PLAY

Fly PLAY hf.

FINANCIAL STATEMENTS

2021

Contents

Endorsement and Statement by the Board of Directors and the CEO

Fly Play hf. is an Icelandic airline established in March 2019 and listed on the Nasdaq First North Iceland in July 2021. On 24 June, 2021 PLAY started operating scheduled flights when it flew its first flight to London.

PLAY is a low-cost airline operating flights between Iceland and Europe. PLAY offers low-cost flights and a safe and pleasant journey in new and comfortable Airbus aircraft. PLAY´s primary goal is to make flying affordable for everyone.

The Financial Statements for the year 2021 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 Company's functional currency. The Financial Statements have been audited by the Company's independent auditors.

The Company did adopt and implement International Financial Reporting Standards (IFRS) for the Financial Statements by the end of year 2021. The implementation resulted in no material changes in accounting principles, nor any material effect on the Company's financial position, see further in note 5.

Financial Year 2021

According to the Financial Statement total loss for the year was USD 22.5 million. Equity at 31 December 2021 amounted to USD 67.4 million, including share capital in the amount of USD 5.6 million and share premium of USD 85.4 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 80 in the year 2021 thereof 42 men and 38 women (2020: total 38) and salaries and related expenses amounted to USD 8.6 million in the year 2021 (2020: USD 0.3 million).

PLAY holds a strong cash position with total liquidity of USD 27.4 million and cash and cash equivalent amounted to USD 51.7 million on 31 December 2021. This strong cash position enables PLAY to pursue business opportunities, follow through with its business plan, and be prepared for turbulent market conditions.

PLAY took delivery of three Airbus A321neo in 2021. All three aircraft in operation are on favorable post-COVID market terms and a power-by-the-hour (PBH) arrangement until year end 2021. In September, PLAY signed an agreement with GE Capital Aviation Services (GECAS) to lease three A320neo and one A321NX aircraft that will all join the fleet before the summer schedule 2023. The aircraft will be delivered to PLAY from August 2022 through February 2023 but will be in a storage program until joining the fleet in time for the summer schedule 2023.

The COVID-19 pandemic and the associated travel restrictions impacted the global aviation industry, as well as PLAY's business in 2021. Booking trends have been less predictable than under normal circumstances. Changes to travel restrictions, a surge in COVID-19 cases and lockdowns in markets served by PLAY have caused hesitation and uncertainty amongst our customers.

The surge in new COVID-19 cases in Iceland and Europe that started in the middle of December did have a negative impact on bookings. As a result, we made adjustments to our schedule for January and February. The number of seats on sale in January and February was 38% and 18% lower than our original plan, respectively.

PLAY has signed a labor agreement with The Icelandic Aviation Union (Íslenska Flugstéttarfélagið) which expires in 2025. As part of its contractual obligations, PLAY is precluded from entering labor negotiations with other labor unions. However, around mid-year 2021 the Icelandic Cabin Crew Association (Flugfreyjufélag Íslands) indicated it might pursue industrial actions against PLAY if the Company does not enter a labor agreement with its members. PLAY is not aware of any such actions or preparations for such actions being taken.

Outlook in 2022

PLAY believe flexibility in scaling production to the demand has been crucial for PLAY, and we will continue to do so while the pandemic is still with us. 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 strong financial position.

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

Outlook in 2022, contd.:
During the first weeks of 2022, PLAY have seen that consumer confidence has begun to return as booking trends have been strengthening. Customers are again booking trips with short notice with the confidence offered by PLAY's flexibility policy as well as booking their holidays next summer. This is an indicator that people are ready to travel again.

In 2022, PLAY will serve 22 destinations in Europe and three in North America using a fleet of six aircraft. In spring 2022, PLAY will start service to the U.S. and at the same time move from a point-to-point network to a hub-and-spoke network. Our flights to the U.S. will strengthen PLAY's foundation as we open up the U.S. – Iceland market to low-cost travel and facilitate connections for passengers that want to take advantage of low-cost travel between the U.S. and Europe.

Share Capital and Resolutions
PLAY aims to deliver its shareholders a total return in excess of its cost of capital. While the company has a planned profitable growth path, the cash reserves are best utilised within the company. When a more moderate growth level is reached, the company 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 company'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 2022 for the year 2021 and refers to the Financial Statement regarding the treatment of loss and other changes in equity accounts.

