9th February 2022

(ASX: AQZ)

ASX RELEASE - Alliance Aviation Services Limited ("Alliance")

SUBSTANTIAL CAPITAL AND RECRUITMENT PROGRAM
COVID-19 IMPACT DELAYED NEW WET LEASE REVENUE

Key Half Year Highlights

- Underlying profit before tax: $20.7 million, down $6 million;[1]
- Statutory loss before tax: $4.5 million;
- Underlying operating cash flow for the half year: $50.5 million, up from $49.6 million;[2]
- Total revenue from operations: $171.2 million, up $16.4 million;
- Record reported On Time Performance of 97% for the period;
- Significant ongoing delay in wet lease deployment as a result of COVID-19 which has had a negative impact in the short term; and
- Alliance retains a positive outlook for the 2022 financial year with exponential growth from the 2023 financial year as the additional aircraft are deployed.

Alliance has continued to invest heavily in preparing for its next phase of growth. This investment included operating costs for recruitment, personnel, training, financing, and regulatory infrastructure of $25.2 million related to the E190 program. This was expensed in 1HFY22 and has contributed to the Group reporting a statutory loss before tax of $4.5 million.

The Group's underlying financial result is a profit before tax of $20.7 million (2020: $26.7 million). The Group recorded a positive underlying operating cashflow of $50.5 million.

Alliance's Managing Director, Scott McMillan, stated, "Alliance will continue to invest in fleet, equipment, spare parts and personnel to ensure the Company has the required capacity to satisfy its contracted wet lease routes and other future growth post COVID-19".

Mr McMillan continued, "Since the last reporting period the Company has increased its operating fleet by eight E190s and number of personnel by 87. It is well known that there have been numerous impacts on the national economy brought about by COVID-19 and various government responses. As a result, the Company has suffered a delay on wet lease flying activity. Alliance maintains a very confident outlook and is of the view that significant additional flying will commence in April this year."

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1 Prior comparative underlying profit before tax (PBT) is calculated as statutory PBT of $33.6 million reduced by $6.9 million of rebates received.

2 Prior comparative underlying cash flow is calculated as statutory operating cash flow of $47.5 million reduced by $6.9 million of rebates received and increased by $9 million on inventory packages purchased.

As a guide to the scale of the benefit arising from the recent investment, in FY21 the Company flew 37,913 hours. With the continued investment in fleet and personnel, Alliance will have an annualised capacity of 135,000 hours. The Company already owns the fleet required to deliver this capacity, which will result in substantially increased financial performance.

The Group has also commenced construction of the Rockhampton Maintenance hangar, which is a 10,000 sqm structure scheduled for certification in January 2023. This facility will allow all base maintenance to be brought back from overseas with a significant future benefit to Group profitability, fleet availability and reduced fuel consumption. Moreover, it will mean the Company controls its maintenance onshore, reducing sovereign risk. Complementing the drive for self-sufficiency, the Company's subsidiary, Unity Aviation Maintenance Pty Limited, will no longer provide third party maintenance services and will become the E190 centre of excellence for Alliance's line maintenance operations.

The Company's traditional FIFO business remains robust with opportunities for material growth in the short and medium term.

Since COVID-19 took hold at the start of calendar 2020 the Company has:

- Invested in growth by acquiring 32 E190 aircraft;
- Expanded operations to support the fleet through hiring and training 78 pilots, 77 cabin crew, 36 engineers (partially acquired through Unity Aviation Maintenance) and 25 additional corporate staff;
- Commenced construction of a purpose-built maintenance facility in Rockhampton, partly funded by a long term NAIF facility. This provides sovereign security around our future heavy maintenance capability;
- Pioneered COVID-19 safe flying for our mining customers; and
- Taken the opportunity to win new contracts by targeting customers that typically (pre-COVID-19) utilised regular public scheduled flights and see value in a dedicated service.

Underlying Results Overview

Metric	**1H22**	**2H21**	**1H21**
Revenue from operations	$171.2m	$153.1m	$154.8m
Underlying EBITDA	$40.5m	$44.5m	$46.0m
Underlying PBT	$20.7m	$24.3m	$26.7m
Aircraft in Service	56*	48	43

*Includes two E190's on dry lease to a third party.

