Fly PLAY hf.

CONSOLIDATED FINANCIAL STATEMENTS

2022

Fly PLAY hf. I Suðurlandsbraut 14 I 108 Reykjavík Iceland I Reg. no. 660319-0180

Contents

Endorsement and Statement by the Board of Directors and the CEO

Fly Play hf. is an Icelandic low-cost airline that operates a hub-and-spoke model between Iceland, Europe, and North America. The company launched its services in June 2021 and was listed on the Nasdaq First North Iceland in July 2021. PLAY's primary goal is to make flying affordable for everyone. PLAY offers a safe and pleasant journey in new and comfortable Airbus aircraft to 25 destinations at year end.

The Consolidated Financial Statements for the year 2022 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional Icelandic disclosure requirements. The Financial Statements are presented in US dollars, which is the Group's functional currency. The Financial Statements have been audited by the Group's independent auditors.

Financial Year 2022

According to the Consolidated Financial Statement total loss for the year was USD 45.5 million. Equity at 31 December 2022 amounted to USD 38.5 million, including share capital in the amount of USD 6.7 million and share premium of USD 100.6 million. Reference is made to the Statement of Changes in Equity regarding the information on changes in equity. The average number of full time employees was 252 in the year 2022 (2021: total 80) thereof 117 men and 135 women and salaries and related expenses amounted to USD 25.5 million in the year 2022 (2021: USD 8.6 million).

PLAY holds a healthy cash position with cash and cash equivalent amounted to USD 36.2 (including restricted cash) million on 31 December 2022. This healthy cash position enables PLAY to pursue business opportunities, follow through with its business plan, and be prepared for turbulent market conditions.

PLAY has entered into lease agreements for a total of 10 new aircraft since beginning operations. In 2021 the group took delivery of three Airbus A321neo. In 2022 the group received five new aircraft with three of them going into active operations and the other two went into storage until joining the fleet in time for the summer schedule 2023. The group has not started paying rent for the aircraft in storage and as such they have not been included in the group's right-of-use assets and liabilites.

PLAY's load factor improved throughout 2022 and resulted in 79.7% for the full year. The load factor in Q4 was 80.3% and almost 800 thousand passengers were flown in the year. PLAY has experienced significant growth and ramp-up up of operations with the introduction to the US market and via travel. Full year revenues in 2022 were USD 140 million compared to USD 16 million in 2021. In the last quarter the companies cargo operations increased substantially and airport sales per passenger increased by 53% between Q3 and Q4 2022.

Outlook in 2023

PLAY believe flexibility in scaling production to the demand has been crucial for PLAY. Our focus will be flexibility, demand-driven growth, and attractive offering to the market with the best prices and positive climate actions. PLAY is well prepared to weather the uncertainty with its healthy financial position.
In 2023, PLAY's network will consist of nearly 40 destinations in Europe and North-America using a fleet of ten aircraft.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

Share Capital and Resolutions

PLAY aims to deliver its shareholders a total return in excess of its cost of capital. While the group has a planned profitable growth path, the cash reserves are best utilised within the group. When a more moderate growth level is reached, the group aims to pay 50% of its after-tax profit to its shareholders in the form of dividends or share buy-back. Other factors which need to be considered and may affect these payments are factors like the group's earnings trend, financial position, and investment requirements. Dividends and share buy-back require a resolution by a shareholders' meeting following a proposal by the board of directors.

The Board of Directors proposes no dividend payment to shareholders in 2023 for the year 2022 and refers to the Financial Statement regarding the treatment of loss and other changes in equity accounts.

The number of shareholders at year-end 2022 was 2.095 (2021: 2,433). At year-end 2022 the 10 largest shareholders were:

	Number of Shares in ISK thousand	Shares in %
Leika fjárfestingar ehf.	93,596	10.9%
Birta lífeyrissjóður	81,186	9.4%
Stoðir hf.	54,000	6.3%
Stefnir - ÍS 5 hs.	41,327	4.8%
Lífsverk lífeyrissjóður	37,534	4.4%
Fea ehf.	35,034	4.1%
Stefnir - Innlend hlutabréf hs.	33,471	3.9%
IS EQUUS Hlutabréf	32,909	3.8%
Eignarhaldsfélagið Mata hf.	31,938	3.7%
Festa - lífeyrissjóður	27,137	3.2%
	468,132	54.4%
Other shareholders	392,735	45.6%
	860,868	100.0%

Corporate Governance and Non-Financial Reporting

The Board of Directors has prepared a Corporate Governance Statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the Corporate Governance Statement in PLAY´s annual and sustainability report. The Board of Directors are composed of five members, thereof two men and three women.

Further non-financial reporting information and details of corporate governance are accessible in PLAY´s annual and sustainability report at PLAY website.

Information on matters related to financial risk management is disclosed in note 29.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

Statement by the Board of Directors and the CEO
We hereby confirm that the Consolidated Financial Statements for the year 2022, to the best of our knowledge, have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Further, in our opinion, the Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of PLAY´s operations and its position and describes the principal risks and uncertainties faced by PLAY.

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of PLAY for the year 2022 and confirm them by means of their signatures.

Reykjavik February 15, 2023

Board of Directors:

CEO:

Independent Auditor's Report

To the Board of Directors and Owners of Fly Play hf.

