CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)

Consolidated Financial Statements

Years Ended December 31, 2022, 2021 and 2020
with Independent Auditor's Report

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN,
S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)

Consolidated Financial Statements

Years Ended December 31, 2022, 2021 and 2020

Contents:

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Independent auditors' report

To the Board of Directors and Stockholders

Controladora Vuela Compañía de Aviación, S.A.B. de C.V.:

Thousands of U.S. dollars

Opinion

We have audited the consolidated financial statements of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

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 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 consolidated financial statements in Mexico, 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

We draw attention to Note 1 (b) of the consolidated financial statements, which describes the effects of a change in the presentation currency of the Group. Our opinion is not modified in respect of this matter.

We draw attention to Note 1(b) to the consolidated financial statements, which describes that Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and its subsidiary Concesionaria Vuela Compañía de Aviación, S.A.P.I. de C.V. (operating Company based in Mexico that provides air transportation services) changed the functional currency from Mexican peso to US dollar. The change in functional currency was as of December 31, 2021 and was prospectively applied from the date of the change. Our Opinion is not modified in respect of this matter.

(Continued)

Key Audit Matters

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

Aircraft and engine lease return obligation

The key audit matter	How the matter was addressed in our audit
As described in Notes 2 i) and 16 to the consolidated financial statements, as of December 31, 2022 the Group has recorded an aircraft and engine lease return obligation in the amount of \$249,466. Aircraft lease agreements require the Group to return aircraft airframes, engines and other components to the lessor under specific conditions of maintenance or, alternatively, pay an amount to the lessor based on the condition of these components due to usage of the aircraft. The aircraft and engine lease return obligation is recognized as a provision from the time it becomes more likely than not that such costs will be incurred and these can be estimated reliably. The provision is included as part of other liabilities and the costs are recognized as a component of variable lease expenses on a straight-line basis through the remaining lease term. The Group estimates the provision related to the aircraft and engine lease return obligation using certain assumptions including the projected usage of the aircraft, the expected costs of the maintenance tasks to be performed at the return date and the discount rate. We have identified the evaluation of the estimate of the aircraft and engine lease return obligation as a key audit matter. The assessment required significant judgment given the complexity involved in determining the projected utilization of leased airframes, engines and other components, the estimated maintenance cost at the end of the lease contract and the discount rate used to reflect the present value of the provision at the reporting date.	Our audit procedures in this area included, among others, the following: - We evaluated the design and tested the operating effectiveness of certain internal controls related to the aircraft and engine return obligation. This included controls related to the inputs to the determination of the aircraft and engine lease return obligation. - We compared the assumption of projected usage of the aircraft to the average of current usage and the Group's business plan, and we compared the estimated costs of maintenance tasks to be performed at the return date with historical payments for these types of maintenance. - We involved our valuation specialists to assist in the evaluation of the discount rate used by the Group to reflect the present value of the aircraft and engine lease return obligation. - We tested input data used in the calculation of the provision by comparing it to the underlying lease contracts. - We also compared the cost of historical aircraft and engine lease returns to the provision amounts at the reporting date prior to those returns in order to evaluate the Group's ability to accurately estimate its future aircraft and engine lease return obligations.

(Continued)

Evaluation of the migration to the new financial reporting system	
The key audit matter	**How the matter was addressed in our audit**
During 2022, the Group implemented a new financial reporting information system (SAP4HANA). A system change involves the implementation of new processes, controls, and delegation of authority, as well as the migration of financial data from legacy systems to the new system. We have identified the evaluation of the migration to the new reporting system as a key audit matter, because such a process presents inherent risks of failure of information technology dependent controls and loss of integrity of the financial data being migrated, which could lead to errors in the financial reporting.	Our audit procedures to address this key audit matter included, among others, the involvement of experienced and knowledgeable information technology professionals who assisted us in the assessment of: - The strategy and project management over the implementation of the new system. - The impact of general information technology controls as a result of the implementation and stabilization of the new financial reporting system. - The impact of the implementation of the new financial reporting system over certain automatic controls at the process level. - The integrity of the opening balances migrated to the new system.

Other Matter relating to comparative information

The consolidated financial statements of the Group as of and for the year ended December 31, 2020, (from which the statement of financial position as of January 1, 2021 is derived) excluding the retrospective adjustments regarding the change in presentation currency described in Note 1 (b) to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 29, 2021.

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2022, we also audited the retrospective adjustments described in Note 1 (b) to the consolidated financial statements that were applied to restate the comparative information. We were not engaged to audit, review, or apply any procedures to the comparative information as of January 1, 2021 and for the year ended December 31, 2020, other than with respect to the retrospective adjustments described in Note 1 (b) to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on comparative information as of January 1, 2021 and for the year ended December 31, 2020. However, in our opinion, the retrospective adjustments described in Note 1 (b) to the consolidated financial statements are appropriate and have been properly applied.

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Other information

Management is responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended December 31, 2022, to be filed with the National Banking and Securities Commission (Mexico) (Comisión Nacional Bancaria y de Valores) and the Mexican Stock Exchange (Bolsa Mexicana de Valores) but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, 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 financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 consolidated financial statements.

(Continued)

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty 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 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.

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

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

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.

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

(Continued)

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

KPMG Cárdenas Dosal, S.C.

C.P.C. Saúl Andrés Aguayo Juárez

Ciudad de México
April 19, 2023

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)
Consolidated Statements of Financial Position
(In thousands of U.S. dollars)

	At December 31,		
	2022	2021*	January 1st, 2021*
Assets			
Current assets:			
Cash, cash equivalents and restricted cash (Note 6)	**US$ 711,853**	US$ 741,122	US$ 506,468
Accounts receivable:			
Related parties (Note 7)	**2,155**	4,662	3,641
Other accounts receivable, net (Note 8)	**78,849**	50,264	28,104
Recoverable value added tax and others	**94,348**	35,862	46,242
Recoverable income tax	**64,774**	15,296	23,643
Inventories (Note 9)	**15,758**	14,397	13,984
Prepaid expenses and other current assets (Note 10)	**33,189**	38,387	42,631
Derivative financial instruments (Notes 3 and 5)	**-**	-	10
Assets held for sale (Note 1j and Note 12)	**795**	-	-
Guarantee deposits (Note 11)	**64,357**	78,990	57,245
Total current assets	**1,066,078**	978,980	721,968
Non-current assets:			
Rotable spare parts, furniture and equipment, net (Note 12)	**478,771**	454,602	364,994
Right-of-use assets (Note 14)	**2,180,931**	1,917,235	1,720,223
Intangible assets, net (Note 13)	**12,725**	12,632	9,603
Derivative financial instruments (Notes 3 and 5)	**1,585**	1,398	16
Deferred income taxes (Note 20)	**208,010**	141,272	156,830
Guarantee deposits (Note 11)	**483,878**	455,372	422,320
Other long-term assets	**35,675**	23,077	22,269
Total non-current assets	**3,401,575**	3,005,588	2,696,255
Total assets	**US$ 4,467,653**	US$ 3,984,568	US$ 3,418,223
Liabilities and equity			
Current liabilities:			
Unearned transportation revenue (Note 21)	**US$ 346,469**	US$ 303,982	US$ 293,298
Suppliers	**194,856**	108,164	112,275
Related parties (Note 7)	**14,610**	10,547	6,266
Accrued liabilities (Note 15a)	**186,572**	178,096	118,117
Lease liabilities (Note 14)	**335,620**	283,843	325,038
Other taxes and fees payable (Note 1s)	**218,329**	131,182	112,096
Income taxes payable	**5,738**	4,187	201
Derivative financial instruments (Notes 3 and 5)	**-**	-	484
Financial debt (Note 5)	**112,148**	196,898	78,145
Other liabilities (Note 16)	**5,398**	34,635	5,074
Total current liabilities	**1,419,740**	1,251,534	1,050,994
Non-current liabilities:			
Financial debt (Note 5)	**160,887**	108,039	190,276
Accrued liabilities (Note 15b)	**13,283**	1,475	3,343
Lease liabilities (Note 14)	**2,373,103**	2,128,294	1,887,163
Other liabilities (Note 16)	**244,454**	166,930	133,727
Employee benefits (Note 17)	**10,987**	3,968	2,538
Deferred income taxes (Note 20)	**10,462**	11,191	10,014
Total non-current liabilities	**2,813,176**	2,419,897	2,227,061
Total liabilities	**4,232,916**	3,671,431	3,278,055
Equity (Note 19):			
Capital stock	**248,278**	248,278	248,278
Treasury shares	**(12,866)**	(8,652)	(9,412)
Contributions for future capital increases	**-**	-	-
Legal reserve	**17,363**	17,363	17,363
Additional paid-in capital	**283,174**	281,037	284,257
Accumulated deficit	**(155,903)**	(75,679)	(182,132)
Accumulated other comprehensive loss	**(145,309)**	(149,210)	(218,186)
Total equity	**234,737**	313,137	140,168
Total liabilities and equity	**US$ 4,467,653**	US$ 3,984,568	US$ 3,418,223

The accompanying notes are an integral part of these consolidated financial statements.

*The comparative Consolidated financial statements have been re-presented from Mexican peso to U.S. dollar to reflect the Company's change in presentation currency. See note 1 b) for additional information.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)

Consolidated Statements of Operations

(In thousands of U.S. dollars except for earnings per share)

		For the years ended December 31,				
		2022		2021*		2020*
Operating revenues (Notes 21 and 26):						
Passenger revenues:						
Fare revenues	**US$**	**1,661,176**	US$	1,265,980	US$	626,909
Other passenger revenues		**1,078,251**		866,944		415,997
		2,739,427		2,132,924		1,042,906
Non- passenger revenues						
Other non-passenger revenues (Note 21)		**92,977**		76,872		41,841
Cargo		**14,786**		11,882		9,647
Non-derivative financial instruments		**-**		(21,378)		(19,408)
		2,847,190		2,200,300		1,074,986
Other operating income (Note 22)		**(25,066)**		(10,758)		(33,619)
Fuel expense, net		**1,299,254**		609,390		321,541
Landing, take-off and navigation expenses		**379,108**		296,831		195,989
Depreciation of right of use assets (Note 14)		**320,443**		269,351		236,417
Salaries and benefits		**283,089**		239,215		163,776
Aircraft and engine variable lease expenses		**124,532**		83,373		85,957
Sales, marketing and distribution expenses		**124,287**		96,705		86,705
Other operating expenses (Note 22)		**102,585**		65,858		54,413
Maintenance expenses		**97,783**		96,256		55,227
Depreciation and amortization (Notes 12 and 13)		**97,486**		57,049		42,098
Operating income (loss)		**43,689**		397,030		(133,518)
Finance income (Note 23)		**12,902**		3,531		4,784
Finance cost (Note 23)		**(192,535)**		(139,374)		(138,320)
Foreign exchange gain (loss), net (Note 3b)		**3,581**		(124,161)		13,601
(Loss) income before income tax		**(132,363)**		137,026		(253,453)
Income tax benefit (expense) (Note 20)		**52,139**		(30,573)		61,731
Net (loss) income	**US$**	**(80,224)**	US$	106,453	US$	(191,722)
(Loss) earnings per share basic:	**US$**	**(0.069)**	US$	0.092	US$	(0.191)
(Loss) earnings per share diluted:	**US$**	**(0.069)**	US$	0.091	US$	(0.188)

The accompanying notes are an integral part of these consolidated financial statements.

*The comparative Consolidated financial statements have been re-presented from Mexican peso to U.S. dollar to reflect the Company's change in presentation currency. See note 1 b) for additional information.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)

Consolidated Statements of Comprehensive Income

(In thousands of U.S. dollars)

	For the years ended December 31,		
	2022	2021*	2020*
Net (loss) income for the year	**US$ (80,224)**	US$ 106,453	US$ (191,722)
Other comprehensive (loss) income:			
Other comprehensive (loss) income to be reclassified to profit or (loss) in subsequent periods:			
Discontinuation of hedge relationships (Note 24b)	**-**	79,076	(79,824)
Net gain (loss) on cash flow hedges (Note 24b)	**336**	957	(8,207)
Income tax effect (Note 20c)	**(80)**	(274)	2,347
Exchange differences on translation of foreign operations	**3,471**	(10,489)	(38,699)
Other comprehensive (loss) income not to be reclassified to profit or (loss) in subsequent periods:			
Remeasurement gain (loss) of employee benefits (Note 17)	**253**	(432)	(105)
Income tax effect (Note 20c)	**(79)**	138	39
Other comprehensive income (loss) for the year, net of tax	**US$ 3,901**	US$ 68,976	US$ (124,449)
Total comprehensive (loss) income for the year	**US$ (76,323)**	US$ 175,429	US$ (316,171)

The accompanying notes are an integral part of these consolidated financial statements.

*The comparative Consolidated financial statements have been re-presented from Mexican peso to U.S. dollar to reflect the Company's change in presentation currency. See note 1 b) for additional information.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)

Consolidated Statements of Changes in Equity

For the years ended December 31, 2022, 2021 and 2020

(In thousands of U.S. dollars)

	Capital stock	Treasury Shares	Contributions for future capital increases	Legal reserve	Additional paid-in capital	Accumulated Deficit	Other comprehensive (loss) income	Total equity
Balance as of December 31, 2019*	US$ 225,531	US$ (6,968)	US$ -	US$ 17,363	US$ 141,648	US$ 9,590	US$ (93,737)	US$ 293,427
Capital stock increase (Note19)	22,747	-	-	-	141,652	-	-	164,399
Treasury shares	-	(4,511)	-	-	3,024	-	-	(1,487)
Long-term incentive plan cost (Note 18)	-	2,067	-	-	(2,067)	-	-	-
Net loss for the year	-	-	-	-	-	(191,722)	-	(191,722)
Other comprehensive loss items	-	-	-	-	-	-	(124,449)	(124,449)
Total comprehensive loss	-	-	-	-	-	(191,722)	(124,449)	(316,171)
Balance as of December 31, 2020*	248,278	(9,412)	-	17,363	284,257	(182,132)	(218,186)	140,168
Treasury shares	-	(4,366)	-	-	(953)	-	-	(5,319)
Exercise of stock options (Note 18)	-	2,859	-	-	-	-	-	2,859
Long-term incentive plan cost (Note 18)	-	2,267	-	-	(2,267)	-	-	-
Net income for the year	-	-	-	-	-	106,453	-	106,453
Other comprehensive income items	-	-	-	-	-	-	68,976	68,976
Total comprehensive income	-	-	-	-	-	106,453	68,976	175,429
Balance as of December 31, 2021*	248,278	(8,652)	-	17,363	281,037	(75,679)	(149,210)	313,137
Treasury shares	**-**	**(5,239)**	**-**	**-**	**3,162**	**-**	**-**	**(2,077)**
Long-term incentive plan cost (Note 18)	**-**	**1,025**	**-**	**-**	**(1,025)**	**-**	**-**	**-**
Net loss for the year	**-**	**-**	**-**	**-**	**-**	**(80,224)**	**-**	**(80,224)**
Other comprehensive income items	**-**	**-**	**-**	**-**	**-**	**-**	**3,901**	**3,901**
Total comprehensive (loss) income	**-**	**-**	**-**	**-**	**-**	**(80,224)**	**3,901**	**(76,323)**
Balance as of December 31, 2022	**US$ 248,278**	**US$ (12,866)**	**US$ -**	**US$ 17,363**	**US$ 283,174**	**US$ (155,903)**	**US$ (145,309)**	**US$ 234,737**

The accompanying notes are an integral part of these consolidated financial statements.

*The comparative Consolidated financial statements have been re-presented from Mexican peso to U.S. dollar to reflect the Company's change in presentation currency. See note 1 b) for additional information.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)

Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)

	For the years ended December 31,		
	2022	2021*	2020*
Operating activities			
(Loss) income before income tax	**US$ (132,363)**	US$ 137,026	US$ (253,453)
Non-cash adjustment to reconcile (loss) income before income tax to net cash flows from operating activities:			
Depreciation and amortization (including right-of-use-assets) (Notes 12, 13 and 14)	**417,929**	326,400	278,515
Allowance for credit losses (Note 8)	**1,672**	795	636
Finance income (Note 23)	**(12,902)**	(3,531)	(4,784)
Finance cost	**191,809**	138,890	118,796
Net foreign exchange (gain) loss differences	**(8,669)**	80,372	(26,693)
Derivative financial instruments (Notes 3 and 4)	**161**	688	58,261
Amortized Cost (CEBUR)	**566**	412	323
Net gain on disposal of rotable spare parts, furniture and equipment and gain on sale of aircraft (Note 22)	**(19,548)**	(9,546)	(32,568)
Employee benefits (Note 17)	**7,210**	552	521
Aircraft and engine lease extension benefit and other benefits from service agreements	**(517)**	(519)	(614)
Management incentive and long-term incentive plans	**709**	(1,273)	2,288
Cash flows from operating activities before changes in working capital	**446,057**	670,266	141,228
Changes in operating assets and liabilities:			
Related parties	**6,570**	3,392	803
Other accounts receivable	**49,670**	(15,787)	36,905
Recoverable and prepaid taxes	**(33,293)**	16,918	(1,024)
Inventories	**(1,361)**	(857)	1,068
Prepaid expenses	**(21,489)**	645	3,407
Other assets	**(12,494)**	3,435	2,639
Guarantee deposits	**(13,445)**	(52,048)	(65,017)
Suppliers	**86,627**	6,168	41,521
Accrued liabilities	**17,201**	45,053	(26,118)
Other taxes and fees payable	**44,985**	12,972	7,668
Unearned transportation revenue	**42,487**	20,023	101,030
Derivative Financial instruments	**-**	(1,854)	(59,190)
Other liabilities	**40,429**	76,687	35,890
Cash generated from operating activities	**651,944**	785,013	220,810
Interest received	**12,902**	3,531	4,784
Income taxes paid	**(51,244)**	(3,188)	(11,845)
Net cash flows provided by operating activities	**613,602**	785,356	213,749
Investing activities			
Acquisitions of rotable spare parts, furniture and equipment (Note 12)	**(347,147)**	(186,121)	(157,133)
Acquisitions of intangible assets (Note 13)	**(6,790)**	(10,063)	(5,804)
Acquisitions of subsidiaries	**-**	(79)	-
Pre-delivery payments reimbursements	**221,253**	43,678	79,593
Proceeds from disposals of rotable spare parts, furniture and equipment	**1,990**	17,940	80,192
Net cash flows used in investing activities	**(130,694)**	(134,645)	(3,152)
Financing activities			
Net proceeds from public offering (Note 19)	**-**	-	164,399
Proceeds from exercised stock options (Note 18)	**-**	2,859	-
Treasury shares purchase	**(5,239)**	(4,366)	(4,511)
Interest paid	**(17,637)**	(12,477)	(13,614)
Payments of principal portion of lease liabilities (Note 14)	**(449,004)**	(458,968)	(284,363)
Payments of financial debt	**(196,565)**	(76,936)	(99,596)
Proceeds from financial debt	**155,357**	114,704	108,117
Net cash flows used in financing activities	**(513,088)**	(435,184)	(129,568)
(Decrease) increase in cash, cash equivalents and restricted cash	**(30,180)**	215,527	81,029
Net foreign exchange differences on cash balance	**911**	19,127	1,990
Cash, cash equivalents and restricted cash at beginning of year	**741,122**	506,468	423,449
Cash, cash equivalents and restricted cash at end of year	**US$ 711,853**	US$ 741,122	US$ 506,468

The accompanying notes are an integral part of these consolidated financial statements.

