee. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report.

The Board acknowledges the ASX recommendations to have the Committee compose of a majority of independent directors and have at least three members. The Committee is currently made up of two independent directors. The Board feels at this stage that two members are sufficient for the Remunerations, Nominations and Disciplinary Committee given the size of the Company and Board.

The Remunerations, Nominations and Disciplinary Committee has a formal charter which is available on the Company's website.

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are set out in the Director's' Report.

Below is the Rex Board skills matrix outlining the list of skills that the board currently has (ASX Recommendation 2.2):

		LIM KIM HAI	JOHN SHARP	LEE THIAN SOO	RONALD BARTSCH	JAMES DAVIS	CHRIS HINE	NEVILLE HOWELL
BUSINESS / ENTREPRENEURIAL EXPERIENCE		X	X	X	X			
POLITICAL EXPERIENCE			X					
CORPORATE GOVERNANCE		X	X	X	X			
SAFETY AND RISK MANAGEMENT					X	X	X	X
FINANCE		X						
LEGAL					X			
INDUSTRY EXPERI-ENCE	REGULATORY KNOWLEDGE & EXPERIENCE				X	X	X	X
	PILOT		X		X	X	X	X
	ENGINEERING KNOWLEDGE	X				X		

The membership of the Board during the year ended 30 June 2020, including independence status, was as follows (ASX Recommendation 2.3):

Director	Status	Date of Appointment
Lim Kim Hai	Executive Chairman	Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012, 27 November 2015 and 21 November 2018.
The Hon. John Sharp AM	Deputy Chairman & Independent Director	Appointed 14 April 2005 and re-appointed 19 November 2008, 23 November 2011, 27 November 2013, 29 November 2016 and 21 November 2019
Lee Thian Soo	Non-Executive Director	Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012, 27 November 2015 and 21 November 2018.
Neville Howell	Chief Operating Officer & Executive Director	Appointed 1 July 2014 and re-appointed 26 November 2014, and 21 November 2017.
Chris Hine	Executive Director & Group Flight Operations Advisor	Appointed 1 March 2011 and re-appointed 23 November 2011 as Executive Director. Appointed 26 November 2014 as Non-Executive Director. Appointed 18 May 2015 as Executive Director and Group Flight Operations Advisor, re-appointed 21 November 2017.
James Davis	Independent Director	Appointed 26 August 2004 as Executive Director and re-appointed 23 November 2011 and re-appointed as Independent Director 26 November 2014 and 21 November 2017.
Ronald Bartsch	Independent Director	Appointed 23 November 2010 and re-appointed 23 November 2011.26 November 2014, and 21 November 2017.

The Board acknowledges the ASX Recommendation that a majority of the Board should be independent directors (ASX Recommendation 2.4). Although the Board has only three directors out of seven that qualify as independent non-executive directors, Lee Thian Soo is only considered non-independent by virtue of his share ownership and is considered by the Board to be effectively an independent Director. The Board believes that every director on the current Board will make decisions in the best interests of all shareholders and in accordance with their duties as directors.

The Board also acknowledges that it is desirable that the Chairman be an independent director and for his role to be segregated from that of the Chief Executive Officer (ASX Recommendations 2.5). However, the Board views the Chairman's history of leadership of the Company as an advantage, both at the management level and at the Board level. This has resulted in performance that matches the best airlines in the world. The Board acknowledges that if the Chair is not an independent director, the Deputy Chairman should be an independent director, which is the case.

The Board is responsible for the management of the affairs of the Company and its subsidiaries (the Group), including:

(A) STRATEGIC AND FINANCIAL PERFORMANCE

- Developing and approving the corporate strategy.
- Evaluating, approving and monitoring the strategic and financial plans and objectives of the Group.
- Evaluating, approving and monitoring the annual budgets and business plans.

- Determining the Company's dividend policy, the operation of the Company's dividend re-investment plan (if any), and the amount and timing of all dividends.
- Evaluating, approving and monitoring major capital expenditure, capital management and all major acquisitions, divestitures and other corporate transactions, including the issue of securities of the Company.
- Approving all accounting policies, financial reports and material reporting and external communications by the Group.
- Appointment of the Chairman of the Company.

(B) EXECUTIVE MANAGEMENT

- Appointing, monitoring and managing the performance of the Chief Operating Officer or Managing Director and other executive directors.
- Managing succession planning for the executive directors and such other key management positions which may be identified from time to time.
- Appointing the Company Secretary.
- With the advice and assistance of the Remunerations, Nominations and Disciplinary Committee, reviewing and approving the performance and remuneration of the individual Board members and policies with respect to the remuneration of any employees.

(C) AUDIT

- Upon the recommendation of the Audit and Corporate Governance Committee, appointing the external auditor and determining its remuneration and terms of appointment.
- Ensuring that effective audit and regulatory compliance programmes are in place to protect the Group's assets and shareholder value.
- Approving and monitoring the Group's audit framework. Approving and, with the assistance and advice of the Audit and Governance Committee, monitoring compliance with the Group's audit policies and protocol.
- Monitoring the Group's operations in relation to, and compliance with relevant regulatory and legal requirements.

(D) CORPORATE GOVERNANCE

At least once every two years the Board will, with the assistance and advice of the Audit and Corporate Governance Committee, review the performance and effectiveness of the Company's corporate governance policies and procedures and, if appropriate, amend those policies and procedures as necessary.

The Board will review and approve all disclosures related to any departures from the ASX Principles of Good Corporate Governance.

- The Board will review and approve the public disclosure of any of the Group's policies and procedures.
- The Board will supervise the public disclosure of all matters that the law and ASX Listing Rules require to be publicly disclosed, consistent with the Continuous Disclosure Compliance Policy approved by the Board.
- The Board will approve the appointment of directors to committees established by the Board.
- The Board will approve and monitor delegations of authority.

(E) RISK MANAGEMENT

The Company recognises that the management of business and economic risk is an integral part of its operations and has for many years integrated risk management processes into its operations to ensure continuity of the business and to minimise any impact on its performance. The Board has established a sound system of risk oversight and management and internal control which involve the Safety and Risk Management Committee and the Audit and Corporate Governance Committee.

- Ensuring that effective risk management programmes are in place to protect the Group's assets and shareholder value.
- Approving and monitoring the Group's risk framework, including (but not limited to) systems of risk management and internal control.
- Approving and, with the assistance and advice of the Risk Management Committee, monitoring compliance with the Group's risk.

The Charters of both committees are available on the Company's website.

(F) STRATEGIC PLANNING

- The Board will be actively and regularly involved in strategic planning.
- Strategic planning will be based on the identification of opportunities and the full range of business risks that will determine which of those opportunities are most worth pursuing.
- The Board will, on an ongoing basis, review how the strategic environment is changing, what key business risks and opportunities are appearing, how they are being managed and what, if any, modifications in strategic direction should be adopted.

(G) PERFORMANCE EVALUATION

- At least once per year the Board will, with the advice and assistance of the Remunerations, Nominations and Disciplinary Committee, review and evaluate the performance of the Board, each Board Committee, and each individual director against the relevant Charters, corporate governance policies, and agreed goals and objectives (ASX Recommendation 2.5).
- Following each review and evaluation the Board will consider how to improve its performance.
- The Board will agree and set the goals and objectives for the Board and its Committees each year, and if necessary, amend the relevant Charters and policies.
- With the advice and assistance of the Remunerations, Nominations and Disciplinary Committee, the Board will review and approve the remuneration of the Company's executive and non-executive directors.

The evaluation of the Board, its committees and directors was carried out during the FY as set out above.

A Director of the Company is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures and subject to the conditions set out in the Board Charter.

The Board believes that its members have the appropriate skill set and knowledge to effectively perform their roles as directors without requiring further professional development. Our board members have a vast wealth of experience in the aviation industry and beyond as a majority of them have aircraft pilot qualifications.

The Company has a program for inducting new Directors.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Directors and the Management Committee are required to maintain the highest legal, moral and ethical standards of conduct. The Board has adopted the Code of Conduct which provides guidance to all staff on compliance with legal and other obligations (ASX Recommendation 3.1).

The Company has established a Share Trading Policy (ASX Recommendation 1.3). Under this policy, Directors and Management Committee are prohibited from trading in securities of the Company without prior approval from the Board.

The Company employs all staff on their merits and is committed to recognising and valuing the contributions of staff from diverse backgrounds. The Company has established a Diversity Policy (ASX Recommendation 1.5).

The Company does not believe in an affirmative action policy and setting of artificial targets for staff of various backgrounds (gender, religious, cultural, racial etc.) but rather in ensuring that all staff are able to develop to the full extent of their capabilities and contributions.

In accordance with the requirements of the Workplace Gender Equality Act 2012 (Act), Regional Express Holdings Limited lodged its annual public report (2019 - 2020) with the Workplace Gender Equality Agency (Agency). The Company was compliant as reported by the Agency.

As at the end of the reporting period, the proportion of female employees in the Company was 32.3%. There were 15 women holding management positions in the Company. There were no female Board members or Management Committee members.

To access a copy of the report refer to the Rex website under Corporate and Social Responsibilities.

Details on the reporting process can be located at the Workplace Gender Equality Website: www.wgea.gov.au.

The Code of Conduct, Share Trading Policy and Diversity Policy are available on the Company's website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The **Audit and Corporate Governance Committee** has been established by the Board of the Company (ASX recommendation 4.1) to assist the Board in fulfilling its commitment to ensure the integrity of the Company's financial reports and Corporate Governance policies:

- assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control relating to all matters affecting the Group's financial performance, the audit process, and the Company's process for monitoring compliance with laws and regulations and the code of conduct;
- advising the Board on good governance standards and appropriate corporate governance policies for the Group; and

- critically reviewing the Group's performance against its corporate governance policies.

In FY20, this Committee was chaired by the Hon. John Sharp AM and has one other member, James Davis. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report. The Committee had two meetings during FY20 attended by all then-current members of the Committee.

The Board acknowledges the ASX recommendations to have the Committee composed of a majority of independent directors, chaired by an independent director and have at least three members (ASX Recommendation 4.1).

The Committee is currently made up of two non-executive directors of which both are independent. The Board feels that the directors in the audit committee will make decisions that are in the best interests of the shareholders in their duties as audit committee members and directors of the company. The Board also feels at this stage that two members are sufficient for the audit committee given the size of the company and Board.

The Audit and Corporate Governance Committee has a formal Charter which is available on the Company's website (ASX Recommendation 4.1).

The Chief Operating Officer and the General Manager (GM) Corporate Services who oversees the finance department, provide written assurance to the Board as to the integrity of the financial statements and that they are founded on a sound system of risk management and internal controls which are operating effectively and efficiently (ASX Recommendation 4.2).

The Board acknowledges the ASX Recommendation to have the Chief Executive Officer and Chief Financial Officer provide this statement to the Board. The Board believes that it is appropriate for Chief Operating Officer and GM Corporate Services to provide the statement.

The directors have ensured that the Company's External Auditor attends all Annual General Meetings and is available to answer shareholders' questions about the conduct of the audit and the preparation and content of the Auditor's report thereon (ASX Recommendation 4.3).

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company complies with the continuous disclosure obligations of the ASX Listing Rules and, in doing so, immediately notifies the market of any material price sensitive information. The Company has adopted and implemented a Continuous Disclosure Policy which sets out the procedure for the identification of material price sensitive information and reporting of such information to the company secretaries for review (ASX Recommendation 5.1). The Continuous Disclosure Policy is available on the Company's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

It is the Company's policy that the principal communication with shareholders apart from the Company website is the provision of the Annual Report, including the Financial Statements, half-yearly investor briefings and the Annual General Meeting (and any extraordinary meetings held by the Company). Shareholders are encouraged to participate in half-yearly investor briefings either by attendance or by dialling in through the Company's teleconferencing facilities and are invited to put questions to the Chairman of the Board in that forum (ASX Recommendation 6.3). The Company's website provides additional information and greater detail about the Company, including ASX and media releases and access to statements regarding corporate governance related matters (ASX Recommendation 6.1).

The Board acknowledges the ASX recommendation of facilitating effective two-way communication with investors. Shareholders are able to contact the company through the company secretaries (ASX Recommendation 6.2).

The Company acknowledges that some security holders prefer the speed, convenience and environmental friendliness of electronic communications over more traditional methods of communication. To this end, the Company provides its security holders with the option of receiving either a hard or soft copy of its annual report and notice of meeting for its Annual General Meeting (ASX Recommendation 6.4).

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Company has integrated risk management processes into its operations to ensure continuity of the business and to minimise any impact on its performance.

The Board has established policies for a sound system of risk oversight and management and internal control which involve the Safety and Risk Management Committee (Recommendation 7.1).

The Safety and Risk Management Committee has been established by the Board of the Company and applies to the Company and its subsidiaries to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by:

- assisting the Board in fulfilling its development, oversight and review responsibilities for the safety culture and safety management processes as defined by the separate safety policies published for each Air Operator's Certificate holder within the Group; and
- implementing and supervising the Group's operational risk assessment framework.

The Board acknowledges the ASX recommendation to have the Committee composed of a majority of independent directors and chaired by an independent director and have at least three members (ASX Recommendation 7.1).

The Committee is currently made up of one independent director and one executive director. The Board feels that the directors in the Safety and Risk Management Committee will make decisions that are in the best interests of the shareholders in their duties as Safety and Risk Management Committee members and directors of the company. The Board also feels at this stage that two members are sufficient for the Safety and Risk Management Committee given the size of the company and Board.

The Safety and Risk Management Committee has a formal Charter which sets out the responsibilities of the Committee as well as the Company's policies on risk oversight and management. The Charter is available on the Company's website.

The Board reviews the safety and risk management report prepared by the Group's Safety Manager at each Board meeting (ASX Recommendation 7.2).

