AVIANCA GROUP INTERNATIONAL LIMITED

(England, United Kingdom)

Special Purpose Consolidated Financial Statements

For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021

AVIANCA GROUP INTERNATIONAL LIMITED

(England, United Kingdom)

Index

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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Avianca Group International Limited:

Opinion

We have audited the special purpose consolidated financial statements of Avianca Group International Limited and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated statements of comprehensive income, changes in equity and cash flows for the period from September 27, 2021 (Date of incorporation) to December 31, 2021, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying special purpose consolidated financial statements are prepared in all material respects, in accordance with the financial reporting provisions of contracts as described in note 2 (a) of the special purpose consolidated financial statements.

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 *Auditors' Responsibilities for the Audit of the Special Purpose Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the special purpose consolidated financial statements in Colombia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Use and Distribution

We draw attention to Note 2 (a) to the special purpose consolidated financial statements, which describes the basis of accounting. The special purpose consolidated financial statements are prepared to assist the Group to comply with the financial reporting provisions of the contracts referred in Note 2 (a). As a result, the special purpose consolidated financial statements may not be suitable for another purpose. Our report is intended solely for the Avianca Group International Limited and parties related to the contracts indicated in Note 2 (a) and should not be used by or distributed to parties other than the Avianca Group International Limited or parties related to the contracts indicated in Note 2 (a). Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Special Purpose *Consolidated Financial Statements*

Management is responsible for the preparation of the special purpose consolidated financial statements in accordance with the financial reporting provisions of contracts as described in note 2 (a) and for such internal control as management determines is necessary to enable the preparation of special purpose consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose consolidated financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's special purpose consolidated financial reporting process.

Auditors' Responsibilities for the Audit of the Special Purpose Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 special purpose consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose 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 exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the special purpose 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

KPMG S.A.S

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Calle 90 No. 19C-74
Bogotá D.C., Colombia

April 28, 2022

AVIANCA GROUP INTERNATIONAL LIMITED
(England, United Kingdom)
Consolidated Statement of Financial Position
(In USD thousands)

	Notes		December 31, 2021
Assets			
Current assets:			
Cash and cash equivalents	7	$	1,201,759
Restricted cash	7		76,572
Short term investments	12		42,260
Trade and other receivables, net of expected credit losses	8		207,563
Current tax assets	29		168,945
Expendable spare parts and supplies, net of provision for obsolescence	10		87,264
Prepayments	11		35,058
Deposits and other assets	12		17,919
			1,837,340
Assets held for sale	13		322,890
Total current assets			**2,160,230**
Non–current assets:			
Deposits and other assets	12		35,920
Intangible assets and goodwill, net	15		2,997,890
Net defined benefit asset	21		14,626
Deferred tax assets	29		42,502
Property and equipment, net	14		1,659,462
Total non–current assets			**4,750,400**
Total assets		**$**	**6,910,630**

AVIANCA GROUP INTERNATIONAL LIMITED
(England, United Kingdom)
Consolidated Statement of Financial Position
(In USD thousands)

	Notes		December 31, 2021
Liabilities and equity			
Current liabilities:			
Short-term borrowings and current portion of long-term debt	17	$	196,761
Accounts payable	18		536,852
Accrued expenses	19		22,978
Current tax liabilities	29		54,698
Provisions for legal claims	30		71,661
Employee benefits	21		89,952
Air traffic liability	22		522,872
Frequent flyer deferred revenue	22		146,694
Other liabilities	23		1,993
			1,644,461
Liabilities associated with assets held for sale	13		317,667
Total current liabilities			**1,962,128**
Non–current liabilities:			
Long–term debt	17		2,862,430
Provisions for return conditions	20		272,817
Employee benefits	21		53,092
Deferred tax liabilities	29		331,729
Frequent flyer deferred revenue	22		262,118
Other liabilities	23		3,416
Total non–current liabilities			3,785,602
Total liabilities			**5,747,730**
Equity			
Common shares	24		4
Share premium	24		1,145,962
Retained deficit			(12,563)
Other comprehensive income	24		14,954
Equity attributable to owners of the Company			**1,148,357**
Non–controlling interest (NCI)	25		14,543
Total equity			**1,162,900**
Total liabilities and equity		**$**	**6,910,630**

See accompanying notes to special purpose consolidated financial statements

AVIANCA GROUP INTERNATIONAL LIMITED
(England, United Kingdom)
Consolidated Statement of Comprehensive Income (Loss)
(In USD thousands)

	Notes	For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021
Operating revenue:		
Passenger		$ 258,683
Cargo and other		78,120
Total operating revenue	5, 26	**336,803**
Operating expenses:		
Flight operations		6,063
Aircraft fuel		73,642
Ground operations		41,458
Rentals	31	38,073
Passenger services		5,115
Maintenance and repairs		16,669
Air traffic		19,103
Selling expenses		35,792
Salaries, wages and benefits		39,527
Fees and other expenses		38,385
Depreciation and amortization	14,15	16,004
Total operating expenses		**329,831**
Operating profit		**6,972**
Interest expense		(22,919)
Interest income		1,144
Other financial income		4,433
Foreign exchange, net	6.c	(3,457)
Equity method profit		129
Loss before income tax		**(13,698)**
Income tax expense – current	29	(1,707)
Income tax benefit – deferred	29	245
Total tax expenses	29	(1,462)
Net loss for the period		**$ (15,160)**

See accompanying notes to special purpose consolidated financial statements

AVIANCA GROUP INTERNATIONAL LIMITED
(England, United Kingdom)
Consolidated Statement of Comprehensive Income (Loss)
(In USD thousands)

	Notes	For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021
Net loss for the period		**$ (15,160)**
Other comprehensive income		
Items that will not be reclassified to profit or loss in future periods:	24	
Remeasurements of defined benefit		14,133
Income tax		638
		14,771
Items that will be reclassified to profit or loss in future periods:	24	
Effective portion of changes in fair value of hedging instruments		194
Net change in fair value of financial assets with changes in OCI		(11)
		183
Other comprehensive income, net of income tax		**14,954**
Total comprehensive loss net of income tax		**$ (206)**
Loss attributable to:		
Equity holders of the parent		(12,563)
Non–controlling interest		(2,597)
Net loss		**$ (15,160)**
Total comprehensive income attributable to:		
Equity holders of the parent		3,646
Non–controlling interest		(3,852)
Total comprehensive loss		**$ (206)**

See accompanying notes to special purpose consolidated financial Statement

AVIANCA GROUP INTERNATIONAL LIMITED
(England, United Kingdom)
Consolidated Statement of Changes in Equity
(In USD thousands)

For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021

	Notes	Common shares	Share premium	Equity component of convertible warrants	Other comprehensive income — OCI Reserves	Retained deficit	Equity attributable to owners of the Company	Non-controlling interest	Total equity
Opening balance		$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Business combination	16, 24	3	918,088	201,450	—	—	1,119,541	18,395	1,137,936
Net loss		—	—	—	—	(12,563)	(12,563)	(2,597)	(15,160)
Other comprehensive income	24	—	—	—	14,954	—	14,954	(1,255)	13,699
Issue of ordinary shares	24	—	26,425	—	—	—	26,425	—	26,425
Exercise of convertible warrants	24	1	201,449	(201,450)	—	—	—	—	—
Balance at December 31, 2021		**$ 4**	**$ 1,145,962**	**$ —**	**$ 14,954**	**$ (12,563)**	**$ 1,148,357**	**$ 14,543**	**$ 1,162,900**

AVIANCA GROUP INTERNATIONAL LIMITED
(England, United Kingdom)
Consolidated Statement of Cash Flows
(In USD thousands)

	Notes	For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021
Cash flows from operating activities:		
Net loss for the period		**$ (15,160)**
Adjustments for:		
Provision for expected credit losses	8	3,784
Provision for expendable spare parts and suppliers' obsolescence	10	165
Depreciation and amortization	14,15	16,004
Interest expense		22,919
Deferred tax benefit	29	(245)
Current tax expense	29	1,707
Unrealized foreign currency gain		5,377
Changes in:		
Trade and other receivables		10,339
Expendable spare parts and supplies		(466)
Prepayments		(16,719)
Net current tax		(711)
Deposits and other assets		(2,716)
Accounts payable and accrued expenses		55,858
Air traffic liability		(50,106)
Frequent flyer deferred revenue		(4,147)
Provision for return conditions		(1,241)
Provisions for legal claims		(1,152)
Employee benefits		(19,080)
Income tax paid		(3,025)
Net cash provided by operating activities		**1,385**

AVIANCA GROUP INTERNATIONAL LIMITED
(England, United Kingdom)
Consolidated Statement of Cash Flows
(In USD thousands)

Cash flows from investing activities:		
Cash proceeds from Business Combination	16	1,069,935
Acquisition of property and equipment	14	(18,924)
Interest received of investment in bank deposit certificates		375
Acquisition of intangible assets	15	(2,135)
Proceeds from sale of property and equipment		138,781
Net cash provided by investing activities		**1,188,032**
Cash flows from financing activities:		
Repayment of loans and borrowings	13,17	(169,890)
Interest paid	17	(17,624)
Issue of common shares	16,24	200,000
Net cash provided by financing activities		**12,486**
Net increase in cash and cash equivalents		1,201,903
Exchange rate effect on cash		(144)
Cash and cash equivalents at the end of the period		**$ 1,201,759**

See accompanying notes to special purpose consolidated financial statements

(1) Reporting entity

Avianca Group International Limited ("AGIL" or the "Company") is, a company incorporated and existing under the laws of England and Wales as of September 27, 2021, with its registered office at Avianca Savinvest Arquen House 4-6 Spicer Street St. Albans, Greater London, AL3 4PQ. United Kingdom. AGIL together with its subsidiaries, will be referred to for the purposes of this document as the "Group".

AGIL was incorporated for the purpose of acquiring the business of Avianca Holdings S.A. The acquisition was completed on December 1, 2021, pursuant to the Equity Contribution and Conversion Agreement (the "ECCA") among Avianca Holdings S.A and certain of its subsidiaries and a majority of Tranche B lenders of Avianca Holdings S.A. that were party to the Debtor in Possession agreement (Note 16).

Subsidiaries

(a) Background of entities acquired

Certain subsidiaries of AVN Flight Cayman Limited (Entity acquired) were part of the Chapter 11 process of Avianca Holdings S.A. These subsidiaries emerged successfully from Chapter 11 process on December 1, 2021 ("Exit date of Chapter 11 - Emergence Date" of Avianca Holdings S.A. and Its Affiliated Debtors). The background is as follows.

On May 10, 2020 (and, with respect to certain entities, September 21, 2020), Avianca Holdings S.A. ("AVH") and certain of its subsidiaries (AVH and such subsidiaries, each, a "Debtor" and, collectively, the "Debtors") commenced cases for voluntary relief under the Bankruptcy Code in the U.S. Bankruptcy Court administered under Case No. 20-11133 (MG). The company Lifemiles was not part of the Chapter 11 filing.

On August 10, 2021, the Debtors filed a plan of reorganization (as amended and/or supplemented from time to time, the "Plan of Reorganization") which provides for, among other things,

(a) the conversion of the aggregate Tranche B DIP Obligations amount into equity interests of a new holding company of the reorganized Debtors ("Avianca Group International Limited") in exchange for the forgiveness, extinguishment, termination, cancellation, and repayment in full of the aggregate Tranche B DIP Obligations amount and the termination and release of the guarantees and security interests related thereto (including, under the DIP Credit Agreement, among other documents and agreements),
(b) an equity raise by Reorganized AVH in an aggregate amount equal to $200,000 to be funded through cash payments by certain of the Supporting Tranche B Lenders, and
(c) the issue of certain "exit" notes in full and final settlement of Tranche A-1 DIP Facility Claims and Tranche A-2 DIP Facility Claims (in each case, as defined in the Plan of Reorganization) (the transactions contemplated by the Plan of Reorganization, the "Transaction").

On November 2, 2021, the reorganization plan was approved by the company's creditors and confirmed by the Court (the "Plan") allowing the Company to successfully emergence from Chapter 11.

(In USD thousands)

On December 1st, 2021, Avianca Holdings S.A. and its subsidiaries announced that it has successfully completed its financial restructuring process and emerged from Chapter 11. The below because of the Group completed the precedent conditions included in: (i) the Equity Contribution and Conversion Agreement (the "ECCA") entered into by and between AVH, certain of its subsidiaries, and the Tranche B financiers, which agreement was approved by the Court for the Southern District of New York on September 14, 2021, and (ii) the plan of reorganization (the "Plan") , approved by the creditors and confirmed by the Court on November 2, 2021.

(b) Significant subsidiaries

The following are the significant subsidiaries in the Group included within these special purpose consolidated financial statements:

Subsidiary Name	**Country of incorporation**	**Ownership Interest% 2021**
Avianca Ecuador S.A.	Ecuador	99,62%
Aerovías del Continente Americano S.A. (Avianca)	Colombia	99,98%
Avianca Leasing, LLC	EE.UU	100,00%
Grupo Taca Holdings Limited.	Bahamas	100,00%
Latin Logistics, LLC	EE.UU	99,98%
LifeMiles Ltd.	Bermuda	100,00%
Avianca Costa Rica S.A.	Costa Rica	92,42%
Taca S.A.	Panamá	100,00%
Taca International Airlines, S.A.	El Salvador	96,83%
Tampa Cargo S.A.S.	Colombia	100,00%
Regional Express Américas S.A.S.	Colombia	100,00%
Ronair NV	Curacao	99,98%
Aero Transporte de Carga Unión, S.A. de C.V.	México	92,70%

The Group, through its subsidiaries, provides domestic and international passenger and cargo air transportation services in the domestic markets of Colombia and Ecuador, as well as on international routes serving the markets of North, Central and South America, Europe, and the Caribbean. The Company, through its airlines, has several code-share agreements with other airlines (where seats on one airline's flights can be marketed under the brand and commercial code of the other), offering customers more travel options to multiple worldwide destinations. These types of alliances included: Coordination of reservations, ticketing, passenger check-in and baggage handling; transfer of passengers and baggage at any connection point, and in most cases reciprocal accumulation and redemption under loyalty programs, among others. Current code-share agreements include Air Canada, Aeromexico, United Airlines, Copa Airlines, Silver Airways, Iberia, Lufthansa, All Nippon Airways, Singapore Airlines, Eva Airways, Air China, Etihad Airways, Turkish Airlines, Air India, Azul Linhas Aéreas Brasileiras and GOL Linhas Aéreas.

(In USD thousands)

Additionally, Aerovías del Continente Americano S.A. Avianca, Taca International Airlines, S.A. (as well as Taca's affiliates) and Avianca Ecuador S.A. are Star Alliance members, allowing customers access to all destinations and services offered by Star Alliance member airlines. Its 26 members include several of the world's most recognized airlines, such as Lufthansa, United Airlines, Thai Airways, Air Canada, TAP, Singapore Airlines, among others, as well as smaller airlines. All of them are committed to the highest standards of safety and customer service.