The number of shareholders at year-end 2021 was 2,433 (2020: 1). At year-end 2021 the 10 largest shareholders were:

	Number of Shares in ISK thousand	Shares in %
Fiskisund ehf.	60,500	8.6%
Birta lífeyrissjóður	59,948	8.6%
Stoðir hf.	45,000	6.4%
Akta Stokkur hs.	37,566	5.4%
Arion banki hf.	28,495	4.1%
Fea ehf.	28,185	4.0%
Eignarhaldsfélagið Mata hf.	25,089	3.6%
Lífsverk lífeyrissjóður	23,260	3.3%
IS EQUUS Hlutabréf, Íslandssjóðir hf.	21,882	3.1%
Dalía ehf.	21,102	3.0%
	351,026	50.1%
Other shareholders	348,974	49.9%
	700,000	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 satstainability report 2021. 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 satstainability report 2021 at PLAY website.

Information on matters related to financial risk management is disclosed in note 28.

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 Financial Statements for the year 2021, 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 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 Financial Statements of PLAY for the period from the year 2021 and confirm them by means of their signatures.

Reykjavik March 16, 2022

Board of Directors:

CEO:

Independent Auditor's Report

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

Opinion on the Financial Statement

Opinion
We have audited the accompanying Financial Statements of Fly Play hf. (hereafter the Company) for the year 2021. The 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 Financial Statements present fairly, in all material respects, the results of operations of the Company for the year 2021, its financial position as at December 31, 2021, 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 Financial Statements section of our Report. We are independent of the Company 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 Financial Statements for the year 2021. These matters were addressed in the context of our audit of the 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 increses 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 Financial Statements. See note 6 on revenue and note 26 on deferred income. Significant accounting policies are found in notes 31 (b) and 31 (m).	In our audit of revenues, we have assessed controls relating to revenues in the Company. We have also tested certain controls relating to revenue recognition. We have reviewed and evaluated the IT control environment in the Company, 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.

Independent Auditor's Report, contd.:

Explanation of Key Audit Matter	Responses to Key Audit Matter
Valuation of intangible assets During the startup phase of the Company costs relating to the startup phase have been capitalised long term costs within intangible assets. Their useful lifetime has been estimated between 5-10 years depending on the nature of costs. The nature of this capitalisation being outside the Company's normal operations post the commencement of revenue producing flights we have considered the valuation of these assets as a key audit matter for the year 2021. See note 13 on intangible assets and 31 (g) for significant accounting policies.	In our audit we assessed controls relating to capitalised long term costs. We examined the capitalisation with regard to the requirements of IAS 38 Intangible Assets and we reviewed the estimates made by management with regard to useful lives and their evaluation with regard to the existance of impairment events. We furthermore recalculated depreciation.

Other Information

The Board of Directors and the CEO are responsible for all information presented by the Company, both the 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, but does not include the Financial Statements and our Auditor's Report thereon. Our opinion on the Financial Statements does not cover other information issued by the Company, 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 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 Financial Statements.

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

The Board of Directors and CEO are responsible for the preparation and fair presentation of the 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 Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors and CEO are responsible for assessing the Company'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 Company 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 Company's financial reporting process.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the 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 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 Company in 2020 starting with the 2019 Financial Statements. This is our third consecutive year as the Company's auditor.

On behalf of Grant Thornton endurskoðun ehf.

J. Sturla Jónsson, State Authorized Public Accountant

Reykjavik March 16, 2022

J. Sturla Jónsson

Income Statement and other Comprehensive Income for the year 2021

	Notes	2021	2020
Revenue			
Transport revenue	6	16,436	0
Operating expenses			
Aviation expenses	7	18,259	0
Salaries and other personnel expenses	8	8,602	338
Other operating expenses	9	5,754	1,303
		32,614	1,641
Operating loss before, depreciation, financial items and tax (EBITDA)		(16,178)	(1,641)
Depreciation and Amortization	10	8,484	0
Operating loss (EBIT)		(24,662)	(1,641)
Financial income and expenses			
Financial income		491	0
Interest expense		(2,416)	(45)
Foreign exchange		(1,886)	(227)
	11	(3,811)	(272)
Loss before tax (EBT)		(28,473)	(1,913)
Income tax	12,18	5,939	0
Loss for the year		(22,534)	(1,913)
Total comprehensive loss for the year		(22,534)	(1,913)
Earnings per share			
Basic and diluted earnings per share in US cent	22	(6.1)	(4.6)