Being an airline, Rex is required by the Civil Aviation Safety Authority to have a safety and compliance department. Staffed by approximately 15 full-time equivalent employees, this department conducts internal audits of all Rex's operations including flight operations, engineering and airport operations. The head of this department, the GM Human Factors, has a direct reporting line to the Board and Chairman (ASX Recommendation 7.3).

The Company has outlined its main material risk sources that could adversely affect the entity's prospects for future FYs and has explained how these risks are managed in the Directors' Report (ASX Recommendations 7.1 and 7.4).

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remunerations, Nominations and Disciplinary Committee. The membership, responsibilities and number of meetings held have been set out under Principle 2. Also set out under Principle 2 is the explanation as to why the membership of the Committee differs from the ASX Recommendations.

Details of the Board and Management Committee remuneration structures are contained in the Remuneration Report (ASX Recommendation 8.2 and 8.3).

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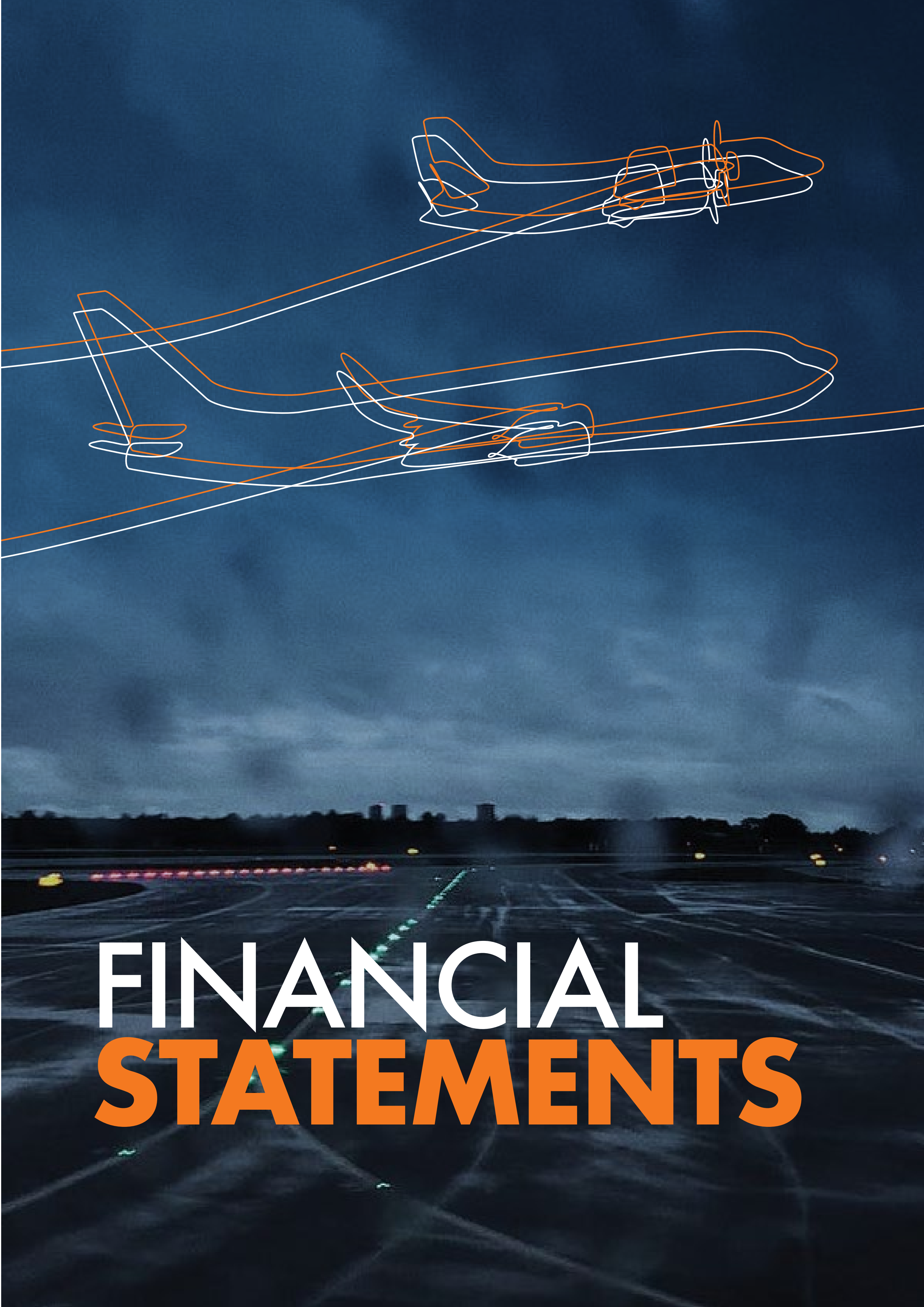

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE FINANCIAL YEAR ENDED JUNE 2020

	Note	2020 $'000	2019 $'000
Passenger revenue		213,156	278,433
Freight revenue		1,326	1,505
Charter revenue		29,721	28,515
Other passenger services and amenities		1,188	1,279
Other revenue	5	14,334	7,917
Revenue from contracts with customers		259,725	317,649
Government grants and subsidies	4	62,095	-
Total revenue		**321,820**	**317,649**
Finance income	5	**556**	**895**
Other (losses) / gains	5	**(824)**	**1,111**
Flight and port operation costs (excluding fuel)		(49,373)	(57,829)
Fuel costs		(35,801)	(42,508)
Salaries and employee-related costs	5	(103,938)	(112,238)
Selling and marketing costs		(6,686)	(8,797)
Engineering and maintenance costs		(56,233)	(46,110)
Office and general administration costs		(8,684)	(7,838)
Finance costs	5	(850)	(1,956)
Depreciation and amortisation	5	(21,932)	(17,178)
Asset impairment	5	(62,084)	-
Fair value on fuel swaps	24 (D)	(3,387)	-
Total costs and expenses		**(348,968)**	**(294,454)**
(Loss) / profit before tax		**(27,416)**	**25,201**
Tax benefit / (expense)	6	8,019	(7,684)
(Loss) / profit after tax		**(19,397)**	**17,517**
(Loss) / profit attributable to			
Members of the parent		(19,397)	17,517
		(19,397)	**17,517**
(Loss) / earnings per share		cents per share	cents per share
Basic	17	(17.8)	16.1
Diluted	17	(17.8)	16.1

Notes to the financial statements are included on pages 47 to 90.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OR LOSS

FOR THE FINANCIAL YEAR ENDED JUNE 2020

	Note	2020 $'000	2019 $'000
(Loss) / profit after tax		**(19,397)**	**17,517**
Other comprehensive (loss) / income			
Hedge reserve			
Revaluation of cash flow hedges	16	(5,176)	360
Income tax effect	16	1,553	(108)
Other comprehensive (loss) / income, net of tax		**(3,623)**	**252**
Total comprehensive (loss) / income		**(23,020)**	**17,769**

Notes to the financial statements are included on pages 47 to 90.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and bank balances	23 (A)	11,198	21,727
Trade and other receivables	7	18,353	16,674
Inventories	8	8,410	13,439
Other financial assets	24	40	360
Total current assets		**38,001**	**52,200**
Non-current assets			
Other receivables	7	7,114	6,679
Inventories	8	11,303	8,055
Investments - fair value through equity		9	9
Deferred tax assets	6	22,537	1,897
Property, plant and equipment	9		
Aircraft		92,272	89,178
Other property, plant and equipment		80,145	114,100
Right-of-use assets	9	1,283	-
Goodwill and other intangible assets	10	181	731
Total non-current assets		**214,844**	**220,649**
Total assets		**252,845**	**272,849**
Current liabilities			
Trade and other payables	11	19,483	20,939
Unearned revenue	12	16,027	24,502
Interest bearing liabilities	13	14,220	3,852
Lease liabilities	13	130	-
Provisions	14	8,117	9,217
Current tax payable	6	7,689	2,452
Other financial liabilities	24	6,255	-
Total current liabilities		**71,921**	**60,962**
Non-current liabilities			
Interest bearing liabilities	13	-	4,220
Lease liabilities	13	2,329	-
Provisions	14	2,949	2,248
Other financial liabilities	24	1,988	-
Total non-current liabilities		**7,266**	**6,468**
Total liabilities		**79,187**	**67,430**
Net assets		**173,658**	**205,419**
Equity			
Issued capital	15	72,024	72,024
Reserved shares	16	(628)	(1,163)
Retained earnings		102,660	131,165
Share-based payments reserve	16	1,383	1,551
Other reserves	16	(1,781)	1,842
Total equity		**173,658**	**205,419**

Notes to the financial statements are included on pages 47 to 90.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED JUNE 2020

	Note	2020 $'000	2019 $'000
Receipts from customers		275,594	344,970
Proceeds from government grants and subsidies		64,318	-
Payments to suppliers, employees and others		(292,909)	(299,417)
Interest paid		(850)	(1,056)
Income tax paid		(5,311)	(11,456)
Net cash flows from operating activities	23 (B)	**40,842**	**33,041**
Interest received		556	895
Proceeds from disposal of property, plant and equipment		27	2,403
(Payments for acquisition) / proceeds from disposal of business	22	(8,650)	908
Payments for aircraft for tendered contract		(21,845)	-
Payments for property, plant and equipment - aircraft and other		(17,747)	(18,002)
Payments for other intangible assets - software		(127)	(28)
Net cash flows used in investing activities		**(47,786)**	**(13,824)**
Dividends paid		(8,725)	(13,027)
Shares purchased as reserve shares		(623)	-
Lease liabilities paid		(385)	-
Repayment of interest bearing liabilities – non-related parties		(20,375)	(8,482)
Proceeds from interest bearing liabilities – non-related parties		26,523	-
Net cash flows used in financing activities		**(3,585)**	**(21,509)**
Net decrease in cash held		**(10,529)**	**(2,292)**
Cash at the beginning of the financial year		**21,727**	**24,019**
Cash at the end of the financial year	23 (A)	**11,198**	**21,727**

Notes to the financial statements are included on pages 47 to 90.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED JUNE 2020

	Attributable to equity holders of the Company						
	Issued capital $'000	Reserved shares $'000	Retained earnings $'000	Share-based payments reserve $'000	Cash flow hedge reserve $'000	General reserve $'000	Total equity $'000
At 1 July 2018	**72,024**	**(2,256)**	**126,521**	**1,605**	**-**	**1,590**	**199,484**
Adjustment on adoption of AASB 15 Revenue	-	-	154	-	-	-	154
Restated balance at 1 July 2018	72,024	(2,256)	126,675	1,605	-	1,590	199,638
Profit for the year	-	-	17,517	-	-	-	17,517
Other comprehensive income, net of tax	-	-	-	-	252	-	252
Total comprehensive income	-	-	17,517	-	252	-	17,769
Dividends paid	-	-	(13,027)	-	-	-	(13,027)
Share gift issued - gift	-	1,093	-	(1,093)	-	-	-
Share gift plan provision transfer	-	-	-	(277)	-	-	(277)
Share gift plan provision	-	-	-	1,316	-	-	1,316
At 30 June 2019	**72,024**	**(1,163)**	**131,165**	**1,551**	**252**	**1,590**	**205,419**
At 1 July 2019	**72,024**	**(1,163)**	**131,165**	**1,551**	**252**	**1,590**	**205,419**
Adjustment on adoption of AASB 16 Leases (Note 2)	-	-	(383)	-	-	-	(383)
Restated balance at 1 July 2019	72,024	(1,163)	130,782	1,551	252	1,590	205,036
Loss for the year	-	-	(19,397)	-	-	-	(19,397)
Other comprehensive loss, net of tax	-	-	-	-	(3,623)	-	(3,623)
Total comprehensive loss	-	-	(19,397)	-	(3,623)	-	(23,020)
Dividends paid	-	-	(8,725)	-	-	-	(8,725)
Shares purchased as reserve shares	-	(623)	-	-	-	-	(623)
Share gift issued - gift	-	1,158	-	(1,158)	-	-	-
Share gift plan provision	-	-	-	990	-	-	990
At 30 June 2020	**72,024**	**(628)**	**102,660**	**1,383**	**(3,371)**	**1,590**	**173,658**

Notes to the financial statements are included on pages 47 to 90.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 2020

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01 GENERAL INFORMATION

Regional Express Holdings Limited (the Company) is listed on the Australian Securities Exchange (Trading under symbol 'REX'), incorporated and operating in Australia. The Company's registered office and its principal place of business is at 81 – 83 Baxter Road, Mascot, NSW 2020, Australia. Principal activities of the Group are the provision of air services including the transportation of passengers and freight along with aeromedical services and pilot training.

02 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Group has applied all amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2019 and adopted by the Group on 1 July 2019, and therefore relevant for the current year end. The impact of the application of these amendments is detailed below.

APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS EFFECTIVE FOR THE CURRENT YEAR

One new accounting standard has been implemented in the current year. The impact of adoption is summarised as follows.

AASB 16 LEASES ("AASB 16")

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. AASB 16 supersedes AASB 117 Leases and the related Interpretations effective for accounting periods beginning on or after 1 January 2019. From 1 July 2019, the Group applied AASB 16 on a modified retrospective basis and consequently has not restated the comparative information.

IMPACT OF THE NEW DEFINITION OF A LEASE

The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the lessee. Control is considered to exist if the lessee has the right to obtain substantially all of the economic benefits from the use of an identified asset and the right to direct the use of that asset. The Group assessed the new definition in AASB 16 and determined which of its contracts meet meets the definition of a lease.