The increase in total revenue in the half year was a result of growth in contract and wet lease activity. Contract revenue benefited from stable activity from existing customers and the full half-year impact of recently acquired customers. Wet lease activity grew significantly compared to prior comparative period ("PCP") which resulted in revenue generation of $14.9 million however this was lower than forecast due to ongoing COVID-19 issues.

Charter and RPT revenues decreased in the period by 64.3% and 33.3% respectively when compared to the PCP. Customer conversion from charter to contract revenue is responsible for most of the reduction in charter revenue whilst ad-hoc charter also reduced in the half-year as border restrictions eased and scheduled services resumed. Alliance's RPT footprint continues to reduce as Alliance focuses on being a wholesaler of capacity.

Underlying EBITDA in the PCP was positively impacted by the waiver of air navigation charges and a declining fuel price.

Underlying operating cash flow for the half year was stable at $50.5 million (2020: $49.6 million). This result further highlights the continued robustness and stability of the contract business.

Cash out flows for investing activities were $60.3 million for the half year (2020: $101.4 million) and included Fokker fleet sustaining capital expenditure of $12.4 million, $45.5 million for the settlement of six E190 aircraft (and associated maintenance and spares costs) plus $2.4 million for the Rockhampton Hangar project and other miscellaneous capital expenditure.

Borrowings are classified as current due to a temporary breach of the December 2021 bank leverage covenant. The use of the statutory EBITDA result and the inclusion of the operating lease commitments resulted in the breach of the leverage ratio. The financiers have provided waivers whilst the covenant metrics are being reset. There is no refinance risk.

In view of the ongoing expansion activities of the Company, the Board has determined not to pay an interim dividend.

Operational Overview

Flight Hour Type	1H22	2H21	1H21
Contract	13,892	12,767	13,106
Charter	871	2,113	3,065
Wet Lease	4,517	2,192	149
RPT	1,249	1,414	2,567
Other	314	360	180
Total	**20,843**	**18,846**	**19,067**

The increase in total flight hours over the last two half year periods has been driven by the additional wet lease flying. The growth in contract hours has continued. The reduction in the number of charter hours compared to the PCP is primarily the result of a normalised charter environment and the conversion of several charter customers to long term contracts. The reduction in RPT hours is consistent with the Company's intention, stated at the Annual General Meeting, to focus on being a wholesaler and scale back its limited RPT schedule.

Outlook

Having invested heavily in growth, the Company expects that in the final quarter of the financial year there will be substantial uplift in the financial performance of the Company.

By the end of CY2022 the Group will have deployed all 32 of its recently acquired E190 aircraft. This means the Company's annualised operating capacity will increase to 135,000 hours from 37,913 hours flown in FY2021.

Given the COVID-19 related delays the Company is unlikely to achieve consensus forecast for FY2022. The Company is providing guidance of between $45 and $50 million in underlying PBT for the full year, subject to unforeseen impacts including COVID-19.

- Ends -

This announcement has been authorised for release by Alliance Aviation Services Limited's Board of Directors.

About the Alliance Group

Alliance is Australasia's leading provider of contract, charter and allied aviation and maintenance services currently employing more than 835 full time staff.

The Company provides essential services to mining, energy, tourism and government sectors and holds IATA's IOSA certification and Flight Safety Foundation "BARS Gold" status, the first such carrier in Australia to be so recognised.

Alliance currently operates a fleet of 11 E190, 24 Fokker F100, 14 Fokker 70LR jet aircraft and five Fokker 50 turboprop aircraft. 19 additional E190 aircraft are scheduled to be added during 2022. Two E190 aircraft are leased out to a third party.

Alliance has world leading operational performance, a key attribute sought by its customers.

The Company has operational bases in Brisbane, Townsville, Cairns, Melbourne, Adelaide, Perth, Darwin and Rockhampton and a dedicated engineering base located at Brisbane Airport. Alliance is locally owned with most of the Company's shareholders located in Australia or New Zealand.

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