Opinion on the Consolidated Financial Statement

Opinion

We have audited the accompanying Consolidated Financial Statements of Fly Play hf. (hereafter the Group) for the year 2022. The Consolidated Financial Statements comprise the Statement of Income, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Changes in Equity, a summary of significant accounting policies and other explanatory information.

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the results of operations of the Group for the year 2022, its financial position as at December 31, 2022, and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our Report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in Iceland, and we have fulfilled all ethical requirements therein. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements for the year 2022. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In our opinion the following matters were key audit matters:

Explanation of Key Audit Matter	Responses to Key Audit Matter
Revenue recognition Airfare and ancillary sales are presented as deferred income in the statement of financial position from the date of transaction until the purchased services have been rendered. When transport has been provided the sale is subsequently recognised as revenue. This added complexity increases the inherent risk related to the timing of revenue recognition. Therefore the occurance and accuracy of recorded revenue due to airfare and ancillary sales were regarded as key audit matters in the audit of the Consolidated Financial Statements. See note 6 on revenue and note 27 on deferred income. Significant accounting policies are found in notes 32 (b) and 32 (n).	In our audit of revenues, we have assessed controls relating to revenues in the Group. We have also tested certain controls relating to revenue recognition. We have reviewed and evaluated the IT control environment in the Group, including review of how access to finance and accounting related IT systems is controlled. We designed our audit procedures to meet the added risk related to the timing of revenue recognition. This included performing analytical procedures to confirm that revenue recognition coincided with performance obligations being met and testing the reconciliations between the revenue accounting system and the general ledger.

Other Information

The Board of Directors and the CEO are responsible for all information presented by the Group, both the Consolidated Financial Statements as well as other information. Our opinion does not cover other information other than we specificly discuss in our opinion here above. The other information comprises for example the endorsment of the Board of directors and the CEO and the information included in the Annual Report and Sustainability Report, but does not include the Financial Statements and our Auditor's Report thereon. Our opinion on the Consolidated Financial Statements does not cover other information issued by the Group, and we do not express any form of assurance on the information in those documents thereon. In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In accordance with the provisions of Article 104, paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that the Statement by the Board of Directors and CEO accompanying the Financial Statements includes at least the information required by the Financial Statements Act if not disclosed elsewhere in the Consolidated Financial Statements.

The Board of Directors and CEO's Responsibilities for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and CEO 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 Board of Directors and CEO either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Board of Directors and the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion.

Independent Auditor’s Report, contd.:

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements, contd.:
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 these Consolidated Financial Statements.

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, 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 management. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist 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 Consolidated Financial Statements 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 Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with the Board of Directors and the Audit Committee 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 identified during our audit. Our Audit Report, which has been provided to the Board of Directors and the Audit Committee, reports these matters and is in accordance with this report.

From the matters communicated with the Board of Directors and the Audit Committee, we determined those matters that were of most significance in the audit of the Consolidated Financial Statements of the current year and are therefore the key audit matters. We describe these matters in our Auditor’s Report unless law or regulations 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.

We were first elected auditors for the Group in 2020 starting with the 2019 Financial Statements. This is our fourth consecutive year as the Group's auditor.

On behalf of Grant Thornton endurskoðun ehf.
J. Sturla Jónsson, State Authorized Public Accountant

Reykjavik February 15, 2023

Consolidated Income Statement and other Comprehensive Income for the year 2022

	Notes	2022	2021
Revenue			
Transport revenue	6	139,905	16,436
Operating expenses			
Aviation expenses	7	113,198	18,259
Salaries and other personnel expenses	8	25,451	8,602
Other operating expenses	9	13,216	5,754
		151,865	32,614
Operating loss before, depreciation, financial items and tax (EBITDA)		**(11,960)**	**(16,178)**
Depreciation and Amortization	10	32,106	8,484
Operating loss (EBIT)		**(44,066)**	**(24,662)**
Financial income and expenses			
Financial income		516	491
Financial expense		(11,422)	(2,416)
Foreign exchange		(518)	(1,886)
	11	(11,424)	(3,811)
Loss before tax (EBT)		**(55,490)**	**(28,473)**
Income tax	12,18	9,943	5,939
Loss for the year		(45,547)	(22,534)
Total comprehensive loss for the year		(45,547)	(22,534)
Earnings per share			
Basic and diluted earnings per share in US cent	23	(8.0)	(6.1)

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Consolidated Statement of Financial Position at 31 December 2022

	Notes	2022	2021
Assets			
Intangible assets	13	12,561	10,677
Right-of-use assets	14	224,385	117,082
Operating assets	15	6,723	3,821
Aircraft deposits & security instalments	17	10,934	7,772
Deferred tax assets	18	16,027	5,939
Non-current assets		270,630	145,291
Inventories	19	819	282
Trade and other receivables	20	22,861	6,660
Prepaid expense		939	116
Restricted cash	21	6,590	0
Cash and cash equivalents	21	29,644	51,731
Current assets		60,853	58,789
Total assets		331,484	204,080
Shareholders equity			
Share capital		6,740	5,606
Share premium		100,587	85,371
Other components of equity		13,844	11,674
Accumulated loss		(82,685)	(35,254)
Total shareholder equity	22	38,486	67,397
Liabilities			
Provisions	24	51,108	23,317
Lease liabilities	25	152,463	81,990
Non-current liabilities		203,571	105,307
Provisions	24	16,601	6,589
Lease liabilities	25	17,260	8,467
Trade and other payables	26	27,223	9,224
Deferred income	27	28,342	7,096
Current liabilities		89,427	31,376
Total liabilities		292,998	136,682
Total shareholders equity and liabilities		331,484	204,080