Financial Statements of Fly Play hf. 2021 9 All amounts are in USD thousands

Statement of Financial Position at 31 December 2021

	Notes	2021	2020
Assets			
Intangible assets	13	10,677	6,366
Right-of-use assets	14	117,082	0
Operating assets	15	3,821	0
Aircraft deposits & security instalments	17	7,772	0
Deferred tax assets	18	5,939	0
Non-current assets		145,291	6,366
Inventories	19	282	0
Trade and other receivables	20	6,660	230
Prepaid expense		116	0
Cash and cash equivalents		51,731	7
Current assets		58,789	237
Total assets		204,080	6,603
Shareholders equity			
Share capital		5,606	417
Share premium		85,371	0
Other components of equity		11,674	6,366
Accumulated loss		(35,254)	(8,766)
Total shareholder equity	21	67,397	(1,983)
Liabilities			
Provisions	23	23,317	0
Lease liabilities	24	81,990	0
Non-current liabilities		105,307	0
Related parties		0	7,207
Provisions	23	6,589	0
Lease liabilities	24	8,467	0
Trade and other payables	25	9,224	1,379
Deferred income	26	7,096	0
Current liabilities		31,376	8,586
Total liabilities		136,682	8,586
Total shareholders equity and liabilities		204,080	6,603

Financial Statements of Fly Play hf. 2021 10 All amounts are in USD thousands

Statement of Changes in Equity for the year 2021

	Share capital	Share premium	Other components of equity	Accumulated loss	Total equity
2020					
Balance at January 1, 2020	417	0	2,121	(2,608)	(70)
R&D reserve transfers			4,245	(4,245)	0
Total comprehensive loss			0	(1,913)	(1,913)
Balance at December 31, 2020	417	0	6,366	(8,766)	(1,983)
2021					
Balance at January 1, 2021	417	0	6,366	(8,766)	(1,983)
Share capital decrease netted against losses	(357)			357	0
Debt converted to share capital	784	9,216			10,000
Share capital increase	4,762	76,155			80,917
R&D reserve transfers			4,311	(4,311)	0
Stock options			997		997
Total comprehensive loss				(22,534)	(22,534)
Balance at December 31, 2021	5,606	85,371	11,674	(35,254)	67,397

Financial Statements of Fly Play hf. 2021 11 All amounts are in USD thousands

Statement of Cash Flows
for the year 2021

	Notes	2021	2020
Cash flows used in operating activities			
Loss for the year		(22,534)	(1,913)
Adjustments for			
Depreciation and amortization	10	8,484	0
Net finance expense		3,811	285
Stock options		997	0
Income tax	12	(5,939)	0
		(15,181)	(1,628)
Changes in operating assets and liabilities			
Inventories, increase		(282)	0
Trade and other receivables, increase		(6,546)	32
Trade and other payables, increase (decrease)		13,235	(76)
Changes in operating assets and liabilities		6,407	(44)
Cash used in operations before interest and taxes		(8,774)	(1,672)
Financial income received		426	0
Foreign exchange difference, realized		(160)	
Interest paid		(2,350)	0
Net cash used in operating activities		(10,858)	(1,672)
Cash flows to investing activities			
Deposits	17	(7,889)	0
Investment of operating assets	15	(3,972)	0
Investment of intangible assets	13	(5,171)	(4,245)
Net cash used in investing activities		(17,032)	(4,245)
Cash flows from financing activities			
Repayment of lease liabilities	24	(2,374)	0
Loans from shareholders		2,793	5,800
Proceeds from share issue	21	80,917	0
Net cash from financing activities		81,336	5,800
Increase / (decrease) in cash and cash equivalents		53,446	(117)
Effect of exchange rate fluctuations on cash held		(1,722)	0
Cash and cash equivalents at beginning of the year		7	124
Cash and cash equivalents at year end		51,731	7
Investment and financing without cash flow effect			
Acquisition of right-of-use assets	14	(92,877)	0
New leases		92,877	0
Capitalized maintenance obligation under lease	24	31,612	0
New leases		(31,612)	0
Loans from shareholders	21	(10,000)	0
Share capital increase		10,000	0

Financial Statements of Fly Play hf. 2021 12 All amounts are in USD thousands

Notes

1. **Reporting entity**
Fly Play hf. (the "Company") is a private limited company and domiciled in Iceland. PLAY is a new low-cost airline which will operate flights between Iceland 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.