IMPACT OF ACCOUNTING FOR LEASES

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. In accordance with the modified retrospective basis of adoption, on initial application of AASB 16, for all leases (except as noted below), the Group has:

a) Recognised right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments on a prospective basis at the date of initial application (i.e. 1 July 2019);

b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group recognises such lease expense on a straight-line basis as permitted by AASB 16.

IMPACT OF ADOPTION

The reconciliation of non-cancellable operating lease commitments to the lease liability recognised on adoption is as follows:

	$'000
Operating lease commitments at 30 June 2019	6,027
Discounted using the incremental borrowing rate at 1 July 2019	(2,073)
Lease obligations recognised at 1 July 2019	3,954

On adoption, right-of-use assets of $3,327 thousand were recognised. A net deferred tax asset of $132 thousand was recognised on acquisition with an adjustment to retained earnings of $383 thousand. The impact of adopting AASB 16 resulted in an increase in earnings before interest, tax depreciation and amortisation (EBITDA) of $525 thousand in Financial Year (FY) 2020. The decrease in impact on EBITDA from that reported at 30 June 2019 of $1.1 million is due to the acquisition of two aircraft previously classified as operating leases during the first half. Under AASB 117, all lease payments on operating leases were presented as part of cash flows from operating activities. Under AASB 16, the lease payments are presented as part of cash flows in financing activities and cash flows from operating activities.

APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below. The potential impact of these Standards and Interpretations has not yet been fully determined. The Group does not intend to adopt any of these announcements before their effective dates.

STANDARD/INTERPRETATION AND NATURE OF THE CHANGE AND IMPACT

Standard/Amendment	Effective for annual reporting periods beginning on or after
AASB 2018-6 Amendments to Australian Accounting Standards - Definition of a Business	1 January 2020
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	1 January 2020
AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020
AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform	1 January 2020
AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia	1 January 2020

At the date of report, there are no pronouncements approved by the IASB/IFRIC that have yet to be issued by the AASB.

The reported results and financial position of the Group are not expected to change materially on adoption of any of the amendments to the current standards listed above that will be adopted on 1 July 2020.

For those standards that will be adopted on 1 July 2020 the impact has not been fully determined and is not expected to be material.

03 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 31, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

KEY SOURCES OF JUDGEMENT AND ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

IMPAIRMENT OF ASSETS

Determining whether goodwill and property, plant and equipment and right-of-use assets are impaired requires an estimation of the value in use and fair value less cost to sell of the cash-generating units to which the these assets relate. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The fair value less cost to sell calculation requires the entity to determine the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction, less the costs of disposal. Further information relating to these estimates and the impact of COVID-19 on the estimates made is set out in Note 10.

Impairment losses were recognised with respect to goodwill, property, plant and equipment, right-of-use assets, other intangible assets and consumable inventories during the year of $62,084 thousand (2019: nil) as set out in Note 5.

RECOVERABILITY OF DEFERRED TAXES

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to enable the Group to utilise those temporary differences and losses. As a result of the impairment of assets in the current year, the Group has recognised deferred tax assets relating to temporary differences in respect of this impairment. The recoverability of these deferred tax assets is dependent on assumptions relating to future taxable profits over the remaining useful life of the assets which have been impaired. These assumptions are consistent with those used in the value in use calculations. Further information relating to these estimates and the impact of COVID-19 on the estimates made as set out in Note 5.

FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

As described in Note 24, management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

As described in Note 31 (S), the Group regularly assesses the estimated useful lives of property, plant and equipment at the end of each reporting period to determine if the useful lives correctly reflect the rate at which the assets are consumed.

EMPLOYEE ENTITLEMENTS

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries;
- future on-cost rates; and
- experience of employee departures and period of service.

04 IMPACT OF COVID-19

The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 have caused disruption to businesses and economic activity. The Group provides regular public transport (RPT) services between cities and regional centres in Australia and so this has had a negative impact on the operations of the Group, with network passenger numbers (pax) declining from mid-March by over 90%. Travel and social distancing restrictions have and continue to impact demand for RPT services. However, REX has been able to secure grants from the Federal and State Governments to continue operations albeit at a lower frequency to pre-COVID-19 periods.

IMPACTS OF COVID-19 ON THE GROUP'S OPERATIONS

REX was forced to reduce capacity on its RPT network by over 80% by April 2020 following the sharp decline in passenger numbers brought about by COVID-19, economic conditions and significantly reduced demand for air passenger services. REX also stood down the majority of its operational staff and the remaining non-operational staff had reduced work hours. Due to travel restrictions and the reduction in demand for the Group's RPT services, passenger revenues declined by $65,277 thousand from the prior year.

REX maintained a minimum network with the assistance of a number of grants, subsidies and other benefits provided by local, state and federal government authorities and as at the date of this report continues to do so. These grants additionally provided funding for the Group to provide refunds to passengers whose flights were cancelled as a result of the travel restrictions and to pay creditors.

GRANTS RECEIVED FROM GOVERNMENT AUTHORITIES

The most significant grants received from government authorities are as follows:

Funding	Recognised in profit or loss for the year ended 30 June 2020 $'000
Regional Airline Funding Assistance (RAFA)	37,805
Regional Airline Network Support Program (RANS)	15,309
Australian Airline Financial Relief Package (AAFRP)	274
JobKeeper	7,940
Western Australian (WA) State Government	568
Queensland (QLD) State Government	199
Total	62,095

The entity will continue to claim grants in FY21 where it meets the requirements of the grant agreements. Grant revenue will be recognised in accordance with the Group's accounting policy as set out in Note 31 (M) and the terms of the grant agreements. The Federal Government has announced extensions to the RAFA grant program to December 2020, RANS program to March 2021 and JobKeeper to March 2021, albeit at lower rates.

IMPACT ON THE VALUATION OF ASSETS

The reduction in demand for RPT services to date has resulted in a significant decline in revenues from the Group's REX cash-generating unit (CGU). The directors are optimistic that this disruption will start to recover gradually over FY21-22. However, given global uncertainty they have planned for a more conservative recovery throughout FY21-23.

Management have prepared a value-in-use (VIU) model to measure the recoverable amount of the REX CGU. The assumptions used in the VIU valuation model are described further in Note 10. Based on the results of the VIU valuation model, the Group recognised an impairment relating to goodwill, property, plant and equipment, right-of-use assets, other intangible assets and consumable inventories totalling $62,084 thousand.

DE-DESIGNATION OF HEDGE CONTRACTS

The Group enters into jet fuel swap contracts to hedge exposure to movements in the price of aviation fuel. These are typically cash flow hedges. Jet fuel swaps are taken out from time to time to hedge exposures to a maximum of 12 months in accordance with the Group's risk management policies. The Group uses fuel swaps linked to the Platts Singapore Kerosene benchmark to hedge exposures to jet fuel. At 30 June 2020 the Group has in place fuel swap contracts to hedge notional fuel purchases of 3.5 million litres of fuel per month to June 2021.

The directors have considered the forecast fuel purchases based on the current and forecast activity levels, and in line with these activity levels have de-designated the portion of the fuel swap hedges which are in excess of the forecasted activity and therefore ineffective. The ineffective portion of the fair value movement of the fuel swaps of $3,387 thousand has been recognised in profit or loss. Further information is set out in Note 24.

BORROWING FACILITIES

The Group's bank borrowing facilities relating to the Victorian Air Ambulance and New South Wales (NSW) Air Ambulance contracts contain review event clauses, whereby a review event is triggered where the Group's EBITDA falls below 75% of the previous year for the Victorian Air Ambulance facility and 50% of the previous year for the NSW Air Ambulance facility.

Subsequent to the year end the Group has received a waiver from the financier in relation to the FY20 review event due to the reduction in EBITDA from the previous year. All outstanding borrowings relating to the Victorian Air Ambulance debt facility are repayable within 12 months and are therefore current, and there are no drawn borrowings relating to the NSW Air Ambulance facility. Therefore, there is no impact on classification of amounts recognised at 30 June 2020.

GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the discharge of liabilities in the normal course of business. In preparing the consolidated financial statements the directors note that the Group and Company are in a net current asset deficiency position of $33,920 thousand (2019: $8,762 thousand). The Group has reported a loss after tax of $19,397 thousand for the year (2019: profit after tax of $17,517 thousand) and cash inflows from operating activities and government grants of $40,842 thousand (2019: inflows of operating activities $33,041 thousand).

As described above, the outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 have caused disruption to businesses and economic activity. The Group provides regular public transport (RPT) services between cities and regional centres in Australia and so this has had a negative impact on the operations of the Group, with network pax declining from mid-March by over 90%.

Travel and social distancing restrictions have and continue to impact demand for RPT services. However, REX has been able to secure grants from the Federal and State Governments to continue operations albeit at a lower frequency to pre-COVID-19 periods. REX was forced to reduce capacity on its RPT network by over 80% by April 2020 following the sharp decline in passenger numbers brought about by COVID-19. REX also stood down the majority of its operational staff and the remaining non-operational staff had reduced work hours.

REX maintained a minimum network with the assistance of a number of grants, subsidies and other benefits provided by local, state and federal government authorities and as at the date of this report continues to do so. Refer to Grants received from government authorities above for further details.

REX also received covenant waivers for funding facilities provided by the financier in relation to Victorian and NSW Air Ambulance contracts at 30 June 2020 as described in Borrowing Facilities above. The next testing date in relation to this covenant is 30 June 2021.

In addition, the Health Administration Corporation as represented by NSW Ambulance has provided the Group with a COVID-19 Emergency Cash Flow Advance. As set out in Note 13, $10,000 thousand was received under the advance on 26 June 2020, $10,523 thousand on 23 July 2020 and $345 thousand on 4 September 2020. A further $345 thousand will be received on 1 November 2020.

This advance includes repayment dates as follows:

Repayment date	Amount $'000
1 December 2020	3,116
28 February 2021	2,920
31 March 2021	2,920
31 May 2021	2,920
30 June 2021	2,920
31 December 2021	6,419
	21,215

Management have prepared financial forecasts which are consistent with those used in the valuation models for the REX and Pel-Air CGUs, adjusted for cash flows which are excluded from value-in-use valuation models. Based on these forecasts, the Group is expected to have sufficient cash to meet its obligations and continue as a going concern.

In addition, management have considered various scenarios with respect to passenger demand and government support. In the event that the Group is unable to economically service its routes, the Group will restrict routes to only those which have sufficient passenger demand to support profitable operations and will continue to operate charter, air ambulance services and pilot training. Based on this forecast, the Group expects that it will have sufficient cash to meet its obligations and continue as a going concern.

However, due to the expected decline in EBITDA for the year ending 30 June 2021 the Group expects to trigger the review event covenant included in the NSW Air Ambulance loan facility for which the next testing date is 30 June 2021.. Capital commitments in FY2021 will be required in relation to the NSW Air Ambulance contract, funded by this facility.

Under the terms of the facility agreement, on commencement of the NSW Air Ambulance operations in January 2022 this construction loan will be converted into an amortising facility which is repayable over the life of the NSW Air Ambulance contract. The loan balance at the end of the construction phase at 31 December 2021 is expected to be $77,670 thousand.

The directors do not consider this forecasted review event to result in a material uncertainty in relation to going concern. In making this judgement the directors have considered the following factors:

- The purpose of the loan is to finance the acquisition of aircraft which are to be used in the NSW Air Ambulance contract, which is largely unaffected by the impact of a reduction of EBITDA in the REX CGU;
- The Group has obtained a waiver to the review events for the year ended 30 June 2020 and has no reason to believe the waiver will not be provided in future;
- Should the review event progress to an event of default, there are certain step-in rights available to NSW Ambulance. These step-in rights reduce the likelihood of exposure of the Group to repayment of the facility; and
- The directors consider it likely that the step-in rights would be exercised by NSW Ambulance in order to preserve continuity of operations.

Based on the above, whilst the directors consider it probable that there will be a review event triggered for the year ending 30 June 2021 this does not result in a material uncertainty relating to the ability of the Group to continue as a going concern.

05 REVENUES AND EXPENSES

	2020 $'000	2019 $'000
Other revenue		
Training income	12,032	4,621
Sales of engineering parts	1,402	1,599
Rental income	264	254
Insurance claim	-	727
Training subsidy	38	30
Engineering services	-	104
Other income	598	582
	14,334	**7,917**
Finance income		
Interest	556	895
	556	**895**
Other (losses) / gains		
Net foreign currency (loss) / gain	(1,057)	372
Gain on acquisition / disposal of business	231	808
Gain / (loss) on disposal of property, plant and equipment	2	(69)
	(824)	**1,111**
Salaries and employee-related costs		
Wages and salaries (including bonus – profit share scheme)	(94,710)	(102,881)
Superannuation costs - defined contribution plan	(6,764)	(7,051)
Expense of share-based payments	(990)	(1,316)
Workers' compensation costs	(1,474)	(990)
	(103,938)	**(112,238)**
Finance costs		
Interest expense on bank borrowings and lease liabilities	(850)	(1,956)
	(850)	**(1,956)**
Depreciation and amortisation		
Depreciation and amortisation of property, plant and equipment	(21,453)	(17,057)
Depreciation of right-of-use assets	(358)	-
Amortisation of development costs and software	(121)	(121)
	(21,932)	**(17,178)**
Impairment		
Asset impairment		
- Property, plant and equipment – aircraft	(22,504)	-
- Property, plant and equipment – other	(29,852)	-
- Right-of-use assets	(603)	-
- Other intangible assets	(87)	-
- Consumable inventories	(8,520)	-
Goodwill impairment	(518)	-
	(62,084)	**-**

06 INCOME TAX

INCOME TAX RECOGNISED IN PROFIT OR LOSS

	2020 $'000	2019 $'000
Tax (benefit) / expense comprises:		
Current tax expense	10,732	8,180
Deferred tax (benefit) relating to the origination and reversal of temporary differences	(18,751)	(496)
Total tax (benefit) / expense	**(8,019)**	**7,684**
The prima facie income tax (benefit) / expense on pretax accounting profit from operations reconciles to the income tax (benefit) / expense in the financial statements as follows:		
(Loss) / profit before tax from operations	(27,416)	25,201
Tax (benefit) / expense calculated at 30%	(8,225)	7,560
Tax on non-deductible expenses	206	124
Tax (benefit) / expense	**(8,019)**	**7,684**
Effective tax rate	(29.2%)	30.5%

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

The following current and deferred tax amounts have been recognised in the statement of financial position:

	2020 $'000	2019 $'000
Current tax liabilities		
Current tax payable		
Income tax attributable:		
Parent entity	7,689	2,452
	7,689	**2,452**
Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences and tax losses [(i)]	23,713	7,511
	23,713	**7,511**
Deferred tax liabilities comprise:		
Temporary differences	(1,176)	(5,614)
	(1,176)	**(5,614)**
Net deferred tax assets	**22,537**	**1,897**

[(i)] Deferred tax assets include $176 thousand of tax losses recognised on acquisition of Aviation Training Academy Australia Pty Ltd that remain unutilised at 30 June 2020.