Cargo operations are mainly carried out by the following companies: Tampa Cargo S.A.S. and Aero Transporte de Carga Unión S.A. de C.V. The Group also conducts cargo operations through the availability of space on passenger flights and cargo aircraft, at some major airports. In addition, the Group performs ground handling operations for third party airlines and for its own use through one of its companies, Servicios Aeroportuarios Integrados SAI S.A.S.

The Group owns and operates a joint loyalty program called LifeMiles (the "Program"), which is also the Loyalty Program for subsidiary airlines. The Program operates through one of the Group's subsidiaries called LifeMiles Ltd, incorporated, and existing under the laws of Bermuda. As the main purpose of the program, LifeMiles sells loyalty miles ("Miles") to individuals that are members of the program, its commercial allies and even to Avianca, partner airlines of the Star Alliance network and other airline partners and collects certain fees from members of the program for certain transactions. These Program partners, in return use miles to reward their customers, increasing loyalty to their brands. For example, airline partners reward passengers with miles every time they take a flight, financial partners reward cardholders with miles when they purchase products and/or services using their credit cards (or debit cards in some cases), and commercial partners reward customers with miles when they purchase products or other goods and services at their commercial locations. Miles can be redeemed for flights on the Group's airlines, Star Alliance member airlines and other airline partners, as well as for products and services from other commercial partners, such as hotel nights, car rentals and retail goods among other rewards.

As of December 31, 2021, the Group had a total fleet consisting of:

	December 31, 2021		
Aircraft	**Owned / Financial Lease**	**Operating Lease**	**Total**
Airbus A-319	16	7	**23**
Airbus A-320	18	49	**67**
Airbus A-320 NEO	3	11	**14**
Airbus A-321	5	0	**5**
Airbus A-330	1	5	**6**
Airbus A-330F	5	1	**6**
Airbus A-300F	3	—	**3**
Boeing 787-8	8	5	**13**
Boeing 787-9	—	1	**1**
ATR-72	10	—	**10**
Boeing 767F	2	—	**2**
	71	**79**	**150**

As of December 31, 2021, a total of 15 aircraft (5 Airbus A330F, 6 Airbus A319, 2 Airbus A321 and 2 Airbus A320) were reclassified to assets held for sale of property and equipment (Note 13).

As of December 31, 2021, the Group continues to work on closing negotiations and documentation to amend Aircraft Leases and reject Aircraft Leases. Until the Group ends this process, the relevant Second Stipulation (including the relevant Power by the hour – PBH Agreement) shall continue in full force and effect and shall be binding and enforceable. This PBH Agreement establishes a variable rent that depend on the use of the underlying asset (PBH) that is recorded in the financial statements as rent expense in accordance with IFRS16.

(2) Basis of presentation of the Special Purpose Consolidated Financial Statements

Professional Accounting Standards Applied

(a) Basis of accounting

The special purpose consolidated financial statements as at and the period from September 27, 2021 (Date of incorporation) to December 31, 2021, have been prepared to comply with the financial reporting provisions of the following contracts:

- Investment agreement dated December 31, 2021, between the company, the original principal investor, and the original other equity holders,
- Warrant Instrument dates December 1, 2021, between the company and the warranty holders,
- Tranche A-1 and A-2 Senior security notes, and
- Leasing agreements with lessors

The special purpose consolidated financial statements have been prepared considering the significant accounting policies indicated in the Note 3, which are based on the International Financial Reporting Standards ("IFRS"), promulgated by the International Accounting Standards Board ("IASB" by its acronym).

The Group's special purpose consolidated financial statements For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021, were prepared and presented by Management and authorized for issuance by the Audit Committee on April 28, 2022.

(b) Going Concern

These special purpose consolidated financial statements have been prepared on a going concern basis.

The Group has recognized a net loss after taxes of $15,160 for the Period from September 27, 2021 (Date of incorporation) to December 31, 2021. The special purpose consolidated statement of financial position as of December 31, 2021, reflected total equity of $1,162,900 and an excess of current assets over current liabilities of $198,102, and $867,668 excluding deferred revenue from air traffic liability and deferred revenue from the frequent flyer program.

Further to the successful emergence of the Group’s subsidiaries from Chapter 11 with a reorganized capital structure, of approximately $1.0 billion of unrestricted cash and $3.0 billion of aggregate debt and IFRS-16 lease obligations versus over $5.0 billion of net debt at the Initial Petition Date in May 2020, providing the subsidiaries with the financial strength and flexibility required to execute the long-term business plan.

Furthermore, Management is implementing initiatives to reduce costs and optimize the Group's cash flow and liquidity. Among these are the following actions: restructure of the Group's administrative functions and overhead processes; review of the passenger amenity expenses including catering and lounge costs; and reductions of employment benefits. Also, Management is working on the fleet to reduce the unit costs, including: the reconfiguration of the Aircrafts renewing its seats with three new types - Premium, Plus and Economy - of its A320 fleet to increase its capacity; the standardization of the Aircraft models and engine type; and the increase of the Aircraft utilization. Management is confident that the implementation of this plan will decrease the unit operating cost, excluding fuel, for passenger operations compared to pre-pandemic levels.

Based on these factors, Management has a reasonable expectation that the Group has and will have adequate resources to continue in operational existence for the foreseeable future.

(3) Significant accounting policies

(a) Basis of measurement

The special purpose consolidated financial statements have been prepared on a historical cost basis, except for, land and buildings (classified as administrative property), assets held for sale, defined benefit plan assets and short-term investments that have been measured at fair value.

(b) Functional and presentation currency

The special purpose consolidated financial statements are presented in US Dollars, which is the functional currency for each legal entity in the Group. Items included in the financial statements of each entity are measured using that functional currency.

(c) Use of judgments and estimates

The preparation of the special purpose consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of 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 prospectively.

The following assumptions and estimation uncertainties may have the most significant effect on the amounts recognized in the consolidated financial statements in the next financial year:

- The Group applied IFRS 3 for the business combination applying the acquisition method and recognized goodwill on the acquisition date. The identifiable assets acquired, and the liabilities assumed were measured at fair value at the acquisition date, December 1, 2021.

  Based on the application of IFRS3 of the business combination, the Group recognized acquired identifiable intangible assets, such as trademarks, customer relationships, agreements, Slots, and routes. Also, the Group recognized assets and liabilities for deferred taxes that arose from the assets acquired and the liabilities assumed in the business combination, accounting for the tax effects of the temporary differences that exist on the date of acquisition.

  As require under IFRS 3, the Group applied the exception to the principle of recognition of IAS 37 provisions, liabilities, and contingent assets, recognizing on the acquisition date the contingent liabilities assumed in the business combination.

- The Group recognizes revenue from tickets that are expected to expire unused based on historical data, experience, and impacts of COVID-19 in the future trend of use of tickets by passenger. To order define the expected expiration date, with the support of an independent specialist third party, the administration must make estimates on the historical experience, which is an indication of the future behavior of the clients, analyzed by type of rate. As the accumulated data indicates, the administration evaluates the historical data once a year or more frequently according to the experience and makes the necessary adjustments.

- Deferred taxes are recognized on unused tax losses and on deductible temporary differences to the extent that it is probable that in the future there will be taxable income that can be offset against deferred tax. Management must use significant judgment to determine the amount of deferred tax asset to recognize and the tax rates to use, based on the possible term and amounts of future taxable income together with future tax strategies and tax rates enacted in the jurisdictions where Group entities operate.

- The Group evaluates the carrying value of long-lived assets subject to amortization or depreciation whenever events or changes in circumstances indicate that an impairment may exist. For purposes of evaluating impairment losses, assets are grouped at the lowest level for which there are largely independent cash flows inflows by transportation and loyalty cash generating unit. An impairment loss is recognised for the excess of the carrying amount of the asset over its recoverable amount. The recoverable amount is the fair value of an asset less the costs for sale or the value in use, whichever is greater.

  Goodwill and indefinite-lived intangible assets are not amortized but are reviewed for impairment annually or more frequently if events or circumstances indicate that the asset may be impaired.

- Aircraft lease contracts establish certain conditions in which aircraft shall be returned to the lessor at the end of the contracts. To comply with return conditions, the Group incurs costs such as the payment to the lessor of a rate in accordance with the use of components through the term of the lease contract, payment of maintenance deposits to the lessor, or overhaul costs of components. In certain contracts, if the asset is returned in a better maintenance condition than the condition at which the asset was originally delivered, the Group is entitled to receive compensation from the lessor. For the application of this policy at the beginning of the contract the projected amount of the obligation for return conditions discounted at present value is recognized as a part of the right-of-use and amortized during the term of the contract. The recognition of return conditions require management to make estimates of the costs with third parties of return conditions and use inputs such as hours or cycles flown of major components, estimated hours, or cycles at redelivery of major components, projected overhaul costs and overhaul dates of major components.

(d) Basis of Consolidation

Business combinations

The Group accounts for business combinations using the acquisition method in accordance with IFRS 3 “Business Combinations”, when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. The consideration transferred in the acquisition is generally measured at acquisition date fair value including the amount of any non–controlling interests in the acquiree, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred and included in administrative expenses except if related to the issue of debt or equity securities.

When the Group acquires a business, it measures at fair value the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as at the acquisition date.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred to the seller, including the amount recognized for non–controlling interest over the fair value of identifiable assets acquired and liabilities assumed. If this consideration is less than the fair value of the net assets acquired, the difference is recognized as profit at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the Group’s cash–generating units that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

When a business combination is achieved in stages, the Entity's prior shareholding in the acquired company is remeasured at fair value at the acquisition date and the resulting gain or loss, if any, is recognized in the income statement. The amounts arising from interests in the company acquired before the acquisition date that have been previously recognized in other comprehensive income are reclassified to the income statement when this treatment is appropriate if said interest is eliminated.

If the initial accounting treatment of a business combination is incomplete at the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items whose accounting is incomplete. Such provisional amounts are adjusted during the measurement period or additional assets, or liabilities are recognized to reflect new information obtained about the facts and circumstances that existed at the acquisition date and that, if known, would have affected the amounts recognized as of that date.

Subsidiaries

Subsidiaries are entities controlled by AGIL. The financial statements of subsidiaries are included in the special purpose consolidated financial statements from the date that control commences until the date that control ceases, in accordance with IFRS 10. Control is established after assessing the Group’s ability to direct the relevant activities of the investee, its exposure and rights to variable returns, and its ability to use its power to affect the amount of the investee’s returns. The accounting policies of subsidiaries have been aligned, when necessary, with the policies adopted by the Group.

Non-controlling interest - NCI

NCI are measure initially at their proportionate share of the acquirer's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liability of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Interests in equity-accounted investee

The Group's interest in equity accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity- accounted investees, until the date on which significant influence or joint control ceases.

Transactions eliminated on Consolidation

Intercompany balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gain or losses) arising from intercompany transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency

Foreign currency transactions

The special purpose consolidated financial statements are presented in US dollars. Transactions in foreign currencies are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are recognized currently as an element of profit or loss. Non–monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non–monetary items measured at a revalued amount in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(f) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes income when transferring control over the good or service to the customer. Below is information on the nature and timing of the satisfaction of performance obligations in contracts with customers.

(i) Passenger and cargo transportation

The Group recognizes revenues from passenger, cargo, and other operating income (frequent flyer program, ground operations, maintenance and others) in the special purpose consolidated statements of comprehensive income. Revenues from passenger, which includes transportation, baggage fees, fares, and other associated ancillary income, are recognized when transportation is provided. Cargo revenues are recognized when the shipments are delivered. Other operating income is recognized as the related performance obligations are met.

The tickets and other revenues related to transportation that have not yet been provided are initially deferred and recorded as "Air traffic liability" in the consolidated statement of financial position, deferring the revenue recognition until the trip occurs. For trips that have more than one flight segment, the Group considers each segment as a separate performance obligation and recognizes the revenues of each segment as the trip takes place. Tickets sold by other airlines where the Group provides transportation are recognized as passenger revenue at the estimated value that will be billed to the other airline when the trip is provided.

Reimbursable tickets usually expire after one year from the date of issuance. Non-refundable tickets generally expire on the date of the intended trip unless the date is extended by customer notification on or before the scheduled travel date. Rates for unused tickets that are expected to expire are recognized as revenue, based on historical data and experience, supported by a third valuation specialist to assist management in this process.

The Group periodically evaluates this liability, and any significant adjustment is recorded in the consolidated statements of comprehensive income. These adjustments are mainly due to differences between actual events and circumstances such as historical sales rates and customer travel patterns that may result in refunds, changes or expiration of tickets that differ from the estimates.

The Group evaluates its estimates and adjusts deferred revenue for unearned transportation and revenue for passenger transport when necessary.

The various taxes and fees calculated on the sale of tickets to customers are collected as an agent and sent to the tax authorities. The Group records a liability when taxes are collected and derecognize it when the government entity is paid.

(ii) Loyalty program

The Group has a frequent flyer program “LifeMiles”, that is managed by LifeMiles Ltd, a subsidiary of the Group which airlines buy lots of miles to be granted to member costumers of the program. The purpose of the program is designed to retain and increase travelers’ loyalty by offering incentives to travelers for their continued patronage.

Under the LifeMiles program, miles are earned by flying on the Group’s airlines or its alliance partners and by using the services of program partners for such things as credit card use, hotel stays, car rentals, and other activities. Miles is also directly sold through different distribution channels. Miles earned can be exchanged for flights or other products or services from alliance partners.

The liabilities for the accumulated miles are recognized under "Frequent Flyer Deferred Revenue" (See note 22) until the miles are redeemed.

The Group recognizes the revenue for the redemption of miles at the time of the exchange of miles. They are calculated based on the number of miles redeemed in each period multiplied by the cumulative weighted average yield (CWAY), which leads to the decrease of " Frequent Flyer Deferred Revenue ".

Breakage estimates are reviewed every semester. If a change in the estimate is presented, the adjustments will be accounted for prospectively through the income, with an adjustment of "update" to the corresponding deferred income balances.

(g) Income tax

Income tax expense comprises current and deferred taxes and is accounted for in accordance with IAS 12 "Income Taxes". Current and deferred tax is recognized in profit or loss except to the extent that it relates to transaction recognized in the same or different period outside of profit or loss, either in other comprehensive income or directly in equity or a business combination.

(i) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current and deferred taxes are recognized in income, except when they refer to items that are recognized outside income, either in other comprehensive income or directly in stockholders' equity, respectively. When the initial recognition of a business combination arises, the tax effect is included within the recognition of the business combination.

Current income tax relating to items recognized directly in equity or in other comprehensive income recognized in the consolidated statement of changes in equity or consolidated statement of comprehensive income, respectively. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax

Deferred tax is recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized to the extent that is probable that the temporary differences, the carry forward of unused tax credits and any unused tax losses can be utilized except to the extent that it arises on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re–assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

- Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax laws enacted or substantively enacted at the reporting date.

- Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Group intends to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

(h) Property and equipment

(i) Recognition and measurement

Flight equipment, property and other equipment are measured at cost less accumulated depreciation and accumulated impairment losses in accordance with IAS 16 "Property, Plant and Equipment".