2. **Basis of preparation**

a. *Statement of compliance*
The Company´s 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 Financial Statements were approved by the Board of Directors of Fly Play hf. on March 16, 2022.

b. *Basis of measurement*
The Financial Statements are prepared on the historical cost basis except that derivative financial instruments are recognized at fair value. Further details of the Company´s accounting policies are included in note 31.

c. *Going concern*
These Financial Statements are prepared on a going concern basis.

3. **Functional and presentation currency**
These Financial Statements are presented in United States Dollars (USD), which is the Company'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 Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Company'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 31(h) regarding determination of useful life of operating 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.

Measurement of fair values
A number of the Company'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 Financial Statements unless otherwise stated.

The Company 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.

4. **Use of estimates and judgements, contd.:**
When measuring the fair value of an asset or a liability, the Company 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 Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5. **Transition to IFRSs**

Changes to accounting policies in accordance with International Financial Reporting Standards (IFRSs)
As stated in note 2(a) on accounting policies, these are the Company´s first Financial Statements prepared in accordance with IFRS.

The Financial Statement for the year 2021 have been prepared according to the accounting policies in notes. This also applies to the comparative information for the year ended 31 December 2020.

The transition from Icelandic GAAP to IFRSs has not affected the Company's financial position and financial performance. There are no significant changes to the Company's cash flows from Icelandic GAAP to IFRS.

Standards issued but not yet effective
A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these Financial Statements and they are not considered to have significant impact on the Financial Statements.

Operating segments
The Company operates as single operating segment at this time.

Notes, contd.:

	2021	2020
6. Revenue		
Revenue is specified as follows:		
Airfare	11,716	0
Ancillary	3,919	0
On board sales	754	0
Other revenue	47	0
Transport revenue total	16,436	0

7. Aviation expenses

Aviation expenses are as follows:

Aircraft fuel	6,082	0
Emissions permits (ETS)	2,722	0
Aircraft handling, landing and communication	5,847	0
Maintenance of aircrafts	1,913	0
Catering	610	0
Other aviation expenses	1,084	0
Aviation expenses total	18,259	0

8. Salaries and other personnel expenses

Salaries and other personnel expenses are specified as follows:

Salaries	7,054	2,567
Accrued vacation	1,030	0
Pension fund contributions	840	332
Other salary related expenses	588	221
Stock options	997	0
Total salaries and other personnel expenses	10,509	3,120
Capitalized salary expenses	(1,907)	(2,782)
Salaries and other personnel expense recognized in the Income statement	8,602	338
Average number of full year equivalents	80	38
Employees at year end	150	41

9. Other operating expenses

Other operating expenses are as follows:

Housing and office expenses	178	145
Marketing and sales expenses	2,367	0
IT cost	102	96
Travel and other employee expenses	783	188
Audit, legal and other professional services	2,116	850
Other operating expenses	208	24
Other operating expenses total	5,754	1,303

10. Depreciation and Amortization

The depreciation and amortization are specified as follows:

Amortization of intangible assets, see note 13	861	0
Depreciation of right-of-use assets, see note 14	7,472	0
Depreciation of operating assets, see note 15	151	0
Depreciation and amortization recognized in profit or loss	8,484	0

Financial Statements of Fly Play hf. 2021 15 All amounts are in USD thousands

Notes, contd.:

11. Financial income and (expense)

Financial income (expenses) is specified as follows:

	2021	2020
Interest income on bank deposits	491	0
Interest expenses of lease liabilities	(2,382)	0
Other interest expenses	(34)	(45)
Net foreign currency exchange rate loss	(1,886)	(227)
Net financial expenses	(3,811)	(272)

12. Income tax

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

	2021	2020
Total tax expense recognized in the income statement	5,939	0

Effective tax rate		2021		2020
Loss before income tax		(28,473)		(1,913)
Income tax according to current tax rate	20.0%	5,695	20.0%	383
Previously unrecognized	1.7%	473	20.0%	(383)
Non-deductible expense	(0.0%)	(1)	0.0%	0
Currency exchange	(0.8%)	(228)	0.0%	0
Effective tax rate	20.9%	5,939	19.9%	(0)

13. Intangible assets

Intangible assets and their amortization are specified as follows:

	Software and website	Long-term cost	Total
Cost			
Balance at January 1, 2020	1,144	977	2,121
Additions	1,479	2,766	4,245
Balance at December 31, 2020	2,623	3,743	6,366
Additions	3,110	2,062	5,171
Balance at December 31, 2021	5,733	5,805	11,537
Amortization and impairment losses			
Amortization	567	294	861
Balance at December 31, 2021	567	294	861
Carrying amount			
January 1, 2020	1,144	977	2,121
December 31, 2020	2,623	3,743	6,366
December 31, 2021	5,166	5,511	10,677
Amortization rate	20-33%	10-20%	

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

Financial Statements of Fly Play hf. 2021 16 All amounts are in USD thousands

Notes, contd.:

14. Right-of-use assets

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

	Aircrafts	Other	Total
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

15. Operating assets

Operating assets and depreciation are specified as follows:

	Aircraft- and flight equipment	Other property and equipment	Total
Cost			
Additions	491	3,481	3,972
Balance at December 31, 2021	491	3,481	3,972
Depreciations			
Depreciation	47	104	151
Balance at December 31, 2021	47	104	151
Carrying amount			
December 31, 2020	0	0	0
December 31, 2021	444	3,377	3,821
Depreciation rate	10-20%	20-33%	

16. Insurance value

The insurance value of operating assets at year end 2021 amounted to USD 63.5 million (2020: 0.2 million).

17. Aircraft deposits & security instalments

The Company has paid aircraft deposits and security instalment in the amount of USD 7.8 million at year end 2021 (2020: USD 0 million).

18. Deferred tax assets

Deferred tax assets are specified as follows:

	2021	2020
Previously unrecognized	473	0
Calculated income tax, recognized in the Income statement	5,694	0
Currency exchange	(228)	0
Deferred tax at the end of the year	5,939	0

Financial Statements of Fly Play hf. 2021 17 All amounts are in USD thousands

18. **Deferred tax assets, contd.:**

Deferred tax assets are attributable to the following:

	2021	2020
Intangible assets	(1,085)	0
Operating assets	(68)	0
Right-of-use assets	530	0
Currency exchange difference	261	0
Carry-forward tax loss	6,301	0
Deferred tax assets at year end	5,939	0

Carry-forward tax loss at year end amounted to USD 31.5 million. Carry-forward tax loss can be utilized over 10 years from the date the loss is incurred.

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:

	2021	2020
Aircraft consumables	255	0
Other operation inventory	28	0
	282	0

20. **Trade and other receivable**

Trade and other receivable are specified as follows:

Account receivables	310	0
Credit card receivables	4,812	0
Other receivables	1,538	230
	6,660	230

21. **Equity**

Share capital

The Company's capital share at the end of the period amounted to ISK 700.0 million (USD 5,606,339). One vote is attached to each share of one ISK.

In April 2021 the Company's share capital was decreased by netting part of its accumulated loss. Furthermore, the sole shareholder converted shareholder loans to equity valued at USD 10.0 million. The Company then initiated a private placement with a transaction size of USD 47.6 million.

In parallel with the listing of the Company's share on the Nasdaq First North a second part of the round of financing was launched in June 2021. The IPO resulted in USD 35.0 million paid in capital. The subscription period was closed on 25 June and all subscriptions fully paid on 5 July.

The direct transaction cost of the two share offerings, the private placement in April and the IPO in June, amounted to USD 1.7 million 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.

Financial Statements of Fly Play hf. 2021 18 All amounts are in USD thousands

21. **Equity, contd.:**

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 2021 the company committed to issuing 33.636.366 new shares in the company pursuant to options agreements with 13 key employees and the CEO, subject to the vesting of these options. Of these USD 20 million options will vest in 2022 and 2023 and USD 4.5 million share will vest annually from 2024-2026. 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 the stock option is USD 735 thousand.

	R&D	Stock options	Total
Balance at December 31, 2020	6,366	0	6,366
Capitalized development cost	4,311	0	4,311
Stock options charge for the year	0	997	997
Balance at December 31, 2021	10,677	997	11,674

Retained earning

Retained earning shows accumulated profit of the Company 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 years 2020 and 2021. The Board of Directors proposes that no dividend shall be paid to shareholders during the year 2022 due to operations in the year 2021.

Capital management

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

22. **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 increase loss per share.