Taxable and deductible temporary difference and tax losses arise from the following:

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Other movements[i] $'000	Closing balance $'000
30 June 2020					
Gross deferred tax liabilities					
Inventories	(3,762)	3,495	-	-	(267)
Prepayments	(792)	730	-	-	(62)
Subsidy receivable	(350)	23	-	-	(327)
Property, plant & equipment	(689)	251	-	-	(438)
Other items	(21)	(61)	-	-	(82)
	(5,614)	**4,438**	**-**	**-**	**(1,176)**
Gross deferred tax assets					
Employee-related provisions	3,931	(118)	-	-	3,813
Property, plant & equipment	1,747	14,737	-	-	16,484
Payables	822	(154)	-	-	668
Other liabilities	1,011	(912)	-	-	99
Other items	-	608	1,553	488	2,649
	7,511	**14,161**	**1,553**	**488**	**23,713**
Net deferred tax	**1,897**	**18,599**	**1,553**	**488**	**22,537**
30 June 2019					
Gross deferred tax liabilities					
Inventories	(3,533)	(229)	-	-	(3,762)
Prepayments	(1,043)	251	-	-	(792)
Subsidy receivable	(266)	(84)	-	-	(350)
Property, plant & equipment	(743)	54	-	-	(689)
Other items	(106)	193	(108)	-	(21)
	(5,691)	**185**	**(108)**	**-**	**(5,614)**
Gross deferred tax assets					
Employee-related provisions	3,486	445	-	-	3,931
Property, plant & equipment	2,111	(364)	-	-	1,747
Payables	763	59	-	-	822
Other liabilities	810	201	-	-	1,011
Other items	106	(106)	-	-	-
	7,276	**235**	**-**	**-**	**7,511**
Net deferred tax	**1,585**	**420**	**(108)**	**-**	**1,897**

[i] Other movements include the deferred tax assets added through the business acquired of $356 thousand per Note 22 and the deferred tax asset recognized on adoption of AASB 16 of $132 thousand per Note 2. $176 thousand of the tax losses acquired remain unutilised at 30 June 2020.

Net deferred tax assets of $22,537 thousand (2019: $1,897 thousand) have been recognised to the extent that the Group considers it is probable that future taxable amounts will be available to utilise those tax assets. The increase in deferred tax assets in the current year is largely the result of the impairment of assets, excluding goodwill, recognised in the year of $61,566 thousand. In assessing whether the deferred tax assets are recoverable, the directors note that the estimates and assumptions relating to future taxable profits are consistent with the assumptions used in the estimation of future cash flows in the value-in-use valuation model for the Group's cash-generating units. The directors expect that the Group will generate sufficient taxable profits to utilise the deferred tax assets in the next 6-7 years, however actual utilisation will be dependent on the timing of tax deductions.

07 TRADE AND OTHER RECEIVABLES

	2020 $'000	2019 $'000
Current		
Trade receivables	5,890	8,579
Loss allowance	(31)	(31)
	5,859	8,548
Term deposits	2,048	1,968
Sundry debtors and other debtors	5,263	3,521
Prepayments	5,183	2,637
	18,353	**16,674**
Non-current		
Other receivables – at amortised cost	7,114	6,679
	7,114	**6,679**

Trade receivables are non-interest bearing and are generally on 30 day terms. The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

Before accepting new customers, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. Majority of the Group's revenue is derived from sales made through credit cards where counterparties are either banks or credit card companies.

Term deposits are interest-bearing deposits held under the Group's workers compensation obligations. The amounts are restricted under these obligations.

	2020 $'000	2019 $'000
Ageing of past due but not impaired		
60 - 90 days	265	-
91 - 120 days or more	211	-
Total	**476**	**-**
Average age (days)	33	30
Movement in loss allowance		
Balance at the beginning of the year	(31)	(31)
Movement during the year	-	-
Balance at the end of the year	**(31)**	**(31)**
Ageing of impaired trade receivables		
120+ days	(31)	(31)
Total	**(31)**	**(31)**

08 INVENTORIES

	2020 $'000	2019 $'000
Consumable spares		
Current	8,410	13,439
Non-current	11,303	8,055

As set out in Note 5, an impairment of $8,520 thousand relating to consumable spares has been recognised during the year (2019: $nil).

09 PROPERTY, PLANT AND EQUIPMENT

	Opening gross carrying amount $'000	Additions $'000	Transfers from business acquired $'000	Disposals / Reclassification $'000	Closing gross carrying amount $'000
At 30 June 2020					
Aircraft	190,622	7,831	7,734	(9,042)	197,145
Aircraft under construction	-	21,845	-	-	21,845
Total aircraft	190,622	29,676	7,734	(9,042)	218,990
Other property, plant and equipment					
Rotable assets	84,166	2,173	-	(7,877)	78,462
Engines	13,736	689	-	(130)	14,295
Plant and equipment	11,373	270	605	(583)	11,665
Land and buildings	37,507	5,361	1,500	-	44,368
Leasehold improvements	1,394	30	-	-	1,424
Motor vehicles	2,674	69	6	(53)	2,696
Furniture and fittings	750	81	46	(75)	802
Computer equipment	2,090	1,243	84	(157)	3,260
Other property, plant and equipment	153,690	9,916	2,241	(8,875)	156,972
Total property, plant and equipment	**344,312**	**39,592**	**9,975**	**(17,917)**	**375,962**
Right-of-use assets					
Leased premises (ii)	2,022	9	965	(990)	2,031
Aircraft	1,305	-	-	(1,305)	-
Total-of-use assets (i)	**3,327**	**9**	**965**	**(2,270)**	**2,031**
At 30 June 2019					
Aircraft	187,421	5,912	-	(2,711)	190,622
Other property, plant and equipment					
Rotable assets	83,311	3,869	-	(3,014)	84,166
Engines	10,908	6,628	-	(3,800)	13,736
Plant and equipment	12,020	750	-	(1,397)	11,373
Land and buildings	37,166	366	-	(25)	37,507
Leasehold improvements	1,357	37	-	-	1,394
Motor vehicles	2,696	62	-	(84)	2,674
Furniture and fittings	1,021	34	-	(305)	750
Computer equipment	1,891	344	-	(145)	2,090
Other property, plant and equipment	150,370	12,090	-	(8,770)	153,690
Total property, plant and equipment	**337,791**	**18,002**	**-**	**(11,481)**	**344,312**
Total Right-of-use assets	**-**	**-**	**-**	**-**	**-**

	Opening accumulated depreciation and impairment $'000	Disposals / Reclassification $'000	Depreciation charge for the year $'000	Impairment $'000	Closing accumulated depreciation and impairment $'000
At 30 June 2020					
Aircraft	(101,444)	9,028	(11,798)	(22,504)	(126,718)
Other property, plant and equipment					
Rotable assets	(17,328)	1,235	(5,551)	(22,803)	(44,447)
Engines	(2,774)	130	(1,210)	(4,190)	(8,044)
Plant and equipment	(6,843)	583	(987)	(1,773)	(9,020)
Land and buildings	(7,779)	-	(1,048)	-	(8,827)
Leasehold improvements	(1,297)	55	(106)	-	(1,348)
Motor vehicles	(1,799)	49	(192)	(303)	(2,245)
Furniture and fittings	(593)	61	(77)	(78)	(687)
Computer equipment	(1,177)	157	(484)	(705)	(2,209)
Other property, plant and equipment	(39,590)	2,270	(9,655)	(29,852)	(76,827)
Total property, plant and equipment	**(141,034)**	**11,298**	**(21,453)**	**(52,356)**	**(203,545)**
Right-of-use assets					
Leased premises	-	69	(214)	(603)	(748)
Aircraft	-	144	(144)	-	-
Total Right-of-use assets	**-**	**213**	**(358)**	**(603)**	**(748)**
At 30 June 2019					
Aircraft	(94,330)	2,711	(9,825)	-	(101,444)
Other property, plant and equipment					
Rotable assets	(16,465)	2,947	(3,810)	-	(17,328)
Engines	(3,422)	1,414	(766)	-	(2,774)
Plant and equipment	(7,227)	1,383	(999)	-	(6,843)
Land and buildings	(6,815)	24	(988)	-	(7,779)
Leasehold improvements	(1,219)	-	(78)	-	(1,297)
Motor vehicles	(1,695)	84	(188)	-	(1,799)
Furniture and fittings	(853)	301	(41)	-	(593)
Computer equipment	(960)	145	(362)	-	(1,177)
Other property, plant and equipment	(38,656)	6,298	(7,232)	-	(39,590)
Total property, plant and equipment	**(132,986)**	**9,009**	**(17,057)**	**-**	**(141,034)**
Total Right-of-use assets	**-**	**-**	**-**	**-**	**-**

	Opening net carrying amount $'000	Closing net carrying amount $'000
At 30 June 2020		
Aircraft	89,178	70,427
Aircraft under construction	-	21,845
Total aircraft	89,178	92,272
Other property, plant and equipment		
Rotable assets	66,838	34,015
Engines	10,962	6,251
Plant and equipment	4,530	2,645
Land and buildings	29,728	35,541
Leasehold improvements	97	76
Motor vehicles	875	451
Furniture and fittings	157	115
Computer equipment	913	1,051
Other property, plant and equipment	114,100	80,145
Total property, plant and equipment	**203,278**	**172,417**
Right-of-use assets		
Leased premises	2,022	1,283
Aircraft	1,305	-
Total Right-of-use assets [i]	**3,327**	**1,283**
At 30 June 2019		
Aircraft	93,091	89,178
Other property, plant and equipment		
Rotable assets	66,846	66,838
Engines	7,486	10,962
Plant and equipment	4,793	4,530
Land and buildings	30,351	29,728
Leasehold improvements	138	97
Motor vehicles	1,001	875
Furniture and fittings	168	157
Computer equipment	931	913
Other property, plant and equipment	111,714	114,100
Total property, plant and equipment	**204,805**	**203,278**
Right-of-use assets	**-**	**-**

(i) The opening carrying amount for the right-of-use assets relates to amounts recognised on adoption of AASB 16 on 1 July 2019.

(ii) The Group leases several assets and the lease terms vary from 3 to 41 years.

(iii) Amounts recognised in profit and loss relating to right-of-use assets during the year are as follows:

	$'000
Depreciation expense on right-of -use assets	358
Interest expense on lease liabilities	143
Expenses relating to short term leases	341

10 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill $'000	Software and development costs $'000
At 30 June 2020		
Cost	518	2,052
Accumulated amortisation and impairment	(518)	(1,871)
Net carrying amount	**-**	**181**
Total other intangible assets		**181**
Reconciliation		
At 1 July 2019, net of accumulated amortisation	518	213
Additions	-	176
Impairment	(518)	(87)
Amortisation at 30 June 2020	-	(121)
At 30 June 2020, net of accumulated amortisation and impairment	**-**	**181**
Total other intangible assets		**181**
At 30 June 2019		
Cost	518	2,648
Accumulated amortisation	-	(2,435)
Net carrying amount	**518**	**213**
Total goodwill and other intangible assets		**731**
Reconciliation		
At 1 July 2018, net of accumulated amortisation	518	306
Additions	-	28
Amortisation at 30 June 2019	-	(121)
At 30 June 2019, net of accumulated amortisation	**518**	**213**
Total goodwill and other intangible assets		**731**

IMPAIRMENT OF ASSETS

The Group has identified the following Cash Generating Units (CGUs) for assessing the carrying value of the Group's assets:

- Regional Express Holdings Limited (Rex)
- Pel-Air Aviation Pty Limited (Pel-Air)

The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 have caused disruption to businesses and economic activity which is expected to continue into FY21.

The Group provides regular public transport (RPT) services between cities and regional centres in Australia and so this has had a negative impact on the operations of the Rex CGU, with network pax declining from mid-March by over 90%. Travel and social distancing restrictions have impacted demand for RPT services and are expected to continue to have an impact on passenger demand for FY21-FY23. The Pel-Air CGU was not significantly impacted by the pandemic due to the nature of the business as a charter and air ambulance operation.

As the Group's CGUs have been impacted differently by the COVID-19 pandemic, the details of impairment testing performed have been set out separately below.

(A) REX CGU

The recoverable amount of the Rex CGU has been determined based on a value-in-use valuation model.