Property, operating equipment, and improvements that are being built or developed for future use by the Group are recorded at cost as under–construction assets. When under–construction assets are ready for use, the accumulated cost is reclassified to the respective property and equipment category.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gain and losses on disposal of an item of flight equipment, property and equipment are determined by comparing the proceeds from disposal with the carrying amount.

(ii) Subsequent costs

The costs derived from the maintenance of the fuselage and the engines of an aircraft are capitalized and depreciated for the shorter period between the next scheduled maintenance or the return of the asset. The depreciation rate depends on the estimated useful life of the asset, which is based on projected cycles and flight hours. Expenses incurred for routine maintenance of aircraft and engines are recorded as expenses as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in the consolidated statement of comprehensive income on a straight–line basis over the estimated useful lives of flight equipment, property and other equipment, since this method most closely reflects the expected pattern of consumption of the future economic benefits associated to the asset.

Rotable spare parts for flight equipment are depreciated on the straight–line method, using rates that allocate the cost of these assets over the estimated useful life of the related aircraft. Land is not depreciated.
Estimated useful lives are as follows:

	Estimated useful life (years)
Flight equipment:	
Aircraft	10 – 30
Aircraft components and engines	Useful life of fleet associated with component or engines
Aircraft major overhaul repairs	4 – 12
Rotable parts	Useful life of fleet associated
Leasehold improvements	Lesser of remaining lease term and estimated useful life of the leasehold improvement
Administrative Property	20 – 50
Vehicles	2 – 10
Machinery and equipment	2 – 15

Residual values, amortization methods and useful lives of the assets are reviewed and adjusted, if appropriate, at each reporting date.

The carrying value of flight equipment, property and other equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable and the carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(iv) Revaluation and other reserves

Administrative properties in Bogota, Medellín, El Salvador, and San Jose are recorded at revaluation cost less accumulated depreciation on buildings and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from it carrying amount. A revaluation reserve is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the other comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(i) Assets held for sale

Non-current assets and groups of assets for disposal that are classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell. Non-current assets and groups of assets for disposal are classified as held for sale if their carrying amount will be recovered mainly through a sale transaction, rather than through continued use. This condition is considered fulfilled only when the sale is highly probable and the asset or group of assets for disposal are available, in their current conditions, for immediate sale. The administration must be committed to the sale, and it must be expected that the sale complies with the necessary requirements for its recognition as such, within the year following the date of classification.

Property and equipment and intangible assets, once classified as held for sale, are not subject to depreciation or amortization and both the assets and any liabilities directly associated with the assets held for sale is reclassified to current and disclosed in a separate line of the consolidated financial statement, when the criteria for having an asset as held for sale are no longer met, the Group reclassifies property and equipment for the lower value between:

1) The carrying amount before the asset was classified as held for sale, adjusted for the depreciation that would have been recognized if it had not been classified as held for sale.
2) The recoverable amount on the date of the subsequent decision not to sell it.

(j) Leased assets

(i) Leases

At inception date of the contract, the Group assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract transfers the right to control the use of an asset for a period in exchange for compensation. To assess whether a contract transfers the right to control the use of an identified asset, the Group uses the definition of lease in IFRS 16, or short-term leases, recognizing it as an expense on a straight-line basis over the term of the lease.

(ii) Assets by right of use

The Group recognizes the assets for right of use on the commencement date of the lease (that is, the date on which the underlying asset is available for use). The right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and are adjusted for any new measurement of lease liabilities. The cost of the assets with the right to use includes the amount of the recognized lease liabilities, the initial direct costs incurred, and the lease payments made on or before the start date, less the lease incentives received. The assets recognized by right of use are depreciated in a straight line during the shortest period of their estimated useful life and the term of the lease. The assets by right of use are subject to impairment.

(iii) Lease liabilities

At the commencement date of the lease, the Group recognizes the lease liabilities measured at the present value of the lease payments that will be made during the term of the lease. Lease payments include fixed payments and variable lease payments that depend on an index or a rate.

Lease payments also include the price of a purchase option that the Group can reasonably exercise and penalty payments for terminating a lease.

Variable lease payments that do not depend on an index or a rate (including the payment PBH (Power By the Hour)) are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

At the commencement or modification of a contract that contains a lease component, the Group assigns the consideration in the contract to each lease component based on their relative independent prices. However, for property leases the Group has chosen not to separate the non-lease components and to account for the lease and non-lease components as a single lease component.

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.

(iv) Short Term Leases

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including variable payment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period to get ready for its intended use or sale are capitalized as part of the cost of the respective assets in accordance with IAS 23 "Borrowing Costs". Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(l) Intangible assets

Intangible assets acquired separately are initially measured at cost in accordance with IAS 38 "Intangible Assets". The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

	Estimated useful life (years)
Trademarks and Trade Names	Indefinite
Customer Relationships	15 – 20
Agreements	10

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or in the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income within depreciation and amortization.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash–generating unit level, without exceeding a business segment. Impairment measurement is currently carried out at the level of the air transport segment. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains and losses arising from the de–recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Goodwill is measured initially at cost, represented by the excess of the sum of the consideration transferred and the amount recognized for the non-controlling interest, with respect to the net of the identifiable assets acquired and the liabilities assumed. If this consideration is less than the fair value of the net assets acquired, the difference is recognized as a gain at the date of acquisition.

After initial recognition, Goodwill is measured at cost less any accumulated impairment loss. For the purpose of impairment tests, Goodwill acquired in a business combination is assigned, from the date of acquisition to each company acquired and impairment measurement is carried out at the air segment level.

Based on the application of IFRS3 of the business combination, the Group recognized acquired identifiable intangible assets, such as trademarks, customer relationships, agreements, slots, routes, and developed Technology.

The Group's intangible assets include the following:

(i) Software and webpages

Acquired computer software licenses are capitalized based on cost incurred to acquire, implement, and bring the software into use. Costs associated with maintaining computer software programs are expensed as incurred. In case of development or improvement to systems that will generate probable future economic benefits, the Group capitalizes software development costs, including directly attributable expenditures on materials, labor, and other direct costs.

Acquired software cost is amortized on a straight-line basis over its useful life.

Licenses and software rights acquired by the Group have finite useful lives and are amortized on a straight–line basis over the term of the contract. Amortization expense is recognized in the consolidated statement of comprehensive income.

Cloud computing agreements that correspond to a fee paid to a provider in exchange for access to the software through the Internet. The software is hosted by the supplier in its IT infrastructure. Directly attributable costs of preparing the software for its intended use are capitalized only when an intangible software asset is acquired. Therefore, directly attributable costs incurred to prepare the software for its intended use (for example, testing, data migration and conversion, training, software configuration, software customization, etc.) are not capitalized. These costs are only capitalized and recognized over a longer period when the implementation service is different from the service of receiving access to the software; or the cost gives rise to an independent intangible asset controlled by the Company who acquires it.

(ii) Routes, customer relationships, agreements, slots, and trademarks

Routes, customer relationships, agreements, slots, and trademarks are carried at cost, less any accumulated amortization and impairment. The useful life of intangible assets associated with routes and trademark rights are based on management's assumptions of estimated future economic benefits. The useful life of intangible assets associated with agreements rights and obligations is based on the term of the contract. The intangible assets are amortized over their useful lives of between two and twenty years. Certain trademarks have indefinite useful lives and therefore are not amortized but tested for impairment at least at the end of each reporting period. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(iii) Other intangible rights

Contains projects related to technological developments to generate efficiencies in the operation. Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

(m) Financial instruments – initial recognition, classification, and subsequent measurement

(i) Financial assets

Financial assets are classified in the initial recognition as follows:

- Measured at amortized cost,
- At fair value through changes in other comprehensive income (OCI) and
- At fair value through profit or loss.

The classification of financial assets in the initial recognition depends on the characteristics of the contractual cash flow of the financial asset and the Group's business model for its administration. A financial asset (unless it is a trade receivable without a significant financial component) or financial liability is initially measured at fair value plus or minus for an item not at FVTPL, transaction costs that are directly attributable so its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

For a financial asset to be classified and measured at amortized cost or at fair value through OCI, it must give rise to cash flows that are "only capital and interest payments" over the outstanding principal amount. This evaluation is known as the SPPI test and is performed at the instrument level.

The Group's business model for the management of financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, the sale of financial assets or both. Purchases or sales of financial assets that require the delivery of assets within a time frame established by regulation or convention in the market (regular operations), are recognized on the trading date, that is, the date on which the Group Commit to buy or sell the asset.

Subsequent measurement

For subsequent measurement purposes, financial assets are classified into three categories:

- at amortized cost;
- at fair value through other comprehensive income; or
- at fair value through profit or loss

Financial assets at amortized cost

The Group measures financial assets at amortized cost if the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method (EIM) and are subject to impairment. Profits and losses are recognized in results when the asset is written off, modified or impaired.

The Group's financial assets at amortized cost include trade accounts receivable, accounts receivable with related parties, accounts receivable from employees and other non-current financial assets.

Financial assets at fair value through other comprehensive income

The Group measures debt instruments at fair value through OCI if the following conditions are met:

- The financial asset is held within a business model whose is achieve by both collecting contractual cash flows and selling financial assets, and.
- The contractual terms of the financial asset give rise on specified dates to the cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, exchange revaluation and impairment losses or reversals are recognized in the other comprehensive income and are calculated in the same manner as for financial assets measured at amortized cost. The remaining changes in fair value are recognized in OCI. After derecognition, the change in accumulated fair value recognized in OCI is recognized in profit or loss.

For equity instruments, after initial recognition, the Group may elect to irrevocably classify its capital investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments. The classification is determined instrument by instrument.

Gains and losses on these financial assets are never recognized as gains or losses. Dividends are recognized as other income in the income statement when the right to payment has been established, except when the Group benefits from such income as a recovery of part of the cost of the financial asset, in which case such earnings are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment evaluation.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated at initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the short term. Derivatives, including embedded implicit derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not only capital and interest payments are classified and measured at fair value through profit or loss, regardless of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments can be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are recorded in the statement of financial position, at fair value with net changes, recognized in the statement of comprehensive income.

This category includes derivatives and listed equity investments that the Group had not irrevocably chosen to be classified at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of comprehensive income when the right to payment has been established.

Impairment of financial assets

The Group recognizes a reserve for expected credit losses (ECL) for all debt instruments that are not held at fair value through profit or loss. The ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

For trade accounts receivable and contractual assets, the Group applies a simplified approach when calculating ECL. Therefore, the Group does not track changes in credit risk, but recognizes a loss adjustment based on ECL for life at each reporting date. The Group has established a provision matrix that is based on its historical experience of credit losses, adjusted by specific prospective factors for debtors and the economic environment

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized primarily when:

- The rights to receive cash flows from the asset have expire.
- The Group has transferred its rights to receive cash flows from the asset or has assumed the obligation to pay the cash flows received in full without significant delay to a third party under a "transfer" agreement, and (a) the Group has transferred substantially all the risks and benefits of the asset, or (b) the Group has not transferred or retained substantially all the risks and benefits of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a transfer agreement, it evaluates whether and to what extent it has retained the risks and benefits of ownership. When it has not transferred or retained substantially all the risks and benefits of the asset, nor transferred control of the asset, the Group continues to recognize the asset transferred to the extent of its continued participation. In this case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

The continuous participation that takes the form of a guarantee on the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group may have to repay.

(ii) Financial Liabilities

Financial liabilities are classified, on initial recognition, as financial liabilities at fair value through profit or loss, loans and debt, accounts payable, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are initially recognized at fair value and, in the case of loans and debt and accounts payable, net of directly attributable transaction costs.

The Group's financial liabilities include trade accounts payable and other accounts payable, loans and debt, including bank overdrafts and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the short term. This category also includes derivative financial instruments entered by the Group that are not designated as hedging instruments in the hedging relationships defined by IFRS 9. Separate embedded derivatives are also classified as held for trading unless they are designated as equity instruments, effective coverage.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of income

The financial liabilities designated in the initial recognition at fair value through profit or loss are designated at the initial recognition date, and only if the criteria of IFRS 9 are met. The Group has not designated any financial liability at fair value with changes in results.

Loans carried at amortized cost

This is the most relevant category for the Group. After initial recognition, interest-bearing loans are subsequently measured at amortized cost using the effective interest method (EIM). Profits and losses are recognized in results when liabilities are derecognized in accounts, as well as through the EIM amortization process.

The amortized cost is calculated taking into account any discount or premium on the acquisition and the fees or costs that are an integral part of the EIM. The amortization of the EIM is included as financial costs in the income statement.

This category generally applies to loans and debt that accrue interest.

Derecognition financial instruments

Financial liability is derecognized when the obligation under the liability is canceled or expires. When an existing financial liability is replaced by another of the same lender in substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as the derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement.

Compensation of assets and financial liabilities

Financial assets and liabilities are offset, and the net amount is recorded in the consolidated statements of financial position, if and only if, you have the legal right to offset the amounts recognized and there is an intention to cancel them on a net basis, or, to realize the assets and cancel the liabilities simultaneously.

(iii) Fair value of financial instruments

The fair value of the financial instruments that are traded in the active markets on each reporting date is based on the prices quoted on the market (on the prices of purchase and sale prices on the stock exchange), not including deductions for transaction costs.

In the case of financial instruments that are not traded in active markets, fair value is determined using valuation techniques. Such techniques may include recent purchase and sale transactions at arm's length prices, reference to the fair value of other basically identical financial instruments, an analysis of the discounted cash flow, or recourse to other valuation models.

Note 28 includes an analysis of the fair values of financial instruments and more details on how they are valued.

(n) Expendable spare parts and supplies

Expendable spare parts and supplies, are shown at the lower of cost and their replacement cost. The cost is determined on the basis of the weighted average cost method (WAC). The replacement cost is the estimated purchase price in the ordinary course of business.

(o) Cash and Cash equivalents

Cash and cash equivalents in the special purpose consolidated statement of financial position comprise cash at banks and on hand and short–term deposits with original maturity of three months or less, which are subject to an insignificant risk of change in value.

For the special purpose consolidated statement of cash flows, cash and cash equivalents consist of cash and short–term deposits as defined above, net of outstanding bank overdrafts, if any.

(p) Impairment of non–financial assets

The Group reviews flight equipment and other long-lived assets used in operations for impairment losses when events and circumstances indicate the assets may be impaired. Factors which could be indicators of impairment include, but are not limited to, (1) a decision to permanently remove flight equipment or other long-lived assets from operations, (2) significant changes in the estimated useful life, (3) significant changes in projected cash flows, (4) permanent and significant declines in fleet fair values and (5) changes to the regulatory environment. For assets held for sale, the Group discontinue depreciation and record impairment losses when the carrying amount of these assets is greater than the fair value less the cost to sell.

For purposes of this testing, the Group has identified the Air transportation business unit and the loyalty program as the lowest level of identifiable cash flows. An impairment loss is recognized if the carrying amount exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost of disposal. 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 assessment of the time value of money and the risks specific to the asset or CGU.

Goodwill and indefinite-lived intangible assets are not amortized but are reviewed for impairment annually or more frequently if events or circumstances indicate that the asset may be impaired. Goodwill and indefinite-lived assets are reviewed for impairment on an annual basis or on an interim basis whenever a triggering event occurs.