*The comparative Consolidated financial statements have been re-presented from Mexican peso to U.S. dollar to reflect the Company's change in presentation currency. See note 1 b) for additional information.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN,
S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)

Notes to Consolidated Financial Statements

For the years ended December 31, 2022, 2021 and 2020

(In thousands of U.S. dollars, except when indicated otherwise)

1. Description of the business and summary of significant accounting policies

Controladora Vuela Compañía de Aviación, S.A.B. de C.V. ("Controladora" or the "Company") was incorporated in Mexico in accordance with the laws of Mexico on October 27, 2005.

Controladora is domiciled in Mexico City at Av. Antonio Dovali Jaime No. 70, 13th Floor, Tower B, Colonia Zedec Santa Fe, Mexico City, Mexico, 01210.

The Company, through its subsidiary Concesionaria Vuela Compañía de Aviación, S.A.P.I. de C.V. ("Concesionaria"), has a concession to provide air transportation services for passengers, cargo and mail throughout Mexico and abroad.

Concesionaria's concession was granted by the Mexican federal government through the Mexican Infrastructure, Communications and Transportation Ministry (*Secretaría de Infraestructura, Comunicaciones y Transportes*) on May 9, 2005 initially for a period of five years and was extended on February 17, 2010 for an additional period of ten years. On February 24, 2020, Concesionaria's concession was extended for a 20-year term starting on May 9, 2020.

Concesionaria made its first commercial flight as a low-cost airline on March 13, 2006. Concesionaria operates under the trade name of "Volaris". On June 11, 2013, Controladora Vuela Compañía de Aviación, S.A.P.I. de C.V. changed its corporate name to Controladora Vuela Compañía de Aviación, S.A.B. de C.V.

On September 23, 2013, the Company completed its dual listing Initial Public Offering on the New York Stock Exchange ("NYSE") and on the Mexican Stock Exchange (Bolsa Mexicana de Valores, or "BMV"), and on September 18, 2013 its shares started trading under the ticker symbol "VLRS" and "VOLAR", respectively.

On November 16, 2015, certain shareholders of the Company completed a secondary follow-on equity offering on the NYSE.

On December 11, 2020, the Company announced the closing of an upsized primary follow-on equity offering in which the Company offered 134,000,000 of its Ordinary Participation Certificates (Certificados de Participación Ordinarios), or CPOs, in the form of American Depositary Shares, or ADSs, at a price to the public of US$11.25 per ADS in the United States and other countries outside of Mexico, pursuant to the Company's shelf registration statement filed with the Securities and Exchange Commission (the "SEC"). In connection with the offering, the underwriters exercised their option to purchase up to 20,100,000 additional CPOs in the form of ADSs. Each ADS represents 10 CPOs and each CPO represents a financial interest in one Series A share of common stock of the Company.

On November 10, 2016, the Company, through its subsidiary Vuela Aviación, S.A. (“Volaris Costa Rica”), obtained from the Costa Rica Civil Aviation Authority an Air Operator Certificate to provide air transportation services for passengers, cargo and mail, in scheduled and non-scheduled flights for an initial period of five years. On December 20, 2021 Volaris Costa Rica´s Air Operator Certificate was renewed, modified and extended for an additional 15- years term. Volaris Costa Rica started operations on December 1, 2016.

On August 25, 2021, the Company through its subsidiary Vuela El Salvador, S.A. de C.V. (“Volaris El Salvador”) obtained from the El Salvadorian Civil Aviation Authority an Operation Permit, for scheduled and non-scheduled international public air transportation services for passengers, cargo and mail valid until May 30, 2024. Volaris El Salvador started operations on September 15, 2021.

On June 20, 2019, Concesionaria, issued fifteen million (15,000,000) asset backed trust notes (certificados bursátiles fiduciarios; the “ Trust Notes ”), under the ticker symbol VOLARCB 19 for the amount of Ps.1.5 billion Mexican pesos (US$78.5 million, based on an exchange rate of Ps.19.10 to US$1 on June 20, 2019) by CIBanco, S.A., Institución de Banca Multiple, acting as Trustee under the Irrevocable Trust number CIB/3249 created by Concesionaria in the first issuance under a program approved by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) for an amount of up to Ps.3.0 billion Mexican pesos (US$157.1 million based on an exchange rate of Ps.19.10 to US$1 on June 20, 2019). The Trust Notes are backed by future receivables under agreements entered into with credit card processors with respect to funds received from the sale of airplane tickets and ancillaries denominated in Mexican pesos, through credit cards VISA and Mastercard, via the Company’s website, mobile app and travel agencies. The Trust Notes were listed on the Mexican Stock Exchange, have a maturity of five years and will pay an interest rate of Tasa de Interes Interbancaria de Equilibrio (“TIIE”) 28 plus 175 basis points.

On October 13, 2021, Concesionaria, completed the issuance of fifteen million (15,000,000) of asset backed trust notes (certificados bursátiles fiduciarios) (the “Trust Notes”) issued under the ticker VOLARCB 21L for an amount of Ps.1.5 billion Mexican pesos (US$72.1 million, based on an exchange rate of Ps.20.80 to US$1 on October 13, 2021), issued by CIBanco, S.A., Institución de Banca Múltiple, acting as Trustee of the Irrevocable Trust number CIB/3249 created by Concesionaria, in the second offering under the program authorized by the Mexican National Banking and Securities Commission for an amount of up to Ps.3.0 billion (three billion pesos 00/100 national currency) (US$144.2 million, based on an exchange rate of Ps.20.80 to US$1 on October 13, 2021). The Trust Notes comply with the Sustainability-Linked Bond Principles 2020, administered by the International Capital Market Association (ICMA) and has Sustainability Objectives (SPT) for the Key Performance Indicator (KPI), to reduce carbon dioxide emissions from Volaris´ operations, measured as grams of CO_2 emissions per revenue passenger/kilometer (gCO_2 / RPK) by 21.54%, 24.08% and 25.53% by 2022, 2023 and 2024, respectively, compared to 2015. This offering will help the Company to accomplish its long-term sustainable goals, among which are to reduce CO_2 emissions by 35.42% gCO_2 / RPK by 2030 vs 2015.

On December 20, 2021, one of the Company´s shareholders concluded the conversion of 30,538,000 Series B Shares for the equivalent number of Series A Shares. This conversion has no impact either on the total number of outstanding shares nor on the earnings-per-share calculation.

The accompanying consolidated financial statements and notes were approved for issuance by the Company's Chief Executive Officer, Enrique J. Beltranena Mejicano, and the Chief Financial Officer, Jaime E. Pous Fernández, on April 18, 2023 and subsequent events were considered through that date. These consolidated financial statements were authorized by the Board of Directors of the Company on April 19, 2023 and will be submitted for authorization to the Annual General Ordinary Shareholder´s Meeting of the Company on April 21, 2023.

a) Relevant events relating to fleet financing

On April 1st, 2022, the Company entered into an agreement with JSA International U.S. Holdings, LLC, which provides financing for pre-delivery payments in connection with our purchase of four A320 family aircraft.

On April 13, 2022, the Company obtained financing for the pre-delivery payments with certain lessors in respect of 18 aircraft (including the four aircraft mentioned below) to be delivered in the years 2023 and 2024.

On June 8, 2022, the Company entered into an agreement with certain financial institutions, which provides financing for pre-delivery payments in connection with our purchase of thirteen aircrafts to be delivered during the years 2023, 2024 and 2025.

On July 27th, 2022, the Company entered into an agreement with CMB Financial Leasing (Ireland) Limited, which provides financing for pre-delivery payments in connection with our purchase of seven A320 family aircraft.

Conflict between Russia and Ukraine

The airline industry has been impacted by the price and availability of fuel. However, the airline industry and the Company are implementing strategies to mitigate these effects.

The Company has been taking actions to mitigate this impact over the business, through revenue management and has continued with the efforts towards a reduced fuel consumption. Nonetheless, the ability to transfer any significant fuel cost increases through fare increases is limited by our ultra-low-cost business model and market high price elasticity in the market.

Change in presentation currency

The Company has changed the presentation currency from Mexican peso to the dollar of the United States of America (“U.S. dollar”) as of January 1st, 2022. The change in presentation currency was made to more accurately reflect the Company´s financial performance aligned to the economic environment in which it operates. The Company believes that the change in presentation currency provides investors and other stakeholders with greater comparability of financial information with its industry peers. Prior to the change, the financial statements had been reported in Mexican pesos.

A change in presentation currency is a change in accounting policy which is accounted for retrospectively. In making this change in presentation currency, the Company followed the requirements set out in IAS 21 “The Effects of Changes in Foreign Exchange Rates” (“IAS21”). (Note 1b))

b) Basis of preparation

Statement of compliance

These consolidated financial statements which comprise the financial statements of the Company and its subsidiaries at December 31, 2022, 2021 and January 1st, 2021 were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the *International Accounting Standards Board* (“IASB”).

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which each entity operates ("functional currency"). The functional currency of Company and its subsidiary Concesionaria was the Mexican peso until December 31, 2021, and since such date changed to U.S. dollar. The presentation currency of the Company's consolidated financial statements is the U.S. dollar. All values in the consolidated financial statements are rounded to the nearest thousand (US$000), except when otherwise indicated.

The Company has consistently applied its accounting policies to all periods presented in these consolidated financial statements and provide comparative information in respect of the previous period, except for the effects of changes in functional currency that are affected prospectively. (Note 3b).

Basis of measurement and presentation

The accompanying consolidated financial statements have been prepared under the historical-cost convention, except for derivative financial instruments that are measured at fair value.

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from those estimates.

Presentation currency and definition of terms

Beginning January 1, 2022, and for all subsequent periods, as permitted by IAS 21 under IFRS and with the authorization of the Board of Directors, considering the previous favorable opinion of its Audit and Corporate Governance Committee, the Company changed its presentation currency from the Mexican peso to the U.S. dollar.

The consolidated financial statements, including comparative amounts and the accompanying notes to the consolidated financial statements, are presented as if the new presentation currency had always been the Company´s presentation currency. The comparative financial statements and their related notes were re-presented for the change in presentation currency by applying the methodology set out in IAS 21, using the closing exchange rates for the consolidated statements of financial position and the average exchange rates of each month within the respective periods for consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows. Historic equity transactions were translated at the foreign exchange rate on the date of the transactions and were subsequently carried at historical value. The exchange rates used in translation were as described in note 1 n). In addition, resulting from this change in presentation currency and in compliance with IAS 1, Presentation of Financial Statements ("IAS 1"), the Company includes a third statement of financial position as of January 1, 2021.

The consolidated financial statements and the accompanying notes are presented in U.S. dollars, except when specific reference is made to a different currency. When reference is made to U.S. dollars or "$" it means dollars of the United States. All amounts in the consolidated financial statements and the accompanying notes are stated in thousands, except when references are made to earnings or loss per share and/or prices per share. When reference is made to "Ps" or "pesos", it means Mexican pesos. When it is deemed relevant, certain amounts in foreign currency presented in the notes to the consolidated financial statements include between parentheses a convenience translation into dollars and/or into pesos, as applicable.

Change in functional currency

An entity's functional currency is the currency of the primary economic environment in which it operates. During the second half of 2021 management identified indicators of changes in the primary economic environment in which its main subsidiary Concesionaria operates, as follows: (i) increase in the international market transactions during 2021, (ii) change in the determination of rates (iii) most representative costs are determined and denominated in U.S. dollars. As a result, the Company evaluated the functional currency of its main subsidiary in accordance with the provisions contained in IAS-21 "Effects of Variations in Foreign Currency Exchange Rates", concluding that the functional currency changed from the Mexican peso to the U.S dollar as of December 31, 2021.

In addition, considering the dependency of the Company in its operations related to its wholly owned subsidiary Concesionaria, management evaluated and concluded that its functional currency also changed from the Mexican peso to U.S. dollar as of December 31, 2021.The change in functional currency was prospectively applied from the date of the change.

Derived from the foregoing, once the authorization of the Board of Directors and considering the previous favorable opinion of the Audit and Corporate Governance Committee, as of December 31, 2021 the Company changed prospectively its functional currency from the Mexican peso to the U.S dollar (Note 3b).

c) Basis of consolidation

The accompanying consolidated financial statements comprise the financial statements of the Company and its subsidiaries. As of December 31, 2022, 2021 and January 1st 2021 for accounting purposes the companies included in the consolidated financial statements are as follows:

			% Equity interest		
Name	**Principal Activities**	**Country**	**2022**	2021	January 1st 2021
Concesionaria Vuela Compañía de Aviación S.A.P.I. de C.V.	Air transportation services for passengers, cargo and mail throughout Mexico and abroad	Mexico	**100%**	100%	100%
Vuela Aviación, S.A.	Air transportation services for passengers, cargo and mail in Costa Rica and abroad	Costa Rica	**100%**	100%	100%
Vuela, S.A. ("Vuela") *	Air transportation services for passengers, cargo and mail in Guatemala and abroad	Guatemala	**100%**	100%	100%
Vuela El Salvador, S.A. de C.V.	Air transportation services for passengers, cargo and mail in El Salvador and abroad	El Salvador	**100%**	100%	100%
Comercializadora Volaris, S.A. de C.V. ("Comercializadora")	Merchandising of services	Mexico	**100%**	100%	100%
Servicios Earhart, S.A.*	Rendering specialized services to its affiliates	Guatemala	**100%**	100%	100%
Servicios Corporativos Volaris, S.A. de C.V. ("Servicios Corporativos")	Rendering specialized services to its affiliates	Mexico	**100%**	100%	100%
Servicios Administrativos Volaris, S.A. de C.V. ("Servicios Administrativos") (3)	Recruitment and payroll	Mexico	**-**	-	100%
Comercializadora V Frecuenta, S.A. de C.V. ("Loyalty Program") *	Loyalty Program	Mexico	**100%**	100%	100%
Viajes Vuela, S.A. de C.V. ("Viajes Vuela")	Travel agency	Mexico	**100%**	100%	100%
Guatemala Dispatch Service, S.A., ("GDS, S.A.") (4)	Aeronautical Technical Services	Guatemala	**100%**	100%	-
CIBanco, S.A., Institución de Banca Múltiple, Fidecomiso 1710 (1)	Pre-delivery payments financing (Note 5)	Mexico	**100%**	100%	100%
CIBanco, S.A., Institución de Banca Múltiple, Fidecomiso 1711 (2)	Pre-delivery payments financing (Note 5)	Mexico	**100%**	100%	100%
Fideicomiso Irrevocable de Administración número F/307750 "Administrative Trust" **	Share administration trust (Note 18)	Mexico	**100%**	100%	100%
Fideicomiso Irrevocable de Administración número F/745291 "Administrative Trust"	Share administration trust (Note 18)	Mexico	**100%**	100%	100%
Fideicomiso de Administración número CIB/3081 "Administrative Trust"	Share administration trust (Note 18)	Mexico	**100%**	100%	100%
Fideicomiso Irrevocable de Administración número CIB/3249 "Administrative Trust"	Asset backed securities trustor & administrator (Note 5)	Mexico	**100%**	100%	100%
CIBanco, S.A., Institución de Banca Múltiple, Fideicomiso CIB/3853 (5)	Pre-delivery payments financing (Note 5)	Mexico	**100%**	-	-
CIBanco, S.A., Institución de Banca Múltiple, Fideicomiso CIB/3855 (6)	Pre-delivery payments financing (Note 5)	Mexico	**100%**	-	-
CIBanco, S.A., Institución de Banca Múltiple, Fideicomiso CIB/3866 (6)	Pre-delivery payments financing (Note 5)	Mexico	**100%**	-	-
CIBanco, S.A., Institución de Banca Múltiple, Fideicomiso CIB/3867 (7)	Pre-delivery payments financing (Note 5)	Mexico	**100%**	-	-
CIBanco, S. A, Institución de Banca Múltiple, Fideicomiso CIB/3921 (8)	Pre-delivery payments financing (Note 5)	Mexico	**100%**	-	-

*The Company has not started operations.

**The Trust was terminated on August 9, 2022.

(1) With effect from October 16, 2020, the Successor of the Trust 1710 was changed from Deutsche Bank México, S.A. to CIBanco, S.A., Institución de Banca Múltiple.
(2) With effect from October 16, 2020, the Successor of the Trust 1711 was changed from Deutsche Bank México, S.A. to CIBanco, S.A., Institución de Banca Múltiple.
(3) From August 31,2021, the Company merged with Concesionaria Vuela Compañía de Aviación S.A.P.I. de C.V.
(4) The Company was acquired on October 5, 2021.
(5) With effect from June 8, 2022 the trust was constituted.
(6) With effect from April 1st, 2022 the trusts were constituted.
(7) With effect from April 13, 2022 the trust was constituted.
(8) With effect from July 21, 2022 the trust was constituted.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

(i) Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
(ii) Exposure, or rights, to variable returns from its involvement with the investee.
(iii) The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) The contractual arrangement with the other vote holders of the investee.
(ii) Rights arising from other contractual arrangements, and
(iii) The Company’s voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

All intercompany balances, transactions, unrealized gains and losses resulting from intercompany transactions are eliminated in full on consolidation in the consolidated financial statements.

On consolidation, the assets and liabilities of foreign operations are translated into U.S. dollar at the exchange rates prevailing at the reporting date and their statements of profit or loss are translated at the average exchange rates prevailing at the time. The exchange differences arising on translation for consolidation are recognized in other comprehensive income (“OCI”). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in profit or loss.

d) Revenue recognition

Passenger revenues

Revenues from the air transportation of passengers are recognized at the earlier of when the service is provided or when the non-refundable ticket expires at the date of the scheduled travel.

Ticket sales for future flights are initially recognized as contract liabilities under the caption "unearned transportation revenue" and, once the transportation service is provided by the Company or when the non-refundable ticket expires at the date of the scheduled travel, the earned revenue is recognized as passenger ticket revenues and the unearned transportation revenue is reduced by the same amount. All the Company's tickets are non-refundable and are subject to change upon a payment of a fee. Additionally, the Company does not operate a frequent flier program.

The most significant passenger revenue includes revenues generated from: (i) fare revenue and (ii) other passenger revenues. Other passenger services include but are not limited to fees charged for excess baggage, bookings through the call center or third-party agencies, advanced seat selection, itinerary changes and charters. They are recognized as revenue when the obligation of passenger transportation service is provided by the Company or when the non-refundable ticket expires at the date of the scheduled travel.

The Company also classifies as other passenger revenue "V Club" and other similar services, which are recognized as revenue over time when the service is provided.

The Company sells certain tickets with connecting flights with one or more segments operated by its other airline partner. For segments operated by its other airline partner, the Company has determined that it is acting as an agent on behalf of the other airline as is responsible for its portion of the contract (i.e., transportation of the passenger). The Company, as the agent, recognizes revenue within other operating revenue at the time of the travel, for the net amount retained by the Company for any segments flown by other airline.

Non-passenger revenues

The most significant non-passenger revenues include revenues generated from: (i) revenues from other non-passenger services described below and (ii) cargo services.

Revenues from other non-passenger services mainly include but are not limited to commissions charged to third parties for the sale of trip insurance, rental cars, and advertising spaces to third parties. They as well as cargo services, are recognized as revenue at the time the service is provided.