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Consolidated Statement of Changes in Equity for the year 2022

	Share capital	Share premium	Other components of equity	Accumulated loss	Total equity
2021					
Balance at January 1, 2021	417	0	6,366	(8,766)	(1,983)
Share capital decrease netted against losses	(357)	0	0	357	0
Debt converted to share capital	784	9,216	0	0	10,000
Share capital increase	4,762	76,155	0	0	80,917
R&D reserve transfers	0	0	4,311	(4,311)	0
Stock options	0	0	997	0	997
Total comprehensive loss	0	0	0	(22,534)	(22,534)
Balance at December 31, 2021	5,606	85,371	11,674	(35,254)	67,397
2022					
Balance at January 1, 2022	5,606	85,371	11,674	(35,254)	67,397
Share capital increase	1,134	14,995	0	0	16,129
R&D reserve transfers	0	0	1,884	(1,884)	0
Stock options expense	0	0	507	0	507
Exercised stock options	0	221	(221)	0	0
Total comprehensive loss	0	0	0	(45,547)	(45,547)
Balance at December 31, 2022	6,740	100,587	13,844	(82,685)	38,486

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Consolidated Statement of Cash Flows
for the year 2022

	Notes	2022	2021
Cash flows used in operating activities			
Loss for the year		(45,547)	(22,534)
Adjustments for			
Depreciation and amortization	10	32,106	8,484
Net finance expense		11,424	3,811
Stock options		507	997
Income tax	12	(9,943)	(5,939)
		(11,454)	(15,181)
Changes in operating assets and liabilities			
Inventories, increase		(537)	(282)
Trade and other receivables, increase		(16,201)	(6,546)
Trade and other payables, increase		33,227	13,075
Restricted cash, increase		(7,136)	0
Changes in operating assets and liabilities		9,354	6,247
Cash used in operations before interest and taxes		(2,100)	(8,934)
Financial income received		516	426
Interest paid		(11,343)	(2,350)
Net cash used in operating activities		(12,927)	(10,858)
Cash flows to investing activities			
Deposits	17	(3,162)	(7,889)
Investment of operating assets	15	(3,501)	(3,972)
Investment of intangible assets	13	(3,971)	(5,171)
Net cash used in investing activities		(10,634)	(17,032)
Cash flows from financing activities			
Repayment of lease liabilities	25	(13,256)	(2,374)
Loans from shareholders		0	2,793
Proceeds from share issue	22	16,129	80,917
Net cash from financing activities		2,873	81,336
Increase / (decrease) in cash and cash equivalents		(20,688)	53,446
Effect of exchange rate fluctuations on cash held		(1,400)	(1,722)
Cash and cash equivalents at beginning of the year		51,731	7
Cash and cash equivalents at year end		29,644	51,731
Investment and financing without cash flow effect			
Acquisition of right-of-use assets	14	(92,464)	(92,877)
New leases		92,464	92,877
Capitalized maintenance obligation under lease	25	(44,141)	(31,612)
New leases		44,141	31,612
Loans from shareholders		0	(10,000)
Share capital increase		0	10,000

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Notes

1. **Reporting entity**

Fly Play hf. (the "Group" or "PLAY") is a private limited company and domiciled in Iceland. PLAY is a low-cost airline which will operate flights between North America and Europe. The registered office of the company is at Suðurlandsbraut 14 in Reykjavík, Iceland. The Company is listed on the Nasdaq First North Iceland effective from July 9, 2021.

The Company is preparing consolidated financial statements for the first time. The Company purchased a subsidiary (PLAY Lithuania) in Vilnius, Lithuania on 26.8.2022. The subsidiary provides technical and administrative support for the Company. The operations of the subsidiary are included in the consolidated financial statements from that date.

PLAY Lithuania is a private limited company and domiciled in Lithuania with its registered office at Lvivo g. 101, Vilnius. PLAY's ownership in PLAY Lithuania is 100%.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2022 comprise the Company and its subsidiary (together referred to as "the Group" or "PLAY").

2. **Basis of preparation**

a. **Statement of compliance**

The Group´s Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements. The Consolidated Financial Statements comprise of the company and its subsidiary.

The Consolidated Financial Statements were approved by the Board of Directors of Fly Play hf. on February 15, 2023.

b. **Basis of measurement**

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments are recognized at fair value. Further details of the Group´s accounting policies are included in note 32.

c. **Going concern**

These Consolidated Financial Statements are prepared on a going concern basis.

3. **Functional and presentation currency**

These Consolidated Financial Statements are presented in United States Dollars (USD), which is the Group's functional currency. All financial information presented in United States Dollars has been rounded to the nearest thousand unless otherwise stated.

4. **Use of estimates and judgements**

In preparing these Consolidated Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about assumptions and estimates that have a significant risk of resulting in a material adjustment within the next financial year are included in note 32(h) regarding determination of useful life of operating assets and 32(e) regarding recognition of deferred tax assets.

Determination of fair value is based on assumptions subject to management's assessment of the development of various factors in the future. The actual selling price of assets and settlement value of liabilities may differ from these estimates.