Impairment losses are recognized in profit or loss. they are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the current amount of the other assets in the CGU on a pro rata basis.

(i) Maintenance deposits

Maintenance deposits correspond to deposits paid to lessors based on cycles, flight hours, or fixed monthly amounts, depending on the specific nature of each provision. Rates used for the calculation and monthly amounts are specified in each lease agreement. The maintenance deposits paid to aircraft lessors are recorded within "Deposits and other assets" when they are susceptible for recovery, to the extent that such amounts are expected to be used to fund future maintenance activities. Deposits that are not probable of being used to fund future maintenance activities are expensed as incurred.

The maintenance deposits refer to payments made by the Group to leasing companies to be used in future aircraft and engine maintenance work. Management performs regular reviews of the recovery of maintenance deposits and believes that the values reflected in the consolidated statement of financial position are recoverable. These deposits are used to pay for maintenance performed and might be reimbursed to the Group after the execution of a qualifying maintenance service or when the leases are completed, according to the contractual conditions. Certain lease agreements establish that the existing deposits, in excess of maintenance costs are not refundable. Such excess occurs when the amounts used in future maintenance services are lower than the amounts deposited. Any excess amounts expected to be retained by the lessor upon the lease contract termination date, which are not considered material, are recognized as additional aircraft lease expense. Payments related to maintenance that the Group does not expect to perform are recognized when paid as additional rental expense. Some of the aircraft lease agreements do not require maintenance deposits.

(ii) Security deposits for aircraft and engines

The Group must pay security deposits for certain aircraft and engine lease agreements. Reimbursable aircraft deposits are stated at cost.

Deposits that have fixed or determinable payments that are not quoted in an active market are recorded as "Deposits and other assets". Such assets are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

Deposits for guarantee and collateral are represented by amounts deposited with lessors, as required at the inception of the lease agreements. The deposits are typically denominated in U.S. Dollars, do not bear interest and are reimbursable to the Group upon termination of the agreements.

(q) 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 more likely than not that an outflow of economic benefits will be required to settle the obligation in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Provisions are set up for all legal claims related to lawsuits for which it is probable that an outflow of funds will be required to settle the legal claims obligation net of insurance and a reasonable estimate can be made. The assessment of probability of loss includes assessing the available evidence, the hierarchy of laws, available case law, the most recent court decision, and their relevance in the legal system, as well as the assessment of legal counsel.

If the effect of the time value of money is material, provisions are discounted using a current pre–tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial cost.

(i) Provision for return condition

At the commencement date of the lease, the group records a provision to accrue for the cost that will be incurred in order to return the lease aircraft to their lessor in the agreed-upon condition, which is capitalize in the right-of-use asset and recognized as a liability for return condition. The methodology applied to calculate the provision requires management to make assumptions, including the future costs of returning the aircraft, discount rate, and aircraft utilization.

The cash flows are discounted at the interest rate applied in the measurement of the lease liability. Any difference in the actual maintenance cost incurred and the amount of the provision is recorded under "Maintenance and repairs" in the consolidated statement of profit or loss.

(r) Employee Benefits

The Group sponsors defined benefit pension plans, which require contributions to be made to separately administered funds. The Group has also agreed to provide certain additional post–employment benefits to senior employees in Colombia. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit cost method.

Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in other comprehensive income.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on Colombian Government bonds) less the fair value of plan assets out of which the obligations are to be settled. Plan assets are held by CAXDAC. Plan assets are not available for payments to creditors and cannot be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities on the published bid price. The value of any defined benefit asset recognized is restricted and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Under IAS 19 (issued in June 2011 and amended in November 2013), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset). It considers any changes in the net defined benefit liability (asset) during the period because of contributions and benefit payments. The net interest on the net defined benefit liability (asset) comprises:

- Interest income on plan assets
- Interest cost on the defined benefit obligation; and
- Interest on the effect of the asset ceiling

Additionally, the Group offers the following employee benefits:

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the consolidated statement of comprehensive income when they are due.

(ii) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

(s) Prepaid expenses

(i) Prepaid commissions

Commissions paid for tickets sold are recorded as prepaid expenses and expensed when the tickets are used.

(ii) Prepaid rent

Prepaid rent for aircraft corresponds to prepaid contractual amounts that will be applied to future lease payments over a term of less than one year.

(t) Interest income and interest expense

Interest income comprises interest income on funds invested (including available–for–sale financial assets), changes in the fair value of financial assets at fair value through the consolidated statement of comprehensive income and gains on interest rate hedging instruments that are recognized in the consolidated statement of comprehensive income. Interest income is recognized as accrued in the consolidated statement of comprehensive income, using the effective interest rate method.

Interest expense comprises interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through the consolidated statement of comprehensive Income, and losses on interest rate hedging instruments that are recognized in the consolidated statement of comprehensive income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the consolidated statement of comprehensive income using the effective interest method.

(4) New and amended standards, interpretations and amendments adopted by the Group

The Group has applied for the first time some standards and amendments to standards, which were effective for periods beginning on January 1, 2021. The Group has not applied any standards, interpretations or amendments that have been issued but are not yet effective. The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

4.1 Standards issued but not yet effective

The following modifications are effective for the period beginning January 1, 2022, and 2023:

Reference to the Conceptual Framework (amendments to IFRS 3)

- Modifications are made to the references to align them with the conceptual framework issued by the IASB in 2018, in that sense the identifiable assets acquired, and the liabilities assumed in a business combination, on the transaction date, will correspond to those that meet the definition of assets and liabilities described in the conceptual framework.
- Paragraphs 21A, 21B and 21C are incorporated regarding the exceptions to the recognition principle for liabilities and contingent liabilities within the scope of IAS 37 and IFRIC 21.
- Paragraph 23A is added to define a contingent asset and clarify that the acquirer in a business combination will not recognize a contingent asset at the acquisition date. Any effect on your application will be done prospectively.

This amendment is effective as of January 1, 2022.

Property, Plant and Equipment: Products Obtained Before Intended Use (amendments to IAS 16)

- The amendment prohibits a company from deducting from property, plant, and equipment costs the amounts received from sales of produced items while the company prepares the asset for its intended use. Instead, a company will recognize such sales income and related costs in profit or loss.

- Any effect on its application will be made retroactively, but only to the elements of PPYE that are brought to the place and conditions necessary for them to operate in the manner intended by management as of the beginning of the first period presented in the financial statements in which the entity applies the amendments for the first time.

This amendment is effective as of January 1, 2022.

Onerous Contracts — Cost of Fulfillment of a Contract (amendments to IAS 37)

- It is clarified that the cost of fulfilling a contract includes the costs directly related to the contract (the costs of direct labor and materials, and the allocation of costs directly related to the contract). The amendment specifies what costs a company must include when assessing whether a contract will generate a loss.
- The effect of the application of the amendment will not restate the comparative information. Instead, the cumulative effect of the initial application of the amendments is recognized as an adjustment to the opening balance of retained earnings or another component of equity, as appropriate, on the date of initial application.

This amendment is effective as of January 1, 2022.

Annual Improvements to IFRS Standards 2018–2020

- Modification to IFRS 1. Subsidiary that adopts IFRS for the first time. Paragraph D13A of IFRS 1 is added, incorporating an exemption on subsidiaries that adopt the IFRS for the first time and take as balances in the opening statement of financial position the carrying amounts included in the financial statements of the parent (literal a of the paragraph D16 of IFRS 1) so that it may measure the accumulated exchange differences for conversion by the carrying amount of said item in the consolidated financial statements of the parent (also applies to associates and joint ventures).
- Amendment to IFRS 9. Fees in the "10% test" regarding the derecognition of financial liabilities. A text is added to paragraph B3.3.6 and B3.3.6A is added, it is special to clarify the recognition of the commissions paid (to the result if it is a cancellation of the liability, or as a lower value of the liability if it is not as a cancellation).
- Amendment to IAS 41. Taxes in fair value measurements. The phrase "nor tax flows" is eliminated from paragraph 22 of IAS 41, the reason for the above is because "before Annual Improvements to IFRS Standards 2018-2020, IAS 41 had required an entity to use the flows of cash before taxes when measuring fair value but did not require the use of a discount rate before taxes to discount those cash flows". In this way, the requirements of IAS 41 are aligned with those of IFRS 13.
- Extension of the Temporary Exemption from the Application of IFRS 9 Paragraphs 20A, 20J and 20O of IFRS 4 are amended to allow the temporary exemption that allows, but does not require, the insurer to apply IAS 39.
- Financial Instruments: Recognition and Measurement instead of IFRS 9 for annual periods beginning before January 1, 2023 (because from that date there is a new international requirement contained in IFRS 17).

This amendment is effective as of January 1, 2022.

Extension of the Temporary Exemption from the Application of IFRS 9 (Amendments to IFRS 4)

Paragraphs 20A, 20J and 20O of IFRS 4 are amended to allow the temporary exemption that allows, but does not require, the insurer to apply IAS 39 Financial Instruments: Recognition and Measurement instead of IFRS 9 for annual periods, that begin before January 1, 2023 (because as of that date there is a new international requirement contained in IFRS 17).

Definition of an accounting estimate (amendments to IAS 8)

- The amendments introduce a new definition of accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.
- The amendments also clarify the relation between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective established for an accounting policy.

This amendment is effective as of January 1, 2023

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

- The Board recently issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Statement of Practice 2 Making Materiality Judgments to help companies provide useful information on accounting policies
- Information on accounting policies is material if, when considered in conjunction with other information included in an entity's financial statements, it can reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make based on those financial statements.

This amendment is effective as of January 1, 2023

Classifications of Liabilities as Current or Non-Current (amendments to IAS 1)

- Modifies the requirement to classify a liability as current, by establishing that a liability is classified as current when "it does not have the right at the end of the reporting period to defer the settlement of the liability for at least the following twelve months. at the date of the reporting period".
- Clarifies in the added paragraph 72A that "the right of an entity to defer the settlement of a liability for at least twelve months after the reporting period must be substantial and, as paragraphs 73 to 75 illustrate, must exist at the end of the reporting period".

This amendment is effective as of January 1, 2023.

(5) Segment Information

The Group reports information by segments as established in IFRS 8 "Operating segments". The Group has two reportable segments, as follows:

- Air transportation: Corresponds to passenger and cargo operating revenues on scheduled flights and freight transport, respectively.
- Loyalty: Corresponds to the loyalty program, for the airline subsidiaries of Avianca Group International Limited.

(In USD thousands)

The Board of Directors is the Chief Operating Decision Maker (CODM) and monitors the operating results of its reportable segment separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on statement of comprehensive income and is measured consistently with the Group´s consolidated financial statements.

The Group's operating information by reportable business segment For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021, is as follows:

	For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021			
	Air transportation	**Loyalty**	**Eliminations**	**Consolidated**
Operating revenue				
External customers	$ 316,203	$ 20,600	$ —	$ 336,803
Inter-segment	19,938	1,072	(21,010)	—
Total operating revenue	**336,141**	**21,672**	**(21,010)**	**336,803**
Operating expenses before depreciation and amortization	319,459	15,378	(21,010)	313,827
Depreciation and amortization	15,642	1,042	(680)	16,004
Operating profit	**1,040**	**5,252**	**680**	**6,972**
Interest expense	(19,768)	(3,151)	—	(22,919)
Interest income	72	1,072	—	1,144
Other financial income	4,433	—	—	4,433
Foreign exchange	(3,461)	4	—	(3,457)
Equity method profit	129	—	—	129
Income tax expense	(1,451)	(11)	—	(1,462)
Net profit for the period	**$ (19,006)**	**$ 3,166**	**$ 680**	**$ (15,160)**
Total Assets – December 31, 2021	**$ 5,648,186**	**$ 1,387,612**	**$ (125,168)**	**$ 6,910,630**
Total Liabilities – December 31, 2021	**$ 4,790,385**	**$ 980,175**	**$ (22,830)**	**$ 5,747,730**

Inter-segment revenues are eliminated upon consolidation and reflected in the “Eliminations” column.

The Group’s revenues by geographic area For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021:

	For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021
Central America and the Caribbean	$ 135,590
Colombia	79,726
United States of America	72,796
South America (excluding Colombia)	34,826
Other	13,865
Total operating revenue	**$ 336,803**

(In USD thousands)

The Group allocates revenues by geographic area based on the point of origin of the flight. Non-current assets are composed primarily of aircraft and aeronautical equipment, which are used throughout different countries and are therefore not assignable to any geographic area.

(6) Financial risk management

The Group has exposure to different risks from its use of financial instruments, namely, liquidity risk, commodity risk, foreign currency risk, interest rate risk, credit risk and capital risk management.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established mechanisms for developing and monitoring the Group's risk management policies. 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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk 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 primary sources of funds are cash provided by operations and cash provided by financing activities. The primary uses of cash are for working capital, capital expenditures, leases and general corporate purposes. Historically, the Group has been able to fund our short-term capital needs with cash generated from our operations. Our long-term capital needs relate to aircraft purchases.

We believe that the above sources, including our exit financing and cash flow generated from operating activities, are sufficient for our current working capital requirements.

The following are the contractual maturities of non-derivative financial liabilities, including estimated interest payments. The amounts under the "Years" columns represent the contractual undiscounted cash flows of each liability.

As of December 31, 2021

			Years				
	Carrying amount	**Contractual cash flows**	**One**	**Two**	**Three**	**Four**	**Five and thereafter**
Short–term borrowings	$ 184,410	$ 184,410	$ 184,410	—	—	—	—
Long–term Debt	2,295,041	3,038,838	63,383	33,646	45,276	71,126	2,825,407
Right of Use – IFRS 16	579,740	831,575	73,407	97,329	111,294	136,683	412,862
Debt assets held for sale	317,667	317,667	317,667	—	—	—	—
Total debt	**3,376,858**	**4,372,490**	**638,867**	**130,975**	**156,570**	**207,809**	**3,238,269**

(In USD thousands)

Accounts payable	536,852	536,852	536,852	—	—	—	—
Accrued Expenses	22,978	22,978	22,978	—	—	—	—
Contractual maturities	**$3,936,688**	**$4,932,320**	**$1,198,697**	**$130,975**	**$156,570**	**$207,809**	**$3,238,269**

(b) Fuel price risk

The Group's operations require a significant volume of jet fuel purchases. In the past some subsidiaries have entered into financial derivative contracts in an effort to mitigate this risk, but with inconsistent results. The Group has not entered into new fuel hedge contracts, and has adopted a new strategy of remaining unhedged, while regularly reviewing its policies based on market conditions and other factors. As of December 31, 2021, the Group did not have any outstanding fuel hedge contracts

To mitigate the price fluctuation in the jet fuel the Group continually reviews the profitability for each one of the routes to manage the capacity in an efficient way by redeploying this capacity in the routes or regions with a high potential of income that allows offsetting the fuel cost. Additionally, based on the demand and supply trends, the Group could change the ticket price within the market average to cover a portion of this extra cost.