The Company also evaluated the principal versus agent considerations as it relates to certain non-air travel services arrangements with third party providers. No changes were identified under this analysis as the Company is agent for those services provided by third parties.

Code-share agreement

On January 16, 2018, the Company and Frontier Airlines (herein after Frontier) entered into a code-share operations agreement, which started operations in September 2018.

Through this alliance, the Company´s customers gain access to additional cities in the U.S. beyond the current available destinations as the Company's customers are able to buy a ticket throughout any of Frontier's actual destinations; and Frontier customers gain first-time access to new destinations in Mexico through Volaris presence in Mexican airports.

Code-share tickets can be purchased directly from the Volaris' website. The airline that provides the transportation recognize the revenue when the service is provided to the customer.

Other considerations analyzed as part of revenue from contracts with customers

All revenues offered by the Company including sales of tickets for future flights, other passenger related services and non-passenger revenue must be paid through a full cash settlement. The payment of the transaction price is equal to the cash settlement from the client at the sales time (using different payment options like credit or debit cards, paying through a third party or directly at the counter in cash). There is little or no judgment to determine the point in time of the revenue recognition, and the amount of it. Even if mainly all the sales of services are initially recognized as contract liabilities, there is no financing component in these transactions.

The cost to obtain a contract is represented by the commissions paid to the travel agencies and the bank commissions charged by the financial institutions for processing electronic transactions (Note 10). The Company does not incur any additional costs to obtain and fulfill a contract that is eligible for capitalization.

Trade receivables are mainly with financial institutions due to transactions with credit and debit cards, and therefore they are non-interest bearing and are mainly on terms of 24 to 48 hours. The Company has the right of collection at the beginning of the contracts and there are no discounts, payment incentives, bonuses, or other variable considerations subsequent to the purchase that could modify the amount of the transaction price.

The Company´s tickets are non-refundable. However, if the Company cancels a flight for causes attributable to the airline, including as a result of the COVID-19 pandemic, then the passenger is entitled to either move their flight at no cost, receive a refund or a voucher. No revenue is recognized until either the COVID-19 voucher is redeemed, and the associated flight occurs, or the voucher expires. When vouchers issued exceed the amount of the original amount paid by the passenger the excess is recorded as reduction of the operating revenues. All of the Company´s revenues related to future services are rendered through an approximate period of 12 months.

e) Cash, cash equivalents and restricted cash

Cash and cash equivalents are represented by bank deposits and highly liquid investments with maturities of 90 days or less at the original purchase date. For the purposes of the consolidated statements of cash flows, cash and cash equivalents consist of cash and short-term investments as defined above.

The Company has agreements with financial institutions that process customer credit card transactions for the sale of air travel and other services. These credit card processing agreements do not have significant cash reserve requirements.

Restricted cash are used to constitute the debt service reserves and cannot be used for purposes other than those established.

f) Financial instruments initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

i) Financial assets

Initial recognition

Classification of financial assets and initial recognition

The Company determines the classification and measurement of financial assets, in accordance with the categories in IFRS 9, which are based on both: the characteristics of the contractual cash flows of these assets and the business model objective for holding them.

Financial assets include those carried at fair value through profit and losses ("FVTPL"), whose objective to hold them is for trading purposes (short-term investments), or at amortized cost, for accounts receivables held to collect the contractual cash flows, which are characterized by solely payments of principal and interest ("SPPI"). Derivative financial instruments are also considered financial assets when these represent contractual rights to receive cash or another financial asset. All the Company's financial assets are initially recognized at fair value, including derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their initial classification, as is described below:

1. Financial assets at FVTPL which include financial assets held for trading.
2. Financial assets at amortized cost, whose characteristics meet the SPPI criterion and were originated to be held to collect principal and interest in accordance with the Company's business model.
3. Financial assets at fair value through other comprehensive income ("OCI") with recycling of cumulative gains and losses.

Derecognition

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

a) The rights to receive cash flows from the asset have expired;

b) The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or

   When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

In that case, the Company 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 Company has retained.

ii) Impairment of financial assets

The Company assesses at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is credit - impaired. A financial asset is credit- impaired when one or more events have occurred since the initial recognition of an asset (an incurred ‘loss event’), that has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence that a financial asset is credit - impaired may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in receivable, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults. Further disclosures related to impairment of financial assets are also provided in (Note 8).

For trade receivables, the Company applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

Based on this evaluation, allowances are taken into account for the expected losses of these receivables. During the years ended December 31, 2022, 2021 and 2020 the Company recorded expected credit losses on accounts receivable of US$1,672, US$795 and US$636, respectively (Note 8).

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, including loans and borrowings, accounts payables to suppliers, unearned transportation revenue, other accounts payable and financial instruments.

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

Subsequent measurement

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

Financial liabilities at amortized cost

Accounts payable, are subsequently measured at amortized cost and do not bear interest or result in gains and losses due to their short-term nature.

Loans and borrowings are the category most relevant to the Company. After initial recognition at fair value (consideration received), interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on issuance and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statements of operations. This amortized cost category generally applies to interest-bearing loans and borrowings (Note 5).

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities under the fair value option, which are classified as held for trading, if they are acquired for the purpose of selling them in the near future. This category includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

The difference in the respective carrying amounts is recognized in the consolidated statements of operations.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is:

(i) A currently enforceable legal right to offset the recognized amounts, and
(ii) An intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

g) Other accounts receivable

Other accounts receivable are due primarily from major credit card processors associated with the sales of tickets and are stated at cost less allowances made for credit losses, which approximates fair value given their short-term nature.

h) Inventories

Inventories consist primarily of flight equipment expendable parts, materials and supplies, and are initially recorded at acquisition cost. Inventories are carried at the lower of cost and their net realization value. The cost is determined based on the method of specific identification and expensed when used in operations. The Company recognizes the necessary estimates for decreases in the value of its inventories due to impairment, obsolescence, slow movement and causes that indicate that the use or realization of the aircraft spare parts and flight equipment accessories that are part of the inventory will be less than recorded value. The cost of inventories is determined based on the specific identification method and is recorded as an expense as it is used in operations.

i) Intangible assets

Cost related to the purchase or development of computer software that is separable from an item of related *hardware* is capitalized separately measured at cost and amortized over the period in which it will generate benefits on a straight-line basis. The Company annually reviews the estimated useful lives and salvage values of intangible assets and any changes are accounted for prospectively.

The Company records impairment charges on intangible assets used in operations when events and circumstances indicate that the assets or related cash generating unit may be impaired and the carrying amount of a long-lived asset or cash generating unit exceeds its recoverable amount, which is the higher of (i) its fair value less cost to sell, and (ii) its value in use.

The value in use calculation is based on a discounted cash flow model, using our projections of operating results for the near future. The recoverable amount of long-lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation. For the years ended December 31, 2022, 2021, and 2020, the Company did not record any impairment loss in the value of its intangible assets.

Software

Acquired computer software licenses are capitalized on the basis of 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 Company 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 Company 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 statements of operations.

j) Assets held for sale

Assets held for sale, formerly non-current assets or groups of assets that are expected to be sold within the next twelve months are measured at the lower of their carrying amount at the time they are reclassified, and fair value less sell costs. Fair value less sell costs is derived from recent market transactions, if available.

On December 22, 2022, Concesionaria signed an aircraft sale and purchase agreement with SETNA IO LLC., by a total amount of US$901. As of December 31, 2022 the carrying amount of the remaining owned aircraft is US$795.

k) Guarantee deposits

Guarantee deposits consist primarily of aircraft maintenance deposits paid to lessors, deposits for rent of flight equipment and other guarantee deposits. Aircraft and engine deposits are held by lessors in U.S. dollars and are presented as current assets and non-current assets, based on the recovery dates of each deposit established in the related agreements (Note 11).

Deposits for flight equipment maintenance paid to lessors

Most of the Company's lease contracts stipulate the obligation to pay maintenance deposits to aircraft lessors, in order to guarantee major maintenance work.

These lease agreements establish that maintenance deposits are reimbursable to the Company at the time the major maintenance event is concluded for an amount equal to: (i) the maintenance deposit held by the lessor associated with the specific maintenance event, or (ii) the qualifying costs related to the specific maintenance event.

Substantially all major maintenance deposits are generally calculated based on the use of leased aircraft and engines (flight hours or operating cycles). The sole purpose of these deposits is to guarantee to the lessor the execution of maintenance work on the aircraft and engines.

Maintenance deposits that the Company expects to recover from lessors are presented as security deposits in the consolidated statement of financial position.

According to the term of the lease, in each contract it is evaluated whether major maintenance of the leased aircraft and engines is expected to be carried out. In the event that major maintenance is not expected to be performed on its own account, the deposit is recorded as a variable lease payment, since it represents part of the use of the leased goods and is determined based on time or flight cycles. For the years ended December 31, 2022, 2021 and 2020, the Company recognized supplemental lease payments of US$48,172, US$38,227 and US$20,063, respectively.

When modifications are made to the lease agreements that entail an extension of the lease term, the maintenance deposits which had been recorded previously as variable lease payments can be converted into recoverable deposits and presented as recoverable assets, at the modification date.

During the years ended December 31, 2022 and 2021, the Company added eighteen and fifteen net new aircrafts to its fleet, respectively (Note 14). During the year ended December 31, 2022, the Company extended the lease period of five aircrafts and two engines. During the year ended December 31, 2021, the Company extended the lease period of 15 aircrafts and three engines. Certain other aircraft lease agreements do not require the obligation to pay maintenance deposits in advance to lessors to guarantee important maintenance activities; therefore, the Company does not record or make payments for guarantee deposits with respect to these aircrafts. However, some of these lease agreements include the obligation to make maintenance adjustment payments to lessors at the end of the lease period. These maintenance adjustments cover maintenance events that are not expected to be performed before the termination of the lease; for such agreements, the Company accumulates a liability related to the amount of the costs that will be incurred at the end of the lease, since no maintenance deposits have been made (Note 16).

l) Aircraft and engine maintenance

The Company is required to conduct various levels of aircraft maintenance. Maintenance requirements depend on the type of aircraft, age and the route network over which it operates (utilization).

Fleet maintenance requirements may include preventive maintenance tasks and specific manufacturers recommendations, for example, component checks, monthly checks, airframe and systems checks, periodic major maintenance and engine checks.

Aircraft maintenance and repair consists of routine and non-routine works, divided mainly into three general categories: (i) routine line maintenance, (ii) major maintenance and (iii) component service.

(i) Routine line maintenance requirements consist of scheduled maintenance checks on the Company's aircraft, including pre-flight, daily, weekly and overnight checks, any diagnostics and routine repairs and any unscheduled tasks performed as required. These type of maintenance events are normally performed by Company mechanics and are primarily completed at the main airports that the Company currently serves, supported by sub-contracted companies.

Other maintenance activities are sub-contracted to qualified maintenance business partners, repair and overhaul organizations. Routine maintenance also includes scheduled tasks that can typically take from 6 to 12 days to accomplish and are required between every 24 or 36 months, such as 24-month checks and C checks. All routine maintenance costs are expensed as incurred.

(ii) Major maintenance for the aircraft consists of a series of more complex tasks, including structural checks for the airframe, that can take up to six weeks to accomplish and typically are required every six years.

Major maintenance is accounted for under the deferral method, whereby the cost of major maintenance, major overhaul and repair is capitalized (leasehold improvements to flight equipment) and amortized over the shorter of the period to the next major maintenance event or the remaining contractual lease term. The next major maintenance event is estimated based on assumptions including estimated time of usage. The United States Federal Aviation Administration ("FAA") and the Mexican Federal Civil Aviation Agency *(Agencia Federal de Aviación Civil- AFAC*) mandate maintenance intervals and average removal times as suggested by the manufacturer.

These assumptions may change based on changes in the utilization of aircraft, changes in government regulations and suggested manufacturer maintenance intervals. In addition, these assumptions can be affected by unplanned incidents that could damage an airframe, engine, or major component to a level that would require a heavy maintenance event prior to a scheduled maintenance event. To the extent the planned usage increases, the estimated life would decrease before the next maintenance event, resulting in additional expense over a shorter period.

During the years ended December 31, 2022 and 2021, the Company capitalized major maintenance events as part of leasehold improvements to flight equipment for an amount of US$138,811 and US$85,940, respectively. For the years ended December 31, 2022, 2021 and 2020, the amortization of major maintenance leasehold improvement costs was US$83,071, US$40,744 and US$30,555 respectively. The amortization of deferred maintenance costs is recorded as part of depreciation and amortization in the consolidated statements of operations.

(iii) The Company has a power-by-the hour agreement for component services, which guarantees the availability of aircraft components for the Company's fleet when they are required. It also provides aircraft components that are included in the redelivery conditions of the contract (hard time) with a fixed priced at the time of redelivery. The monthly maintenance cost associated with this agreement is recognized as incurred in the consolidated statements of operations.

The Company has an engine flight hour agreement (component repair agreement), that guarantees a cost for the engines shop visits, provides miscellaneous engines coverage, supports the cost of foreign objects damage events, ensures there is protection from annual escalations, and grants credit for certain scrapped components. The cost associated with the miscellaneous engines' coverage is recorded monthly as incurred in the consolidated statements of operations.

m) Rotable spare parts, furniture and equipment, net

Rotable spare parts, furniture and equipment, are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method.

Aircraft spare engines have significant components with different useful lives; therefore, they are accounted for as separate items of spare engine parts (major components) (Note 12).

Pre-delivery payments refer to prepayments made to aircraft and engine manufacturers during the manufacturing stage of the aircraft. The borrowing costs related to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset.

Depreciation rates are as follows:

	Annual depreciation rate
Flight equipment	4.0-16.7%
Constructions and improvements	Remaining contractual lease term
Computer equipment	25%
Workshop tools	33.3%
Electric power equipment	10%
Communications equipment	10%
Workshop machinery and equipment	10%
Motorized transport equipment platform	25%
Service carts on board	20%
Office furniture and equipment	10%
Leasehold improvements to flight equipment	The shorter of: (i) remaining contractual lease term, or (ii) the next major maintenance event

The Company reviews annually the useful lives of these assets and any changes are accounted for prospectively.

The Company identified one Cash Generating Unit (CGU), which includes the entire aircraft fleet and flight equipment. The Company assesses at each reporting date, whether there is objective evidence that rotable spare parts, furniture and equipment and right of use asset are impaired in the CGU. The Company records impairment charges on rotable spare parts, furniture and equipment and right of use assets used in operations when events and circumstances indicate that the assets may be impaired or when the carrying amount of a long-lived asset or related cash generating unit exceeds its recoverable amount, which is the higher of (i) its fair value less cost to sell and (ii) its value in use.

The value in use calculation is based on a discounted cash flow model, using projections of operating results for the near future. The recoverable amount of long-lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation.

n) Foreign currency transactions and exchange differences

The Company's consolidated financial statements are presented in U.S. dollars, which is the presentation and functional currency of the parent company and its subsidiaries. For each subsidiary, the Company determines the functional currency and items included in the financial statements of each entity are measured using the currency of the primary economic environment in which each entity operates ("the functional currency").

The financial statements of foreign subsidiaries prepared under IFRS and denominated in their respective local currencies different from its functional currency are translated into their functional currency as follows:

- Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates at the dates of the transactions.
- All monetary assets and liabilities are translated into the functional currency at the exchange rate at the consolidated statement of financial reporting date.
- All non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.
- Equity accounts are translated at the prevailing exchange rate at the time the capital contributions were made, and the profits were generated.

- Revenues, costs and expenses are translated at the average exchange rate during the applicable period.

Any differences resulting from the currency functional translation are recognized in the consolidated statements of operations.

The Company's consolidated financial statements are presented in U.S. dollars. Assets and liabilities from foreign subsidiaries are converted from the functional currency to the presentation currency at the exchange rate on the reporting date; revenues and expenses are translated at each month during the year at the monthly average exchange rate.

Foreign currency differences arising on translation into the presentation currency are recognized in OCI. Exchange differences on translation of foreign entities for the years ended December 31, 2022 and 2021, were US$3,471 and US$(10,489), respectively.

For the years ended December 31, 2022, 2021 and 2020, the most relevant exchange rates utilized in the conversions to US$ dollar, are as follows:

	2022		2021		2020	
Currency	**End of period exchange rate**	**Average exchange rate**	**End of period exchange rate**	Average exchange rate	**End of period exchange rate**	Average exchange rate
Mexican Peso	**Ps. 19.3615**	**Ps. 20.1254**	Ps. 20.5835	Ps. 20.2818	Ps. 19.9487	Ps. 21.4961
Colon	**₡. 594.9700**	**₡. 649.5908**	₡. 645.900	₡. 624.3460	₡. 615.7800	₡. 588.4240
Quetzal	**Q. 7.8515**	**Q. 7.7765**	Q. 7.7285	Q. 7.7589	Q. 7.8095	Q. 7.7292
Colombian Peso	**COP. 4,810.20**	**COP. 4,255.44**	COP. 3,981.16	COP. 3,751.33	COP. 3,428.26	COP. 3,695.48

o) Liabilities and provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 finance cost.

p) Employee benefits

i) Personnel vacations

The Company and its subsidiaries in Mexico and Central America recognize a reserve for the costs of paid absences, such as vacation time, based on the accrual method.

ii) Termination benefits

The Company recognizes a liability and expense for termination benefits at the earlier of the following dates:

a) When it can no longer withdraw the offer of those benefits; and

b) When it recognizes costs for a restructuring that is within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits.

The Company is demonstrably committed to a termination when, and only when, it has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

For the years ended December 31, 2022 and 2021, no termination benefits provision has been recognized.

iii) Seniority premiums

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to the employees which rendered services to its Mexican subsidiaries under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days' wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

Obligations relating to seniority premiums other than those arising from restructurings, are recognized based upon actuarial calculations and are determined using the projected unit credit method.

The latest actuarial computation was prepared as of December 31, 2022. Remeasurement gains and losses are recognized in full in the period in which they occur in OCI. Such remeasurement gains and losses are not reclassified to profit or loss in subsequent periods.

The defined benefit asset or liability comprises the present value of the defined benefit obligation using a discount rate based on government bonds, less the fair value of plan assets out of which the obligations are to be settled.

For entities in Costa Rica, Guatemala and El Salvador there is no obligation to pay seniority premium, these countries have Post- Employee Benefits.

iv) Incentives

The Company has a quarterly incentive plan for certain personnel whereby cash bonuses are awarded for meeting certain performance targets. These incentives are payable shortly after the end of each quarter and are accounted for as a short-term benefit under IAS 19, *Employee Benefits*. A provision is recognized based on the estimated amount of the incentive payment. During the years ended December 31, 2022, 2021 and 2020 the Company expensed US$2,992, US$3,701 and US$1,266, respectively, as quarterly incentive bonuses, recorded under the caption salaries and benefits.

The Company has a short-term benefit plan for certain key personnel whereby cash bonuses are awarded when certain Company's performance targets are met. These incentives are payable shortly after the end of each year and also are accounted for as a short-term benefit under IAS 19. A provision is recognized based on the estimated amount of the incentive payment (Note 7).

v) Long-term incentive plan ("LTIP") and long-term retention plan (LTRP)

The Company has adopted a Long-term incentive plan ("LTIP"). This plan consists of a share purchase plan (equity-settled) and a share appreciation rights "SARs" plan (cash settled), and therefore accounted under IFRS 2 "Share based payment".