4. **Use of estimates and judgements, contd.:**

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. Where applicable, further information about the assumptions made in determining the fair value of assets or liabilities are in the notes to the relevant assets and liabilities.

The accounting policies set out in this note have been applied consistently to all periods presented in these Consolidated Financial Statements unless otherwise stated.

The Group has an established control framework with respect to the measurement of fair values. The Director of Treasury and Risk Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The Risk Committee regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5. **Operating segments**

The Group operates as single operating segment at this time.

Notes, contd.:

6. Revenue

Revenue is specified as follows:

	2022	2021
Airfare	105,627	11,716
Ancillary	29,686	3,919
On board sales	3,130	754
Cargo revenue	850	0
Other revenue	613	47
Transport revenue total	139,905	16,436

7. Aviation expenses

Aviation expenses are as follows:

	2022	2021
Aircraft fuel	61,776	6,082
Emissions permits (ETS)	8,720	2,722
Aircraft handling, landing and communication	31,107	5,847
Maintenance of aircrafts	5,277	1,913
Catering	1,868	610
Other aviation expenses	4,450	1,084
Aviation expenses total	113,198	18,259

8. Salaries and other personnel expenses

Salaries and other personnel expenses are specified as follows:

	2022	2021
Salaries	20,239	7,054
Accrued vacation	1,230	1,030
Pension fund contributions	2,124	840
Other salary related expenses	1,631	588
Stock options	507	997
Total salaries and other personnel expenses	25,731	10,509
Capitalized salary expenses	(279)	(1,907)
Salaries and other personnel expense recognized in the Income statement	25,451	8,602
Average number of full year equivalents	252	80
Employees at year end	323	150

9. Other operating expenses

Other operating expenses are as follows:

	2022	2021
Housing and office expenses	204	178
Marketing and sales expenses	5,326	2,367
IT cost	143	102
Travel and other employee expenses	3,743	783
Audit, legal and other professional services	3,687	2,116
Other operating expenses	112	208
Other operating expenses total	13,216	5,754

10. Depreciation and Amortization

The depreciation and amortization are specified as follows:

	2022	2021
Amortization of intangible assets, see note 13	2,087	861
Depreciation of right-of-use assets, see note 14	29,420	7,472
Depreciation of operating assets, see note 15	599	151
Depreciation and amortization recognized in profit or loss	32,106	8,484

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11. Financial income and (expense)

Financial income (expenses) is specified as follows:

	2022	2021
Interest income on bank deposits	516	491
Interest expenses of lease liabilities	(8,068)	(2,382)
Other finance expenses and transaction fees	(3,355)	(34)
Net foreign currency exchange rate loss	(518)	(1,886)
Net financial expenses	(11,424)	(3,811)

12. Income tax

Income tax recognized in the income statement is specified as follows:

	2022	2021
Total tax expense recognized in the income statement	9,943	5,939

Effective tax rate

		2022		2021
Loss before income tax		(55,490)		(28,473)
Income tax according to current tax rate	20.0%	11,098	20.0%	5,695
Previously unrecognized	0.0%	0	(1.7%)	473
Non-deductible expense	0.0%	0	0.0%	(1)
Currency exchange	(2.1%)	(1,155)	(0.8%)	(228)
Effective tax rate	17.9%	9,943	19.9%	5,939

13. Intangible assets

Intangible assets and their amortization are specified as follows:

	Software and website	Long-term cost	Total
Cost			
Balance at January 1, 2021	2,623	3,743	6,366
Additions	3,110	2,062	5,171
Balance at December 31, 2021	5,733	5,805	11,537
Additions	3,823	148	3,971
Balance at December 31, 2022	9,556	5,953	15,509
Amortization and impairment losses			
Balance at January 1, 2021	0	0	0
Amortization	567	294	861
Balance at December 31, 2021	567	294	861
Amortization	1,509	578	2,087
Balance at December 31, 2022	2,076	872	2,948
Carrying amount			
January 1, 2021	2,623	3,743	6,366
December 31, 2021	5,166	5,511	10,677
December 31, 2022	7,480	5,081	12,561
Carrying amount is specified as follows			
Thereof internally generated	2,051	4,129	6,180
Thereof externally generated	5,429	952	6,381
	7,480	5,081	12,561
Amortization rate	20-33%	10-20%	

No impairment events have occurred that require an impairment test to be performed.

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14. Right-of-use assets

Right-of-use assets and depreciation are specified as follows:

	Aircrafts	Other	Total
Balance at January 1, 2021	0	0	0
Additions	122,663	1,826	124,489
Depreciation	(7,291)	(181)	(7,472)
Indexed leases	0	65	65
Balance at December 31, 2021	115,372	1,710	117,082
Balance at January 1, 2022	115,372	1,710	117,082
Additions	136,605	0	136,605
Depreciation	(29,038)	(383)	(29,420)
Indexed leases	0	119	119
Balance at December 31, 2022	222,939	1,446	224,386

15. Operating assets

Operating assets and depreciation are specified as follows:

	Aircraft- and flight equipment	Other property and equipment	Total
Cost			
Balance at January 1, 2021	0	0	0
Additions	3,481	491	3,972
Balance at December 31, 2021	3,481	491	3,972
Additions	3,199	301	3,501
Balance at December 31, 2022	6,680	792	7,473
Depreciations			
Balance at January 1, 2021	0	0	0
Depreciation	104	47	151
Balance at December 31, 2021	104	47	151
Depreciation	441	158	599
Balance at December 31, 2022	545	205	750
Carrying amount			
January 1, 2021	0	0	0
December 31, 2021	3,377	444	3,821
December 31, 2022	6,136	587	6,723
Depreciation rate	10-20%	20-33%	

16. Insurance value

The insurance value of operating assets at year end 2022 amounted to USD 363 million (2021: 63.5 million).