Basic earnings per share

	2021	2020
Loss for the year attributable to equity holders of the Company	(22,534)	(1,913)
Weighted average number of shares for the year	3,720	417
Basic earnings per share in US cent per share	(6.1)	(4.6)
Diluted earnings per share in US cent per share	(6.1)	(4.6)

Financial Statements of Fly Play hf. 2021 19 All amounts are in USD thousands

23. Provisions

Provisions for aircraft maintenance on leased aircrafts are as follows:

	2021	2020
Increases in provisions during the year	31,612	0
Utilization of provision during the year	(1,706)	0
Balance at December 31, 2021	29,906	0
Current provisions	(6,589)	0
Total non-current provisions	23,317	0

The expected timing of the outflows of economic benefits associated with the provisions at December 31, 2021, are as follows:

Used during 2022	6,589
Used during 2023	8,215
Used during 2024	6,655
Used during 2025	4,243
Used during 2026	2,389
Thereafter	1,815
Provisions for leased aircraft maintenance	29,906

24. Lease liabilities

The Company entered into lease agreements during the period which constitute a financial lease under IFRS 16, for three used Airbus 320neo aircraft and rent.

Lease liabilities are as follows:

	Rate	Year of maturity	Aircraft	Real estate	Total
Lease payments in USD	3.9%	9-10 years	88,836	0	88,836
Lease in ISK, indexed	4.3%	5 years	0	1,620	1,620
Total lease liabilities			88,836	1,620	90,456

	2021	2020
New leases	92,877	0
Indexed leases	66	0
Payment of lease liabilities	(2,374)	0
Currency translation	(113)	0
Balance at December 31, 2021	90,456	0
Current maturities	(8,467)	0
Total non-current lease liabilities	81,990	0

Financial Statements of Fly Play hf. 2021 20 All amounts are in USD thousands

Notes, contd.:

24. **Lease liabilities, contd.:**

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

Repayments 2022	8,467
Repayments 2023	9,791
Repayments 2024	10,487
Repayments 2025	10,902
Repayments 2026	11,141
Subsequent repayments	39,668
Total lease liabilities	90,456

The Company has made new lease agreements for six new Airbus 320neo aircrafts. Two of them are scheduled to be delivered in Q2 2022, two of them in Q3 2022 and two in Q1 2023. The lease liability for the aircraft scheduled in the year 2022 will amount to approximately USD 140.1 million and in the year 2023 USD 78.0 million.

25. **Trade and other payables**

Trade and other payables are specified as follows:	**2021**	**2020**
Trade payable	3,401	1,063
Unpaid airport taxes	1,881	0
Payroll liabilities and vacation fund	1,230	316
Emissions permits (ETS)	2,712	0
	9,224	1,379

26. **Deferred income**

Among current payables is recognized deferred income in the amount of USD 7.1 million due to sale of un-flown flights and outstanding gift certificates at year end. Revenues from passenger flights are recognized in the statement of comprehensive income when the relevant flight has been flown.

27. **Derivatives used for hedging**

Derivatives used for hedging are valued by a brokers quote. At year end 2021 there were no active hedges in place.

28. **Financial risk management**

Overview

The Company 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 and fuel price risk.

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

Risk management framework

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

Financial Statements of Fly Play hf. 2021 21 All amounts are in USD thousands

28. **Financial risk management, contd.:**

a. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company'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. Trade receivables of the Company are mostly credit card receivables.

All of the Company's customers pay with a credit card, therefore loss on receivables has been insignificant in proportion to turnover.

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	2021	2020
Aircraft deposits & security instalments	16	7,772	0
Trade receivable and other receivable	20	6,660	230
Cash and cash equivalents		51,731	7
		66,163	237

b. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The Company´s liquidity position was strong at year end 2021 and the Company'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

	Carrying amount	Contractual cash flows	Within 12 months	2023-2024 1-2 years	2025-2027 3-5 years	More than 5 years
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
	91,214	115,026	21,016	25,885	25,885	42,240
31 December 2020						
Trade and other payables	1,379	1,379	1,379	0	0	0
Related parties	7,207	7,207	7,207	0	0	0
	8,586	8,586	8,586	0	0	0

Financial Statements of Fly Play hf. 2021 22 All amounts are in USD thousands

28. **Financial risk management cont.:**

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

Fuel price risk

The Company is exposed to fuel price risk due to purchase of fuel. The Company does not currently hedge its fuel price risk.