The Company measures the cost of its equity-settled transactions at fair value at the date the equity benefits are conditionally granted to employees. The cost of equity-settled transactions is recognized in the statement of operations, together with a corresponding increase in treasury shares, over the period in which the performance and/or service conditions are fulfilled.

During 2022, 2021 and 2020, the Company approved a new long-term retention plan ("LTRP"), which consisted in a purchase plan (equity-settled). This plan does not include cash compensations granted through appreciation rights on the Company's shares. The retention plans granted in previous periods will continue in full force and effect until their respective due dates and the cash compensation derived from them will be settled according to the conditions established in each plan.

vi) Share-based payments

a) LTIP

- Share purchase plan (equity-settled)

Certain key employees of the Company receive additional benefits through a share purchase plan denominated in Restricted Stock Units ("RSUs"), which has been classified as an equity-settled share-based payment. The cost of the equity-settled share purchase plan is measured at grant date, taking into account the terms and conditions on which the share options were granted. The equity-settled compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 18).

- SARs plan (cash settled)

The Company granted SARs to key employees, which entitle them to a cash payment after a service period.

The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and the time of exercise. The liability for the SARs is measured, initially and at the end of each reporting period until settled, at the fair value of the SARs, taking into account the terms and conditions on which the SARs were granted. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 18). The retention plan granted in previous periods expired in November 2020. During the year ended December 31, 2020, the Company recorded a (benefit) for US$(95), related to the SARs included in the LTIP. These amounts were recorded under the caption salaries and benefits.

The cost of the SARs plan is measured initially at fair value at the grant date, further details of which are given in (Note 18). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. Similar to the equity settled awards described above, the valuation of cash settled award also requires using similar inputs, as appropriate.

b) Management incentive plan ("MIP")

- MIP I

Certain key employees of the Company receive additional benefits through a share purchase plan, which has been classified as an equity-settled share-based payment. The equity-settled compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 18). The total cost of this plan has been totally recognized during the required service period.

- MIP II

On February 19, 2016, the Board of Directors of the Company authorized an extension to the MIP for certain key employees, this plan was named MIP II. In accordance with this plan, the Company granted SARs to key employees, which entitle them to a cash payment after a service period. The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and the time of exercise. The liability for the SARs is measured initially and at the end of each reporting period until settled at the fair value of the SARs, taking into account the terms and conditions on which the SARs were granted. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 18).

c) Board of Directors Incentive Plan (BoDIP)

Certain members of the Board of Directors of the Company receive additional benefits through a share-based plan, which has been classified as an equity-settled share-based payment and therefore accounted under IFRS 2 “Share based payment”.

In April 2018, the Board of Directors of the Company authorized a Board of Directors Incentive Plan “BoDIP”, for the benefit of certain board members. The BoDIP grants options to acquire shares of the Company or CPOs during a five-year period, which was determined on the grant date. Under this plan, no service or performance conditions are required to the board members for exercise the option to acquire shares, and therefore, they have the right to request the delivery of those shares at the time they pay for them.

vii) Employee profit sharing

The Mexican Income Tax Law (“MITL”), establishes that the base for computing current year employee profit sharing shall be the taxpayer’s taxable income of the year for income tax purposes, including certain adjustments established in the Income Tax Law, at the rate of 10%. The Mexican Federal Labor Law (“MFLL”) establishes a limit for employee profit sharing payment, up to three months of the employee´s current salary or the average employee profit sharing received by the employee in the previous three years. For the years ended December 31, 2022, 2021 and 2020, the employee profit sharing is US$136, US$12,951 and US$968 operating expense in the consolidated statements of operations. Subsidiaries in Central America do not have such profit-sharing benefit, as it is not required by local regulations.

q) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities for payments to be made under the lease term and the right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, and lease payments made at or before the commencement date less any lease incentives received.

Components of the right-of-use assets are depreciated on a straight-line basis over the shorter of the remining lease term and the estimated useful lives of the assets, as follows:

Aircraft and engines	up to 18 years
Spare engines	up to 18 years
Buildings leases	one to ten years
Maintenance component	up to eight years

ii. Lease Liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

The short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

During the years ended December 31, 2022, 2021 and 2020, there were no impairment charges recorded in respect of the right-of-use assets.

iii. Sale and leaseback

The Company enters into a agreements whereby an aircraft or engine is sold to a lessor upon delivery and the lessor agrees to lease such aircraft or engine back to the Company.

The Company measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the Company recognizes in the Consolidated Statement of Operations only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, then the Company adjusts the difference to measure the sale proceeds at fair value and accounts for any below-market terms as a prepayment of lease payments and any above market terms as additional financing provided by the buyer-lessor to the seller-lessee.

First, the sale and leaseback transactions are analyzed within the scope of IFRS 15 - Revenue from Contracts with Customers, in order to verify whether the performance obligation has been satisfied and, therefore, are accounted for the sale of the asset. If this requirement is not met, it is a financing with the asset given as collateral. If the requirements related to the performance obligation established in IFRS 15 are met, the Company measures an asset for right of use that arises from the sale transaction with subsequent lease in proportion to the book value of the asset related to the right-of-use assets retained by the Company. Consequently, only the gains or losses related to the rights transferred to the lessor-buyer are recognized.

r) Return obligations

The aircraft lease agreements of the Company also require that the aircraft components (airframe, APU and landing gears) and engines (overhaul and limited life parts) be returned to lessors under specific conditions of maintenance. The costs of return, which in no case are related to scheduled major maintenance, are estimated, and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight-line basis as a component of variable lease expenses and the provision is included as part of other liabilities, through the remaining lease term. The Company estimates the provision related to aircraft components and engines using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. This provision is made in relation to the present value of the expected future costs of meeting the return conditions (Note 14 and 16).

s) Other taxes and fees payable

The Company is required to collect certain taxes and fees from customers on behalf of government agencies and airports and to remit these to the applicable governmental entity or airport on a periodic basis. These taxes and fees include federal transportation taxes, federal security charges, airport passenger facility charges, and foreign arrival and departure fees. These charges are collected from customers at the time they purchase their tickets but are not included in passenger revenue. The Company records a liability upon collection from the customer and discharges the liability when payments are remitted to the applicable governmental entity or airport.

t) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity. 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.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except, in respect of taxable temporary differences associated with investments in subsidiaries when 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 assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any available tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and available tax losses can be utilized, except, in respect of deductible temporary differences associated with investments in subsidiaries deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilized.

The Company considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilized: (a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilized before they expire; (b) whether it is probable that the Company will have taxable profits before the unused tax losses or unused tax credits expire; (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and (d) whether tax planning opportunities are available to the Company that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilized.

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 reassessed 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 assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction in OCI.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Income taxes are computed based on tax laws approved in Mexico, Costa Rica, Guatemala and El Salvador at the date of the consolidated statement of financial position.

The IFRIC Interpretation 23 Uncertainty over Income Tax Treatment addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing studies, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. As of December 31, 2022 and 2021 the Interpretation did not have an impact on the consolidated financial statements of the Company.

u) Derivative and non-derivative financial instruments and hedge accounting

The Company mitigates certain financial risks, such as volatility in the price of jet fuel, adverse changes in interest rates and exchange rate fluctuations, through a risk management program that includes the use of derivative financial instruments and non-derivative financial instrument.

In accordance with IFRS 9, derivative financial instruments and non-derivative financial instruments are recognized in the consolidated statement of financial position at fair value. At inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, as well as the risk management objective and strategy for undertaking the hedge. The documentation includes the hedging strategy and objective, identification of the hedging instrument, the hedged item or transaction, the nature of the risks being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk(s).

Only if such hedges are expected to be effective in achieving offsetting changes in fair value or cash flows of the hedge item(s) and are assessed on an ongoing basis to determine that they have been effective throughout the financial reporting periods for which they were designated, hedge accounting treatment can be used.

Under the cash flow hedge (CFH) accounting model, the effective portion of the hedging instrument's changes in fair value is recognized in OCI, while the ineffective portion is recognized in current year earnings in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The amounts recognized in OCI are transferred to earnings in the period in which the hedged transaction affects earnings. During the years ended December 31, 2022 and 2021, the Company did not recognize an ineffective portion with respect to derivative financial instruments. As of December 31,2020, the Company recorded the ineffective portion of US$19.1 million, with respect to derivative financial instruments.

The realized gain or loss of derivative financial instruments and non-derivative financial instruments that qualify as CFH are recorded in the same caption of the hedged item in the consolidated statement of operations (Note 3 b (i)).

Accounting for the time value of options

The Company accounts for the time value of options in accordance with IFRS 9, which requires all derivative financial instruments to be initially recognized at fair value. Subsequent measurement for options purchased and designated as CFH requires that the option's changes in fair value be segregated into its intrinsic value (which will be considered the hedging instrument's effective portion in OCI) and its correspondent changes in extrinsic value (time value and volatility).The extrinsic value changes will be considered as a cost of hedging (recognized in OCI in a separate component of equity) and accounted for in income when the hedged items also are recognized in income.

v) Financial instruments – Disclosures

IFRS 7 requires a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements (Notes 4 and 5).

w) Treasury shares

The Company's equity instruments that are reacquired (treasury shares), are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of treasury shares. Any difference between the carrying amount and the consideration received, if reissued, is recognized in additional paid in capital. Share-based payment options exercised during the reporting period were settled with treasury shares (Note 18).

x) Operating segments

Management of Controladora monitors the Company as a single business unit that provides air transportation and related services, accordingly it has only one operating segment.

The Company has two geographic areas identified as domestic (Mexico) and international (United States of America, Central America and South America) (Note 26).

y) Current versus non-current classification

The Company presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is: (i) expected to be realized or intended to be sold or consumed in normal operating cycle, (ii) expected to be realized within twelve months after the reporting period, or, (iii) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: (i) it is expected to be settled in normal operating cycle, (ii) it is due to be settled within twelve months after the reporting period, or, (iii) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

z) Impact of new International Financial Reporting Standards

New and amended standards and interpretations already effective

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2022. The Company has not early adopted any other standard interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below:

Covid-19-Related Rent Concessions beyond June 30, 2021, Amendments to IFRS 16

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022.The amendment applies to annual reporting periods beginning on or after April 1st, 2021. As of December 31, 2022, this amendment did not have impact on the consolidated financial statements of the Company (Note 14).

Annual Improvements to IFRS Standards 2018–2020

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1st, 2022, with earlier adoption permitted. As of December 31, 2022, this amendment did not have impact on the consolidated financial statements of the Company (Note 1f) iii) and Note 5).

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1st, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The Company expects to adopt the amendments in their effective dates considering preliminarily no significant effects. As of December 31, 2022, this amendment did not have impact on the consolidated financial statements of the Company (Note 12).

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. As of December 31, 2022 this amendment did not have impact on the consolidated financial statements of the Company.

Standards issued but not yet effective

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Company is currently assessing the impact of this standard which expects to adopt in their effective date.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1st, 2023, and must be applied retrospectively. The Company is currently assessing the impact of these amendments which expects to adopt in their effective date.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1st, 2023, with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently assessing the impact of these amendments.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1st, 2023, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The Company is currently assessing the impact of these amendments which expects to adopt in their effective date.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Taxes require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment is effective for annual reporting periods beginning on January 1st, 2023, and should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- Right-of-use assets and lease liabilities, and
- Decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets.

The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate.

IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable.

At the date of adoption of IFRS 16, the Company applied the criterion of recognizing the deferred assets and liabilities associated with the lease liability and the right of use, which is consistent with this amendment to IAS 12, and therefore this will not generate effects in the Company. (Note 20).

2. Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company's consolidated financial statements. The Company's consolidated financial statements provides a detailed discussion of the significant accounting policies. Certain of the Company's accounting policies reflect significant judgments, assumptions or estimates about matters that are both inherently uncertain and material to the Company's financial position or results of operations. (Note 1).

Actual results could differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Revisions to estimates are recognized prospectively. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

For leases significant accounting judgments, estimates and assumptions refer to (Note 1q).

i) Return obligations

The aircraft lease agreements of the Company also require that the aircraft components (airframe, APU and landing gears) and engines (overhaul and limited life parts) be returned to lessors under specific conditions of maintenance. The costs of return, which in no case are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight-line basis as a component of variable lease expenses and the provision is included as part of other liabilities, through the remaining lease term. The Company estimates the provision related to aircraft components and engines using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. This provision is made in relation to the present value of the expected future costs of meeting the return conditions (Note 14 and 16).

ii) Deferred taxes

Deferred tax assets are recognized for all available tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management's judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning opportunities to advance taxable profit before expiration of available tax losses.

Tax losses relate to operations of the Company on a stand-alone basis, in conformity with current Tax Law and may be carried forward against taxable income generated in the succeeding years at each country and may not be used to offset taxable income elsewhere in the Company's consolidated group (Note 20).

iii) Fair value measurement of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The judgments include considerations of inputs such as liquidity risk, credit risk and expected volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 4).

iv) Impairment of long-lived assets

At each reporting date, the Company assesses whether there are indicators of impairment of its long-lived assets and right of use assets. Impairment exists when the carrying amount of a long-lived asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value-in-use.

In making these determinations, the Company uses certain assumptions, including, but not limited to estimated, undiscounted future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service the asset will be used in the Company's operations, excluding additions and extensions.

The Company's assumptions about future conditions important to its assessment of potential impairment of its long-lived assets, including the impact of the COVID-19 pandemic to its business, are subject to uncertainty, and the Company will continue to monitor these conditions in future periods as new information becomes available, and will updated its analyses accordingly.

For the years ended December 31, 2022 and 2021, the Company has reviewed through an analysis if there were signs of impairment in its long- lived assets and right- of use assets and according to the result it was concluded there were no signs of impairment.

v) Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in its leases, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3. Financial instruments and risk management

Financial risk management

The Company's activities are exposed to different financial risks stemmed from exogenous variables which are not under their control but whose effects might be potentially adverse such as: (i) market risk, (ii) credit risk, and (iii) liquidity risk.

The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on net earnings and working capital requirements. The Company uses derivative financial instruments to hedge part of such risks. The Company does not enter into derivatives for trading or speculative purposes. The sources of these financial risk exposures are included in both "on balance sheet" exposures, such as recognized financial assets and liabilities, as well as in "off-balance sheet" contractual agreements and on highly expected forecasted transactions.

These on and off-balance sheet exposures, depending on their profiles, do represent potential cash flow variability exposure, in terms of receiving less inflows or facing the need to meet outflows which are higher than expected, therefore increase the working capital requirements.

Since adverse movements erode the value of recognized financial assets and liabilities, as well some other off-balance sheet financial exposures, there is a need for value preservation, by transforming the profiles of these fair value exposures. The Company has a Finance and Risk Management department, which identifies and measures financial risk exposures, in order to design strategies to mitigate or transform the profile of certain risk exposures, which are taken up to the corporate governance level for approval.

Market risk

a) Jet fuel price risk

Since the contractual agreements with jet fuel suppliers include reference to jet fuel index, the Company is exposed to fuel price risk which might have an impact on the forecasted consumption volumes. The Company's jet fuel risk management policy aims to provide the Company with protection against increases in jet fuel prices. In an effort to achieve the aforesaid, the risk management policy allows the use of derivative financial instruments available on over the counter ("OTC") markets with approved counterparties and within approved limits. Aircraft jet fuel consumed in the years ended December 31, 2022, 2021 and 2020 represented 46%, 34% and 26% (includes derivative and non-derivative financial instruments for 2021 and 2020) of the Company's operating expenses, respectively. The foreign currency risk is disclosed within subsection b) in this note.

During the years ended December 31, 2022 and 2021, the Company did not enter into derivative financial instruments to hedge US Gulf Coast Jet Fuel 54 Asian call options and US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options. As of the year ended December 31, 2020, the Company entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge 23,967 thousand gallons. Such hedges represented a portion of the projected consumption for the 2Q20, 3Q20 and 1Q21. Additionally, during the year ended December 31, 2020, the Company entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 81,646 thousand gallons. Such hedges represented a portion of the projected consumption for the 2Q20, 2H20 and 2Q21.

During the year ended December 31, 2020 the Company recognized an unwind of the Zero cost collar of US$1,984 which was recognized as part of finance cost.

In accordance with IFRS 9 the Company separates the intrinsic value from the extrinsic value of an option contract; as such, the change in the intrinsic value can be designated as hedge accounting. Because extrinsic value (time and volatility values) of the Asian call options is related to a "transaction related hedged item", it is required to be segregated and accounted for as a cost of hedging in OCI and accrued as a separate component of stockholders' equity until the related hedged item matures and therefore impacts profit and loss.

The underlying (US Gulf Coast Jet Fuel 54) of the options held by the Company is a consumption asset (energy commodity), which is not in the Company's inventory. Instead, it is directly consumed by the Company's fleet at different airport terminals. Therefore, although a non-financial asset is involved, its initial recognition does not generate an adjustment in the Company's inventories.

Rather, it is initially accounted for in the Company's OCI and a reclassification adjustment is made from OCI to profit and loss and recognized in the same period or periods in which the hedged item is expected to be allocated to profit and loss. Furthermore, the Company hedges its forecasted jet fuel consumption month after month, which is congruent with the maturity date of the monthly serial *"Asian call options and Zero-Cost Collars"*.

All the Company's Asian calls matured throughout the first quarter of 2021. The Zero-Cost Collars matured throughout the second quarter of 2021, leaving no outstanding fuel position going forward as of December 31, 2022, and 2021.

During the year ended December 31, 2021, the intrinsic value of the Asian call options recycled to the fuel cost was an expense of US$619. During the year ended December 31, 2020, the intrinsic value of the Asian call options recycled to the fuel cost was an expense of US$1,488 (US$931 which was recognized in the fuel cost and an expense of US$557 in finance cost).

During the years ended December 31, 2022 and 2021 there was no cash flow to recycle for the Zero-Cost collar position.

During the year ended December 31, 2020, the intrinsic value of the Zero-Cost Collars recycled to the fuel cost was an expense of US$56,695 (US$38,122 which was recognized in the fuel cost and an expense of US$18,573 in finance cost).

During the year ended December 31, 2021, all the derivative financial instruments were effective.

For the period ended December 31, 2021, there was no cost of hedging as all the derivatives position matured through 2Q21.

As of December 31,2022, and 2021, the Company didn´t hold any outstanding fuel position.

Fuel Sensitivity

The sensitivity analysis provided below presents the impact of a change of US$0.01 per gallon in fuel market spot price in the Company´s financial performance. Considering these figures, an increase of US$0.01 per gallon in the fuel prices during 2022, 2021 and 2020 would have impacted the Company's operating costs in US$3,399, US$2,731 and US$1,762, respectively.

	As of December 31,		
	2022	**2021**	**2020**
	Operating costs	**Operating costs**	Operating costs
		(In thousands of U.S. dollars)	
+ US$0.01 per gallon	**3,399**	**2,731**	1,762
- US$0.01 per gallon	**(3,399)**	**(2,731)**	(1,762)

The Company has been proactively trying to mitigate this impact over our business through revenue yielding and a continued effort towards a reduced fuel consumption. Nonetheless, our ability to pass on any significant increases in fuel costs through fare increases is also limited by our ultra-low-cost business model and market high elasticity to price.

b) Foreign currency risk

On December 31, 2021 the Company and its main subsidiary Concesionaria changed their functional currency from the Mexican pesos to the US Dollar. The change of functional currency was accounted for prospectively with no impact on prior periods information (Note 1n).