17. Aircraft deposits & security instalments

The Group has paid aircraft deposits and security instalment in the amount of USD 10.9 million at year end 2022 (2021: USD 7.8 million).

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18. Deferred tax assets

Deferred tax assets are specified as follows:

	2022	2021
Balance at January 1, 2022	5,939	0
Calculated income tax, recognized in the Income statement	9,943	5,939
Other items	146	0
Deferred tax at the end of the year	16,028	5,939

Deferred tax assets are attributable to the following:

	2022	2021
Intangible assets	(1,093)	(1,085)
Operating assets	(296)	(68)
Right-of-use assets	2,609	530
Currency exchange difference	178	261
Carry-forward tax loss	14,629	6,301
Deferred tax assets at year end	16,027	5,939

Carry-forward tax loss at year end amounted to USD 73.1 million. Carry-forward tax loss can be utilized over 10 years from the date the loss is incurred.

Carry-forward tax loss are specified as follows:

Carry-forward tax loss from 2019 expires 2029	1,181
Carry-forward tax loss from 2020 expires 2030	4,250
Carry-forward tax loss from 2021 expires 2031	23,787
Carry-forward tax loss from 2022 expires 2032	43,926
	73,144

Management has concluded that there will be sufficient taxable profit in the future to use the tax loss currently carried forward.

19. Inventories

Inventories are specified as follows:

	2022	2021
Aircraft consumables	646	255
Other operation inventory	173	28
	819	282

20. Trade and other receivable

Trade and other receivable are specified as follows:

	2022	2021
Account receivables	1,262	310
Credit card receivables	20,214	4,812
Other receivables	1,385	1,538
	22,861	6,660

21. Restricted cash, cash and cash equivalents

Cash and cash equivalents

	2022	2021
Cash	22,275	51,731
Marketable securities	7,369	0
	29,644	51,731

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21. Restricted cash, cash and cash equivalents, contd.:

Restricted cash is held in bank accounts pledged against credit cards acquirers and airport operators. The largest amount (6 m. EUR) is pledged against credit card claims and at the reporting date is restricted until the end of March 2023 but management expects it to be renewed. That amount is classified as restricted cash in the balance sheet. Other restricted cash amounts (797 thous. USD) which are pledged against airport operators, handling agents and the tax authorities are restricted for 3 months or less and is classified among cash and cash equivalents.

22. Equity

Share capital

The Company's capital share at the end of the period amounted to ISK 860.9 million (USD 6.7 million). One vote is attached to each share of one ISK.

In May and June of 2022 the company increased its share capital in the amount of ISK 3.3 million (USD 26 thous.) at the rate of ISK 8 per share resulting in a total of ISK 27 million (USD 207 thous.) to facilitate the exercise of share option agreements.

In November 2022 the Company increased its share capital in the amount of ISK 157.5 million (USD 1.1 million) at the rate of ISK 14.6 per share resulting in a total of ISK 2.300 million (USD 16.2 million).

The direct transaction cost of the share offering amounted to USD 254 thousand after tax and was deducted from equity.

Share premium

Share premium represents excess of payment above nominal value that shareholders have paid for shares sold by the Company. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

Other components of equity

R&D reserve is derived from capitalization of R&D expenses in accordance with Article 16 of the Financial statements Act. Dividends cannot be distributed from the R&D reserve. The reserve is amortized through retained earnings or accumulated losses equally to the amortization of intangible assets. If intangible asset is sold or fully amortized or impaired, the reserve is fully amortized accordingly.

During the year 2022 the company committed to issuing 13.85 million new shares in the company pursuant to options agreements with 6 key employees, subject to the vesting of these options. A third of the shares will vest annually between 2025-2027. The options will be settled with equity.

The fair value of the options was determined using a Black-Scholes option pricing model. The fair value of the employees stock options is recognised as expense and included in salaries and related expenses. Estimated remaining expenses due to active stock options is USD 524 thousand.

At year end there were a total of ISK 44.2 million shares unvested or not exercised due to share agreements.

	R&D	Stock options	Total
Balance at December 31, 2021	10,677	997	11,674
Capitalized development cost	1,884	0	1,884
Stock options charge for the year	0	507	507
Exercise of options	0	(221)	(221)
Balance at December 31, 2022	12,561	1,283	13,844

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22. Equity, contd.:

Retained earning

Retained earning shows accumulated profit of the Group after deducting contributions to the statutory reserve and dividend. Retained earning can be distributed to shareholders in the form of dividend.

Dividend

No dividend was paid to shareholders during the year 2022. The Board of Directors proposes that no dividend shall be paid to shareholders during the year 2023 due to operations in the year 2022.

Capital management

The Board's policy is to maintain a strong capital base to sustain future development of the business.

23. Earnings per share

The calculation of basic EPS has been based on the following net loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is the same as basic earnings per share as the effect of warrants would not dilute the earnings per share only decrease loss per share.