Sensitivity analysis
A reasonable changes in the price of fuel would affect profit or loss by the amounts shown below. The calculations were made considering a parallel movement of 5%, 10% and 15% per barrel in the underlying reference price curve at the end of December 2021. The projection period was defined until the end of 2022. This analysis assumes that all other variables remain constant and considers the effect of changes in jet fuel price.

	Effect in profit or loss
5% movement	$2,723
10% movement	$5,445
15% movement	$8,168

(c) Foreign currency risk

The foreign currency risk arises when the Group carries out transactions and maintains monetary assets and liabilities in currencies other than its functional currency.

The functional currency used by the Group to establish the prices of its services is the US dollar. The Group sells most of its services at prices equivalent to the US dollar and a large part of its expenses are denominated in US dollars or are indexed to that currency, particularly fuel costs, maintenance costs, aircraft leases, lease payments, aircraft, insurance and aircraft components and accessories. The remuneration expenses are denominated in local currencies.

The Group maintains its freight and passenger rates in US dollars. Although sales in domestic markets are made in local currencies, prices are indexed to the US dollar.

The profit or loss in foreign currency is derived primarily from the depreciation of the Colombian Peso against the US Dollar. For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021, the Group recognized a net loss of $ (3,457).

Mitigation
To mitigate the exchange rate risk, we have back tested our Financial Statements and the result suggests that there is no high correlation between the USD exchange rate variation and the company income (EBIT)

(In USD thousands)

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group based on its risk management policy was as follows:

	December 31, 2021							
	USD	**Colombian Pesos**	**Euros**	**Mexican Pesos**	**Argentinean Pesos**	**Brazilian Reals**	**Others**	**Total**
Cash and cash equivalents and restricted cash	$862,868	$ 132,140	$ 8,301	$ 30,297	$ 2,638	$ 3,237	$238,850	$ 1,278,331
Trade and other receivables, net of expected credit losses	39,687	60,878	5,782	30,558	44,729	25,409	520	207,563
Secured debt	(2,742,592)	(256,624)	—	—	—	—	—	(2,999,216)
Unsecured debt	(59,975)	—	—	—	—	—	—	(59,975)
Debt- assets held for sale	(317,667)	—	—	—	—	—	—	(317,667)
Accrued expenses	(18,251)	(3,304)	—	(58)	—	(1,155)	(210)	(22,978)
Accounts payable	(126,061)	(226,325)	(28,617)	(34,982)	(7,391)	(9,470)	(104,006)	(536,852)
Net financial position exposure	**$(2,361,991)**	**$ (293,235)**	**$(14,534)**	**$ 25,815**	**$ 39,976**	**$ 18,021**	**$135,154**	**$(2,450,794)**

Sensitivity analysis

A reasonably possible strengthening (weakening) of Colombian pesos, Euros, Mexican Pesos, Argentinean Pesos and Brazilian Real against all other currency at December 31 would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amount shown below. This analysis assumes that all other variables remain constant and considers the effect of changes in the exchange rate, which is the rate that could materially affect the Group's consolidated statement of comprehensive income.

	Colombian Pesos	**Euros**	**Mexican Pesos**	**Argentinean Pesos**	**Brazilian Reals**
Change forecast in exchange rate	(9%)	(1%)	(3%)	47%	(4%)
Effect of net profit for the period	**$ 26,391**	**$ 145**	**$ (774)**	**$ 18,789**	**$ (721)**

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(d) Interest rate risk

The Group incurs interest rate risk mainly on financial obligations with banks and aircraft lessors. These lease payments long-term lease payments at interest floating rates expose the Group to the cash flow risk. Interest rate risk is managed through a mix of fixed and floating rates on loans and lease agreements, combined with interest rate swaps.

The Group assesses interest rate risk by monitoring and identifying changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Group maintains risk management control systems to monitor interest rate risk attributable to both the Group's outstanding or forecasted debt obligations.

At the reporting date the interest rate profile of the Group's interest–bearing financial instruments is:

Carrying amount – asset/(liability)		**December 31, 2021**
Fixed rate instruments		
Financial assets	$	908,940
Financial liabilities		(2,049,114)
Total	**$**	**(1,140,174)**
Floating rate instruments		
Financial assets	$	33,244
Financial liabilities		(760,014)
Total	**$**	**(726,770)**

Sensitivity analysis
A reasonably possible change of 1% in interest rate at the reporting date would have increase profit or loss in $7,600 for floating rate instruments. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

(e) Credit Risk

Credit risk is the potential loss from a transaction in the event of default by the counterparty during the term of the transaction or on settlement of the transaction. Credit exposure is measured as the cost to replace existing transactions should a counterparty default.

There are no significant concentrations of credit risk at the special purpose consolidated statement of financial position date. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Impairment losses on financial assets and contract assets recognized in profit or loss was as follows:

	December 31, 2021
Impairment loss on trade receivable and contract assets arising from contracts with customers	$ 3,784

The Group conducts transactions with the following major types of counterparties:

Cash, cash equivalents and deposits with banks and financial institutions
In order to reduce counterparty risk and to ensure that the risk assumed is known and managed by the Group, investments are diversified among different banking institution (both local and international). The Group evaluates the credit standing of each counterparty and the levels of investment, based on (i) their credit rating, (ii) the equity size of the counterparty, and (iii) investment limits according to the Group level of liquidity. According to these three parameters, the Group chooses the most restrictive parameter of the previous three and based on this, establishes limits for operations with each counterparty.

To mitigate the credit risk arising from deposits in bank, the Group only conducts business with financial institutions that have an investment grade above BBB- from Standard & Poor's and the equivalent rating by Moody's and liquidity indicators aligning with or above the market average. For the investments in financial instruments, different from deposits in bank, the Group requires a grade above A- from Standard & Poor's and equivalent rating by Moody's.

The Company has established a policy to perform an assessment, at the end of each quarterly reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by monitoring changes in credit risk ratings published by Standard & Poor's and Moody´s.

Trade receivables and contract assets
The Group's exposure to credit risk is mainly influenced by the characteristics of corporate and individual customers. The Group has established a credit policy under which the customer is analyzed by group if it is a natural or legal person to determine its solvency before payment and the terms and conditions of the service offered. The evaluation includes external qualifications and validation in restrictive lists and considers that the main corporate customers are companies to which cargo and courier services are provided, since the Passenger and cargo processes handled with the International Air Transport Association (IATA – International Air Transport Association) have established payment terms and schedules of less than one month. The Group limits its exposure to the credit risk of trade accounts receivable by establishing a maximum payment term of between one and four months for individual and corporate customers.

The Group is not exposed to significant concentrations of credit risk since most accounts receivable arise from sales of airline tickets to individuals through travel agencies in various countries, including virtual agencies and other airlines. These receivables are short term in nature and are generally settled shortly after the sales are made through major credit card companies.

Cargo–related receivables present a higher credit risk than passenger, sales given the nature of processing payment for these sales. The Group is continuing its implementation of measures to reduce this credit risk for example, by reducing the payment terms and affiliating cargo agencies to the IATA, Cargo Account Settlement Systems

(In USD thousands)

(“CASS”). CASS is designed to simplify the billing and settling of accounts between airlines and freight forwarders. It operates through an advanced global web–enabled e–billing solution.

At 31 December 2021, the exposure to credit risk for trade receivable and contract assets by type of counterparty was as follows.

	December 31, 2021
Air Transportation	$ 168,357
Miscellaneous	14,647
Miles	5,008
Others	896
Total	**$ 188,908**

(i) Expected credit loss assessment

The Group uses a matrix to determine the expected credit losses of trade receivables. Loss rates are calculated using historical information and other projections through a simplified method and are applied to the commercial credit portfolio. Other fixed percentages are applied for agencies that consolidate their sale through the International Air Transport Association (IATA). The accounts receivables were acquired at fair value at the acquisition date.

Buckets	Low	Medium	High	Total	Gross Carrying amount	Impairment loss allowance
No past due	0.014%	0.022%	0,06%	0,10%	$ 61,065	$ 3,784
Past due 1 – 30 days	0.055%	0.097%	0.29%	0.45%	63,296	–
Past due 31 –90 days	0.59%	0.91%	1.60%	3.10%	40,988	–
Past due 91 – 180 days	1.06%	1.61%	2.56%	5.3%	11,302	–
Past due 181 – 360 days	20.31%	20.53%	23.93%	64.77%	4,123	–
Past due 360 days	80%	80%	80%		8,134	–
					$ 188,908	**$ 3,784**

(f) Capital risk management

The Group’s capital management policy is to maintain a sound capital base in order to safeguard the Group’s ability to continue as a going concern, and in doing so, face its current and long–term obligations, provide returns for its shareholders, and maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital on the basis of the debt–to–capital ratio.

Following is a summary of the debt–to/capital ratio of the Group:

(In USD thousands)

	Notes	December 31, 2021
Corporate debt	17	$ 2,479,451
Lease liabilities (Aircraft and other rents)	17	579,740
Less: cash and cash equivalents	7	(1,201,759)
Total net debt		**1,857,432**
Total equity		1,162,900
Total capital		**$ 3,020,332**
Net debt/capital ratio		**61%**

(g) Fair value financial assets and liabilities

The fair values of financial assets and liabilities, together with the carrying amounts shown in the special purpose consolidated statement financial position as of December 31, 2021, are as follows:

	Notes	December 31, 2021 Carrying amount	December 31, 2021 Fair value
Financial assets			
Short term Investments	12	$ 42,260	$ 42,260
Plan assets	21	191,546	191,546
		$ 233,806	**$ 233,806**
Financial liabilities			
Short term borrowings	17	$ 196,761	$ 196,761
Long term debt	17	2,862,430	2,862,430
Derivative instruments	23 - 27	522	522
		$ 3,059,713	**$ 3,059,713**

The fair value of the financial assets and liabilities corresponds the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The financial assets and liabilities were acquired and assumed at fair value at the acquisition date. For that reason, Management assessed that it carrying amount is approximately to the fair value.

(In USD thousands)

(7) Cash and cash equivalents and restricted cash

	December 31, 2021
Cash on hand and bank deposits	$ 1,159,477
Demand and term deposits (1)	42,282
Cash and cash equivalents	**$ 1,201,759**

Restricted cash (2)	$ 76,572
Restricted cash	**$ 76,572**

(1) During the period from September 27, 2021 (Date of incorporation) to December 31, 2021, term deposits accrued annual interest rates between (2.02%) and 2.60% in Colombian pesos and between 2.02% and 3.36% in dollars. The use of term deposits depends on the cash requirements of the Group.

(2) Corresponds to the Escrow Agreement Account for payment of professional service according to the reorganization plan and the separate account AA-01 will hedge events or claims against the Group.

(8) Trade and other receivables, net of expected credit losses

	December 31, 2021
Trade	$ 188,908
Employee advances	3,282
Other	19,157
	211,347
Less estimate for expected credit losses	(3,784)
Total net current	**$ 207,563**

Trade receivables are non-interest bearing. During the period, the Group recognized impairment for expected credit losses for $3,784.

The age of trade accounts receivable at the end of the reporting period is as follows:

	December 31, 2021
Neither past due nor impaired	$ 61,065
Past due 1–30 days	63,296
Past due 31–90 days	40,988
Past due 91 days	23,559
Total trade	**188,908**
Less provision for expected credit losses	(3,784)
Trade receivables, net of expected credit losses	**$ 185,124**

(In USD thousands)

(9) Balances and transactions with related parties

As of December 31, 2021, the Group payable to related parties was $32 (Note 18). During the period, the Group present accommodation expenses with related parties for $14.

Key management personnel compensation expense
During the period from September 27, 2021 (Date of incorporation) to December 31, 2021, the short-term employee benefits for key management personnel are $2,136. The Group does not have any long-term benefits including post-employment benefits, defined contribution plan, termination benefits or other long-term benefits for the key management personnel.

The detail for short-term employee benefits was as follows:

	December 31, 2021
Salaries	$ 891
Bonuses	924
Social Benefits	100
Others	221
Total	**$ 2,136**

(10) Expendable spare parts and supplies, net of provision for obsolescence

	December 31, 2021
Expendable spare parts and supplies	$ 87,421
Provision for obsolescence of supplies	(157)
Total	**$ 87,264**

For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021, expendable spare parts, and supplies in the amount of $7,580, were recognized as maintenance expense.

The movement of the provision for obsolescence for expendable spare parts and supplies was as follows:

Opening Balance	$ —
Provisions constituted	(165)
Provisions used	8
Balance at 31 December 2021	**$ (157)**

(11) Prepayments

These amounts are mainly related to advance payments of commissions to travel agencies for future services and advance payments for the rental of aircraft and insurance.

(In USD thousands)

	December 31, 2021
Prepaid commissions (1)	$ 9,064
Advance payments on operating aircraft leases	49
Premiums for insurance policies (2)	23,374
Prepaid compensations clients	1,232
Other	1,339
Total	**$ 35,058**

(1) Advance payment made to IATA for airline service charges, this occurs mainly with airlines that belong to Star Alliance for mileage accrual, use of VIP lounges and reservation systems.
(2) Corresponds mainly to the D&O (Directors & Officers) policy.

(12) Short term investments, deposits, and other assets

	December 31, 2021
Short term investments (1)	$ 42,260
Total	**$ 42,260**
Deposits and other assets - short term:	
Deposits with lessors (2)	$ 1,551
Guarantee deposits (3)	12,498
Others (4)	3,870
Subtotal	**17,919**
Deposits and other assets - long term:	
Deposits with lessors (2)	16,901
Guarantee deposits (3)	12,481
Others (4)	91
Long term investments	6,447
Subtotal	**35,920**
Total	**$ 53,839**

(1) The short-term classification corresponds to funds invested for terms of less than one year; investments correspond to CDTs and bonds constituted by trusts held by the Group.

(2) Corresponds mainly to security deposits of operating lease Aircraft agreements. These deposits are recoverable.

(In USD thousands)

(3) Corresponds to the amounts paid to suppliers in relation to the lease of airport facilities, among other service agreements.
(4) Corresponds to other guarantee deposits, national tax refund certificates and deferred charges.

(13) Assets and liabilities of held for sale

	December 31, 2021
Airbus aircraft	$ 322,890
Total assets held for sale	**$ 322,890**
Liabilities associated with assets held for sale	$ 317,667
Total liabilities held for sale	**$ 317,667**

As of December 31, 2021, some subsidiaries of the Group signed a letter of intent for a sale and leaseback agreement with Airopco 1ET Bermuda Ltd. and Castlelake Aviation Finance Designated Activity Company for sale 15 Aircraft, (5 Airbus A330F, 6 Airbus A319, 2 Airbus A320 and 2 Airbus A321).

During the period for the period from September 27, 2021 (Date of incorporation) to December 31, 2021, the Group paid liabilities associated with assets held for sale for $161,571 (Capital:$154,811, Interest: $6,760).

(14) Property and equipment, net

Flight equipment: During the period, the Group leased 22 Aircraft of the family A319, A320, A330F and recognized a right-to-use asset of $268,545.