The value in use calculation of the Rex CGU uses cash flow projections which are based on a COVID-19 recovery period over which Available Seat Kilometres (ASKs) and passenger numbers are forecast to return to historical levels as seen in FY19 by 2023. Key assumptions used in the valuation model are noted below:

DURING COVID-19 RECOVERY PERIOD (FY21 – FY23)

Recovery in ASKs and passengers	Based on expected activity levels over the FY21-23 period. These forecasts are based on the current run rate of passenger numbers and ASKs to December 2020, after which passenger and ASK growth is forecast to gradually return to FY19 historical levels. The forecasts consider the recoveries by state where there are differences in recovery rates.
Government grants	Government grants are included in the forecast to the extent that they have been granted to Rex or have been publicly announced by the relevant State or Federal Government.
Fixed & variable costs	Costs which vary with activity are allocated on a per-ASK basis. Fixed costs are forecast based on FY19 actuals adjusted for 4Q FY20 run rates as appropriate.
Fuel costs	Fuel costs are based on the prevailing fuel swap rates, after which they projected using the long term brent crude curve.

SUBSEQUENT TO COVID-19 RECOVERY PERIOD

Key assumptions	Rex CGU
Revenue growth	1.50%
Fuel cost escalation	Based on forward brent crude curve
Operating cost escalation	1.50%
Fleet life	17.5 years

Cash flows in the valuation model are projected for 17.5 years. Rex operates the RPT network with a fleet of 60 Saab 340B aircraft. Whilst these aircraft are no longer manufactured by Saab (the OEM) they remain common in regional airline fleets around the world and the directors do not expect OEM support for the aircraft to be withdrawn for at least the next 15-20 years.

In addition to industry issues, and having regard to the effect of the COVID-19 pandemic, the directors revised expectations for the life of the Saab 340B fleet and consider that the expected useful life of the Saab 340B fleet to be approximately 15-20 years. The value in use model has included cash flows of 17.5 years, representing the midpoint of this 15-20 year expected remaining economic life of the fleet.

No terminal value has been included in the value-in-use valuation model.

Revenue and cost growth have been projected based on growth expectations of the existing network and assume no changes to the size and scale of operations after the recovery period. Capital expenditure is based on maintenance capex over the forecast period excluding any expansionary capital expenditure.

Cash flows are discounted by a post-tax discount rate of 11.25% (2019: 10.25%).

Based on the results of the value-in-use model, the carrying value of the assets of the CGU exceeded their recoverable amount by $62,084 thousand. This was allocated to goodwill ($518 thousand) and other assets ($61,566 thousand). Refer to Note 5 for the allocation by asset class.

SENSITIVITY ANALYSIS

The value-in-use calculation is sensitive to reasonable changes in key assumptions which would, in isolation, lead to an increase or decrease in the recoverable amount and a resulting change to impairment recognised. Changes in one assumption could be accompanied by a change in another assumption, which may increase or decrease the recoverable amount of the CGU.

		Rex recoverable amount	
	Increase/ Decrease by	Increase / (Decrease) $'000	(Decrease) / Increase $'000
ASK & Passenger recovery (as percentage of FY19 base)	10.0%	7,749	(10,674)
Post tax discount rate %	1.0%	(8,004)	8,798
Revenue growth %	1.0%	12,239	(12,208)
Operating cost escalation %	1.0%	(4,871)	4,856
Fuel cost escalation %	5.0%	(7,076)	7,050
Fleet life	2.5 years	8,084	(6,090)

(B) PEL-AIR CGU

The recoverable amount of the Pel-Air CGU has been determined based on a value-in-use valuation model. The Pel-Air CGU includes charter and air ambulance services which are largely unaffected by COVID-19.

The value in use calculation of Pel-Air uses cash flow projections based on financial budgets approved by the Board covering a 5 year forecast period, and a terminal value based upon an extrapolation of cash flows beyond the 5 year period using a constant growth rate which does not exceed the long term inflation rate. The cash flows are based on management's expectations regarding the market, fleet plans including the purchase of aircraft and operating costs. The discount rate applied reflects the weighted average cost of capital based on the risk-free rate for ten-year Australia government bonds adjusted for a risk premium to reflect the risk of the CGU.

KEY ASSUMPTIONS

The following key assumptions were used in determining the value-in-use valuation model for the Pel-Air CGU:

Key assumptions	Pel-Air CGU
Discount rate	11.00%
Revenue growth	1.50-2.00%
Operating cost escalation	2.00%

Reasonable changes in these assumptions are not expected to result in an impairment of the Pel-Air CGU.

11 TRADE AND OTHER PAYABLES

	2020 $'000	2019 $'000
Current		
Trade payables	8,088	10,095
Other payables	11,395	10,844
Total	**19,483**	**20,939**

Trade payables are non-interest bearing and are normally settled on 7 to 30-day terms. Other payables are non-interest bearing and have an average term of 7 to 30 days.

12 UNEARNED REVENUE

	2020 $'000	2019 $'000
Current		
Unearned passenger and charter revenue	13,237	23,412
Unearned training revenue	2,790	1,090
Total	**16,027**	**24,502**

Unearned revenue balances recognised at 30 June 2019 have been recognised as revenue in the current year.

13 INTEREST BEARING LIABILITIES

	Effective interest rate %	2020 $'000	2019 $'000
Current			
Loan facility (i)	9.10%	4,220	3,852
Advance (ii)	0.15%	10,000	-
		14,220	**3,852**
Lease liabilities (iv)		130	-
		14,350	**3,852**
Non-current			
Loan facility (i)	9.10%	-	4,220
Lease liabilities (iv)		2,329	-
		2,329	**4,220**

The Group's debt facilities include the following:

	2020		2019	
	Used $'000	Limit $'000	Used $'000	Limit $'000
Victorian Air Ambulance (i)	4,220	5,545	8,072	8,381
NSW Air Ambulance (iii)	-	15,555	-	-

(i) This facility relates to the acquisition of a number of aircraft which are utilised for the Victorian Air Ambulance operations. The loan was fully repaid on 25 August 2020.

(ii) The advance is a short-term emergency cash flow advance provided to the Group from NSW Air Ambulance to assist the Group in meeting the capital expenditure of a number of aircraft assets in preparation for the NSW medical evacuation contract due to commence in FY2022. The advance is repayable from December 2020 to June 2021 as set out in Note 4. Subsequent to the year end, a further $10,523 thousand was received on 1 July 2020 and $345 thousand on 1 August 2020. A further $345 thousand will be received on 1 November 2020. These amounts are repayable between December 2020 and December 2021.

(iii) This facility relates to the acquisition of a number of aircraft which will be utilised for the NSW Air Ambulance operations. As the aircraft are constructed and delivered this facility will be drawn down with total drawings of $77,670 thousand. Under the terms of the facility agreement, on commencement of the NSW Air Ambulance operations in January 2022 this construction loan will be converted into an amortising facility which is repayable over the life of the NSW Air Ambulance contract which is 10 years. The facility is secured by the aircraft and a guarantee by the Group.

(iv) The lease liabilities were recorded in accordance with AASB 16 Leases for a number of property leases used for operations.

OTHER FACILITIES

	2020		2019	
	Used $'000	Limit $'000	Used $'000	Limit $'000
Transaction negotiation authority	-	2,700	-	2,700
Letter of credit	-	559	-	559
Set off	-	1,000	-	1,000
Guarantee	3,799	4,537	3,799	4,537
Guarantee performance	3,000	3,000	-	-
Credit card	55	615	85	595
	6,854	**12,411**	**3,884**	**9,391**

The facilities are secured by the assets of the Group.

14 PROVISIONS

	2020 $'000	2019 $'000
Current		
Employee benefits		
Profit share, pilot retention bonus	810	2,605
Annual leave and long service leave	7,307	6,612
	8,117	**9,217**
Non-current		
Employee benefits		
Pilot retention bonus	1,409	1,589
Long service leave	1,540	659
	2,949	**2,248**
Total employee benefits provisions	**11,066**	**11,465**
Profit share, pilot retention bonus		
Balance at the beginning of the year	4,194	4,080
Arising during the year	111	2,662
Utilised	(2,086)	(2,548)
Balance at the end of the year	**2,219**	**4,194**
Annual leave and long service leave		
Balance at the beginning of the year	7,271	5,859
Arising during the year	9,545	8,128
Utilised	(7,969)	(6,716)
Balance at the end of the year	**8,847**	**7,271**

15 ISSUED CAPITAL

	2020		2019	
	No. ’000	$’000	No.’000	$’000
Fully paid ordinary shares				
At the beginning of the year	110,155	72,024	110,155	72,024
Movement during the year	-	-	-	-
At the end of the year	**110,155**	**72,024**	**110,155**	**72,024**

Share units held as reserved shares by subsidiary company was 914 thousand (2019: 1,093 thousand).

16 RESERVED SHARES AND OTHER RESERVES

	2020 $’000	2019 $’000
Reserved shares		
Balance at the beginning of the year	(1,163)	(2,256)
Shares purchased as reserved shares	(623)	-
Share gift issued	1,158	1,093
Balance at the end of the year	**(628)**	**(1,163)**
Share-based payments reserve		
Balance at the beginning of the year	1,551	1,605
Share gift issued	(1,158)	(1,093)
Share gift plan provision transfer	-	(277)
Share gift plan provision	990	1,316
Balance at the end of the year	**1,383**	**1,551**
Cash flow hedge reserve		
Balance at the beginning of the year	252	-
Revaluation of cash flow hedges, net of tax	(3,623)	252
Balance at the end of the year	**(3,371)**	**252**
General reserve		
Balance at the beginning of the year	1,590	1,590
Movement during the year	-	-
Balance at the end of the year	**1,590**	**1,590**

Reserved share account represents on market purchase of shares by the Group which is eventually granted to executives and employees as part of their remuneration.

The share-based payments reserve arises on the grant of shares to executives and employees under the employee share gift plan. Amounts are transferred out of the reserve and into issued capital when the shares are issued. Rex has established the share gift plan for its executive directors and eligible employees since FY2006.

The board decided that this plan will be offered to EA groups that opt for the plan, and all non-EA employees who are not the subject of an adverse recommendation by the Remunerations, Nominations and Disciplinary Committee. This plan is not based on any performance measures as it was established to show its recognition of employees’ contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders.

Eligible employees who accept an offer of shares under the share plan will be entitled to receive the equivalent of 2% of their base salary in shares each financial year. Such shares will be issued to eligible employees on the relevant award dates. Non eligible employees are given the opportunity to salary sacrifice amounts to acquire Rex shares, with allocation of shares equal to 2% of their base salary.

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

The general reserve is used from time to time to transfer profits from retained profits. There is no policy of regular transfer.

17 (LOSS) / EARNINGS PER SHARE

	2020 Cents per share	2019 Cents per share
Basic (loss) / earnings per share	(17.8)	16.1
Diluted (loss) / earnings per share	(17.8)	16.1

The (loss) / earnings used in the calculation of basic and diluted (loss) / earnings per share are as follows:

	2020 $'000	2019 $'000
Net (loss) / profit	(19,397)	17,517
(Loss) / earnings used in the calculation of basic (loss) / earnings per share	(19,397)	17,517
(Loss) / earnings used in the calculation of diluted (loss) / earnings per share	(19,397)	17,517

The weighted average number of ordinary shares used in the calculation of basic and diluted (loss) / earnings per share are as follows:

	2020 No. '000	2019 No. '000
Weighted average number of ordinary shares for the purpose of basic (loss) / earnings per share	109,240	109,061
Weighted average number of ordinary shares for the purpose of diluted (loss) / earnings per share	109,240	109,061

18 DIVIDENDS

In respect of results for FY2019, the Group paid 8 cents per share of fully franked dividend to holders of fully paid ordinary shares, amounting to $8,812 thousand, on 16 October 2019. $87 thousand of these dividends related to reserve shares held by the Group (2019: $192 thousand).

In respect of results for FY2020, the directors have recommended no dividends to be paid out given the uncertain and challenging conditions arising from the COVID-19 crisis.

The movement in the franking account balance is noted below:

	2020 $'000	2019 $'000
Adjusted franking account balance	45,658	44,086
Franking credit recognised that will arise from income tax payable as at the end of financial year	7,689	2,452
Impact on franking account balance of dividends not recognised	-	(3,777)

19 COMMITMENTS FOR EXPENDITURE

(A) CAPITAL EXPENDITURE COMMITMENTS

	2020 $'000	2019 $'000
Not later than one year	44,053	-
Later than one year and not later than five years	13,364	-
	57,417	**-**

Capital commitments relate to aircraft under construction which will be acquired for use in the NSW Air Ambulance contract.

(B) OPERATING LEASE COMMITMENTS

	2019 $'000
Not later than one year	1,111
Later than one year and not later than five years	1,349
Later than five years	3,567
	6,027

(C) LEASE LIABILITIES

Lease liabilities were recognised in accordance with AASB 16 Leases for a number of property leases used for operations.

	Minimum lease payments	
	2020 $'000	2019 $'000
Not later than one year	242	-
Later than one year and not later than five years	686	-
Later than five years	3,434	
	4,362	-
Less future finance charges	(1,903)	-
Lease liabilities	2,459	-

20 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities nor contingent assets as at 30 June 2020 (2019: nil).

21 SUBSIDIARIES

Name of entity	Country of incorporation	Ownership Interest 2020 %	2019 %
Parent entity			
Regional Express Holdings Limited	Australia		
Subsidiaries			
Regional Express Holdings Limited	Australia	100	100
Rex Freight & Charter Pty Limited	Australia	100	100
Rex Investment Holdings Pty Limited	Australia	100	100
Pel-Air Aviation Pty Limited	Australia	100	100
Australian Airline Pilot Academy Pty Limited	Australia	100	100
VAA Pty Ltd	Australia	100	100
Aviation Training Academy Australia Pty Ltd	Australia	100	-
AAPA Victoria Pty Ltd	Australia	100	-
NAA Pty Ltd	Australia	100	-

Regional Express Holdings Limited is the head entity within the tax-consolidated group. These subsidiary companies are members of the tax-consolidated group.