Basic earnings per share

	2022	2021
Loss for the year attributable to equity holders of the Group	(45,547)	(22,534)
Weighted average number of shares for the year	5,717	3,720
Basic earnings per share in US cent per share	(8.0)	(6.1)
Diluted earnings per share in US cent per share	(8.0)	(6.1)

24. Provisions

Provisions for aircraft maintenance on leased aircrafts are as follows:

	2022	2021
Balance at the beginning of the period	29,906	0
Increases in provisions during the year	44,141	31,612
Utilization of provision during the year	(6,338)	(1,706)
Balance at December 31	67,709	29,906
Current provisions	(16,601)	(6,589)
Total non-current provisions	51,108	23,317

The expected timing of the outflows of economic benefits associated with the provisions at December 31, 2022, are as follows:

Used during 2023	16,601
Used during 2024	15,663
Used during 2025	12,940
Used during 2026	10,409
Used during 2027	6,618
Thereafter	5,479
Provisions for leased aircraft maintenance	67,709

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25. Lease liabilities

The Group took delivery of and put into operation three Airbus 320neo aircraft during the year. The lease agreements constitute a financial lease under IFRS 16. The total number of aircraft in operation at year end were 6.

Lease liabilities are as follows:

	Rate	Year of maturity	Aircraft	Real estate	Total
Lease payments in USD	3.9%	9-10 years	168,432	0	168,432
Lease in ISK, indexed	4.3%	5 years	0	1,291	1,291
Total lease liabilities			168,432	1,291	169,723

	2022	2021
Balance at the beginning of the period	90,456	0
New leases	92,464	92,877
Indexed leases	140	66
Payment of lease liabilities	(13,256)	(2,374)
Currency translation	(81)	(113)
Balance at December 31	169,723	90,456
Current maturities	(17,260)	(8,467)
Total non-current lease liabilities	152,464	81,990

Repayments of lease liabilities are distributed over the next 5 years as follows:

Repayments 2023	17,260
Repayments 2024	18,527
Repayments 2025	19,260
Repayments 2026	19,828
Repayments 2027	20,402
Subsequent repayments	74,446
Total lease liabilities	169,723

Cash flow from lease liabilites are as follows:

	2022	2021
Payment of principal portion of lease liabilities	13,256	2,374
Payment of interest expenses of lease liabilities	5,889	1,762
Total payments	19,145	4,136

The Group has entered into lease agreements for a total of 10 new Airbus 320neo aircraft since beginning operations. At year end the Group has six aircraft in operation and four will be added into operation in the first half of 2023. The repayment schedule above only takes into account liabilities due to the six aircraft that are in operation at year end 2022.

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Notes, contd.:

26. Trade and other payables

Trade and other payables are specified as follows:

	2022	2021
Trade payable	9,467	3,401
Unpaid airport taxes	7,311	1,881
Payroll liabilities and vacation fund	2,703	1,230
Emissions permits (ETS)	7,743	2,712
	27,223	9,224

27. Deferred income

Among current payables is recognized deferred income in the amount of USD 28.3 million due to sale of unflown flights and outstanding gift certificates at year end. Revenues from passenger flights are recognized in the Consolidated Income Statement when the relevant flight has been flown.

28. Derivatives used for hedging

Derivatives used for hedging are valued by a brokers quote. The Group uses forward contract to hedge a part of jet fuel purchases. At year end 2022 the fair value for those contracts was immaterial.

29 Financial risk management

Overview

The Group has exposure to the following financial risks: credit risk, liquidity risk and market risk. Market risk consists of interest rate risk, currency risk, carbon price risk and fuel price risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's Risk Management Committee is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Based on these analysis the Group makes decisions about whether to use derivatives to hedge against certain types of risks.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk is influenced mainly by the age of trade receivables, financial standing and individual characteristics of its customer.

Exposure to credit risk

The carrying amounts of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Notes	2022	2021
Aircraft deposits & security instalments	17	10,934	7,772
Trade receivable and other receivable	20	22,861	6,660
Restricted cash	21	6,590	0
Cash and cash equivalents	21	29,644	51,731
		70,029	66,163

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29 Financial risk management, contd.:

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group´s liquidity position was healthy at year end 2022 and the Group's management believes that it is in a good position to meet its obligations when they are due.

Following are the remaining contractual maturities of financial liabilities at the reporting date, including estimated

	Carrying amount	Contractual cash flows	Within 12 months	2024-2025 1-2 years	2026-2028 3-5 years	More than 5 years
31 December 2022						
Trade and other payables	27,223	27,223	27,223	0	0	0
Lease liability	169,724	200,148	23,481	48,295	47,304	81,068
Provision	67,709	70,038	16,602	28,603	17,027	7,807
	264,656	297,410	67,306	76,898	64,331	88,875
31 December 2021						
Trade and other payables	9,224	9,224	9,224	0	0	0
Lease liability	81,990	105,802	11,792	25,885	25,885	42,240
Provision	29,906	32,603	7,627	16,056	6,981	1,939
	121,120	147,629	28,643	41,941	32,866	44,179

c. Market risk

Market risk emerges from changes in market prices, such as foreign exchange rates, interest rates, carbon emission quota prices and fuel prices, as those changes will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

The Group's financial instruments are all subject to variable interest rates. The Group does not currently hedge its interest rate risk.