Through the year ending December 31, 2021, and before the change, the Mexican peso was the functional currency of Controladora and its main subsidiary Concesionaria. Most of the operating Company´s expenses are denominated in U.S. dollar; thus, the Company relies on sustained U.S. dollar cash flows coming from operations in the United States of America, Central America and South America to support part of its commitments in such currency.

Foreign currency risk arises from possible unfavorable movements in the exchange rate which could have a negative impact in the Company's cash flows. To mitigate this risk, the Company may use foreign exchange derivative financial instruments and non-derivative financial instruments.

Company's expenditures, particularly those related to aircraft leasing and acquisition, are denominated in U.S. dollar. In addition, although jet fuel for those flights originated in Mexico are paid in Mexican pesos, the price formula is impacted by the Mexican peso /U.S. dollar exchange rate.

The summary of quantitative data about the Company's exposure to currency risk as of December 31, 2022 is as set forth below:

		Mexican Pesos		Others*
		(In thousands of U.S. dollars)		
Assets:				
Cash, cash equivalents and restricted cash	US$	39,962	US$	6,129
Other accounts receivable, net		66,254		12,595
Guarantee deposits		23,981		252
Other assets		-		-
Derivative financial instruments		1,585		-
Total assets	**US$**	**131,782**	**US$**	**18,976**
Liabilities:				
Financial debt	US$	133,837	US$	-
Lease liabilities		17,003		103
Suppliers		124,374		1,496
Other liabilities		81,378		1,277
Total liabilities	**US$**	**356,592**	**US$**	**2,876**
Net foreign currency position	**US$**	**(224,810)**	**US$**	**16,100**

*The foreign exchange exposure includes: Quetzales, Colombian pesos and Colones.

The summary of quantitative data about the Company's exposure to currency risk as of December 31, 2021 is as set forth below:

		Mexican Pesos		Others*
Assets:		**(In thousands of U.S. dollars)**		
Cash, cash equivalents and restricted cash	US	39,728	US	6,102
Other accounts receivable, net		9,412		495
Guarantee deposits		-		329
Total assets	**US**	**49,140**	**US**	**6,926**
Liabilities:				
Financial debt	US	132,367	US	-
Lease liabilities		-		77
Suppliers		159,842		6,202
Other taxes and fees payable		111,766		16,378
Total liabilities	**US**	**403,975**	**US**	**22,657**
Net foreign currency position	**US**	**(354,835)**	**US**	**(15,731)**

*The foreign exchange exposure includes: Quetzales, Colombian pesos and Colones.

At April 18, 2023, the exchange rate was 1 US$ per 18.0638 MXP.

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Company initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of advance consideration.

As of December 31, 2022, 2021 and January 1, 2021, the Company did not enter into foreign exchange rate derivatives financial instruments.

Foreign currency sensitivity

The following table demonstrates the sensitivity of a reasonably possible change in Mexican peso exchange. The rate to U.S dollar that would have occurred as of December 31, 2022, with all other variables held constant. The movement in the pre-tax effect shown below represents the result of a change in the fair value of assets and liabilities denominated in Mexican peso. The Company's exposure to foreign currency exchange rates for all other currencies is not material.

	Change in MXN$ rate	**Effect on profit before tax**	
		(In thousands of U.S. dollars)	
2022	**+5%**	**US$**	**(10,436)**
	-5%		**10,436**

On December 31,2021, the Company and its main subsidiary Concesionaria changed its functional currency from the Mexican peso to the U.S dollar. The following table demonstrates the sensitivity of a possible change in Mexican peso exchange rate to U.S dollar that would affect the Company prospectively from December 31, 2021 considering the change in functional currency, with all other variables held constant. The movement in the pre-tax effect shown below represents the result of a change in fair value of assets and liabilities denominated in Mexican peso. The Company´s exposure to foreign currency exchange rates for all other currencies is not material.

	Change in MXN$ rate	**Effect on profit before tax**	
		(In thousands of U.S. dollars)	
2021	+5%	US$	(18,528)
	-5%		18,528

The following tables demonstrate the sensitivity to a reasonably possible change in US$ exchange rates that would have occurred as of December 31, 2021 before consideration of the change in functional currency of Concesionaria and Controladora, with all other variables held constant. The movement in the pre-tax effect is a result of a change in the fair value of assets and liabilities denominated in US dollars before the change in functional currency. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in USD$ rate	**Effect on profit before tax**	
		(In thousands of U.S. dollars)	
2021	+5%	US$	(80,919)
	-5%		80,919

i) Hedging relationships designating non-derivative financial instruments as hedging instruments for foreign exchange (FX) risk

Regarding the foreign currency risk effective since January 1st, 2019, the Company implemented two hedging strategies associated to forecasted FX exposures, by using non-derivatives financial assets and liabilities denominated in US$ as hedging instruments.

In the first FX hedging strategy, the Company designated a hedge to mitigate the variability in FX fluctuation denominated in US$ associated to forecasted revenues by using a portion of US$ denominated financial liabilities associated to a portfolio of leasing liabilities up until the terms of the remaining leasing arrangements.

As of December 31, 2022 and 2021, there was not outstanding US$ balance designated under this hedging strategy due to the discontinuation of the hedge relationships. The outstanding US$ balance designated under this hedging strategy as of December 31, 2020 amounted to US$1.5 billion, represented by recognized leasing liabilities, which have been designated as hedging instruments tagged to US$ denominated forecasted revenues over the remaining lease term.

Additionally, during the years ended December 31, 2021 and 2020, the impact of these hedges was US$21,378 and US$19,408, respectively, which has been presented as part of the total operating revenue.

The second FX strategy consisted on designating a hedging relationship by using a portion of US$ denominated non-derivative financial assets as hedging instruments, to mitigate the FX variability (MXN/US$) contractually included as a component in the purchase of a portion of future Jet Fuel consumption. For this strategy designated in 2019, a portion of the Jet Fuel consumption over the two following years was designated as hedged item; while the hedging instrument was represented by US$ denominated recognized assets, including guaranteed deposits and cash and cash equivalents equivalent to US$410 million, which represent a portion of the financial assets denominated in US$.

During the first quarter of 2021, the designated hedging instrument back in 2019 for US$410 million expired consistent with the same foreign exchange strategy, the Company decided to designate a new hedging relationship, like the one concluded. For this new strategy a portion of the Jet Fuel consumption over the two following years was designated as hedged item; while the hedging instrument was represented by US$ denominated recognized assets, including guaranteed deposits and cash and cash equivalents equivalent to US$350 million, which represent a portion of the financial assets denominated in US$.

As of December 31, 2021, as a result of the change in functional currency from the Mexican peso to the US dollar, the Company concluded that these hedging strategies will no longer be effective, for which reason it accounted for the discontinuation of the hedge relationships. Accordingly, the cash flow hedge reserve in other comprehensive income at the date of the change of US$109 million was reclassified to the income statement, which represented a loss within the foreign exchange (loss) gain, net caption.

As of December 31, 2022 and 2021, there was not outstanding US$ balance designated under this hedging strategy due to the discontinuation of the hedge relationships. The outstanding US$ balance designated under this hedging strategy as of December 31, 2020 amount to US$60.5 million, which does represent a portion of the recognized financial assets.

During the years ended December 31, 2021 and 2020, the impact of these hedges was US$8,945 and US$18,590, respectively, presented as part of the total fuel expense.

Since the hedged items for both hedging strategies were targeted at mitigating the cash flow variability of highly expected forecasted transactions, these were represented by multiple hedging relationships which followed the Cash Flow Hedge Accounting Model.

In accordance with IFRS 9, the effective portion related to changes in the fair value of the hedging instruments, was taken to the hedge reserve within the OCI, and was presented under a separate caption within the Company's Stakeholders Equity. The amounts recorded in OCI were recycled to the consolidated statement of operations on a timely basis as the corresponding US$ denominated income and/or Jet Fuel consumption, affecting the Company's operating margins, the recycled amounts are presented as adjustments to operating income and expenses related to each FX hedging strategy.

c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations and flight equipment lease agreements with floating interest rates.

The Company's results are affected by fluctuations in certain benchmark market interest rates due to the impact that such changes may have on operational lease payments indexed to the *London Inter Bank Offered Rate* ("LIBOR") and the Secured Overnight Financing Rate ("SOFR").

For the replacement of the rate US$ LIBOR by the Secured Overnight Financing Rate ("SOFR") the company is taking the necessary measures to adopt the new benchmark rates. Although rate US$ LIBOR was planned to be discontinued by the end of 2021, in November 2020 the ICE Benchmark Administration ("IBA"), the FCA-regulated and authorized administrator of LIBOR, announced that it had started to consult on its intention to cease the publication of certain rate US$ LIBORs after June 2023. In early 2022 as announced by the FCA, the panel bank submissions for rate US$ LIBOR will cease in mid-2023. As of December 31, 2022, all financial facilities in US$ are referenced to SOFR. The financial facilities contracted during 2022 were referenced to SOFR. (Note 5 b)).

The Company uses derivative financial instruments to reduce its exposure to fluctuations in market interest rates and accounts for these instruments as an accounting hedge.

In most cases, when a derivative can be tailored within the terms and it perfectly matches cash flows of a leasing agreement, it may be designated as a CFH and the effective portion of fair value variations are recorded in equity until the date the cash flow of the hedged lease payment is recognized in the consolidated statements of operations.

During July 2019 the Irrevocable Trust number CIB/3249, whose trustor is the Company, entered a cap to mitigate the risk due to interest rate increases on the CEBUR (VOLARCB19) coupon payments. The floating rate coupons reference to TIIE 28 are limited under the cap to 10% on the reference rate for the life of the CEBUR (VOLARCB19) and have the same amortization schedule. Thus, the cash flows of the CEBUR (VOLARCB19) are perfectly matched by the hedging instrument.

The following table shows the sensitivity analysis of the change that would have occurred in the fair value of the interest hedging instrument on the CEBUR (VOLARCB19) in 2022 and 2021 as a result of a reasonably possible change in rates, keeping all other variables constant is as set forth below:

	Change in interest rate	Effect on cap*	
		(In thousands of U.S. dollars)	
2022	**+0.50%**	**US$**	**(121)**
	-0.50%		**121**
2021	+0.01%	US$	(2)
	-0.01%		2

*The effect would affect OCI in relation to the interest rate caps.

The cap start date was July 19, 2019, and the maturity date is June 20, 2024; consisting of 59 “caplets” with the same specifications as the CEBUR (VOLARCB19) coupons for reference rate determination, coupon term, and fair value.

In addition, during November 2021 the Trust entered into a cap to mitigate the risk due to interest rate increases on the CEBUR (VOLARCB21L) coupon payments. The floating rate coupons reference to TIIE 28 are limited under the cap to 10% on the reference rate for the life of the CEBUR (VOLARCB21L) and have the same amortization schedule. Thus, the cash flows of the CEBUR (VOLARCB21L) are perfectly matched by the hedging instrument.

The cap start date was November 3, 2021, and the maturity date is October 20, 2026; consisting of 59 “caplets” with the same specifications as the CEBUR (VOLARCB21L) coupons for reference rate determination, coupon term, and fair value.

The following table shows the sensitivity analysis of the change that would have occurred in the fair value of the interest hedging instrument on the CEBUR (VOLARCB21L) in 2022 and 2021 as a result of a reasonably possible change in rates, keeping all other variables constant is as set forth below:

	Change in interest rate	Effect on cap*	
		(In thousands of U.S. dollars)	
2022	**+0.50%**	**US$**	**(590)**
	-0.50%		**590**
2021	+0.01%	US$	(8)
	-0.01%		8

*The effect would affect OCI in relation to the interest rate caps.

As of December 31, 2022 and 2021, the Company's outstanding hedging contracts in the form of interest rate caps with notional amount of Ps.2.25 billion (US$116.2 million based on an exchange rate of Ps.19.36 to US$1 on December 31, 2022) and Ps.2.75 billion (US$133.6 million based on an exchange rate of Ps.20.58 to US$1 on December 31, 2021), respectively, had fair values of US$1,585 and US$1,398, respectively, and are presented as part of the financial assets in the consolidated statement of financial position. As of December 31, 2022 and 2021 the effect allocated in OCI in relation to the interest rate caps amounts to US$109 and US$365, respectively.

For the years ended December 31, 2022, 2021 and 2020 the amortization of the intrinsic value of the cap was US$161, US$69 and US$78 respectively, recycled to the statement of operations as part of the finance cost. During 2022 and 2021 there was no ineffective portion resulting from these hedging instruments.

Debt Sensitivity Analysis

The following sensitivity analysis considers the position exposed to variable interest rates.

The Interbank Equilibrium Interest Rate of the Banco de Mexico (TIIE) 28 days increased 505 bp in 2022, going from 5.72% to 10.77%. The Secured Overnight Financing Rate (SOFR) three months increased 450 bp in 2022 going from 0.09% to 4.59% SOFR one month increased 430 bp in 2022, going from 0.05% to 4.36%. In addition to the reference rate changes, if the interest rate had changed on an annual average in the magnitude shown, the impact on results would have been as shown below:

	Year ended December 31, 2022		**Year ended December 31, 2021**	
	+100 BP	**- 100 BP**	**+ 100 BP**	**- 100 BP**
	(In thousands of U.S. dollars)			
Banco Nacional de Comercio Exterior, S.N.C. ("Bancomext")	**961**	**(961)**	1,751	(1,751)
Asset backed trust notes ("CEBUR") (1)	**1,320**	**(1,320)**	867	(867)
Banco Sabadell S.A., Institución de Banca Múltiple ("Sabadell")	**49**	**(49)**	91	(91)
Banco Santander México, S.A. y Banco Nacional de Comercio Exterior, S.N.C. ("Santander-Bancomext 2022")	**96**	**(96)**	-	-
JSA International U.S. Holdings, LLC (PDP JSA)	**88**	**(88)**	-	-
GY Aviation Lease 1714 Co. Limited (PDP CDB)	**38**	**(38)**	-	-
Incline II B Shannon 18 Limited (PDP BBAM)	**224**	**(224)**	-	-
Oriental Leasing 6 Company Limited (PDP CMB)	**19**	**(19)**	-	-
Banco Actinver S.A., Institución de banca múltiple ("Actinver")	**6**	**(6)**	-	-
Total	**2,801**	**(2,801)**	2,709	(2,709)

(1) Every Trust Note (CEBUR) issuance has a 10% CAP on TIIE 28 to limit interest payments to increasing rates.

d) Liquidity risk

Liquidity risk represents the risk that the Company has insufficient funds to meet its obligations. Because of the cyclical nature of the business, the operations, and its investment and financing needs related to the acquisition of new aircraft and renewal of its fleet, the Company requires liquid funds to meet its obligations.

The Company attempts to manage its cash and cash equivalents and its financial assets, relating the term of investments with those of its obligations. Its policy is that the average term of its investments may not exceed the average term of its obligations. This cash and cash equivalents position is invested in highly liquid short-term instruments through financial entities.

The Company has future obligations related to maturities of bank borrowings, lease liabilities and derivative contracts. The Company's exposure outside consolidated statements of financial position represents the future obligations related to aircraft purchase contracts. The Company concluded that it has a low concentration of risk since it has access to alternate sources of funding.

The company has debts related to the Pre-delivery payments, which are settled with the reimbursement of the Pre-delivery payments when the sale and leaseback transaction is carried out (Note 25).

As of December 31, 2022, our cash, cash equivalents and restricted cash were US$711,853.

The table below presents the Company's contractual principal payments required on its financial liabilities and the derivative financial instruments fair value:

	December 31, 2022					
		Within one year		One to five years		Total
Interest-bearing borrowings:						
Pre-delivery payments facilities (Note 5)	**US$**	**62,209**	**US$**	**75,698**	**US$**	**137,907**
Asset backed trust note ("CEBUR") (Note 5)		**30,128**		**86,082**		**116,210**
Working Capital Facilities (Note 5)		**18,077**		**-**		**18,077**
Lease liabilities:						
Aircraft, engines, land and buildings leases		**335,620**		**2,373,103**		**2,708,723**
Aircraft and engine lease return obligation		**5,012**		**244,454**		**249,466**
Total	**US$**	**451,046**	**US$**	**2,779,337**	**US$**	**3,230,383**

	December 31, 2021					
		Within one year		One to five years		Total
Interest-bearing borrowings:						
Pre-delivery payments facilities (Note 5)	US$	171,771	US$	-	US$	171,771
Asset backed trust note ("CEBUR") (Note 5)		24,291		109,311		133,602
Lease liabilities:						
Aircraft, engines, land and buildings leases		283,843		2,128,294		2,412,137
Aircraft and engine lease return obligation		21,949		166,930		188,879
Total	US$	501,854	US$	2,404,535	US$	2,906,389

e) Credit risk

Credit risk is the risk that any counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments including derivatives.

Financial instruments that expose the Company to credit risk involve mainly cash equivalents and accounts receivable. Credit risk on cash equivalents relate to amounts invested with financial institutions.

Credit risk on accounts receivable relates primarily to amounts receivable from the international credit card companies. The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in credit cards.

The credit risk on liquid funds and derivative financial instruments is evaluated by management as limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Some of the outstanding derivative financial instruments expose the Company to credit loss in the event of non-performance by the counterparties to the agreements. However, the Company does not expect any of its counterparties to fail to meet their obligations. The amount of such credit exposure is generally the unrealized gain, if any, in such contracts.

To manage credit risk, the Company selects counterparties based on credit assessments, limits overall exposure to any single counterparty and monitors the market position with each counterparty. The Company does not purchase or hold derivative financial instruments for trading purposes.

As of December 31, 2022, the Company concluded that its credit risk related to its outstanding derivative financial instruments is low, since it has no significant concentration with any single counterparty and it only enters into derivative financial instruments with banks with investment grade assigned by international credit-rating agencies.

f) Capital management

Management believes that the resources available to the Company are enough for its present requirements and will be sufficient to meet its anticipated requirements for capital expenditures and other cash requirements for the next fiscal year. The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios to support its business and maximize the shareholder's value. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2022 and 2021. The Company is not subject to any externally imposed capital requirement, other than the legal reserve (Note 19).

As part of the management strategies related to acquisition of its aircrafts (pre-delivery payments), the Company pays the associated short-term obligations by entering into sale-leaseback agreements, whereby an aircraft is sold to a lessor upon delivery (Note 5b).