22 ACQUISITION OF BUSINESS

In November 2019, the Group acquired Aviation Training Academy Australia Pty Ltd ("ATAA") business through the purchase of shares in ATAA and related aircraft for a total consideration of $9,425 thousand. ATAA through its wholly owned subsidiary AAPA Victoria Pty Ltd operates a pilot training academy.

	Provisional fair value $'000	Adjustments $'000	Final fair value $'000
Assets and liabilities acquired:			
Aircraft	7,734		7,734
Other property, plant and equipment	2,654	(413)	2,241
Right-of-use assets	965	(600)	365
Other intangible assets	49		49
Trade and other receivables	485		485
Trade and other payables	(989)		(989)
Lease liabilities	(965)		(965)
Deferred tax (liabilities)/assets	(888)	1,244	356
Provisions	(395)		(395)
Net assets acquired	**8,650**	**231**	**8,881**
Consideration on acquisition	**9,425**		**9,425**
Less: cash acquired	**(775)**		**(775)**
Net cash paid on acquisition	**8,650**		**8,650**
Gain on acquisition			**231**

The gain on acquisition was largely driven by tax losses which have been recognised on entry to the Group's tax consolidated group.

Adjustments to the provisional fair value set out in the interim financial report as at 31 December 2019 relate to the fair value of property, plant and equipment and right-of-use assets as well as tax losses recognised on entry into the tax consolidated group. The revenue and loss of the acquired entities since the acquisition date was $6,116 thousand and $406 thousand respectively.

23 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2020 $'000	2019 $'000
Cash and bank balances	11,198	16,727
Short term deposits	-	5,000
	11,198	21,727

(B) RECONCILIATION OF (LOSS)/PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2020 $'000	2019 $'000
(Loss) / profit for the year	(19,397)	17,517
Depreciation and amortisation	21,932	17,178
Asset impairment	62,084	-
Fair value on fuel swaps	3,387	-
Share-based payment	990	1,316
Unrealised foreign exchange loss / (gain)	522	(33)
Gain on acquisition / disposal of business	(231)	(808)
Loss on disposal of non-current assets	-	69
Interest received	(556)	(895)
Increase in receivables	(1,629)	(3,522)
Decrease in inventories	1,781	2,440
Increase in other assets	-	(360)
Increase in deferred tax	(20,284)	(323)
Increase / (decrease) in current tax payable	5,237	(3,276)
(Decrease) / increase in trade payables	(12,595)	2,237
(Decrease) / increase in provisions	(399)	1,249
Increase in other liabilities	-	252
Net cash flows from operating activities	**40,842**	**33,041**

The following table details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's statement of cash flows as cash flows from financing activities.

	Opening balance $'000	Financing cash flows $'000	Non-cash changes Adoption of AASB 16 $'000	Acquisition of business $'000	Disposal of leases $'000	Closing balance $'000
30 June 2020						
Movements in financing activities:						
Loan facility (Note 13)	8,072	(3,852)	-	-	-	4,220
Advance (Note 13)	-	10,000	-	-	-	10,000
Lease liabilities (Note 13)	-	(385)	3,954	965	(2,075)	2,459
	8,072	5,763	3,954	965	(2,075)	16,679
30 June 2019						
Movements in financing activities:						
Loan facility (Note 13)	11,591	(3,519)	-	-	-	8,072
Lease liabilities (Note 13)	4,963	(4,963)	-	-	-	-
	16,554	(8,482)	-	-	-	8,072

24 FINANCIAL INSTRUMENTS

(A) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The Group's overall strategy remains unchanged from 2019.

The capital structure of the Group consists of debt as disclosed in Note 13 and attributable to equity holders of the parent comprising issued capital, reserves as disclosed in Notes 15, 16 respectively, and retained earnings.

Operating cash flows are used to acquire assets required for the Group's operations, tax, dividends, share buy-backs and repayment of maturing debt. The Group's policy is to borrow centrally only if required.

GEARING RATIO

The Group's Board reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. The Board will balance its overall capital structure through the payment of dividends, new share issue and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The Group's interest-bearing liabilities and other facilities are set out in Note 13.

The net cash position at the end of the financial year was as follows:

	2020 $'000	2019 $'000
Debt [i]	(16,679)	(8,072)
Cash and cash equivalents	11,198	21,727
(Net debt) / excess cash and cash equivalents over debt	**(5,481)**	**13,655**
Equity [ii]	**173,658**	**205,419**
(Debt) / excess cash to equity ratio	**(3.2%)**	**6.6%**

[i] Debt is defined as long- and short-term interest-bearing liabilities, as detailed in Note 13.

[ii] Equity includes all capital and reserves of the Group that are managed as capital.

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group is exposed to foreign exchange, fuel price, interest rate and liquidity risk. Management of these risks is governed by the Group's policy approved by the Board of Directors, which provides written principles on the management of financial risks. Compliance with policies and exposure limits is reviewed by the Audit and Corporate Governance Committee and the Board on an ongoing basis. The Group does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes. The Treasury function, which co-ordinates the hedging of financial risks from time to time, is managed by the Group's Corporate Services Department and reports regularly to the Board and Audit and Corporate Governance Committee.

(C) FOREIGN CURRENCY RISK MANAGEMENT

The Group undertakes certain transactions denominated in United States Dollars (USD) and Chinese Yuan (CNY), hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed using forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the financial year is as follows:

	USD		CNY	
	2020 USD$'000	2019 USD$'000	2020 CNY$'000	2019 CNY$'000
Liabilities	1,212	1,306	-	-
Assets	1,447	-	2,448	-

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group is mainly exposed to foreign currencies for the following main purchases, approximate amounts per annum are:

- USD 24 million for engineering purchases
- USD 15 million for engine care and maintenance
- USD 3 million for airline reservation systems usage
- USD 3 million for aircraft insurance policies
- CNY 27 million for training income revenue

Details of USD exposure with respect to the NSW Air Ambulance aircraft purchases is set out further below.

The following table details the Group's sensitivity to a 10% increase and 10% decrease in the Australian Dollar against the USD and CNY. The sensitivity analysis includes only outstanding non-derivative foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	2020 $'000	2019 $'000
Change in USD impact on profit or loss	30	190
Change in CNY impact on profit or loss	50	-

The Group's sensitivity to foreign currency has remained constant, with the exception of the forward foreign exchange contracts which are set out separately below.

FORWARD FOREIGN EXCHANGE CONTRACTS

The Group enters into forward FECs to manage the risk associated with anticipated sales and purchase transactions up to twelve months and up to 100% of the exposure generated. Basis adjustments are made to the carrying amounts of nonfinancial hedged items when the anticipated sale or purchase transaction takes place.

During the current year, the Group entered into a contract for the purchase of aircraft which will be used to operate the NSW Air Ambulance aeromedical service. The purchase of these aircraft is denominated in USD. A total of $21,845 thousand has been spent at 30 June 2020, with further spending in FY21-FY22 required, resulting in total aircraft purchases of approximately $77,670 thousand which will be paid by December 2021.

The Group has entered into a number of FECs as part of the debt facility agreement with the financier to hedge against the movement in USD. The Group has also entered into FECs to hedge against the movement in CNY for training income from foreign customers. These contracts are classified as cash flow hedges.

The undiscounted cash flows required to discharge the Group's FECs in place at 30 June 2020 are presented below:

	Less than 12 months $'000	1-5 years $'000	5+ years $'000
2020			
FECs - USD	(829)	-	-
FECs - CNY	40	-	-
	(789)	**-**	**-**

The sensitivity of the value of these FECs to a change in the respective currencies compared to AUD are set out below:

		20% increase		20% decrease	
	Carrying amount $'000	Profit/(loss) $'000	Equity $'000	Profit/(loss) $'000	Equity $'000
2020					
FECs - USD	(829)	-	5,692	-	(8,539)
FECs - CNY	40	-	(816)	-	1,225
	(789)	-	4,876	-	(7,314)

There were no FECs on issue at 30 June 2019.

(D) FUEL PRICE RISK MANAGEMENT

The Group may use jet fuel swap contracts to hedge exposure to movements in the price of aviation fuel. Jet fuel swaps are taken out from time to time to hedge exposures to a maximum of 12 months in accordance with the Group's risk management policies. The Group uses fuel swaps linked to the Platts Singapore Kerosene benchmark to hedge exposures to jet fuel.

At 30 June 2020 the Group has in place fuel swap contracts to hedge notional fuel purchases of 3.5m litres of fuel per month to June 2021.

Due to the impact of COVID-19 and reduction of expected flying, the notional fuel purchases exceed the highly probable fuel purchases over the period of the fuel swaps. As a result, the directors have considered the forecast fuel purchases based on the current and forecast activity levels, and in line with these activity levels have de-designated the portion of the fuel swap hedges which are in excess of the forecasted activity and therefore ineffective.

The ineffective portion of the fair value movement of the fuel swaps of $3,387 thousand has been recognised in profit or loss. The effective portion, representing the fair value movement for fuel swaps for which the notional fuel purchases remain highly probable, is $1,947 thousand and has been recognised in the cash flow hedge reserve.

The following table sets out the timing of the notional amount and the jet fuel price of the Group's fuel swap instruments:

	Swap price $ per L	Notional amount L'000	Less than 1 year L'000	1 to 2 years L'000	2 to 5 years L'000
AUD fuel costs					
2020	0.54	45,500	45,500	-	-
2019	0.70	13,692	13,692	-	-

The following table details the sensitivity of the Group's financial assets and liabilities to a 20% increase and 20% decrease in the jet fuel price. A positive number indicates an increase in profit or loss and other equity where the jet fuel price weakens. For an increase in the jet fuel price there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative. This analysis assumes that all other variables remain constant and based on the designated hedge relationship at the reporting date.

	Carrying amount $'000	20% increase Profit/(loss) $'000	20% increase Equity $'000	20% decrease Profit/(loss) $'000	20% decrease Equity $'000
2020					
Derivative asset – jet fuel swap	-	-	-	-	-
Derivative (liability) – jet fuel swap	(5,334)	1,552	1,107	(1,294)	(922)
	(5,334)	1,552	1,107	(1,294)	(922)
2019					
Derivative asset – jet fuel swap	360	-	1,917	-	(1,917)
Derivative (liability) – jet fuel swap	-	-	-	-	-
	360	-	1,917	-	(1,917)

(E) INTEREST RATE RISK MANAGEMENT

The Group's exposures to interest rates on financial assets and financial liabilities at 30 June 2020 are detailed in the liquidity risk management section of this note. The Group has very little exposure to interest rate risk at 30 June 2020 on borrowings detailed in Note 13 as these borrowings are at a fixed interest rate.

The Group has entered into a facility agreement to acquire aircraft to operate the NSW Air Ambulance contract. This facility was undrawn at 30 June 2020. To hedge against exposures to interest rate risk, the Group has entered into interest rate swap contracts with the financier to fix interest rates over the facility term.

The interest rate swaps comprise two contracts which align with the construction and operational phases of the NSW Air Ambulance contract. Under the swap contracts the BBSY rate is swapped to fixed rates set out below:

	Notional amount $'000	Start date	End date	Swap rate %
Construction phase	12,617	2 Nov 2020	1 Jan 2022	0.7921
Operational phase	77,670	4 Jan 2022	31 Dec 2031	1.2588

The notional amount for the service period swap reduces as repayments are made under the amortising facility. The undiscounted cash flows required to discharge the Group's interest rate swap contracts in place at 30 June 2020 are presented below:

	Less than 12 months $'000	1-5 years $'000	5+ years $'000
2020			
Construction phase	(134)	(190)	-
Operational phase	-	(1,788)	6
	(134)	**(1,978)**	**6**

The sensitivity of the value of these interest rate swaps to a change in interest rates are set out below:

	Carrying amount $'000	50bps increase Profit/(loss) $'000	50bps increase Equity $'000	50bps decrease Profit/(loss) $'000	50bps decrease Equity $'000
2020					
Construction phase	303	-	(273)	-	273
Operational phase	1,777	-	(1,932)	-	1,932
	2,080	**-**	**(2,205)**	**-**	**2,205**

There were no interest rate swaps on issue at 30 June 2019.

(F) CREDIT RISK MANAGEMENT

The Group has limited exposure to credit risk as the majority of its revenue is derived from sales made through credit cards where counterparties are either banks or the credit card companies. The disputes to the credit card charges amount to less than $50,000 a year.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(G) LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's operating activities generate positive annual cash flow. The Group tries to maintain a $10 million cash balance by the end of each financial year. As and when required, the Group uses financing facilities as detailed in Note 13.

LIQUIDITY AND INTEREST RISK TABLES

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The amounts disclosed are based on the contractual undiscounted principal and interest cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	1 month $'000	1-3 months $'000	3 months to a year $'000	1-5 years $'000	5+ years $'000
2020					
Non-interest bearing	19,483	-	-	-	-
Interest bearing	369	739	13,324	-	-
	19,852	**739**	**13,324**	**-**	**-**
2019					
Non-interest bearing	20,939	-	-	-	-
Interest bearing	369	739	3,324	4,431	-
	21,308	**739**	**3,324**	**4,431**	**-**

The interest-bearing liabilities have a weighted average effective interest rate of 9.1% per annum for the 10-year bank loan (FY2012 to FY2021) which was fully repaid on 25 August 2020, and 0.15% per annum for the NSW Ambulance advance.

(H) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at the amortised cost in the financial statements approximate their fair values.