Change in fuel prices by 10% at year end 2021 would have resulted in increase (decrease) on net income by USD 0.6 million. (2020: 0)

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% at year end 2021 would have resulted in increase (decrease) on net income by USD 0.2 million. (2020: 0)

d. Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of the Company. The currency exposure is mostly in EUR, ISK and GBP. The Company's salaries and related expenses, representing around 44.0% of the Company's total expenses, are denominated in ISK. Sales in ISK constitute 54.2% of total sales (2020: 0%), EUR 37.7% (2020: 0%) and other currencies 8.0% (2020; 0%).

The Company's exposure to currency risk is as follows:

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

2020	**ISK**	**EUR**	**GBP**	**Other currencies**
Trade and other receivables	230	0	0	0
Cash and cash equivalents	7	0	0	0
Payables to related parties	(7,207)	0	0	0
Trade and other payables	(631)	(23)	0	0
Net currency exposure	(7,601)	(23)	0	0

Financial Statements of Fly Play hf. 2021 23 All amounts are in USD thousands

28. **Financial risk management cont.:**

d. Currency risk

The following exchange rates of USD applied during the year:

	Average rate 2021	2020	Year-end spot rate 2021	2020
ISK	0.0079	0.0074	0.0076	0.0078
EUR	1.18	1.14	1.13	1.23
GBP	1.38	1.28	1.35	1.36

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December 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 2020.

	Profit (loss) 2021	2020
ISK	(3,230)	608
EUR	(189)	2
GBP	(104)	0
Other currencies	(19)	0

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 2020.

Classification and fair value of financial assets and liabilities

Financial assets and liabilities are classified as follows:

	Amortized cost	Other financial liabilities	Carrying amount
2021			
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	58,390	0	58,390
Lease liabilities	0	90,456	90,456
Provisions	0	6,589	6,589
Trade payables	0	9,224	9,224
Payables to related parties	0	8,467	8,467
Total liabilities	0	114,736	114,736

Financial Statements of Fly Play hf. 2021 24 All amounts are in USD thousands

28. **Financial risk management cont.:**
Classification and fair value of financial assets and liabilities

2020	**Amortized cost**	**Other financial liabilities**	**Carrying amount**
Other receivables	230	0	230
Cash and cash equivalents	7	0	7
Total assets	237	0	237
Trade payables	0	1,379	1,379
Payables to related parties	0	7,207	7,207
Total liabilities	0	8,586	8,586

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.

29. **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 Company and the number of shares in ISK directly or indirectly in the Company held by management are specified below:

2021	**Salaries and benefits**	**Number of shares in ISK thousand**	**Stock options**
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	209	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.

In the year 2020 no board salaries were paid.

Payables to related parties
Liabilities due to related parties on 31 December 2020 were against one of the Company's shareholders, Fea ehf. The shareholder loan was converted to equity in April 2021.

There were no other transactions with related parties other than shareholders during the year.

30. **Events after the reporting period**

In the beginning of the year 2022 the Company opened an office in Vilnius Lithuania and established the subsidiary PLAY Lithuania UAB.

In March 2022 the fourth Airbus 320neo aircraft was delivered and one more is scheduled to be delivered in the next weeks.

31. **Significant accounting policies**

The Company has consistently applied the following accounting policies to all periods presented in these 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 Company 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.

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.

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, 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.

31. **Significant accounting policies, contd.:**

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.

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	3-5 years
Software	2-5 years

31. **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 Company. 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 Company 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.

31. **Significant accounting policies, contd.:**

i. Financial instruments

Non-derivative financial assets

The Company 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 Company becomes a party to the contractual provisions of the instrument.

The Company 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 Company 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 Company 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 Company 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 Company becomes a party to the contractual provisions of the instrument.

The Company 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 Company 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 Company 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.

31. **Significant accounting policies, contd.:**

Hedge accounting

The Company has not jet entered into derivative financial instruments. The Company applies hedge accounting for contracts that it enters into to hedge the cash flow of the Company 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.

1. 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 Company 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 Company'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.

31. **Significant accounting policies, contd.:**

m. Provisions

A provision is recognized if, as a result of a past event, the Company 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 Company´s lease agreements, where the Company 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.

n. Leases

At inception of a contract, the Company 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 Company uses the definition of lease in IFRS 16.

As a lessee

The Company 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 Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company 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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

31. **Significant accounting policies, contd.:**

n. Leases, contd.:

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 Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company 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 Company 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.

m. Deferred income

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

m. 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 Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company'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 Company 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 Company 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 Company 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 Company 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.