(In USD thousands)

	Flight Equipment	Capitalized Maintenance	Rotable Spare parts	Predelivery payments of aircraft	Administrative property	Others	Total
Cost:							
Opening Balance	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Business Combination (Note 16)	686,882	2,772	159,694	85,736	103,716	221,806	1,260,606
Additions	269,202	4,513	2,526	—	—	11,228	287,469
Return Conditions (Note 3q)	126,569	—	—	—	—	—	126,569
Disposals	(2,184)	(2,655)	(482)	—	—	(80)	(5,401)
Transfers	(2,083)	2,083	811	—	—	(811)	—
December 31, 2021	**$ 1,078,386**	**$ 6,713**	**$ 162,549**	**$ 85,736**	**$ 103,716**	**$ 232,143**	**$ 1,669,243**
Accumulated depreciation:							
Opening Balance	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Additions	5,327	737	965	—	136	3,004	10,169
Disposals	(74)	—	(184)	—	—	(130)	(388)
December 31, 2021	**$ 5,253**	**$ 737**	**781**	**$ —**	**$ 136**	**$ 2,874**	**$ 9,781**
Net:							
December 31, 2021	**$ 1,073,133**	**$ 5,976**	**$ 161,768**	**$ 85,736**	**$ 103,580**	**$ 229,269**	**$ 1,659,462**

(In USD thousands)

(15) Intangible asset and goodwill, net

Intangible assets and goodwill, net of amortization are as follows:

		December 31, 2021
Trademarks	$	598,968
Customer Relationships		450,940
Software and webpages		118,991
Agreements (Code-share and Star Alliance)		68,752
Routes		14,976
Slots		9,506
Subtotal		**1,262,133**
Goodwill		1,735,757
Total Intangible Assets	**$**	**2,997,890**

(In USD thousands)

	Goodwill	Routes	Customer Relationships	Agreements (Code-share and Star Alliance)	Trademarks	Software & Webpages	Slots	Total
Cost:								
Initial Balance	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Business Combination (Note 16)	1,735,757	15,471	452,869	69,272	598,968	119,747	9,506	3,001,590
Additions	—	—	—	—	—	2,135	—	2,135
December 31, 2021	**$1,735,757**	**$ 15,471**	**$ 452,869**	**$ 69,272**	**$ 598,968**	**$ 121,882**	**$ 9,506**	**$ 3,003,725**
Accumulated Amortization:								
Initial Balance	**$** —	**$** —	**$** —	**$** —	**$** —	**$** —	**$** —	**$** —
Amortization for the period	—	495	1,929	520	—	2,891	—	5,835
December 31, 2021	**$ —**	**$ 495**	**$ 1,929**	**$ 520**	**$ —**	**$ 2,891**	**$ —**	**$ 5,835**
Carrying Amounts:								
December 31, 2021	**$1,735,757**	**$ 14,976**	**$ 450,940**	**$ 68,752**	**$ 598,968**	**$ 118,991**	**$ 9,506**	**$ 2,997,890**

(In USD thousands)

(16) Business combination

On December 1, 2021, AGIL acquired 100 percent of the issued share capital and control of AVN Flight Cayman Limited Cayman, granting its control. This acquisition has been accounted for using the acquisition method and has been included in the consolidated financial statements as of the acquisition date.

Included in the identifiable assets and liabilities acquired at the date of acquisition of AVN Flight Cayman Limited Cayman and subsidiaries are inputs, production process and an organized workforce. The Group has determined that together the acquirer inputs and processes significantly contribute to the ability to create revenue. The Group has concluded that the acquirer set is a business.

The amounts recognized at fair value because of the business combination on the acquisition date are as follows:

a) Acquired subsidiary

Entity name	Main activity	Acquisition Date	Proportion of shares acquired %	Equity upon consummation of acquisition
AVN Flight Cayman Limited Cayman	Investment vehicle	December 1, 2021	100%	$ 1,119,541

On December 1, 2021, AGIL acquired 100% of the issued shares of the subsidiaries AVN Flight Cayman Limited, obtaining control of this Group.

b) Equity upon consummation of acquisition

	December 1, 2021
Issue of shares at the date of acquisition	$ 744,516
Issue other equity instruments - warrants	201,450
Consideration transferred	**945,966**
Cash contributions from Tranche B DIP lenders	173,575
Total	**$ 1,119,541**

The opening equity for this transactions was determined to be $1,119,541, which consists of the cancelation of the $945,966 Tranche B DIP obligations amount and $173,575 in cash contributions. In addition, the liability assumed for amounts owed to General Unsecured Claims (GUCs) creditors for future issuance of common stock and warrants was approximately $46 million. Note 24

(In USD thousands)

c) *Assets acquired and liabilities assumed at the date of acquisition*

The following table summarizes the recognized amounts of assets acquired, and liabilities assumed at the date of acquisition, including new money contributed to AGIL as additional equity.

Subsidiary	**AVN Flight Cayman Limited Cayman**
Assets	
Current assets:	
Cash and cash equivalents	$ 1,069,935
Restricted cash	82,452
Short term investments	42,636
Trade and other receivables, net of expected credit losses	218,476
Current tax assets	160,268
Expendable spare parts and supplies, net of provision for obsolescence	86,963
Prepayments	18,320
Deposits and other assets	23,414
	1,702,464
Assets held for sale	456,657
Total current assets	**2,159,121**
Non–current assets:	
Deposits and other assets	27,367
Trade and other receivables, net of expected credit losses	3,020
Intangible assets (Note 15)	1,265,833
Net defined benefit asset	3,004
Deferred tax assets	43,878
Property and equipment, net (Note 14)	1,260,606
Total non–current assets	**2,603,708**
Fair value of assets acquired	**$ 4,762,829**
Liabilities and equity	
Current liabilities:	
Short-term borrowings and current portion of long-term debt (Note 17)	$ 117,814
Accounts payable	488,475
Accrued expenses	18,299
Current tax liabilities	48,894
Provisions for legal claims (Note 30)	72,350
Employee benefits	110,775

(In USD thousands)

Air traffic liability		572,978
Frequent flyer deferred revenue		150,009
Other liabilities		2,187
		1,581,781
Liabilities associated with the assets held for sale		479,238
Total current liabilities		**2,061,019**
Non–current liabilities:		
Long–term debt (Note 17)		2,677,403
Provisions for return conditions (Note 20)		146,207
Employee benefits		49,699
Deferred tax liabilities		333,355
Frequent flyer deferred revenue		262,950
Other liabilities		3,592
Total non–current liabilities		**3,473,206**
Fair value of liabilities assumed	$	**5,534,225**
Fair value of net liabilities assumed	$	**(771,396)**

Measurements of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Property and equipment	*Market comparation methods and replacement cost method*: The valuation model considers market prices for similar items when they are available, and depreciated replacement costs when appropriated. Depreciated replacement cost reflects adjustment for physical deterioration as well as functional and economic obsolescence.
Trademarks / Trade Names ("TMTN")	*Relief from royalty method*: this method is based on the premise that ownership ship of the asset relieves the owner of the need to pay a royalty to a third party for use of the asset. Under this method, value is estimated by discounting the royalty savings as well as any tax benefits related to ownership to a present value.
Customers Relationships	*Multi-period excess earnings method*: Under this method, the net cash flow from the existing customer is calculated based on a forecast of its related cash flows, adjusting for contributory asset charges for economic returns of and on all monetary, tangible, and other intangible assets necessary to realizing in the cash flows. The final value is estimated by discounting the resulting " excess earnings" as well as any tax benefits related to ownership to a present value.
Agreements	*With-or-without method*: Under this method, a comparison is made between the prospective revenues or expenses for the business or asset with and without the asset in place. The final value is estimated by discounting the cash flow differential as well as any tax benefits related to ownership to a present value.

Assets acquired	Valuation technique
Slots	*Market comparison method*: The methodology considers relevant historical data from slot transactions at comparable airports to estimate the value of slots.
Routes	*Incremental earnings method*: Under this method, profit margins generated by operating flights on the identified restricted routes are compared to normal profit margins. The incremental earnings generated by the routes are then discounted to present value and adjusted for any tax benefit related to the ownership of the asset.
Leasehold Interest	*Market comparation method*: Under this method, the contractual lease rates for the asset are compared to its market lease rates, and any differential, if observed, is discounted to present value.

The fair value of financial assets includes accounts receivable with a fair value of $218,476 and a gross contract value of $230,227. The best estimate at the date of acquisition of the contractual cash flows that will not be collected will be $11,751.

Fair values measured on a provisional basis

The initial accounting for the acquisition of AVN Flight Cayman Limited has only been provisionally determined at the end of the reporting period, in particular with respect to property and equipment; right of use assets; intangible assets and the resulting impact to deferred taxes and goodwill at the closing date. At the date of finalization of these consolidated financial statements, the necessary market valuations and other calculations had not been finalized and they have therefore only been provisionally determined based on management's best estimate at the time these financial statements were issued. The Company expects to complete its accounting during the first half of 2022.

(d) Goodwill determined in the acquisition

Subsidiary		AVN Flight Cayman Limited Consolidated
Consideration transferred	$	945,966
Plus: Non–controlling interest		18,395
Plus: fair value of net liabilities assumed		771,396
Goodwill determined on acquisition	**$**	**1,735,757**

Goodwill arising from acquisitions is not expected to be deductible for tax purposes.

AGIL operations started with the business combination. Therefore, the revenue and profit or loss of the combined entity as though the acquisition date for that occurred during the year is not disclosure.

(In USD thousands)

(17) Debt

	December 31, 2021
Current:	
Short–term borrowings and current portion of long–term debt	$ 184,410
Short-term aircraft rentals - right of use	3,330
Short-term other rentals - right of use	9,021
	$ 196,761
Noncurrent:	
Long–term debt	$ 2,295,041
Long-term aircraft rentals – right of use	524,223
Long-term other rentals – right of use	43,166
	$ 2,862,430

Terms and conditions of the Group's outstanding obligations for the period ended December 31, 2021, is as follow:

	Due through	December 31, 2021 Weighted average interest rate	Nominal Value	Carrying Amount
Short–term borrowings	2022	7.10%	$ 17,190	$ 7,692
Long–term debt	2030	7.30%	2,927,227	2,471,759
Aircraft rentals	2032	9.64%	549,606	527,553
Other rentals	2038	7.20%	53,740	52,187
Total			**$ 3,547,763**	**$ 3,059,191**

Below the detail of the debt balance by type of loan:

	December 31, 2021
Aircraft	$ 10,439
Corporate	2,469,012
Right of use IFRS 16	579,740
	$ 3,059,191

Bank guarantees
In order to comply with certain contractual or operating obligations; as of December 2021, the Group has a total of $24,378 in guarantees issued through financial entities.

Covenants
As of December 31, 2021, the Group complied with all financial covenants associated with its debt contracts.

The most significant commitments related to the financial ratios assumed by the Group is the following:

- Consolidated cash: must not be less than $400 million

For the Group Lifemiles Ltd. & Subsidiaries:

- Liquidity: not be less than $50M
- Total Leverage Ratio: cannot exceed 4.00:1.00

(In USD thousands)

Changes in liabilities derived from financing activities at December 31, 2021

	Opening balance	Business Combination (Note 16)	New Leases (1)	Financial Cost	Payments	Interest Payments	Others	Reclassification	December 31, 2021
Short-term loans (excluding items listed below)	$ —	$ 18,767	$ —	$ 83	$ (1,577)	$ (83)	$ —	$ (9,498)	$ 7,692
Current portion of long-term credits (excluding items listed below)	—	77,566	—	6,580	(2,738)	(7,478)	(1,106)	103,894	176,718
Non-current portion of long-term debt	—	2,396,388	—	15,944	(10,090)	(758)	1,257	(107,700)	2,295,041
Aircraft rentals – right of use	—	250,301	268,545	—	(350)	(2,277)	(1,970)	13,304	527,553
Other rentals – right of use	—	52,195	—	278	(324)	(268)	306	—	52,187
Total liabilities from financing activities	$ —	**$2,795,217**	**$ 268,545**	**$ 22,885**	**$ (15,079)**	**$ (10,864)**	**$ (1,513)**	**$ —**	**$3,059,191**

(1) During 2021, the Group recognized lease liability for $268,545 for twenty-two (22) Airbus A320, A319 y A330F. During the period for the period from September 27, 2021 (Date of incorporation) to December 31, 2021, the Group paid liabilities associated with assets held for sale for $161,571 (Capital:$154,811, Interest: $6,760).

(In USD thousands)

(18) Accounts Payable

		December 31, 2021
Current:		
Trade accounts payable	$	274,075
Trade payables due to related parties (Note 9)		32
Taxes no related to Income Tax (1)		168,018
Social Charges		417
Other payables (2)		94,310
Total	**$**	**536,852**

(1) Corresponds to taxes and fees charged to passengers that will be paid to the government authority such as airport taxes, exit and entry taxes to the countries, etc. Furthermore, to VAT and VAT withholdings.

(2) Other accounts payable mainly include provisions for travel expenses, provisions for fees and accrued interest. Also, advance payments for the purchase of motors from the CFM supplier, as well as projects related to aircraft that are in the long term.

(19) Accrued expenses

		December 31, 2021,
Operating expenses (1)	$	22,978
Total	**$**	**22,978**

(1) Corresponds mainly to landing costs, air navigation, ground services and passenger services.

(20) Provisions for return conditions

For certain operating leases, the Group is contractually obligated to return the aircraft in a predefined condition. The Group records a provision to accrue for the cost that will be incurred to return the lease aircraft to their lessor in the agreed-upon condition, which is capitalize in the right-of-use asset and recognized as a liability for return condition.

Provisions for return conditions as of December 31, 2021, is as follows:

		December 31, 2021,
Non- current	$	272,817
Total	**$**	**272,817**

(In USD thousands)

Changes in provisions for return conditions as of December 31, 2021, is as follows:

		December 31, 2021
Opening balance	$	—
Business Combination (Note 16)		146,207
Provisions made (1)		126,610
Balance at 31 December 2021	**$**	**272,817**

(1) During the period from September 21, 2021, through December 31, 2021, provisions were established for the aircraft that continued under this scheme.

(21) Employee benefits

		December 31, 2021
Defined benefit plan	$	62,663
Other benefits - short term		79,024
Other benefits - long term		1,357
Total	**$**	**143,044**
Current		89,952
Non-current		53,092
Total	**$**	**143,044**

The Group has a defined benefit plan which requires contributions to be made to separately administered funds. The Group has also agreed to provide post–employment benefits to its retirees that consist primarily of medical benefit plans as well as certain other benefits, including scholarships, tickets, seniority, and retirement. These other benefits are unfunded.

Accounting for pensions and other post–employment benefits involve estimating the benefit cost to be provided well into the future and attributing that cost over the period in which each employee works for the Group. This requires the use of extensive estimates and assumptions about inflation, investment returns, mortality rates, turnover rates, medical cost trends and discount rates, among other information. The Group has two distinct pension plans, one for pilots and the other for ground personnel. Both plans have been closed to new participants, and therefore there are a fixed number of beneficiaries covered under these plans as of December 31, 2021.