(I) FAIR VALUE HIERARCHY

The following table analyses financial instruments carried at fair value. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels during the year.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2020				
Financial assets carried at fair value				
Derivative asset – jet fuel swap	-	-	-	-
Derivative asset – FECs	-	40	-	40
Financial liabilities carried at fair value				
Derivative liability – jet fuel swap	-	5,334	-	5,334
Derivative liability – interest rate swap	-	2,080	-	2,080
Derivative liability – FECs	-	829	-	829
30 June 2019				
Financial assets carried at fair value				
Derivative asset – jet fuel swap	-	360	-	360
Financial liabilities carried at fair value				
Derivative liability – jet fuel swap	-	-	-	-

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Fuel swap hedging contracts, interest rate swaps and foreign exchange derivative contracts are financial instruments that use valuation techniques with only observable market inputs and are included in Level 2 above. Future cash flows are estimated based on forward rates (from observable forward rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The Group does not have any Level 1 or Level 3 financial instruments.

25 KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	2020 $	2019 $
Short-term benefits	2,231,011	2,214,282
Post-employment benefits	179,454	179,960
Other long-term benefits	29,939	29,555
Share-based payment	30,921	29,751
	2,471,325	**2,453,548**

26 RELATED PARTY TRANSACTIONS

(A) EQUITY INTERESTS IN SUBSIDIARIES

Details of interests in subsidiaries are disclosed in Note 21 to the consolidated financial statements.

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

(I) KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key management personnel compensation are disclosed in Note 25 to the consolidated financial statements.

(II) LOANS TO KEY MANAGEMENT PERSONNEL

Loans have been provided to two key management personnel totalling $91,799 which were issued in prior years. There have been no changes to the principal amount of the loans and interest paid during the year was $4,776.

(C) OTHER RELATED PARTY TRANSACTIONS

The Branksome Residences Pty Ltd ("Branksome"), a related entity of the Chairman, provides hotel, conference and venue hire services to the Group. Total purchases from Branksome, mainly room hire for aircrew, were $329 thousand during the year (2019: $339 thousand). In addition, the Group provides administrative services to Branksome and Greatland Development Pty Ltd, a related entity of the Chairman. The total income earned by the Group from these entities was $63 thousand (2019: $60 thousand).

27 REMUNERATION OF AUDITORS

	2020 $	2019 $
Audit and review of the consolidated financial statements	363,300	357,725
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	6,825	6,678
Other non-audit services - tax compliance, tax advice	21,000	12,600
	391,125	**376,803**

The auditor of the Group is Deloitte Touche Tohmatsu.

28 EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year end there were further restrictions on movement as a result of increased cases of COVID-19 in a number of states in which the Group operates, particularly Victoria. The imposition of these lockdowns and border closures has had an effect on passenger demand of the Group's regular public transport (RPT) services, however as the majority of the Group's RPT services are intra-state the impact is largely limited to the restrictions within each state.

The key assumptions used in the impairment modelling as set out in Note 13 and the going concern forecast set out in Note 4 are largely in line with the actual passenger demand, and the impact in the financial year to date has been limited given that the Group's network in the affected states is supported by the Regional Airline Network Support (RANS) program.

In July 2020, having contractually committed to the project prior to March 2020, Rex completed modifications to an existing building located next to its Sydney head office which will house a Saab 340 Full Flight Simulator (FFS) owned by Ansett Aviation Training (AAT). The Sydney Simulator Flight Training Centre is now in readiness to accept the installation of the FFS. The Simulator Flight Training Centre has been designed to allow for future expansion and provisioning is in place for the installation of another type- specific aircraft FFS.

On the 21 September 2020, Rex signed a long-form term sheet with PAG Asia Capital for the investment of up to AUD150M to be used exclusively to support the launch of Rex's domestic major city jet operations scheduled to commence on 1 March 2021.

The Funding is proposed to comprise first ranking senior secured convertible notes.

It is proposed that an initial Funding tranche of AUD50 million will be drawn on completion of the Transaction, targeted for the end of December 2020, with the balance of the Funding drawn over the following three years. The Funding is subject to completion of due diligence by PAG; to agreement and execution of long-form documentation; to customary conditions including Rex shareholder approval for the purposes of section 611 (Item 7) of the *Corporations Act 2001* (Cth) and the ASX Listing Rules, which is intended to be sought at Rex's Annual General Meeting that is tentatively scheduled for early December 2020; as well as to the Foreign Investment Review Board and any other required regulatory approvals. The terms of the Funding will also be reviewed by an independent expert.

The Notes will be convertible at AUD1.50 per share, subject to certain adjustments. Based on Rex's current issued share capital, if the AUD50 million tranche is fully converted into shares, PAG would hold approximately 23% of Rex's total issued shares and if the full AUD150 million is drawn down and fully converted, PAG would hold approximately 48% of Rex's issued shares.

Upon Completion, PAG will be entitled to nominate two directors to the Rex board.

On 29 September 2020 the Group signed Letters of Intent (LOIs) with two lessors for the lease of six Boeing 737-800 NG jets. The Group intends to lease these aircraft for the launch of domestic jet operations and expects to take delivery of the first jet on or around 1 November 2020.

The LOIs are non-binding apart from a refundable security payment and are subject to various conditions including the preparation and execution of lease agreements. The directors expect these aircraft will be deployed in the first phase of the launch of domestic jet operations which will see three aircraft deployed on 1 March 2021.

29 SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance is more specifically focused on the category of customer for each type of service.

The Group's reportable segments under AASB 8 are as follows:

- Regular public transport
- Charter

The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the year:

	Revenue		Segment result	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Continuing operations				
Regular public transport	292,099	289,134	(16,928)	27,945
Charter	29,721	28,515	(686)	5,044
	321,820	**317,649**	**(17,614)**	**32,989**
Finance income			556	895
Other (losses) / gains			(824)	1,111
Central administration costs and directors' salaries			(8,684)	(7,838)
Finance costs			(850)	(1,956)
(Loss) / profit before tax			(27,416)	25,201
Tax benefit / (expense)			8,019	(7,684)
Consolidated segment revenue and (loss) / profit			**(19,397)**	**17,517**

The revenue reported above represents revenue generated from external customers and government grants and subsidies of $62,095 thousand. There were no intersegment sales.

Segment result represents the profit earned by each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets and liabilities by reportable operating segment as at the end of the year:

	Assets		Liabilities	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Continuing operations				
Regular public transport	215,682	220,967	51,041	46,034
Charter	37,163	51,882	28,146	21,396
Total assets / liabilities	**252,845**	**272,849**	**79,187**	**67,430**

Other segment information for the year is as follows:

	Depreciation and amortisation		Additions to non-current assets	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Continuing operations				
Regular public transport	16,575	12,708	28,864	17,920
Charter	5,357	4,470	21,853	110
	21,932	**17,178**	**50,717**	**18,030**

30 PARENT ENTITY DISCLOSURES

	2020 $'000	2019 $'000
(A) FINANCIAL POSITION		
Assets		
Current assets	25,451	43,941
Non-current assets	165,936	176,056
Total assets	**191,387**	**219,997**
Liabilities		
Current liabilities	49,350	53,911
Non-current liabilities	4,143	1,816
Total liabilities	**53,493**	**55,727**
Equity		
Issued capital	72,024	72,024
Retained earnings	65,689	90,274
Share-based payments reserve	1,200	1,404
Cash flow hedge reserve	(3,371)	252
General reserve	2,352	316
Total equity	**137,894**	**164,270**
(B) FINANCIAL PERFORMANCE		
(Loss) / profit for the year	(16,369)	11,070
Other comprehensive (loss) / income	(3,623)	252
Total comprehensive (loss) / income	**(19,992)**	**11,322**

(C) GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

During FY2011, the parent entity entered into a deed of cross guarantee in relation to the debts of Pel-Air Aviation Pty Ltd, Rex Freight and Charter Pty Ltd, Rex Investment Holdings Pty Ltd and Australian Airline Pilot Academy Pty Ltd.

In FY2020, AAPA Victoria Pty Ltd, Aviation Training Academy Australia Pty Ltd, VAA Pty Ltd and NAA Pty Ltd joined into the same deed of cross guarantee.

By entering into the deed, the wholly owned entities have been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended) and Instrument 2016/785 issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Instrument, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Regional Express Holdings Limited, they also represent the 'Extended Closed Group', therefore the Group's financial statements represent the financial statements of the 'Extended Closed Group'.

(D) CONTINGENT LIABILITIES OF THE PARENT ENTITY

As at 30 June 2020, no contingent liabilities or assets existed (2019: nil).

(E) COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT BY THE PARENT ENTITY

As at 30 June 2020, the parent entity has no commitment for the acquisition of property, plant and equipment.

31 SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements include the consolidated financial statements of the Group. For the purpose of preparing the consolidated statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 30 September 2020.

(B) BASIS OF PREPARATION

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The consolidated financial statements have been prepared on a going concern basis. In preparing the consolidated financial statements the directors note that the Group and Company are in a net current asset deficiency position, due to the nature of the operations whereby customers make payment for booked flights prior to the flights being taken and the impact of COVID-19 which is set out in Note 4. The directors have prepared a cash flow forecast which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report. Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate. Further details with respect to going concern are set out at Note 4.

In accordance with Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial statements amounts in the financial statements have been rounded to the nearest hundred thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

(C) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the noncontrolling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

(D) REVENUE

REGULAR PUBLIC TRANSPORT, CHARTER AND FREIGHT REVENUE

The Group operates a number of air transport services:

- Regular public transport
- Charter services
- Freight services

Revenue from these services is recognised as revenue when the transportation service is provided.

The value of passenger revenue which has been booked and paid for but not yet flown is recorded as unearned revenue in the statement of financial position. The Group does not adjust the consideration for any effects of a significant financing component as it is expected at contract inception that the period between the transfer of goods and services and customer payments will be one year or less. Ancillary revenues which are not considered distinct from the travel component because they are not capable of being separable are recognised as part of passenger revenue.

Breakage on passenger revenue is recognised in proportion to the pattern of rights exercised by the customer as reflected by the point of flown to match the timing of revenue recognition with the underlying ticket performance obligations. This is based on historical experience. This estimation is made such that the revenue recognised from passenger ticket breakage is not expected to result in a significant reversal of cumulative revenue in the future.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained, such as sales commissions. The Group recognises the incremental costs of obtaining contracts in line with the timing of the revenue to which they relate.

TRAINING REVENUE

The Group operates a pilot academy, Australian Airline Pilot Academy ("AAPA") which provides training services to the Group's cadets as well as for external customers. Training revenue from external customers is recognised over time in relation to the training services being provided.

Cadet loans are offered to the Group's cadets which defer payment of a portion of the training service fees over a period of seven years from the date of the completion of the pilot training. These loans are interest bearing and are repaid over the service period. The interest on the cadet loans is recognised as finance income in the statement of profit or loss.

(E) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(F) CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

REX holds term deposits for the purposes of meeting financial obligations for workers compensation insurance. In prior periods, these were treated as cash equivalents and reported as part of cash on the statement of financial position. The term deposits are interest bearing and have a maturity date of greater than 90 days at inception. Accordingly, these term deposits do not meet the definition of cash equivalents and have been classified as part of other receivables. Comparatives have been restated to reflect the change.

(G) FOREIGN CURRENCIES

The individual financial statements of each Group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars ('$'), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to Note 24).

(H) DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into jet fuel swap and foreign exchange derivatives to hedge exposures to jet fuel prices and foreign exchange respectively. In the current year, the Group also entered into interest rate swap derivatives to hedge exposures to interest rates with respect to the NSW Air Ambulance facility. It is the Group's policy not to enter into or hold derivative financial instruments for speculative trading purposes. Derivative financial instruments are recognised at fair value both initially and on an ongoing basis. Transaction costs attributable to the derivative are recognised in profit or loss when incurred.

HEDGE ACCOUNTING

The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges). At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss..

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss. The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable).

This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

(I) EMPLOYEE BENEFITS

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(J) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income
- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group holds equity investments at fair value through other comprehensive income where an irrevocable election has been made by the Group to present subsequent changes in fair value after initial recognition in other comprehensive income. On derecognition of the investment, there is no subsequent reclassification of fair value gains and losses to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payments is established.

LOANS AND RECEIVABLES

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'financial assets at amortised cost'. The Group holds loans and receivables with the objective to collect contractual cash flows and therefore they are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets which do not meet the criteria for amortised cost or fair value through other comprehensive income are recognised at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Fair value is determined in the manner described in Note 24.

IMPAIRMENT OF FINANCIAL ASSETS

The Company applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

The expected loss rates are based on the payment profiles of sales over a period of 36 month and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and prospective information on macroeconomic factors affecting the ability of the counterparty to settle the receivables.

Trade and other receivables are written off when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. Indicators that there is no reasonable expectation of recovery include, amongst others, the entry of the debtor into administration or liquidation.

Impairment losses on trade and other receivables are presented as impairment losses within profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

DERECOGNITION OF FINANCIAL ASSETS

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

(K) FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

CLASSIFICATION OF DEBT OR EQUITY

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity Instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

FINANCIAL LIABILITIES

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities at amortised cost.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 24.

OTHER FINANCIAL LIABILITIES AT AMORTISED COST

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(L) GOODWILL

Goodwill acquired in a business combination is carried at cost established at date of the acquisition of the business less accumulated impairment losses if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(M) GOVERNMENT GRANTS

Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. The grant income has been recognised in the consolidated statement of profit and loss on a gross basis with any related expenses being recognised in the applicable expense category.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government assistance which does not have conditions attached specifically relating to the operating activities of the entity is recognised in accordance with the accounting policies above.

(N) IMPAIRMENT OF OTHER TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(O) TAXATION

Income tax (benefit) / expense represents the sum of the tax currently payable and deferred tax

CURRENT TAX

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income/statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

CURRENT AND DEFERRED TAX FOR THE PERIOD

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(P) INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets with finite lives that are acquired separately are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis. Intangible assets with indefinite lives that are acquired separately are carried at cost less accumulated impairment losses.