Fuel price risk

The Group is exposed to fuel price risk due to purchase of fuel. The Group uses forward contract to hedge a part of jet fuel purchases. At year end 2022 the fair value for those contracts was immaterial.

Change in fuel prices by 10% on average during the year 2022 would have resulted in increase (decrease) on net income by USD 6.2 million. (2021: 0.6)

Carbon risk

Emissions permits (ETS credits) are mainly purchased using spot and forward contracts, and the carbon exposure is subject to the same risk management as jet fuel.

Change in ETS credit price by 10% during the year 2022 would have resulted in increase (decrease) on net income by USD 0.9 million. (2021: 0.2)

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29 Financial risk management, contd.:

d. Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of the Group. The currency exposure is mostly in EUR, ISK and GBP. The Group's salaries and related expenses, representing around 17% of the Group's total expenses, are denominated in ISK. Sales in ISK constitute 38.6% of total sales (2021: 54.2%), EUR 21.5% (2021: 37.7%) and other currencies 9.5% (2021; 8.0%).

The Group's liquid exposure to currency risk is as follows:

2022	ISK	EUR	GBP	Other currencies
Trade and other receivables	5,674	4,438	1,838	898
Restricted cash	0	6,590	0	0
Cash and cash equivalents	21,861	1,695	1,456	1,204
Lease liabilities	(1,291)	0	0	0
Trade and other payables	(6,883)	(3,706)	(1,042)	(477)
Net currency exposure	19,361	9,017	2,252	1,625

2021	ISK	EUR	GBP	Other currencies
Trade and other receivables	2,880	365	387	330
Cash and cash equivalents	40,700	3,512	964	26
Lease liabilities	(1,620)	0	0	0
Trade and other payables	(1,589)	(1,518)	(51)	(122)
Net currency exposure	40,371	2,359	1,300	234

The following exchange rates of USD applied during the year:

	Average rate		Year-end spot rate	
	2022	2021	2022	2021
ISK	0.0074	0.0079	0.0070	0.0077
EUR	1.05	1.18	1.07	1.13
GBP	1.23	1.38	1.20	1.35

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December 2022 would have increased (decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis as for 2021.

	Profit (loss)	
	2022	2021
ISK	(1,549)	(3,230)
EUR	(721)	(189)
GBP	(180)	(104)
Other currencies	(130)	(19)

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. This analysis is performed on the same basis as for 2021.

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29 Financial risk management, contd.:

e. Classification and fair value of financial assets and liabilities

Financial assets and liabilities are classified as follows:

2022	Amortized cost	Fair value through P/L	Carrying amount
Aircraft deposits & security instalments	10,934	0	10,934
Trade receivables	21,476	0	21,476
Other receivables	1,385	0	1,385
Restricted cash	6,590	0	6,590
Cash and cash equivalents	22,275	7,369	29,644
Total assets	62,660	7,369	70,029
Lease liabilities	169,724	0	169,724
Provisions	67,709	0	67,709
Trade payables	27,223	0	27,223
Total liabilities	264,656	0	264,656

Classification and fair value of financial assets and liabilities

2021	Amortized cost	Fair value through P/L	Carrying amount
Aircraft deposits & security instalments	7,772	0	7,772
Trade receivables	5,122	0	5,122
Other receivables	1,538	0	1,538
Cash and cash equivalents	51,731	0	51,731
Total assets	66,162	0	66,162
Lease liabilities	90,456	0	90,456
Provisions	29,906	0	29,906
Trade payables	9,224	0	9,224
Total liabilities	129,587	0	129,587

Fair value

Fair value information for financial assets and liabilities not measured at fair value is not included as the carrying amount is considered a reasonable approximation of fair value.

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30 Related parties

Definition of related parties

The board of directors, managers and close family members and companies in which they own majority of the shares are considered to be related parties.

Transactions with related parties are on an arms length basis.

Transactions with management and key personnel

Salaries and benefits of management for their service to Group and the number of shares in ISK directly or indirectly in the Group held by management are specified below:

2022	Salaries and benefits	Number of shares in ISK thousand	Stock options expense
Einar Örn Ólafsson, chairman	61	93,612	0
Elías Skúli Skúlason, vice chairman	47	35,034	0
Auður B. Guðmundsdóttir, board member	31	127	0
Guðný Hansdóttir, board member	31	0	0
María Rúnarsdóttir, board member	39	1,260	0
Birgir Jónsson, CEO	339	6,250	104
Key management, eight members (six at year end)	1,197	769	204

All of the seven key management members have open stock option contracts at year end 2022.

2021	Salaries and benefits	Number of shares in ISK thousand	Stock options expense
Einar Örn Ólafsson, chairman	33	65,350	0
Elías Skúli Skúlason, vice chairman	25	28,185	0
Auður B. Guðmundsdóttir, board member	17	110	0
Guðný Hansdóttir, board member	17	22,047	0
María Rúnarsdóttir, board member	17	1,260	0
Birgir Jónsson, CEO	208	3,150	68
Key management, five members	793	894	465*

Three of the five key management members have open stock option contracts at year end 2021.
There were no other transactions with related parties other than shareholders during the year.

31. Events after the reporting period

In the first half of 2022 the Group expects four new aircraft to be added into operations. The estimated effect on the balance sheet is USD 160-180 million.