		December 31, 2021
Fair value of plan assets	$	186,338
Present value of the obligation		(171,712)
Total assets for employee benefits	**$**	**14,626**

(In USD thousands)

	December 31, 2021
Fair value of plan assets	$ 5,208
Present value of the obligation	(67,871)
Total liability for employee benefits	**$ (62,663)**

Pension assets

As of December 2021, the value of the CAXDAC flight pension asset plan becomes greater than the obligation, because the obligation had a representative decrease derived from the increase of 2.75 percentage points in the interest rate at the end of the fiscal year. The interest rate was increased from 6.00% to 8.75%.

The following table summarizes the components of net benefit expense recognized in the consolidated statement of comprehensive income and the funded status and amounts recognized in the consolidated statement of financial position for the respective plans:

Net benefit expense – period from September 27, 2021 (Date of incorporation) to December 31, 2021 (Recognized in wages, salaries and benefits)	**Benefit Plan CAXDAC**	**Defined benefit**	**Other benefits**
Current cost of the service	$ —	$ 100	$ 165
Cost of interest on obligations for benefits, net	1,212	73	336
Interest income from asset plan	(993)	(2)	—
Net benefit expense	**$ 219**	**$ 171**	**$ 501**

Changes in the present value of defined benefit obligation as of December 31, 2021, are as follows:

	Benefit plan CAXDAC Tampa	**Defined benefit Obligation**	**Other benefits**	**Total**
Opening balance	$ —	$ —	$ —	$ —
Business Combinations	7,728	19,633	41,197	68,558
Period cost	49	172	501	722
Benefits paid by employer	(8)	(167)	(260)	(435)
Remeasurements of defined benefit liability	(239)	226	(1,097)	(1,110)
Translation Adjustment	(66)	96	106	136
Obligations for benefits as of December 31, 2021	**7,464**	**19,960**	**40,447**	**67,871**
Fair value of plan assets	(5,060)	(148)	—	(5,208)
Total employee benefits	**$ 2,404**	**$ 19,812**	**$ 40,447**	**$ 62,663**
Current	1,092	5,630	3,178	9,900
Non-current	1,312	14,182	37,269	52,763
Total	**$ 2,404**	**$ 19,812**	**$ 40,447**	**$ 62,663**

(In USD thousands)

	Benefit plan CAXDAC Avianca
Opening balance	$ —
Business combination	178,904
Period cost	1,162
Benefits paid by employer	(2,037)
Remeasurements of defined benefit liability	(8,671)
Translation Adjustment	2,354
Obligations for benefits as of December 31, 2021	**171,712**
Fair value of plan assets	(186,338)
Total employee benefits	**$ (14,626)**
Non-current	(14,626)
Total	**$ (14,626)**

Changes in the fair value of plan assets are as follows:

	Defined benefit plan
Fair value of plan assets at Opening balance	$ —
Business Combination	187,000
Interest income on plan assets	993
Remeasurement of interest assumptions	4,352
Employer contributions	(1,931)
Benefits paid	(77)
Exchange differences	1,209
Fair value of plan assets at 31 December, 2021	**$ 191,546**

For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021, actuarial gains/losses of $14,133, were recognized in other comprehensive income:

	December 31, 2021
Actuarial gains recognized in other comprehensive income	$ 9,781
Adjustment in return on plan assets	4,352
Gains recognized in OCI	**$ 14,133**

(In USD thousands)

The assets of the plan correspond to net funds transferred to CAXDAC (Caja de Auxilios y de Prestaciones de ACDAC), which is responsible for managing the pilots' pension plan. The assets guarded by CAXDAC are segregated into separate accounts corresponding to each contributing company. Also, plan assets include a portion related to the ground crew pension plan.

The main assumptions (adjusted for inflation) used to determine the liability for pensions and post-retirement medical benefits for the Group's plans are shown below:

	December 31, 2021
Discount rate on all plans	8,71%
Caxdac	8,75%
Others Colombia	8,75%
Others	8,63%
Price inflation	7,13%
Future salary increases	3,00%
Pilots	4,00%
Cabin crew	4,00%
Other employees	4,00%
Future pension increase	3,11%
Healthcare cost increase	4,50%
Ticket cost increase	3,00%
Education cost increase	3,00%
Rate of turnover	2,56%

The main demographical assumptions are as follows. These assumptions correspond to Colombia given that it is the country where the majority of the employees are located.

Mortality rate (*)	RV-08
Retirement age of women	57
Retirement age of men	62
Retirement pilots classified as under the regime “Especiales transitorios” with more than 10 years of service	After reaching 20 years of service
Retirement age pilots classified as under the regime “Especiales transitorios” with less than 10 years of service (women/men)	55

(*) The RV-08 mortality tables correspond to those established by Financial Superintendence of Colombia (SFC)

(In USD thousands)

The main categories of plan assets expressed as a percentage of the fair value of total plan assets are as follows:

	December 31, 2021
Equity securities	46%
Government Bonds (TES)	14%
Domestic Corporate bonds	32%
Foreign government/corporate bonds	2%
Other	6%

Equity securities comprise investments in Colombian entities with a credit rating of between AAA and BBB. Debt securities include investments in Colombian government bonds, in banks and in Colombian public and private entities.

The following are the expected payments or contributions to the defined benefit plan in future years:

	December 31, 2021
Year 1	$ 9,900
Year 2 and subsequent	52,763
	$ 62,663

The average duration of the benefit plan obligation as of December 31, 2021, is 10,69 years.

Pension plan for ground staff
In 2008, the subsidiary Avianca S.A. entered into a commutation agreement with Compañía Aseguradora de Vida Colseguros S.A. (Insurance Company) in connection with the pension liability of two of the Company's pension plans.

As of December 2021, there are 12 beneficiaries who have not been commuted. Consequently, the Company estimates through an actuarial calculation the pension liability of these beneficiaries.

Pension plan for flight personnel
Due to the local regulations of two of the Group's pension plans, the Group must make contributions to a fund that is managed externally. The amount of the annual contributions is based on the following:

- Basic contribution for the year: equal to the expected annual pension payments,
- Additional contribution for the year (if necessary): equal to the amount necessary to adjust the actuarial liability according to IFRS and the plan assets to the year 2023 (determined with an actuarial calculation)

Sensitivity analysis
The calculation of defined benefit obligations is sensitive to the assumptions. The following table summarizes how the impact of the defined benefit obligations at the end of the period would have increased (decreased) because of a change in the respective assumptions:

(In USD thousands)

	0,5% increase	0,5% decrease
Discount rate	(10,217)	10,777
Salaries and benefits	8,864	(8,342)
Mortality table	(396)	404
Medical Cost	16,304	9,430

(22) Air traffic liability and frequent flyer deferred revenue

The air traffic liability comprises the proceeds from the unused air ticket or the revenues corresponding to the unused portion of a ticket sold and the UATP (Universal Air Travel Plan) that includes the process implemented by the reimbursement center and travel agencies to make refunds directly to your account to reissue new tickets. The Group periodically evaluates this liability, and any significant adjustment is recorded in the special purpose consolidated statements of comprehensive income. These adjustments are mainly due to differences between actual events and circumstances such as historical sales rates and customer travel patterns that may result in refunds, changes or expiration of tickets that change substantially from the estimates.

		December 31, 2021
Air traffic liability	$	522,872
Miles deferred revenue		146,694
Current	**$**	**669,566**
Miles deferred revenue	$	262,118
Non–current	**$**	**262,118**

(23) Other Liabilities

		December 31, 2021
Derivative instruments	$	522
Deferred Revenue		2,752
Other		2,135
Total	**$**	**5,409**
Current	$	1,993
Non-current (1)		3,416
Total	**$**	**5,409**

(In USD thousands)

(1) The item of other non-current liabilities includes the net present value of two (2) SWAP coverage and deferred income for recognition of the profit on the sale of motors.

(24) Equity

	December 31, 2021
Authorized shares	40,000,000
Common shares issued and paid	39,210,000

The nominal value per share is $0,0001 Expressed in cents.

Common shares

Holders of these shares are entitled to dividends as declared from time to time. As of the issue date none of the shareholders owns a percentage greater than 27% of the Company capital. Therefore, there are no controlling shareholders.

Issue of common shares

On December 1, 2021, at the general meeting of shareholders, the issuance of 31,538,940 common shares was approved, at a par value of $0.0001 per share. This issuance included 24,248,800 shares to certain Tranche B DIP lenders in exchange for their DIP loan claims, and 7,290,140 shares to certain lenders in exchange for a cash contribution of $173,575, resulting in total share capital and share premium of $3 and $918,088, respectively. During December 2021, 1,109,860 shares were also issued as a result of a new investment, generating a share premium of $26,425.

Also on December 1, 2021, 6,561,200 warrants, with the same economic interests as common shares, were issued to a Tranche B DIP lender. These warrants were exercised in December 2021 in exchange for 6,561,200 common shares at a par value of $0.0001 per share, increasing share capital and share premium by $1 and $201,449, respectively.

Under the Reorganization Plan, the Company granted in favor of the unsecured creditors ("General Unsecured Avianca Claims" or "GUCs") the Unsecured Claimholder Equity Package that corresponds to (1) the Unsecured Claimholder Equity Pool and (2) a warrant instrument convertible into shares (GUCs Warrant Instrument). The conversion of the Equity Package is subject to the occurrence of certain events.

According to the Unsecured Claimholder Equity Pool and GUCs Warrant Instrument, the Company committed to issue and subscribe up to a total of approximately 790,000 common shares and 2,105,263 common shares, respectively in favor of the GUCs. As of the date hereof, no event that would give rise to the exercise of this instrument has occurred.

Other Comprehensive Income ("OCI") Reserves

The movement of the other comprehensive income from December 31, 2021, is as follows:

(In USD thousands)

	Attributable to owners of the Company						
	Hedging reserves (1)	**Fair value reserves (2)**	**Reserves related to actuarial gains or losses (3)**	**Income Tax of reserve related to actuarial gains and losses (4)**	**Total**	**NCI Total**	**Total**
Opening balance	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Other results comprehensive income of the period	194	(11)	14,133	638	14,954	(1,255)	13,699
As of December 31, 2021	**$ 194**	**$ (11)**	**$ 14,133**	**$ 638**	**$ 14,954**	**$ (1,255)**	**$ 13,699**

(In USD thousands)

(1) **Hedging Reserves**
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows (See note 28).

(2) **Fair value reserves**
The fair value reserve comprises the cumulative net change in the fair value through OCI financial assets.

(3) **Reserve relating to actuarial gains and losses**
It comprises actuarial gains or losses on defined benefit plans and post–retirement medical benefits recognized in other comprehensive income.

(4) **Income tax on other comprehensive income**
Whenever an item of other comprehensive income gives rise to a temporary difference, a deferred income tax asset or liability is recognized directly in other comprehensive income.

The following provides an analysis of items presented net in the statement of consolidated statement of comprehensive income which have been subject to reclassification, without considering items remaining in OCI which are never reclassified to profit of loss:

		December 31, 2021
Cash flow hedges:		
Reclassification during the period		
Effective valuation of cash flow hedged	$	194
	$	**194**
Fair value reserves:		
Valuations of investments in fair value with changes in OCI	$	(11)
	$	**(11)**

(25) Non-controlling interest (NCI)

The information related to each of the subsidiaries of the Group that has material NCI as of December 31, 2021, is summarized below:

		Taca International Airlines S.A.		**Avianca Costa Rica S.A.**		**Other individually subsidiaries**		**Total**
Percentage non-controlling interest		**3,17%**		**7,58%**				
Business Combinations (Note 16)	$	6,026	$	3,572	$	8,797	$	18,395
Net assets		(474)		(3,305)		(73)		(3,852)
Total	**$**	**5,552**	**$**	**267**	**$**	**8,724**	**$**	**14,543**

(In USD thousands)

Net profit (loss)		(42)		(2,536)		(19)		(2,597)
Other comprehensive income	$	(432)	$	(769)	$	(54)	$	(1,255)

(26) Operating Revenue

The Group had no major customers which represented more than 10% of revenues during the period from September 27, 2021 (Date of incorporation) to December 31, 2021. The Group tracks its segmented gross revenue information by type of service provided and by region, as follows:

	For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021	Percentage
Domestic		
Passenger	$ 158,397	47%
Cargo	31,830	10%
	190,227	**57%**
International		
Passenger	100,286	30%
Cargo	35,188	10%
	135,474	**40%**
Other (1)	11,102	3%
Total	**$ 336,803**	**100%**

(1) Other operating income

	For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021
Frequent flyer program	$ 3,689
Maintenance	2,498
Ground operations (a)	1,629
Interline	409
Other (b)	2,877
	$ 11,102

(a) Group provides services to other airlines at main hub airports.

(b) Corresponds mainly to income from penalties and additional services.

(In USD thousands)

Contract balances

The following table provides information on accounts receivable, assets and liabilities of contracts with customers

	Notes	December 31, 2021
Net of accounts receivable	8	$ 185,124
Prepaid compensation clients	11	1,232
Air traffic responsibility	22	522,872
Deferred frequent flyer income	22	408,812

(27) Derivatives recognized as hedging instruments

	December 31, 2021
Cash flow hedges – liabilities	
Interest rate	$ 522
Total	**$ 522**

Cash flow hedges liabilities are recognized within other liabilities in the consolidated statement of financial position.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, and the fair values of the related hedging instruments to December 31, 2021

December 31, 2021	**Fair Value**	**1–12 months**	**12–24 months**
Interest rate			
Liabilities	$ 522	$ —	$ 522

The terms of the cash flow hedging contracts have been negotiated for the expected highly probable forecast transactions to which hedge accounting has been applied. During the period from September 27, 2021 (Date of incorporation) to December 31, 2021, gain relating to the hedging instruments of $ 194, is included in other comprehensive income (See note 24).

(28) Fair value measurements

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2021:

(In USD thousands)

Quantitative disclosures of fair value measurement hierarchy for assets:

	Fair value measurement using			
Assets measured at fair value	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Investments (note 12)	$ —	$ 42,260	$ —	$ 42,260
Assets of the benefits plan (note 21)	$ —	$ 191,546	$ —	$ 191,546
Revalued administrative property (note 14)	$ —	$ —	$ 103,580	$ 103,580

Quantitative disclosures of fair value measurement hierarchy for liabilities:

	Fair value measurement using			
Liabilities measured at fair value	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservab le inputs (Level 3)**	**Total**
Interest rate derivatives (Note 27)	$ —	$ 522	$ —	$ 522
Liabilities for which fair values are disclosed				
Short–term borrowings and long–term debt (Note 17)	$ —	$ 3,059,191	$ —	$ 3,059,191

Fair values hierarchy

The different levels have been defined as follows:

Level 1 Observable inputs such as quoted prices in active markets

Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re–assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

(a) The fair value of financial assets which changes in OCI is determined by reference to the present value of future principal and interest cash flows, discounted at a market based on interest rate at the reporting date.

(b) The Group enters derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate contracts, foreign currency forward contracts and commodity contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign currency spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.

(c) The Group uses the revaluation model to measure its land and buildings which are composed of administrative properties, Management determined that this constitutes one class of asset under IAS 16, based on the nature, characteristics, and risks of the property. The fair values of the properties were determined by using market comparable methods. This means that valuations performed by the appraisals are based on active market prices, adjusted for difference in the nature, location, or condition of the specific property. The Group engaged accredited independent appraisals, to determine the fair value of its land and buildings.