The policies applied to finite intangible assets are as follows:

Intangible asset:	computer software
Amortisation method used:	4 years straight line
Impairment test / recoverable amount testing:	where an indicator of impairment exists

(Q) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost of inventories is determined on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale, or replacement cost price in relation to the consumables.

Consumables expected to be consumed within 12 months are classified as current, or non-current where consumption are expected in a period beyond 12 months.

(R) LEASING

The Group predominantly leases properties and aircraft and equipment.

GROUP AS LESSOR

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease.

All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

GROUP AS LESSEE

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

a. Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
   - Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
b. The amount expected to be payable by the lessee under residual value guarantees;
c. The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
d. Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

e . The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

f . The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

g. A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

(S) PROPERTY, PLANT AND EQUIPMENT

Land and buildings, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The rates applied are as follows:

Aircraft	15,000 to 60,000 hours
Building	20 to 40 years
Computer Equipment	4 to 5 years
Engines	10 to 20 years
Furniture & Fittings	8 to 10 years
Leasehold Improvements	over the unexpired lease period
Motor Vehicles	7 years
Plant & Equipment	8 years
Rotable Assets	5 to 20 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising in the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(T) PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(U) SHARE-BASED PAYMENTS

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of the equity-settled share-based transactions are set out in Note 16.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest with and corresponding to increase in equity.

Equity-settled share-based payment transactions with other parties other than employees are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and the date of settlement, the fair value of the liability is measured, with any changes in fair value recognised in profit or loss for the year.

Reserved share account represents on market purchase of shares by the Group which are eventually granted to executives and employees as part of their remuneration.

(V) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(W) DIVIDEND AND INTEREST INCOME

Dividend from investments is recognised when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from or financial assets is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 31(A) to the consolidated financial statements;

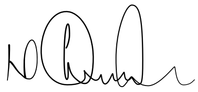
(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position as at 30 June 2020 and performance of the consolidated entity for the financial year ended on that date; and

(d) the directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

At the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in Note 30(C) will be able to meet and obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 30(C).

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the *Corporations Act 2001*.

On behalf of the Directors



Neville Howell
Chief Operating Officer

Sydney, 30 September 2020

Deloitte.

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Independent Auditor's Report to the Members of Regional Express Holdings Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Regional Express Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2020, consolidated statement of profit or loss, consolidated statement of other comprehensive income or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How the Key Audit Matter was addressed in the audit</th></tr>
<tr><td>Carrying value of assets

As set out in Note 9, at 30 June 2020 the Group has recognised aircraft and other property plant & equipment of $92.27 million and $80.15 million respectively in the consolidated statement of financial position.

The Group’s operations have been significantly disrupted since the beginning of the COVID-19 pandemic and continue to be negatively impacted, the severity and duration of which is dependent on factors beyond the Group’s control.

Long term cash flow forecasts are required to support the value of the assets recognised. As disclosed in Note 10 to the financial statements, key estimates made which require significant judgement in determining the inputs into these forecasts which include:
• Recovery of passengers and network capacity;
• Growth rates for revenue, operating costs and fuel costs;
• Capital expenditure; and
• Discount rate.

There is a high degree of uncertainty in the estimations and assumptions used in the cash flow forecasts which form the basis of the recoverable amounts attributable to the Group’s CGUs.</td><td>In conjunction with our valuation specialists, our procedures included, but were not limited to:

• Evaluating management’s identification of CGUs;
• Assessing key assumptions made by management in relation to estimated useful lives and residual values of assets using valuation reports published by third party specialists, industry data and the Group’s historical experience and future operating plans;
• Challenging the assumptions used in management’s impairment analysis by:
  ○ Evaluating the historical accuracy of management’s past estimates and taking into account each CGU’s future operating plans;
  ○ Assessing management’s estimates relating to the recovery of passenger demand and activity with reference to the pre-COVID-19 activity levels and other available internal and external information;
  ○ Assessing the reasonableness of the key inputs and assumptions underlying the calculations in the models; and
  ○ Performing sensitivity analysis on the key model inputs and assumptions.

We also assessed the appropriateness of the disclosures in Note 10 to the financial statements.</td></tr>
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Key Audit Matter	How the Key Audit Matter was addressed in the audit
Assumptions in liquidity forecasts As at 30 June 2020, the Group has net assets of $173.66 million and net current liabilities of $33.92 million. As described in Note 4 to the financial statements, the financial statements have been prepared on the going concern basis. The Group has further set out its consideration of the liquidity position and risks to the Group arising from the impact of COVID-19 as well as mitigating factors in relation to these risks in Note 4. The Group's operations are forecast to be significantly disrupted due to the impacts of the COVID-19 pandemic, the severity and duration of which is dependent on factors beyond the Group's control. Management have prepared cash flow forecasts to demonstrate the Group's ability to be able to pay its debts as and when they become due and payable and to support the preparation of the financial statements on the going concern basis. This requires the achievement of cash flow forecasts, which include assumptions about those future cash flows and the forecast results. The assumptions used in the liquidity forecasts are considered to be a key audit matter due to the high degree of estimation uncertainty and judgement required in the cash flow forecasts.	Our audit procedures to evaluate the appropriateness of the Group's assessment of the assumptions used in its forecasts to meet liquidity obligations for a period not less than 12 months from the date of our auditor's report included, but were not limited to: • Evaluating and challenging the key assumptions underlying cash flow forecasts prepared for the period covered by the assessment; • Evaluating the historical accuracy of management's past forecasts and taking into account the Group's strategy and operating plans; • Assessing the quantum and timing of forecast cash flows; • Performing sensitivity analysis on the forecast cash flows, with reference to available cash balances and forecast cash flows from operating activities; • Evaluating financial performance in the period from year end to the audit opinion date against the cash flow forecast for the same period; and • Assessing the terms of any loan facilities and timing of repayments. We also assessed the appropriateness of the disclosures included in Note 4 to the financial statements.

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Key Audit Matter	How the Key Audit Matter was addressed in the audit
Valuation of unearned revenue As at 30 June 2020, the Group recognised unearned revenue of $16.03 million in the consolidated statement of financial position. The Group's calculation of unearned revenue in respect of flights purchased but not yet flown requires significant judgment, requiring significant volumes of data from flight booking systems and passenger reports to be analysed and matched, along with estimated adjustments to unearned revenue such as the level of no-shows. The COVID-19 pandemic has caused flight cancellations and a decline in forward bookings which has increased the complexity of the calculation of unearned revenue.	Our procedures included, but were not limited to: • Assessing the accounting policies adopted by the Group in relation to revenue recognition; • Testing a sample of controls over the determination of unearned revenue; • Testing the integrity of the flight booking systems and passenger reports by comparing a sample of flight information to the cash receipt and flight data; • Agreeing the inputs in the reconciliation of unearned revenue to external flight booking systems; and • Challenging the assumptions used by management in relation to the rate of no-shows to assess the no-show revenue to be recognised in profit or loss. We also assessed the appropriateness of the disclosures in Note 5, Note 12 and Note 31 to the financial statements.
Grant revenue As set out in Note 4, the Group has received a number of grants under various state and federal government programs. These include: • Regional Airline Funding Assistance (RAFA); • Regional Airline Network Support (RANS); • Jobkeeper; • Australian Airline Financial Relief Package (AAFRP); and • Other state-based grants. Grant revenue of $62.10 million was recognised during the year. Government grants awarded to REX require the Group to meet certain conditions including eligibility of related expenditure, and reporting requirements for claimed amounts. Judgement is required in the recognition of grant revenue in accordance with the relevant grant agreements and/or legislation.	Our procedures included, but were not limited to: • Assessing the appropriateness of accounting policies adopted by the Group in relation to government grants; • Obtaining the relevant grant agreements to which the Group is entitled; • Selecting a sample of grants recognised in the year and agreeing the claims to supporting documentation; • Evaluating the recognition of the grants with respect to the Group's accounting policies. We also assessed the appropriateness of the disclosures in Note 4 and Note 31 to the financial statements.

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves a fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 26 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Regional Express Holdings Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of Regional Express Holdings Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

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Damien Cork
Partner
Chartered Accountants
Sydney, 30 September 2020

ASX ADDITIONAL INFORMATION AS AT 04 DECEMBER 2020

This is required by the ASX, but falls outside of the audit opinion and therefore has no impact on the audit report issued.

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary share capital

110,154,375 fully paid ordinary shares are held by 3,944 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES

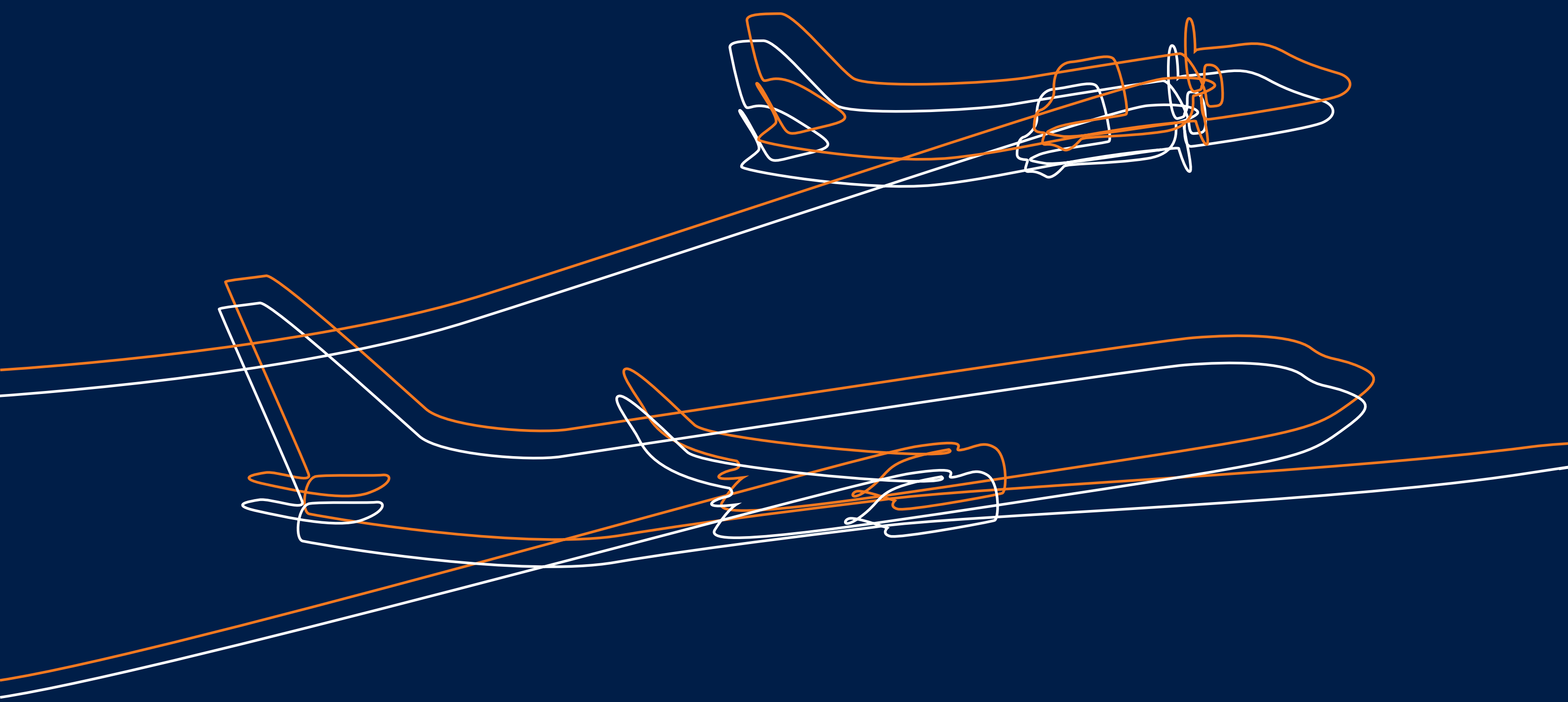
	Fully Paid Ordinary Shares		
	Investors	Securities	Issued Capital (%)
1 – 1,000	1,656	980,216	41.99
1,001 – 5,000	1,597	4,184,684	40.49
5,001 – 10,000	330	2,626,862	8.37
10,001 – 100,000	313	8,159,105	7.94
100,001 and over	48	94,203,508	1.22
Total	**3,944**	**110,154,375**	**100.00**
Unmarketable Parcels	217	16,465	5.50

SUBSTANTIAL SHAREHOLDERS

	Fully Paid	
Ordinary Shareholders	Number	Percentage
MR KIM HAI LIM	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

TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

	Fully Paid	
Ordinary Shareholders	Number	Percentage
MR KIM HAI LIM	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
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED (Account 1)	3,815,907	3.46
LAY KHIM NG	3,727,181	3.38
REX INVESTMENT HOLDINGS PTY LIMITED (Account for Shares Gifted to Employees)	3,386,140	3.07
PACIFIC CUSTODIANS PTY LIMITED	3,181,767	2.89
CITICORP NOMINEES PTY LIMITED	2,859,142	2.60
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED (Account 2)	1,564,308	1.42
ANACACIA PTY LTD	1,290,441	1.17
MR THIAN SONG TJOA	978,679	0.89
MR MICHAEL KARL KORBER	880,000	0.80
STRATEGIC VALUE PTY LTD	843,124	0.77
NEWECONOMY COM AU NOMINEES PTY LIMITED	583,073	0.53
MR CARMELO COSTA	555,000	0.50
BNP PARIBAS NOMINEES PTY LTD	524,128	0.48



REX GROUP OF COMPANIES