4. Fair value measurements

The only financial assets and liabilities measured at fair value after initial recognition are the derivative financial instruments. Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(i) In the principal market for the asset or liability, or
(ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is assessed using the course of thought which market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The assessment of a non-financial asset's fair value considers the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company 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.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Set out below, is a comparison by class of the carrying amounts and fair values of the Company's financial instruments, other than those for which carrying amounts are reasonable approximations of fair values:

	Carrying amount				**Fair value**			
	December 31, 2022		December 31, 2021		**December 31, 2022**		December 31, 2021	
Assets								
Derivative financial Instruments	**US$**	**1,585**	US$	1,398	**US$**	**1,585**	US$	1,398
Liabilities								
Financial debt (Interest-bearing loans and borrowings)		**(272,194)**		(305,373)		**(282,868)**		(302,876)
Derivative financial Instruments		**-**		-		-		-
Total	**US$**	**(270,609)**	US$	(303,975)	**US$**	**(281,283)**	US$	(301,478)

The following table summarizes the fair value measurements by hierarchy as of December 31, 2022:

	Fair value measurement							
	Quoted prices in active markets Level 1		Significant observable inputs Level 2		Significant unobservable inputs Level 3		Total	
Assets								
Derivatives financial instruments:								
Interest rate Caps	**US$**	**-**	**US$**	**1,585**	**US$**	**-**	**US$**	**1,585**
Liabilities								
Liabilities for which fair values are disclosed:								
Interest-bearing loans and borrowings**		**-**		**(282,868)**		**-**		**(282,868)**
Net	**US$**	**-**	**US$**	**(281,283)**	**US$**	**-**	**US$**	**(281,283)**

** SOFR curve and TIIE Mexican interbank rate. Includes short-term and long-term debt.
There were no transfers between level 1 and level 2 during the period.

The following table summarizes the fair value measurements by hierarchy as of December 31, 2021:

	Fair value measurement							
	Quoted prices in active markets Level 1		Significant observable inputs Level 2		Significant unobservable inputs Level 3		Total	
Assets								
Derivatives financial instruments:								
Interest rate Caps	US$	-	US$	1,398	US$	-	US$	1,398
Liabilities								
Liabilities for which fair values are disclosed:								
Interest-bearing loans and borrowings**		-		(302,876)		-		(302,876)
Net	US$	-	US$	(301,478)	US$	-	US$	(301,478)

** LIBOR, SOFR curve and TIIE Mexican interbank rate. Includes short-term and long-term debt.
There were no transfers between level 1 and level 2 during the period.

The following table summarizes the losses from derivatives financial instruments recognized in the consolidated statements of operations for the years ended December 31, 2022, 2021 and 2020:

Instrument	Financial statements caption	**2022**	2021	2020
Jet fuel Asian call options contracts	Fuel	**US$ -**	US$ (619)	US$ (931)
Jet fuel Zero-Cost collars contracts	Fuel	**-**	-	(38,122)
Jet fuel Asian call options contracts	Finance cost	**-**	-	(557)
Jet fuel Zero-Cost collars contracts	Finance cost	**-**	-	(18,573)
Interest rate cap	Finance cost	**(161)**	(69)	(78)
Total		**US$ (161)**	US$ (688)	US$ (58,261)

The following table summarizes the net gain (loss) on CFH before taxes recognized in the consolidated statements of comprehensive income for the years ended December 31, 2022, 2021 and 2020:

Consolidated statements of other comprehensive income (loss)

Instrument	Financial statements caption	**2022**	2021	2020
Jet fuel Asian call options contracts	OCI	**US$ -**	US$ 601	US$ (601)
Jet fuel Zero cost collars	OCI	-	484	(7,572)
Interest rate cap	OCI	**336**	(128)	(34)
Non derivative financial instruments*	OCI	-	79,076	(79,824)
Total		**US$ 336**	US$ 80,033	US$ (88,031)

*As of December 31, 2021, includes the effect of the discontinuation of the hedging strategies by US$109 million as described in note 3b (i).

5. Financial assets and liabilities

As of December 31, 2022 and 2021, the Company's financial assets measured at amortized cost are represented by cash, cash equivalents and restricted cash, trade and other accounts receivable, for which their carrying amount is a reasonable approximation of fair value.

a) Financial assets

	December 31, 2022	December 31, 2021
Derivative financial instruments designated as cash flow hedges (effective portion recognized within OCI)		
Interest rate cap	**US$ 1,585**	US$ 1,398
Total derivative financial assets	**US$ 1,585**	US$ 1,398
Presented on the consolidated statements of financial position as follows:		
Current	**US$ -**	US$ -
Non-current	**US$ 1,585**	US$ 1,398

b) Financial debt

(i) As of December 31, 2022 and 2021, the Company's short-term and long-term debt consists of the following:

		December 31, 2022	December 31, 2021
I.	Revolving line of credit with Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander ("Santander") and Banco Nacional de Comercio Exterior, S.N.C. ("Bancomext"), in U.S. dollars, to finance pre-delivery payments, maturing on October 31, 2022, bearing annual interest rate at LIBOR plus a spread of 260 basis points.	**US$ -**	US$ 171,771
II.	In June 2019 the Company issued in the Mexico market Asset backed trust notes ("CEBUR"), in Mexican pesos, maturing on June 20th, 2024 bearing annual interest rate at TIIE plus 175 basis points.	**38,737**	60,728
III.	In October 2021 the Company issued in the Mexico market a second tranche of its Asset backed trust notes ("CEBUR"), in Mexican pesos, maturing on October 20th, 2026 bearing annual interest rate at TIIE plus 200 basis points.	**77,473**	72,874
IV.	In December 2019, the Company entered into a short-term working capital facility with Banco Sabadell S. A., Institucion de Banca Multiple ("Sabadell") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a spread of 300 basis points.		
	In December 2021, the Company renewed this working capital facility, bearing annual interest rate at TIIE 28 days plus a 240 basis points.	**10,330**	-
V.	Revolving credit line with Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander ("Santander") and Banco Nacional de Comercio Exterior, S.N.C. ("Bancomext"), in U.S. dollars, to finance pre-delivery payments, maturing on June 8, 2027, bearing annual interest rate at the three-month SOFR plus a spread of 298 basis points.	**38,635**	-
VI.	Pre-delivery payments financing with JSA International U.S. Holdings, LLC, with maturity on November 30, 2025, bearing annual interest SOFR plus a spread of 300 basis points.	**27,962**	-
VII.	Pre-delivery payments financing with GY Aviation Lease 1714 Co. Limited, with maturity on November 30, 2025, bearing annual interest SOFR plus a spread of 425 basis points.	**15,880**	-
VIII.	Pre-delivery payments financing with Incline II B Shannon 18 Limited, with maturity on May 31, 2025, bearing annual interest SOFR plus a spread of 390 basis points.	**48,048**	-
IX.	Pre-delivery payments financing with Oriental Leasing 6 Company Limited, with maturity on May 31, 2026, bearing annual interest of SOFR plus a spread of 200 basis points.	**7,382**	-
X.	The company acquired a short-term working capital facility with Banco Actinver S.A, Institución de banca multiple ("Actinver") with national currency, bearing annual interest rate at TIIE plus 250 basis points.	**7,747**	-
XI.	Transaction costs to be amortized	**(1,034)**	(1,526)
XII.	Accrued interest and other financial cost	**1,875**	1,090
		273,035	304,937
	Less: Short-term maturities	**112,148**	196,898
	Long-term Financial debt	**US$ 160,887**	US$ 108,039

TIIE: Mexican interbank rate
LIBOR: London Inter Bank Offered Rate
SOFR: Secured Overnight Financing Rate

(ii) The following table provides a summary of the Company's scheduled remaining principal payments of financial debt and projected interest on December 31, 2022:

	Within one year	January 2024-December2024	January 2025-December 2025	January 2026-onwards	Total
Santander/Bancomext [1]	US$ 12,364	US$ 18,030	US$ 8,655	US$ -	US$ 39,049
Banco Sabadell S.A.	10,421	-	-	-	10,421
CEBUR program[2]	30,577	38,738	25,824	21,520	116,659
JSA International U.S. Holdings, LLCA	25,272	3,159	-	-	28,431
GY Aviation Lease 1714 Co. Limited	-	15,880	-	-	15,880
Incline II B Shannon 18 Limited	25,788	22,592	-	-	48,380
Oriental Leasing 6 Company Limited	76	-	7,382	-	7,458
Actinver	7,791	-	-	-	7,791
Financial debt	**112,289**	**98,399**	**41,861**	**21,520**	**274,069**
Projected interest	**22,242**	**9,428**	**4,312**	**1,033**	**37,015**
Total	**US$ 134,531**	**US$ 107,827**	**US$ 46,173**	**US$ 22,553**	**US$ 311,084**

(1) Revolving line of credit with Banco Santander S.A. and Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo contracted on June 8, 2022.

(2) Every Trust Note (CEBUR) issuance has a 10% CAP on TIIE 28 to limit interest payments to increasing rates.

iii) Since 2011, the Company has financed the pre-delivery payments with Santander/Bancomext for the acquisition of its aircraft through a revolving financing facility.

The "Santander/Bancomext 2018" loan agreement provides for certain covenants, including limits to the ability to, among others:

i) Incur debt above a specified debt basket unless certain financial ratios are met.
ii) Create liens.
iii) Merge with or acquire any other entity without the previous authorization of the Banks.
iv) Dispose of certain assets.
v) Declare and pay dividends or make any distribution on the Company's share capital unless certain financial ratios (that the long-term adjusted net debt is less than or equal to 6.5 (six point five) times the EBITDAR, which on any determination date) are met.

As of December 31, 2022 the Company paid the dispositions made during the year, therefore, it does not have a balance pending settlement. As of December 31, 2021 the Company was in compliance with the covenants under the above-mentioned loan agreement.

For purposes of financing the pre-delivery payments, Mexican trusts were created whereby, the Company assigned its rights and obligations under the Airbus Purchase Agreement with Airbus S.A.S. ("Airbus"), including its obligation to make pre-delivery payments to the Mexican trusts, and the Company guaranteed the obligations of the Mexican trusts under the financing agreement (CIBanco, S.A., Institución de Banca Múltiple, Fidecomiso (previously Deutsche Bank México, S.A. Fideicomisos 1710 and 1711)).

On June 8, 2022 the Company entered into a new pre-delivery payment financing with Santander/Bancomext for the acquisition of its aircraft through a revolving facility.

The "Santander/Bancomext 2022" loan agreement provides for certain covenants, including limits to the ability to, among others:

i) Incur debt above a specified debt basket unless certain financial ratios are met.
ii) Create liens.
iii) Merge with or acquire any other entity without the previous authorization of the Banks.
iv) Dispose of certain assets.
v) Declare and pay dividends or make distributions on the Company's share capital, except for distributions that do not exceed fifteen percent (15%) of the profit before taxes.

As of December 31, 2022, the Company was in compliance with the covenants under the above-mentioned loan agreement.

As of December 31, 2022, the outstanding balance of the financial debt related to finance pre-delivery payments of aircraft amounts to US$137,907, the company covers this obligation through the sale and the collection made by the transaction denominated as sale and leaseback at the time of delivery, therefore, it does not represent a disbursement that directly impacts the company's working capital.

As of December 31, 2022, the Company has signed credit lines totaling US$859,098 of which US$701,220 were related to financial debt (US$390,289 were undrawn) and US$157,878 were related to letters of credit (US$16,129 were undrawn). As of December 31, 2021, the Company had signed credit lines totaling US$483,379 of which US$338,501 were related to financial debt (US$9,717 were undrawn) and US$144,878 were related to letters of credit (US$23,159 were undrawn).

For purposes of financing the pre-delivery payments, a Mexican trust was created whereby, the Company assigned its rights and obligations under the Airbus Purchase Agreement with Airbus S.A.S. ("Airbus"), including its obligation to make pre-delivery payments to the Mexican trust, and the Company guaranteed the obligations of the Mexican trusts under the financing agreement (CIBanco, S.A. Institución de Banca Múltiple, Fidecomiso) Trust 3853.

The Company signed in May of 2022 three new pre-delivery payments financing with lessors for the acquisition of its aircraft. For this purpose, a Mexican trust was created for each contract with (CIBanco, S.A. Institución de Banca Múltiple), for JSA International U.S. Holdings, LLC signed the Trust 3866, for GY Aviation Lease 1714 Co. Limited signed the Trust 3855, and for Incline II B Shannon 18 Limited signed the Trust 3867. These facilities do not include covenants or restrictions.

The Company signed a new pre-delivery payment financing with lessors for the acquisition of seven aircraft distributed between Oriental Leasing 6 Company Limited, Oriental Leasing 26 Company Limited and Oriental Leasing 36 Company Limited. For this purpose, the Mexican Trust 3921 was created with CI Banco, S.A. Institución de Banca Múltiple. This facility does not include covenants or restrictions.

On June 20, 2019, the Company, through its subsidiary Concesionaria issued 15,000,000 asset backed trust notes ("CEBUR") under the ticket VOLARCB 19 for Ps.1.5 billion Mexican pesos (US$ 77.5 million as of December 31, 2022 based on an exchange rate of Ps.19.36 to US$1) through the Fideicomiso Irrevocable de Administración número CIB/3249 created by Concesionaria. The issuance amount is part of a program approved by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) for an amount of up to Ps.3.0 billion Mexican pesos (US$155.0 million as of December 31, 2022 based on an exchange rate of Ps.19.36 to US$1).

The notes have a five-year maturity annual reduction of Ps.250,000, Ps.500,000, Ps.500,000 and Ps.250,000 (US$ 12.9 million, US$25.8 million, US$25.8 million and US$12.9 million as of December 31, 2022 based on an exchange rate of Ps.19.36 to US$1), in 2021, 2022, 2023 and 2024, respectively, with a floating one-month coupon rate referenced to TIIE 28 plus with a 175 basis point spread. The notes start amortizing at the end of the second year.

On October 13, 2021, the Company, through its subsidiary Concesionaria issued in the Mexico market a second issuance of 15,000,000 asset backed trust notes ("CEBUR") under the ticket VOLARCB21L for Ps.1.5 billion Mexican pesos (US$ 77.5 million as of December 31,2022 based on an exchange rate of Ps.19.36 to US$1) through the Fideicomiso Irrevocable de Administración número CIB/3249 created by Concesionaria. The issuance amount is part of a program approved by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) for an amount of up to Ps.3.0 billion Mexican pesos (US$ 155.0 million as of December 31, 2022 based on an exchange rate of Ps.19.36 to US$1). With this second issuance the total amount approved for the program has been reached.

The Trust Notes under the ticket VOLARCB21L comply with the Sustainability-Linked Bond Principles 2020, administered by the International Capital Market Association (ICMA). Which has Sustainability Objectives (SPT) for the KPI, to reduce carbon dioxide emissions measured as grams of CO2 emissions per revenue passenger/kilometer (gCO2 / RPK) by 21.54%, 24.08% and 25.53% by 2022, 2023 and 2024, respectively, compared to 2015. This offering will help the Company to accomplish its long-term sustainable goals, among which are to reduce CO2 emissions by 35.42% by 2030.

A feature of the asset backed trust notes is that they will pay an additional twenty-five (25) basis points to the interest rate if the sustainability goals are not met, with the possibility of mitigating the additional rate if the 2023 or 2024 targets are met.

The notes have a five - year maturity annual reductions of Ps.83,333, Ps.500,000, Ps.500,000 and Ps.416,667 (US$ 4.3 million, US$25.8 million, US$,25.8 million and US$21.5 million as of December 31, 2023, 2024, 2025 and 2026, respectively, based on an exchange rate of Ps.19.36 to US$1 as of December 31,2022) with a floating one-month coupon rate referenced to TIIE 28 plus with a 200 basis point spread. The notes start amortizing at the end of the second year.

The asset backed trust note's structure operate on specific rules and provide a DSCR "Debt Service Coverage Ratio" which is computed by comparing the Mexican Peso collections over the previous six months to the next 6 months of debt service. In general, no retention of funds exists if the ratio exceeds 2.5 times. Amortization on the asset backed trust notes began in July of 2021 for the first issuance and the second issuance will begin in November of 2023. In addition, early amortization applies if:

i) The Debt Coverage Ratio is less than 1.75x on any of the determination dates;
ii) An event of retention is not covered in a period of 90 consecutive days;
iii) The debt service reserve account of any series maintains on deposit an amount less than the required balance of the debt service reserve account for a period that includes two or more consecutive payment methods;
iv) Insolvency event of Concesionaria;
v) The update of a new insolvency event in relation to the Concesionaria;
vi) Updating a new event of default.

In the event of default, the Trustee will refrain from delivering any amount that it would otherwise be to require to deliver to Concesionaria and will dedicate use such cash flow to amortize the principal of the trust notes ("CEBUR").

As of December 31, 2022, the Company was in compliance with the conditions of the asset backed trusted notes.

In December 2019, the Company entered into a short-term working capital facility with Banco Sabadell S.A., Institución de Banca Multiple ("Sabadell") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a 300 basis points. In December 2021, the Company renewed this working capital facility, bearing annual interest rate at TIIE 28 days plus a 240 basis points. As of December 31, 2022, the Company has completely withdrawn the available amounts of this facility.

The "Sabadell" working capital facility has the following covenant:

i) Joint obligor (Concesionaria) must represent 85% of EBITDA of the holding.

As of December 31, 2022, the Company was not in compliance with the covenant of Sabadell loan agreement. The Company settled this short-term loan on January 5, 2023, as such any potential effects of the non-compliance were solved with the payment. The non-compliance did not trigger any cross-default provisions in other debt instruments or any lease agreement of the Company.

In December 2022, the Company renewed the working capital facility with Banco Actinver S.A., Institución de Banca Múltiple ("Actinver") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a 250 basis points. As of December 31, 2022, the Company has completely withdrawn the available amounts of the facility.

The "Actinver" working capital facility does not include obligations or restrictions.

At December 31, 2021, the Company was in compliance with the covenants under the terms of the working capital facilities.

Changes in liabilities arising from financing activities

For the years ended December 31, 2022 and 2021 the changes in liabilities from financing activities from the Company are summarized in the following table:

	January 1, 2022	**Net cash Flows**	**Accrued* Interest**	**Foreign exchange movement**	**Current vs non-current reclassification**	**Other**	**Conversion effects**	**December 31, 2022**
Current interest-bearing loans and borrowings	**US$ 196,898**	**US$ (152,984)**	**US$ 761**	**US$ 739**	**US$ 65,063**	**US$ 124**	**US$ 1,547**	**US$ 112,148**
Non-current interest - bearing loans and borrowings	**108,039**	**111,776**	**-**	**-**	**(65,063)**	**442**	**5,693**	**160,887**
Total liabilities from financing activities	**US$ 304,937**	**US$ (41,208)**	**US$ 761**	**US$ 739**	**US$ -**	**US$ 566**	**US$ 7,240**	**US$ 273,035**

	January 1, 2021	Net cash Flows	Accrued* Interest	Foreign exchange movement	Current vs non-current reclassification	Other	Conversion effects	December 31, 2021
Current interest-bearing loans and borrowings	US$ 78,145	US$ (60,322)	US$ 142	US$ 3,794	US$ 179,355	US$ -	US$ (4,216)	US$ 196,898
Non-current interest - bearing loans and borrowings	190,276	99,759	-	1,734	(179,355)	356	(4,731)	108,039
Total liabilities from financing activities	US$ 268,421	US$ 39,437	US$ 142	US$ 5,528	US$ -	US$ 356	US$ (8,947)	US$ 304,937

* This balance is net of interest provisions and interest effectively paid as of December 31, 2022 and 2021, respectively.

6. Cash, cash equivalents and restricted cash

As of December 31, 2022 and 2021 this caption is comprised as follow:

		2022		2021
Cash in banks	**US$**	**77,224**	US$	463,666
Cash on hand		**425**		266
Short-term investments		**627,331**		270,028
Restricted funds held in trust related to debt service reserves		**6,873**		7,162
Total cash, cash equivalents and restricted cash	**US$**	**711,853**	US$	741,122

As of December 31, 2022 and 2021, the Company recorded a portion of advance ticket sales by an amount of US$6,873 and US$7,162, respectively, as a restricted fund (Note 1e). The restricted funds held in Trusts are used to constitute the debt service reserves and cannot be used for purposes other than those established in the contracts of the Trusts.