No events have arisen after the reporting period of these Consolidated Financial Statements that require amendments or additional disclosures in the Consolidated Financial Statements for the period ended 31 December 2022.

32. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these Consolidated Financial Statements.

a. Currency exchange

Foreign currency transactions

Transactions in currencies other than functional currencies (foreign currencies) are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences are generally recognized in profit or loss.

Foreign operations

In the Group's consolidated financial statements, the assets and liabilities of Group entities with a functional currency other than the USD are translated into USD at reporting date. Income and expenses are translated into USD at the average rate over the reporting period. Exchange differences recognised on translation are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

b. Revenue

Flight operations

Revenues from passenger flights are recognized in the income statement when the relevant flight has been flown. Sold gift certificates not used within twelve to forty eight months from the month of sale are recognized as revenue.

Other operating revenue

Revenue is recognized in profit or loss when the service has been provided or sale completed by delivery of products. Revenue is not recognized in profit or loss if there is a great uncertainty of its collection, cost associated with the sale or there is a possibility the product will be returned.

c. Employee benefits

Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date. The grant date fair value of equity-settled share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

32. Significant accounting policies, contd.:

d. Finance income and finance cost

Finance income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on unwinding of the discount on provisions, foreign currency losses, transaction fees, impairment losses recognized on financial assets, that are recognized in profit or loss and impairment of other financial assets and loans and receivables.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether currency movements are in a net gain or net loss position.

e. Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date. Deferred tax assets and liabilities are offset if there is legal authority to recover tax payable against tax assets and those belonging to the same tax authority.

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised.

f. Inventories

Goods for resale and supplies are measured at the lower of cost and net realizable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

g. Intangible assets

Recognition and measurement

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets are only capitalized if it is probable that future economic benefits associated with the asset will be generated and the cost can be measured reliably.

Subsequent expenditures

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

Amortization

Intangible assets are divided into long-term costs and software. Long term cost mainly consists of the acquisition cost of the operation, operating license and brand. The estimated useful lives for the current and comparative years are as follows:

Long-term cost	5-10 years
Software	3-5 years

32. Significant accounting policies, contd.:

h. Operating assets

Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

Any gain and loss on disposal of an item of operating assets (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Aircraft- and flight equipment

Aircraft and flight equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditures

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Items of operating assets are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. In the case of aircraft engines, the depreciation is calculated based on flown hours.

Operating assets are depreciated from the date they are installed and ready for use or in the case of assets which the Group builds itself, from the date that the asset is complete and ready for use.

The estimated useful lives for the current and comparative periods are as follows:

Aircraft- and flight equipment	5-10 years
Other property and equipment	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

32. Significant accounting policies, contd.:

i. Financial instruments

Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at amortized cost

Financial assets at amortized cost are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost using the effective interest method, less any impairment losses.

Financial assets at amortized cost comprise cash and cash equivalents, trade and other receivables and long-term receivables.

Cash and cash equivalents comprise cash balances and marketable securities with original maturities of three months or less.

Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities including liabilities designated at fair value through profit or loss are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

32. Significant accounting policies, contd.:

Hedge accounting

The Group applies hedge accounting for contracts that it enters into to hedge the cash flow of the Group related to forecasted future purchases/salaries and for which a hedging relationship has been determined for. Profit or loss of a derivative that has been determined as a hedging derivative is recognized as an increase or decrease in fuel purchases or salaries when the contract is settled. Unrealized profit or loss of a derivative which has been determined to be an effective hedge is recognized in other comprehensive income in accordance with hedge accounting for cash flow hedges taken into account tax effects.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for application of hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

j. Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events having occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

In assessing collective impairment of individual classes of financial assets the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other CGUs.

The recoverable amount of an asset of CGU is the greater of its value in use and its fair value less cost to sell. Value in use is based on the estimated future cash flows, 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 assets or CGU.

Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

32. Significant accounting policies, contd.:

k. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Maintenance Reserves

With respect to the Group´s lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the profit or loss calculated by reference to the number of hours or cycles operated. Provisions are entered into the statement of financial position among non-current and current payables, as applicable.

l. Leases

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right of control the use of identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of lease in IFRS 16.

As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Right of use assets

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. Lease payments included in the measurement of the lease liability comprise the following: fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

32. Significant accounting policies, contd.:

m. Leases

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

n. Deferred income

Sold unused tickets and other prepayments are presented as deferred income in the statement of financial position.

o. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see Note 4).

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.
Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

32. Significant accounting policies, contd.:

p. Subsidiaries

The Company established a subsidiary during the year and therefore applies IFRS 10 Consolidated Financial Statements for the first time.

Basis of consolidation
The Group's financial statements consolidate those of the parent company and its subsidiary as of 31 December 2022. The subsidiary has a reporting date of 31 December.

Subsidiaries
Subsidiaries are entities controlled by the Group. The Group "controls" and entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consoldiation
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

q. New accounting standards issued but not yet effective

A number of new standards are effective for annual periods after 1 January 2023 and earlier application is permitted, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group´s consolidated financial statements:

* Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transactions

* Amendments to IAS 8: Defintition of accounting estimates

* IAS 1: Disclosure Initiative- Accounting policies

* Amendment to IFRS 17: Initial Application of IFRS 17 and IFRS 9- Comparative Information

* IFRS 17: Insurance Contracts