The following table shows the valuation technique used to measure the fair value of the administrative property, as well as the unobservable investment used.

Valuation technique and significant unobservable entries

The following table shows the valuation technique used to measure the fair value of the administrative property, as well as the unobservable investment used.

Country	Valuation technique	Significant unobservable entries
El Salvador	The criteria for valuing the assets object of this offer were the fair value defined by IFRS (international financial reporting standards), as the value that corresponds to the price that would be received for selling an asset or paid to transfer a liability in a transaction, tender, orderly and mutual among duly informed market participants and on a specific date.	Square meter prices: $1,364.39 Square meter prices rental $197,539.01
Colombia	Market comparison approach: a method of assessing property by analyzing the prices of similar properties sold in the past and then making adjustments based on differences between the properties and the relative age of the other sale.	Expected market rental growth: 5% Appreciation or depreciation of the Colombian peso against the US dollar: 16%

(In USD thousands)

(29) Income tax expense and other taxes

		December 31, 2021
Current income tax – assets	$	82,264
Other current taxes		
Current VAT – assets		56,491
Other taxes current		30,190
Total other current taxes		86,681
Total current tax – assets	**$**	**168,945**
Total tax - assets	**$**	**168,945**
Current income tax - liabilities	**$**	**(54,698)**

Components of income tax expense

Income tax expense for the period from September 27, 2021 (Date of incorporation) to December 31, 2021, comprises the following:

Consolidated statement of comprehensive income

		December 31, 2021
Current income tax:		
Current income tax charge	$	(1,707)
Deferred tax expense:		
Relating to origination and reversal oftemporary differences		(474)
Effect of changes in tax rates		719
Income tax expense reported in the income statement	**$**	**(1,462)**

In addition to the amount charged to profit or loss, the following amounts relating to tax have been recognized in other comprehensive income:

		December 31, 2021
Items that will not be reclassified to profit or loss in future periods - Remeasurements of defined benefit	$	638

There are not amounts charged amounts relating to tax have recognized directly in equity.

(In USD thousands)

Changes in deferred tax assets and deferred tax liabilities

Deferred tax assets		
As of September 27, 2021	$	—
Proceeds from business combinations (Note 16)		43,878
Recognized in profit and loss		(1,376)
Recognized in other comprehensive income		—
As of December 31, 2021	**$**	**42,502**

Deferred tax liabilities		
As of September 27, 2021	$	—
Proceeds from business combinations (Note 16)		333,355
Recognized in profit and loss		(2,264)
Recognized in other comprehensive income		638
As of December 31, 2021	**$**	**331,729**

Reconciliation of the Tax Rate in accordance with the Tax Provisions and the Effective Rate:

The consolidated loss before income tax amounted to $13,698 for the Period from September 27, 2021 (Date of incorporation) to December 31, 2021, and the income tax expense amounted to $1,462. The effective tax rate for the period was (10,67%). The corporate income tax rate during the period in Colombia was 31%. The differences between corporate income tax rate and effective tax rate are generated by subsidiaries with net losses in some jurisdictions where is not recognized deferred tax assets due to its not probable that taxable profits will be available against which the deductible temporary differences can be utilized. Also, some adjustments related with the exchange difference recognized for tax purpose and derecognition of assets and liabilities as a result of the Chapter 11 process in Avianca S.A.

Deferred Taxes with Respect to Subsidiary Companies

There are temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognized, due to the exception allowed by paragraphs 39 and 44 of IAS 12.

Deferred tax liabilities for US $199 million were not recognized as of December 31, 2021.

Deferred Tax Unrecognized Assets on Tax Credits:

As of December 31, 2021, the following is the detail of the tax losses and excess presumptive income of the Company that have not been used and on which no deferred tax asset has been recognized:

(In USD thousands)

Tax losses originated in the year:

2017	$	86,068
2018		85,145
2019		64,307
2020		128,210
2021		226,159
Total:	**$**	**589,889**

Excess of presumptive income originated in the year (only for Colombia):

Year 2018	$	321
Total:	**$**	**321**

Tax losses were realized by the subsidiaries in Colombia, Costa Rica and Ecuador. Currently, tax losses in Colombia do not expire, in Costa Rica they expire in 3 years and in Ecuador in 10 years.

Deferred tax by type of temporary difference:

The differences between the carrying value of assets and liabilities and the tax bases, lead to temporary differences that generate deferred taxes, calculated, and registered on December 31, 2021, applying the tax rate for the taxable year in which those temporary differences will be reversed.

Special Purpose Consolidated Statement of Financial Position

		December 31, 2021
Assets		
Accounts payable	$	1,589
Pension liabilities		9,177
Provisions		103,761
Loss carry forwards		19,032
Other		58,522
Aircraft maintenance		(84,450)
Unrecognized deferred tax asset		(60,414)
Non-monetary items		(43,714)
Intangible assets		(292,730)
Net deferred tax assets /(liabilities)	**$**	**(289,227)**
Deferred tax assets		42,502
Deferred tax liabilities		(331,729)
Net deferred tax assets /(liabilities)	**$**	**(289,227)**

(In USD thousands)

Due to jurisdictional netting of deferred tax assets and liabilities, the above deferred tax net liability of $289,227 is presented in the statement of financial position as deferred tax assets of $42,502 and deferred tax liabilities of $331,729.

Tax rate in Colombia has changed valid from fiscal year 2022 and following:

Year	General Rate
2021	31%
2022 and next	35%*

* Aerovias del Continente Americano S.A. – Avianca S.A. has a legal stability contract which sets a tax rate of 33% for this company only.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdiction, as follows:

Country	Applicable tax rate
United Kingdom (*)	19%
Brazil	15%
Chile	27%
Costa Rica	30%
Ecuador	28%
El Salvador	30%
Guatemala	25%
Honduras	25%
México	30%
Nicaragua	30%
Panamá	25%
United States	21%

(*) Profit on ordinary activities at the standard rate of corporation tax to a legal entity level in UK is 19%. The Finance Act 2021 was substantially enacted in May 2021 and has increased the corporation tax rate in United Kingdom from 19% to 25% with effect from 1 April 2023.

Uncertainty over income tax treatments
The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessments of many factors, including interpretations of tax law and prior experience. There are no uncertainties over income tax treatments with adversely effect for the Group, identified in the assessments performed.

Statute of Limitations
The average term of statute of limitations in the countries where the Group operates is 5 years.

(In USD thousands)

(30) Provisions for legal claims

As of December 2021, the Group is involved in different lawsuits and legal actions that arise in the normal development of commercial activities. Of the total lawsuits and legal actions, Management has calculated a probable loss of $71,661. These lawsuits are reflected in the Special Purpose Consolidated Statement of Financial Position under the section "Provision for legal claims".

The changes in provisions for litigation during the period from September 27, 2021 (Date of incorporation) to December 31, 2021, are as follows.

	December 31, 2021
Opening balance	$ —
Business Combination (Note 16)	72,350
Provisions constituted	2,327
Provisions reverse	(1,520)
Provisions used	(1,496)
Balance at 31 December 2021	**$ 71,661**

The subsidiaries acquired in the business combination, whose former parent company was a public company registered before SEC, present litigations as follow:

Internal investigations to determine whether we may have violated the U.S. Foreign Corrupt Practices Act and other laws

In August 2019, Avianca Holdings S.A. ("AVH"), the preview former parent of the subsidiaries acquired by AGIL ("The Group"), disclosed that it had discovered a business practice at the Group whereby Group employees, including members of senior management, as well as certain members of the board of directors, provided "things of value," which based on its current understanding have been limited to free and discounted airline tickets and upgrades, to government employees in certain countries. The Group commenced an internal investigation and retained reputable outside counsel and a specialized forensic investigatory firm to determine whether this practice could have violated the U.S. Foreign Corrupt Practices Act or other potentially applicable U.S. and non-U.S. anti-corruption laws. In 2018, the company implemented certain revisions to its policies designed to prevent such practice from occurring, including limiting the number of persons at the company authorized to issue free and discounted airline tickets and upgrades, and requiring additional internal approvals for doing so. In August 2019, the company voluntarily disclosed this investigation to the U.S. Department of Justice, the U.S. Securities and Exchange Commission ("SEC"), and the Colombian Financial Superintendence.

In September 2019, the Colombian Superintendence of Companies inspected the Company's Bogotá offices and subsequently sent several requests of information, all of which were duly addressed by the Company's management. On May 25, 2021, and once again on July 2, 2021, in response to requests for information, Avianca submitted responses before the authority, indicating that the 1-year period provided by Colombian Law for a preliminary inquiry expired and, consequently, the authority was no longer empowered to pursue the investigation per applicable local law. In response, the Colombian Superintendence of Companies indicated that their understanding was that their preliminary inquiries had not yet begun. Avianca's position is that the preliminary inquiries began in September 2019 and that the 1-year permitted period has expired. To the knowledge of the Company and as of the date hereof, the Colombian Superintendence of Companies has not issued any further pronouncement on this matter and Avianca has not been notified of the termination of the administrative investigation.

In February 2020, the Office of the Attorney General of Colombia served Avianca with a search warrant of its offices with the objective of collecting information related to this investigation. As has been its practice, Avianca cooperated, including answering the information requests issued in October 2020, November 2020, and June 2021. While the information requested by the Office of the Attorney General of Colombia has been duly provided, Avianca has exercised its legal rights to ensure that its confidential and privileged information remains protected.

On May 28, 2021, the SEC informed that they "*concluded the investigation as to Avianca Holdings S.A." and "do not intend to recommend an enforcement action by the Commission against Avianca Holdings S.A."*

On August 19, 2021, the Office of the Attorney General of Colombia conducted an interview to request documents in connection with this matter and took sworn verbal statements from Avianca's Litigation Manager and from the Ethics and Compliance Manager. Both employees provided information on the Company's corporate structure, internal control, and audit mechanisms, and on internal procedures for the issuance of discounted airline tickets before and after 2017.

At the end of August 2021, a meeting was held with the Attorney General of Colombia to deliver additional documentation that had been required. To the knowledge of the company and as of the date hereof, the criminal investigation by the Office of the Attorney General of Colombia remains open.

Internal Investigation regarding potential impacts at the group due to corrupt business practices at Airbus
In January 2020, the primary aircraft supplier, Airbus, entered into a settlement with authorities in France, the United Kingdom and the United States regarding corrupt business practices. Airbus' settlement with French authorities references a possible request by an Avianca "senior executive" in 2014 for an irregular commission payment, which was ultimately not made. As a result of the foregoing, Avianca voluntarily initiated an internal investigation to analyze its commercial relationship with Airbus and to determine if it was the victim of any improper or illegal acts. This internal investigation was disclosed to the U.S. Department of Justice and the SEC, as well as the Colombian Superintendence of Industry and Commerce and the Office of the Attorney General of Colombia. To the knowledge of the Company and as of the date hereof, the Office of the Attorney General of Colombia and the Superintendence of Industry and Commerce are conducting preliminary investigations and the former company executive who allegedly participated has not been indicted.

Avianca is currently cooperating with all agencies. The internal investigations are still ongoing and it's not possible to predict their outcome or what potential actions may be taken by local regulators or officials in this respect.

(31) Future aircraft leases payments

The Group has 71 aircraft between its owned and leasing. The following is the summary of future lease commitments:

(In USD thousands)

	Aircraft
Less than a year	$ 334,867
	$ 334,867

The Group has 79 aircraft that are under operating leases for an average lease term of 65 months. Operating leases can be renewed, in accordance with the Administration's business plan. The following is the summary of the future commitments of operating leases:

	Aircraft
Less than one year	$ 260,722
Between one and five years	745,908
More than five years	322,625
	$ 1,329,255

Under IFRS 16, the leases that are legally denominated operative are recorded in the consolidated statement of financial position as part of ownership of plant and equipment-flight equipment as well as the recognition of the related financial liability that represents the present value of the minimum payments of the lease contract.

Future aircraft lease payments are based on the original contracts, to date, the Group bases its payments on flight hours.

Avianca Group International Limited has thirty-nine (39) spare engines that are under operating leases to support its aircraft fleet of A320, A330, A300 and B767F Families. The following is the summary of the future commitments of operating leases:

	Aircraft
Less than one year	$ 4,788
Between one and five years	17,653
	$ 22,441

The value of payments recognized as expenses in the period is:

	For the Period from September 27, 2021 (Date of incorporation) to December 31, 2021
Leases minimum payments	$ 38,073

(32) Acquisition of aircraft

In accordance with the agreements in effect, future commitments related to the acquisition of aircraft and engines as of December 31, 2021, as follows:

(In USD thousands)

	Less than one year	1-3 years	3-5 years	More than 5 years	Total
Aircraft and engine purchase commitments	$ 73,377	$ 519,454	$ 2,383,007	$ 2,732,821	$ 5,708,659

Amounts disclosed reflect certain discounts negotiated with suppliers as of the balance sheet date, which discounts are calculated on highly technical bases and are subject to multiple conditions and constant variations. Among the factors that may affect discounts are changes in our purchase agreements, including order volumes.

Additionally, we notified that on October 25, 2021, an agreement was signed with Boeing, the "AVI Termination Letter Agreement", in which both parties agree to the cancellation of 2 Boeing 787-9 with delivery dates in 2024. This agreement is subject to Precedent Conditions (PC) that would be executed in the following months with an estimated date of fulfillment of 2Q-2022. Considering this statement, future commitments related to the acquisition of aircraft would be as follows, if the PC are given effective:

	Less than one year	1-3 years	3-5 years	More than 5 years	Total
Aircraft and engine purchase commitments	$ 11,932	$ 276,182	$ 2,383,007	$ 2,732,821	$ 5,403,942

The Group plans to finance the acquisition of the commitments acquired with the resources generated by the Group and the financial operations that can be formalized with financial entities and aircraft leasing companies.

(33) Dividends

The Group did not decree or pay dividends during Period from September 27, 2021 (Date of incorporation) to December 31, 2021.

(34) Compromises

Some assets of the Group including the main tangible and intangible assets are pledged as security for the Tranche A-1 and Tranche A-2 Senior Secured Notes due in 2028 issued by Avianca MidCo2.

(35) Subsequent Events

Aircrafts
According to the business plan, the Group confirmed in March 2022 a purchase contract with Airbus S.A.S for eighty-eight (88) A320neo Aircraft that will be incorporate in the fleet between 2025 and 2031. This agreement includes a purchase option for fifty (50) additional aircraft.

Furthermore, at the first quarter of 2022, the Group sold the 15 Aircraft described in the Note 13 recognized a gain of $1,668. Also, the Group signed Lease Agreements of these Aircrafts.

Subsidiaries

On 17 February 2022 the board of directors of AGIL approve the divestiture in Servicios Aeroportuarios Integrados SAI S.A.S. a subsidiary located in Colombia include in the segment of Air Transportation that represents 0,1% of the assets and 2,9% of the net profit of the Special Purpose Consolidated Financial Statement. Management committed to a plan to sell this investment during 2022. Therefore, this subsidiary will be reclassified as discontinued operations in 2022.

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