7. Related parties

a) An analysis of balances due from/to related parties at December 31, 2022 and 2021 is provided below.

All companies are considered affiliates, since the Company's primary shareholders or directors are also direct or indirect shareholders of the related parties:

	Type of transaction	**Country of origin**		**2022**		**2021**	**Terms**
Due from:							
Frontier Airlines Inc. ("Frontier")	Code-share	USA	**US$**	**2,155**	US$	4,662	30 days
Due to:							
Grupo Aeroportuario del Centro Norte, S.A.B. de C.V. ("OMA")	Airport Services	Mexico	**US$**	**13,579**	US$	9,687	30 days
Chevez, Ruiz, Zamarripa y Cía., S.C.	Professional fees	Mexico		**815**		455	30 days
A&P International Services, S.A.P.I de C.V. ("AISG")	Aircraft maintenance	Mexico		**191**		-	30 days
Mijares, Angoitia, Cortés y Fuentes, S.C.	Professional fees	Mexico		**22**		-	30 days
Frontier Airlines Inc. ("Frontier")	Code-share	USA		**2**		2	30 days
MRO Commercial, S.A. ("MRO")	Aircraft maintenance and technical support	El Salvador		**1**		-	30 days
Aeromantenimiento, S.A. ("Aeroman")	Aircraft maintenance and technical support	El Salvador		**-**		403	30 days
			US$	**14,610**	US$	10,547	

b) During the years ended December 31, 2022, 2021 and 2020, the Company had the following transactions with related parties:

Related party transactions	**Country of origin**		**2022**		2021		2020
Revenues:							
Transactions with affiliates							
Frontier Airlines Inc ("Frontier")							
Code-share	USA	**US$**	**5**	US$	3,547	US$	7,385
Expenses:							
Transactions with affiliates							
MRO Commercial, S.A.							
Aircraft maintenance *	El Salvador	**US$**	**- 11,097**	US$	-	US$	-
Grupo Aeroportuario del Centro Norte, S.A.B. de C.V. ("OMA")							
Airport services	Mexico		**9,792**		6,607		1,486
Aeromantenimiento, S.A.							
Aircraft maintenance	El Salvador		**3,690**		7,964		11,556
Technical support	El Salvador		**170**		143		187
Chevez, Ruiz, Zamarripa y Cía, S.C.							
Professional fees	Mexico		**923**		238		224
A&P International Services, S.A.P.I de C.V. ("AISG")							
Aircraft maintenance	Mexico		**914**		-		-
Servprot, S.A. de C.V.							
Security services	Mexico		**207**		175		161
Mijares, Angoitia, Cortés y Fuentes, S.C.							
Professional fees	Mexico		**196**		214		260
Onelink, S.A. de C.V.							
Call center fees	Mexico/El Salvador		**-**		-		3,634

*Includes amounts as part of major maintenance.

c) Frontier Airlines Inc. ("Frontier")

Frontier is a related party because Mr. William A. Franke and Brian H. Franke are members of the board of the Company and Frontier as well as Indigo Partners, the latest has investments in both companies. As of December 31, 2022 and 2021, the accounts receivable from Frontier were US$2,155 and US$4,662, respectively. Additionally, as of December 31, 2022 and 2021, the account payable was US$2 and US$2, respectively.

During the years ended December 31, 2022, 2021 and 2020 the Company recognized revenue under this agreement of US$5, US$3,547 and US$7,385, respectively.

Frontier started having transactions with the Company in August 2018. As of December 31, 2022 and 2021, there have not been guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2022 and 2021, no provision for expected credit losses has been recognized, due to the Company considers the credit risk is minimal, and these balances are current accounts.

d) Servprot S.A. de C.V. ("Servprot")

Servprot is a related party because Enrique Beltranena Mejicano, the Company's Chief Executive Officer and director is shareholder of such company. Servprot provides security services for Mr. Beltranena and his family. As of December 31, 2022 and 2021 there are not outstanding balances due to Servprot under this agreement.

During the years ended December 31, 2022, 2021 and 2020 the Company expensed US$207, US$175 and US$161, respectively for this concept.

e) Aeromantenimiento, S.A. ("Aeroman")

Aeroman is a related party, because Marco Baldocchi a member of the board of the Company's board of directors is an alternate director of Aeroman. On January 1, 2017, the Company entered into an aircraft maintenance and repair services agreement with Aeroman, which was extended and amended to be entered into with MRO Commercial, S.A. ("MRO"), an affiliate of Aeroman on January 1 st, 2022. This agreement provides for the exclusive use of Aeroman´s services for the repair and maintenance of aircraft, subject to availability. Under this agreement, Aeroman provides inspection, maintenance, repair and overhaul services for aircraft. The Company makes payments under this agreement depending on the services performed. This agreement is for a 5-year term, extended for an additional 5-year period from January 1st, 2022.

As of December 31, 2022 there are not outstanding balance due to Aeroman under this agreement. As of December 31, 2021, the balance due under the agreement to Aeroman were US$403. The Company incurred expenses in aircraft maintenance and technical support with Aeroman amounted to US$3,860, US$8,107 and US$11,743 for the years ended December 31, 2022, 2021 and 2020, respectively.

As of December 31, 2022, the balance due under the agreement with MRO were US$1. During the year ended December 2022, the Company incurred expenses in aircraft with MRO amounted to US$11,097.

f) Onelink, S.A. de C.V. (“Onelink”)

Onelink was a related party until December 31, 2017, because Marco Baldocchi, a member of the board, was a director of Onelink. From October 24, 2019 until June 30, 2020 Onelink Holdings, S.A. (“Onelink Holdings”) and its subsidiary Onelink were related parties, because Mr. Rodrigo Antonio Escobar Nottebohm, a former alternate board member of Onelink Holdings, became an alternate Director of the Company. Pursuant to this agreement, Onelink provides “*Agencia Mercantil*” services to the Company. As of December 31, 2022 and 2021, the Company did not recognize any outstanding balances, from Onelink as related party transaction.

During the years ended December 31, 2022 and 2021, the Company did not recognize any revenue and expense transactions as a related party. During the year ended December 31, 2020, the Company recognized an expense under this agreement of US$3,634.

g) Mijares, Angoitia, Cortés y Fuentes, S.C. (“MACF”)

MACF is a related party because Ricardo Maldonado Yañez and Eugenio Macouzet de León, member and alternate member, respectively, of the board of the Company since April 2018, are partners of MACF which provides legal services to us. As of December 31, 2022, the balance due for the services received from MACF were US$22. As of December 31, 2021, the Company did not have outstanding balance due to MACF.

During the years ended December 31, 2022, 2021 and 2020, the Company recognized expenses of legal services with this related party of US$196, US$214 and US$260, respectively.

h) Grupo Aeroportuario del Centro Norte, S.A.B. de C.V. (“OMA”)

On April 22, 2020, OMA became a related party because Mr. Ricardo Maldonado Yañez is an independent member of our board of directors and a member of the board of directors of OMA and Mrs. Guadalupe Phillips Margain, our independent member, was a member of the board of directors of OMA until November 2022. As of December 31, 2022 and 2021 the account payable with OMA was US$13,579 and US$9,687, respectively.

During the years ended December 31, 2022, 2021 and 2020, the Company recognized expenses with OMA of US$9,792, US$6,607 and US$1,486, respectively.

i) Chevez, Ruiz, Zamarripa y Cia, S.C. (“Chevez”)

Chevez is a related party because Mr. José Luis Fernández Fernández is an independent member of the board of directors, as well as the chairman of the Audit and Corporate Governance Committee of the Company and non-managing partner of Chevez. Chevez provides tax advisory services to the Company. As of December 31, 2022 and 2021, the account payable with Chevez was US$815 and US$455, respectively.

During the years ended December 31, 2022, 2021 and 2020, the Company recognized expenses with Chevez of US$923, US$238 and US$224, respectively.

j) A&P International Services, S.A.P.I. de C.V. (“AISG”)

On July 4, 2022, AISG became a related party since Harry F. Krensky, a member of our Board of Directors, is the Chairman of the Board of Directors of AISG. Additionally, Harry F. Krensky is managing partner of Discovery Americas, a private equity firm that indirectly holds/manages an investment position in AISG. As of December 31, 2022 the account payable from AISG was US$191.

During the year ended December 31, 2022, the Company recognized expenses with AISG of US$914.

k) Directors and officers

During the year ended December 31, 2022, the chairman and the independent members of the Company's board of directors received a net compensation of US$561 and the rest of the directors received a net compensation of US$177. During the years ended December 31, 2021 and 2020, the chairman and the independent members of the Company's board of directors received a net compensation of US$622 and US$257, respectively, and the rest of the directors received a net compensation of US$179 and US$165, respectively.

During the years ended December 31, 2022, 2021 and 2020, all the Company's senior managers received an aggregate compensation of short and long-term benefits of US$17,630, US$18,829 and US$11,913, respectively: these amounts were recognized in salaries and benefits in the consolidated statement of operations.

During the years ended December 31, 2022, 2021 and 2020 the cost of the share-based payments MIP transactions was US$5,074, US$4,410 and US$3,519, respectively. The (benefit) cost of the cash-settled payments transactions MIP II and SARs was US$(4,365), US$(2,984) and US$5,362, respectively (Note 18).

The Company has a short-term benefit plan to certain personnel whereby cash bonuses are awarded for meeting certain Company's performance targets. As of December 31, 2022 and 2021 the Company recorded a provision in the amount of US$7,027 and US$7,602, respectively. In relation with this cash bonuses, during the years ended December 31, 2022, 2021 and 2020 the Company recorded an expense for an amount of US$6,893, US$7,602 and US$0, respectively, under the caption salaries and benefits.

8. Other accounts receivable, net

An analysis of other accounts receivable as of December 31, 2022 and 2021, is detailed below:

		2022		2021
Current:				
Credit cards	**US$**	**43,942**	US$	36,924
Benefits from suppliers		**11,491**		516
Affinity credit card		**9,432**		-
Other accounts receivable		**4,448**		1,636
Cargo clients		**4,291**		2,516
Travel agencies and insurance commissions		**3,731**		1,645
Other points of sales		**1,968**		6,848
Airport services		**287**		-
Employees		**68**		760
Marketing services receivable		-		34
		79,658		50,879
Allowance for expected credit losses		**(809)**		(615)
	US$	**78,849**	US$	50,264

Accounts receivable have the following aging:

Days		2022 Impaired		2022 Not impaired		Total 2022		2021 Impaired		2021 Not impaired		Total 2021
0–30	**US$**	**622**	**US$**	**68,356**	**US$**	**68,978**	US$	502	US$	47,432	US$	47,934
31–60		**-**		**1,580**		**1,580**		-		1,332		1,332
61–90		**-**		**4,865**		**4,865**		-		410		410
91-120		**187**		**4,048**		**4,235**		113		1,090		1,203
	US$	**809**	**US$**	**78,849**	**US$**	**79,658**	US$	615	US$	50,264	US$	50,879

The movement in the allowance for expected credit losses from January 1, 2021 to December 31, 2022 is as follows:

Balance as of January 1st, 2021	US$	(1,640)
Write-offs		1,783
Increase in allowance		(795)
Foreign currency translation effect		37
Balance as of December 31, 2021		(615)
Write-offs		**1,478**
Increase in allowance		**(1,672)**
Balance as of December 31, 2022	**US$**	**(809)**

The allowance for expected credit losses on accounts receivables is established in accordance with the information mentioned in Note 1f) ii).

9. Inventories

An analysis of inventories as of December 31, 2022 and 2021 is as follows:

		2022		2021
Spare parts and accessories of flight equipment	**US$**	**15,758**	US$	14,397
	US$	**15,758**	US$	14,397

The inventory items are consumed during or used mainly in delivery of in-flight services and for maintenance services by the Company and are valued at the lower of cost or replacement value. The Company recognizes the necessary estimates for decreases in the value of its inventories due to impairment, obsolescence, slow movement and causes that indicate that the use or realization of the aircraft spare parts and flight equipment accessories that are part of the inventory will be less than recorded value. For the years ended December 31, 2022, 2021, and 2020, the Company did not record any impairment loss in the value of its inventories. During the years ended as of December 31, 2022, 2021 and 2020, the amount of consumption of inventories, recorded as an operating expense as part of maintenance expense was US$17,825, US$15,406 and US$10,922, respectively.

10. Prepaid expenses and other current assets

An analysis of prepaid expenses and other current assets at December 31, 2022 and 2021 is as follows:

		2022		**2021**
Sales commission to travel agencies (Note 1d)	**US$**	**9,037**	US$	9,233
Other prepaid expenses		**8,371**		10,440
Advances to suppliers		**6,446**		8,542
Prepaid insurance		**5,816**		4,150
Flight credits		**3,519**		6,022
	US$	**33,189**	US$	38,387

11. Guarantee deposits

An analysis of this caption as of December 31, 2022 and 2021 is as follows:

		2022		**2021**
Current asset:				
Credit letters deposits	**US$**	**44,609**	US$	54,767
Aircraft maintenance deposits paid to lessors (Note 1k)		**16,767**		21,127
Deposits for rental of flight equipment		**1,583**		1,687
Other guarantee deposits		**1,398**		1,409
		64,357		78,990
Non-current asset:				
Aircraft maintenance deposits paid to lessors (Note 1k)		**424,347**		404,237
Deposits for rental of flight equipment		**56,049**		50,007
Other guarantee deposits		**3,482**		1,128
		483,878		455,372
	US$	**548,235**	US$	534,362

12. Rotable spare parts, furniture and equipment, net

	Gross value		Accumulated depreciation		Net carrying value	
	At December 31, 2022	At December 31, 2021	**At December 31,2022**	At December 31, 2021	**At December 31, 2022**	At December 31, 2021
Leasehold improvements to flight equipment	**US$ 421,130**	US$ 258,878	**US$ (215,238)**	US$ (131,017)	**US$ 205,892**	US$ 127,861
Pre-delivery payments*	**185,455**	253,826	**-**	-	**185,455**	253,826
Flight equipment	**110,959**	106,575	**(58,792)**	(64,661)	**52,167**	41,914
Construction and improvements in process	**31,900**	26,522	**-**	-	**31,900**	26,522
Constructions and improvements	**7,564**	7,457	**(6,818)**	(6,211)	**746**	1,246
Office furniture and equipment	**2,997**	2,933	**(1,903)**	(1,681)	**1,094**	1,252
Computer equipment	**1,409**	1,400	**(1,297)**	(1,200)	**112**	200
Workshop machinery and equipment	**1,131**	1,101	**(489)**	(400)	**642**	701
Communications equipment	**582**	585	**(397)**	(362)	**185**	223
Motorized transport equipment platform	**565**	561	**(315)**	(163)	**250**	398
Electric power equipment	**530**	535	**(295)**	(246)	**235**	289
Service carts on board	**452**	448	**(368)**	(334)	**84**	114
Workshop tools	**429**	421	**(420)**	(365)	**9**	56
Total	**US$ 765,103**	US$ 661,242	**US$ (286,332)**	US$ (206,640)	**US$ 478,771**	US$ 454,602

**During the years ended December 31,2022, 2021 and 2020, the Company capitalized borrowing costs of US$7,915, US$7,098 and US$17,872, respectively. The amount of this line is net of disposals of capitalized borrowing costs related to sale and leaseback transactions of US$21,591,US$4,155 and US$18,701, respectively.*

	Flight equipment	Constructions and improvements	Computer equipment	Office furniture and equipment	Electric power equipment	Workshop Tools	Motorized transport equipment platform	Communications equipment	Workshop machinery and equipment	Service carts on board	Allowance for obsolescence	Pre-delivery payments	Construction and improvements in process	Leasehold improvements to flight equipment	Total
Net balance as of January 1, 2021	US$ 23,356	US$ 1,354	US$ 392	US$ 1,590	US$ 385	US$ 167	US$ 367	US$ 289	US$ 648	US$ 156	US$ (150)	US$ 246,639	US$ 2,684	US$ 87,117	US$ 364,994
Additions	25,503	-	72	3	96	84	236	-	206	-	-	55,749	26,982	86,563	195,494
Disposals and transfers	(137)	(1)	(3)	(171)	(123)	(14)	(250)	(29)	(43)	-	148	(43,678)	(1,385)	-	(45,686)
Borrowing costs, net*	-	-	-	-	-	-	-	-	-	-	-	2,943	-	-	2,943
Other movements	-	735	26	148	-	-	176	21	6	-	-	-	(1,318)	213	7
Conversion effects	(1,018)	(42)	(10)	(44)	(7)	(3)	(16)	(8)	(21)	(4)	2	(7,827)	(441)	(3,414)	(12,853)
Depreciation	(5,790)	(800)	(277)	(274)	(62)	(178)	(115)	(50)	(95)	(38)	-	-	-	(42,618)	(50,297)
As of December 31, 2021	41,914	1,246	200	1,252	289	56	398	223	701	114	-	253,826	26,522	127,861	454,602
Cost	106,575	7,457	1,400	2,933	535	421	561	585	1,101	448	-	253,826	26,522	258,878	661,242
Accumulated depreciation	(64,661)	(6,211)	(1,200)	(1,681)	(246)	(365)	(163)	(362)	(400)	(334)	-	-	-	(131,017)	(206,640)
Net balance as of December 31, 2021	41,914	1,246	200	1,252	289	56	398	223	701	114	-	253,826	26,522	127,861	454,602
Additions	**17,091**	**-**	**8**	**9**	**4**	**8**	**-**	**-**	**47**	**7**	**-**	**166,571**	**33,838**	**138,811**	**356,394**
Disposals and transfers	**(1,656)**	**-**	**-**	**(2)**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**(221,253)**	**(4,838)**	**-**	**(227,750)**
Borrowing costs, net*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13,676)**	**-**	**-**	**(13,676)**
Other movements	**-**	**107**	**(1)**	**67**	**(7)**	**-**	**7**	**1**	**4**	**-**	**-**	**(13)**	**(23,622)**	**23,448**	**(9)**
Depreciation	**(5,182)**	**(607)**	**(95)**	**(232)**	**(51)**	**(55)**	**(155)**	**(38)**	**(110)**	**(37)**	**-**	**-**	**-**	**(84,228)**	**(90,790)**
As of December 31, 2022	**52,167**	**746**	**112**	**1,094**	**235**	**9**	**250**	**185**	**642**	**84**	**-**	**185,455**	**31,900**	**205,892**	**478,771**
Cost	**110,959**	**7,564**	**1,409**	**2,997**	**530**	**429**	**565**	**582**	**1,131**	**452**	**-**	**185,455**	**31,900**	**421,130**	**765,103**
Accumulated depreciation	**(58,792)**	**(6,818)**	**(1,297)**	**(1,903)**	**(295)**	**(420)**	**(315)**	**(397)**	**(489)**	**(368)**	**-**	**-**	**-**	**(215,238)**	**(286,332)**
Net balance as of December 31, 2022	**US$ 52,167**	**US$ 746**	**US$ 112**	**US$ 1,094**	**US$ 235**	**US$ 9**	**US$ 250**	**US$ 185**	**US$ 642**	**US$ 84**	**US$ -**	**US$ 185,455**	**US$ 31,900**	**US$ 205,892**	**US$ 478,771**

a) During 2022 and 2021 the Company acquired two and two NEO spare engines, respectively (based on the terms of the Pratt & Whitney purchase agreement FMP), which were accounted for at cost for at total amount of US$20,120 and US$19,082, respectively. The Company identified the major components as separate parts at their respective cost. These major components of the engine are presented as part of the flight equipment and depreciated over their useful life.

b) During the years ended December 31, 2022 and 2021, the Company capitalized borrowing costs which amounted to US$7,915 and US$7,098, respectively (Note 23). The Company capitalizes the actual borrowing costs of the borrowings directly attributable to the acquisitions. For the years ended December 31, 2022 and 2021, the weighted rate of the direct borrowings used to determine the amount of borrowing costs was 5.34% and 2.76%, respectively.

c) Depreciation expense for the years ended December 31, 2022, 2021 and 2020, was US$90,790, US$50,297 and US$37,383, respectively. Depreciation charges for the year are recognized as a component of operating expenses in the consolidated statements of operations.

d) In October 2005 and December 2006, the Company entered into purchase agreements with Airbus and International Aero Engines AG ("IAE") for the purchase of aircraft and engines, respectively. Under such agreements and prior to the delivery of each aircraft and engine, the Company agreed to make pre-delivery payments, which were calculated based on the reference price of each aircraft and engine, and following a formula established for such purpose in the agreements.

In 2011, the Company amended the agreement with Airbus for the purchase of 44 A320 family aircraft to be delivered from 2015 to 2020. The order included 14 A320CEO ("Current Engine Option Aircraft") and 30 A320NEO. Additionally, during December 2017, the Company amended the agreement with Airbus for the purchase of 80 A320 family aircraft to be delivered from 2022 to 2026. The order includes 46 A320NEO and 34 A321NEO. Under such agreement and prior to the delivery of each aircraft, the Company agreed to make pre-delivery payments, which shall be calculated based on the reference price of each aircraft, and following a formula established for such purpose in the agreement.

In November 2018, the Company amended the agreement with Airbus to reschedule the remaining 26 fleet deliveries between 2019 and 2022. Also, in this amendment the Company used its rights on the Airbus Purchase Agreement to convert six A320NEO into A321NEO. In July 2020, the Company amended the agreement with Airbus to reschedule the 80 aircraft deliveries between 2023 and 2028. In October 2020, the Company amended the agreement with Airbus to reschedule the remaining 18 fleet deliveries between 2020 and 2022.

In 2021, the Company amended the agreement with Airbus for the purchase of 39 A320 family aircraft to be delivered from 2023 to 2029. The order includes only A321NEO aircraft. Under such agreement and prior to the delivery of each aircraft, the Company agreed to make pre-delivery payments, which shall be calculated based on the reference price of each aircraft, and following a formula established for such purpose in the agreement. Also, in this agreement the Company used its rights on the Airbus Purchase Agreement to convert twenty A320NEO into A321NEO.

In 2022, the Company amended the agreement with Airbus for the purchase of 25 A320 family aircraft to be delivered in 2030. The order includes only A321NEO aircraft. Under such agreement and prior to the delivery of each aircraft, the Company agreed to make pre-delivery payments, which shall be calculated based on the reference price of each aircraft, and following a formula established for such purpose in the agreement.

On August 16, 2013, the Company entered into certain agreements with IAE and United Technologies Corporation Pratt & Whitney Division ("P&W"), which included the purchase of the engines for 14 A320CEO and 30 A320NEO respectively, to be delivered between 2014 and 2022. This agreement also included the purchase of one spare engine for the A320CEO fleet (which was received during the fourth quarter of 2016) and six spare engines for the A320NEO fleet to be received from 2017 to 2022. In November 2015, the Company amended the agreement with the engine supplier to provide major maintenance services for the engines of sixteen aircrafts (10 A320NEO and 6 A321NEO). This agreement also includes the purchase of three spare engines, two of them for the A320NEO fleet, and one for the A321NEO fleet. In April 2021, the Company amended the agreement with the engine supplier to provide major maintenance services for the engines of two aircrafts A320NEO.

On May 12, 2020, the Company entered into certain agreements with IAE, which included the purchase of the engines for 46 A320NEO and 34 A321NEO respectively, to be delivered between 2022 and 2028. This agreement also included the purchase of eleven firm spare engines for the A320NEO fleet to be received from 2022 to 2029.

In October 2021, the Company amended the agreement with the engine supplier to provide major maintenance services for the engines of thirteen aircrafts (all A320NEO). This agreement also includes the purchase of one spare engine for the A320NEO fleet.

The Company received credit notes from P&W in December 2017 of US$3.1 million, which are being amortized on a straight-line basis, prospectively during the term of the agreement. As of December 31, 2022, 2021 and 2020, the Company amortized a corresponding benefit from these credit notes of US$225, US$241 and US$228, respectively, which is recognized as an offset to maintenance expenses in the consolidated statements of operations.

During the years ended December 31, 2022 and 2021, the amounts paid for aircraft and spare engine pre-delivery payments were of US$166.6 million and US$55.7 million, respectively.

The current purchase agreement with Airbus requires the Company to accept delivery of 144 Airbus A320 family aircraft during a period of eight years (from January 2023 to December 2030). The agreement provides for the addition of 144 Aircraft to its fleet as follows: five in 2023, seventeen in 2024, sixteen in 2025, twenty-seven in 2026, twenty-one in 2027, nineteen 2028, fourteen in 2029 and twenty-five to be delivered during 2030. Commitments to acquisitions of property and equipment are disclosed in Note 25.

During the years ended December 31, 2022, 2021 and 2020 the Company entered into aircraft and spare engines sale and leaseback transactions, resulting in gains of US$21,193, US$9,668 and US$32,695, respectively, these were recorded under the caption other operating income in the consolidated statement of operations, that represented only the amount of gains that relate to the rights transferred to the buyer-lessor. (Note 22).

e) During December 2017, the Company entered into an updated total support agreement with Lufthansa for 66 months, with an effective date on July 1, 2018. This agreement includes similar terms and conditions as the original agreement.

As part of this agreement, the Company received credit notes of US$5 million in 2022 and US$1.5 million in 2017, which are amortized on a straight-line basis, prospectively during the term of the agreement. For the years ended December 31, 2022, 2021 and 2020, the Company amortized a corresponding benefit from these credit notes of US$452, US$258 and US$245, respectively, recognized as an offset to maintenance expenses in the consolidated statements of operations.

As of December 31, 2022 the carrying amount of assets held for sale was US$795. For the year ended December 31, 2022 the depreciation expense was of US$309. (See Note 1 j).

As of December 31, 2021 the carrying amount of assets held for sale was US$382 and for the year ended December 31,2021 the depreciation expense was of US$1,917.

For the years ended December 31, 2022, 2021 and 2020, there were no impairments of rotable spare parts, furniture and equipment, net.

13. Intangible assets, net

The composition and movement of intangible assets is as follows:

	Useful Life years	Gross value		Accumulated amortization		Net carrying amount	
		At December 31,					
		2022	2021	**2022**	2021	**2022**	2021
Software	1 – 4	**US$ 47,850**	US$ 41,048	**US$ (35,125)**	US$ (28,416)	**US$ 12,725**	US$ 12,632

Balance as of January 1st, 2021	US$	9,603
Additions		10,142
Disposals		(1)
Amortization		(6,752)
Exchange differences		(360)
Balance as of December 31, 2021		12,632
Additions		**6,790**
Amortization		**(6,696)**
Exchange differences		**(1)**
Balance as of December 31, 2022	**US$**	**12,725**

During the second half of 2021 and beginning of 2022 the Company implemented the SAP S/4HANA software. During 2022 and 2021 the costs directly attributable to developments and improvements to systems were recognized as an intangible asset and other non-qualifying costs as part of the implementation were recognized in the statements of operations.

Software amortization expense for the years ended December 31, 2022, 2021 and 2020 was US$6,696, US$6,752 and US$4,715, respectively. These amounts were recognized in depreciation and amortization caption on the consolidated statements of operations.

14. Leases

As of December 31, 2022 and 2021 the most significant leases are as follows:

a) Aircraft and engines represent the Company´s most significant lease agreements. As of December 31, 2022, the Company leases 116 aircraft (100 as of December 31, 2021) and 23 spare engines under lease agreements (20 as of December 31, 2021) that have maximum terms through 2034. These leases are generally guaranteed by either deposit in cash or letters of credits.

Composition of the fleet and spare engines, leases*:

Aircraft Type	Model	**At December 31,2022**	At December 31, 2021
A319	132	**3**	3
A319	133	**-**	2
A320	233	**39**	39
A320	232	**1**	1
A320NEO	271N	**48**	39
A321	231	**10**	10
A321NEO	271N	**15**	6
		116	100

Engine spare Type	Model	**At December 31,2022**	At December 31, 2021
V2500	V2524-A5	**2**	2
V2500	V2527M-A5	**3**	3
V2500	V2527E-A5	**6**	5
V2500	V2527-A5	**6**	4
PW1100	PW1127G-JM	**5**	5
PW1100	PW1133G-JM	**1**	1
		23	20

* Certain of the Company's aircraft and engine lease agreements include an option to extend the lease term period. Management evaluates extensions based on the market conditions at the time of renewal.

During the year ended December 31, 2022, the Company added eighteen new leased aircraft to its fleet (six A320 NEO´s and seven A321 NEO acquired through sale and leaseback transactions under the Company´s existing Airbus purchase agreement. Additionally, three A320 NEO and two A321 NEO AC were obtained directly from the lessor´s aircraft order book). Also, the Company extended the lease term of two A321CEO (effective from 2023), two A320CEO (effective from September 2022 and July 2023) and one A319CEO (effective from March 2021). Finally, the Company returned two aircraft to their respective lessors (two A319CEO aircraft). All the aircraft incorporated through the lessor´s aircraft order were not subject to sale and leaseback transactions.

During the year ended December 31, 2022, the Company also incorporated three CEO spare engines. Such leases were not subject to sale and leaseback transactions. Also, the Company extended the lease term of two spare engines (effective from February 2022).

During the year ended December 31, 2021, the Company added fifteen new leased aircraft to its fleet (five A320 NEO´s acquired through sale and leaseback transactions under the Company´s existing Airbus purchase agreement and ten obtained directly from the lessor´s aircraft order book). Also, the Company extended the lease term of thirteen A320CEO (effective from 2022, 2023 and 2025) and two A319CEO (effective from 2021). All the aircraft incorporated through the lessor´s aircraft order were not subject to sale and leaseback transactions.

During the year ended December 31, 2021, the Company also incorporated two NEO spare engines. Such leases were not subject to sale and leaseback transactions. Also, the Company extended the lease term of three spare engines (two of them effective from February 2021 and the other from October 2021).

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Aircraft leases		Spare engine leases		Land and building leases		Total
As of January 1st ,2021	US$	1,674,620	US$	41,567	US$	4,036	US$ 1,720,223
Additions		437,334		2,928		13,894	454,156
Modifications		60,239		2,084		6,928	69,251
Disposals		-		-		(273)	(273)
Foreign currency translation effects		(56,768)		-		(3)	(56,771)
Depreciation on right of use assets		(252,761)		(11,626)		(4,964)	(269,351)
As of December 31, 2021		1,862,664		34,953		19,618	1,917,235
Additions		**521,711**		**1,023**		**30,597**	**553,331**
Modifications		**25,895**		**(168)**		**5,081**	**30,808**
Depreciation on right of use assets		**(299,517)**		**(11,627)**		**(9,299)**	**(320,443)**
As of December 31, 2022	**US$**	**2,110,753**	**US$**	**24,181**	**US$**	**45,997**	**US$ 2,180,931**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

		2022		2021
As of January 1st,	**US$**	**2,412,137**	US$	2,212,201
Additions		**550,834**		464,049
Modifications		**29,842**		67,589
Disposals		-		(291)
Accretion of interest		**165,043**		127,329
Foreign exchange effect		**(129)**		72,449
Foreign currency translation effects		**-**		(72,221)
Payments		**(449,004)**		(458,968)
As of 31 December,	**US$**	**2,708,723**	US$	2,412,137
Current	**US$**	**335,620**	US$	283,843
Non-current	**US$**	**2,373,103**	US$	2,128,294

The Company had total cash outflows for leases of US$449,004 in 2022 (US$458,968 in 2021 and US$284,363 in 2020).

During 2020 the Company applied practical expedients to leases in accordance with IFRS 16 guidance on lease modification accounting for rent concessions for those lease modifications arising as a direct result of COVID-19. The net impact on the consolidated statement of operations for 2020 was US$8,880 which reflects the changes to lease payments that arose from such concessions.

During the years ended of December 31, 2022 and 2021, the Company did not have lease modifications arising as a direct result of COVID-19.

For the years ended December 31, 2022, 2021 and 2020 the amounts recognized in profit or loss were as follow:

	For the year ended					
	December 31, 2022		December 31, 2021		December 31, 2020	
Depreciation of right-of-use assets	**US$**	**(320,443)**	US$	(269,351)	US$	(236,417)
Interest expense on lease liabilities and aircraft and engine lease return obligation (Note 23)		**(174,769)**		(128,159)		(108,907)
Aircraft and engine variable lease expenses		**(124,532)**		(83,373)		(85,957)
Total amount recognized in profit or loss	**US$**	**(619,744)**	US$	(480,883)	US$	(431,281)

i) Return obligations

The aircraft lease agreements of the Company also require that the aircraft and engines be returned to lessors under specific conditions of maintenance. The costs of return, which in no case are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight-line basis as a component of variable lease expenses and the provision is included as part of other liabilities, through the remaining lease term.

The Company estimates the provision related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. For the years ended December 31, 2022, 2021 and 2020, in relation with this provision the Company expensed as supplemental rent US$58,658, US$55,668 and US$65,986, respectively.

Extension options

Certain lease agreements contain extension options, which the Company evaluates exercising once the lease period comes to its end, based on the market conditions at such moment. The lease liabilities corresponding to leases on which it was decided to extend are remeasured for the period negotiated between the Company and the lessor.

During 2022 and 2021 the Company decided to exercise extension options for some agreements that resulted in an increase in the lease liability and the corresponding right of use assets by an amount of US$30,653 and US$66,850, respectively.

15. Accrued liabilities

a) The detail of current accrued liabilities as of December 31, 2022 and 2021 is as follows:

		2022		2021
Fuel and traffic accrued expenses	**US$**	**105,284**	US$	88,389
Maintenance and aircraft parts accrued expenses		**25,172**		22,667
Salaries and benefits		**19,091**		21,017
Accrued administrative expenses		**12,517**		9,564
Sales, marketing and distribution accrued expenses		**7,636**		18,772
Maintenance deposits		**5,933**		8,267
Deferred revenue from V Club membership		**4,967**		3,665
Information and communication accrued expenses		**2,979**		1,987
Supplier services agreement		**2,262**		1,154
Others		**408**		2,233
Benefits from suppliers		**270**		378
Advances from travel agencies		**53**		3
	US$	**186,572**	US$	178,096

b) Non-current accrued liabilities as of December 31, 2022 and 2021is as follows:

		2022		2021
Supplier services agreement	**US$**	**12,914**	US$	763
Benefits from suppliers		**-**		441
Other		**369**		271
	US$	**13,283**	US$	1,475

16. Other liabilities

	Balance as of January 1, 2022		Increase for the year		Payments		Balance as of December 31, 2022
Aircraft and engine lease return obligation (Note 1r and 2i)	**US$**	**188,879**	**US$**	**94,815**	**US$**	**(34,228)**	**US$**	**249,466**
Employee profit sharing (Note 17)		**12,686**		**136**		**(12,436)**		**386**
	US$	**201,565**	**US$**	**94,951**	**US$**	**(46,664)**	**US$**	**249,852**

Current maturities	**US$**	**5,398**
Non-current	**US$**	**244,454**

	Balance as of January 1,2021		Increase for the year		Payments		Conversion effects		Balance as of December 31, 2021
Aircraft and engine lease return obligation (Note 1r and 2i)	US$	125,546	US$	70,120	US$	(1,914)	US$	(4,873)	US$	188,879
Guarantee deposit (Note 1k)		12,532		-		(12,327)		(205)		-
Employee profit sharing (Note 17)		723		12,951		(787)		(201)		12,686
	US$	138,801	US$	83,071	US$	(15,028)	US$	(5,279)	US$	201,565

Current maturities	US$	34,635
Non-current	US$	166,930

During the years ended December 31, 2022 and 2021 no cancellations or write-offs related to these liabilities were recorded. Since 2012, the Company holds a cobrand credit card agreement with Banco Invex, S.A., Institución de Banca Múltiple, Invex, Grupo Financiero Invex "Invex". Through this agreement, Invex pays certain commissions to Volaris related to the cobrand credit card and Invex's clients receive vouchers to be redeemed in different Volaris services under certain conditions. A portion of the voucher cost is paid by Volaris and the remaining amount by Invex.

17. Employee benefits

The components of net period cost recognized in the consolidated statement of operations and the obligations for seniority premium for the years ended December 31, 2022, 2021 and 2020, are as follows:

	2022		2021		2020	
Analysis of net period cost:						
Current service cost	**US$**	**6,518**	US$	425	US$	398
Interest cost on benefit obligation		**692**		127		123
Net period cost	**US$**	**7,210**	US$	552	US$	521

Changes in the defined benefit obligation are as follows:

	2022		2021	
Defined benefit obligation as of January 1,	**US$**	**3,968**	US$	2,538
Net period cost charged to profit or loss:				
Current service cost		**6,518**		425
Interest cost on benefit obligation		**692**		127
Remeasurement losses in other comprehensive income:				
Actuarial changes arising from changes in assumptions		**(253)**		432
Payments made		**(179)**		(71)
Conversion effect foreign currency		**241**		(67)
Others		**-**		584
Defined benefit obligation as of December 31,	**US$**	**10,987**	US$	3,968

The significant assumptions used in the computation of the seniority premium obligations are shown below:

	2022	2021	2020
Financial:			
Discount rate	**9.21%**	7.84%	7.04%
Expected rate of salary increases	**5.50%**	5.50%	5.50%
Annual increase in minimum salary	**19.00/4.00%***	19.00/4.50%	4.00%

19.00% applies to the General Zone and 4.00% to the Border Zone in Mexico

Biometric:			
Mortality (1)	**EMSSA 09, CEPAL* 2010 EL SALVADOR, CEPAL*2010 COSTA RICA**	EMSSA 09, CEPAL* 2010 EL SALVADOR, CEPAL*2010 COSTA RICA	EMSSA 09, CEPAL* 2010 EL SALVADOR, CEPAL*2010 COSTA RICA
Disability (2)	**IMSS-97**	IMSS-97	IMSS-97

(1) Mexican Experience of social security (EMSSA), Economic Commission for Latin America and the Caribbean (CEPAL for its Spanish acronym).
(2) Mexican Experience of *Instituto Mexicano del Seguro Social* (IMSS).
* Border Zone, is made up of the states that border with the United States and the General Zone is made up by the rest states of the country.

Accruals for short-term employee benefits (included as part of other liabilities). As of December 31, 2022 and 2021, respectively, are as follows:

	2022		2021	
Employee profit-sharing (Note 16)	**US$**	**386**	US$	12,686

The key management personnel of the Company include the members of the Board of Directors (Note 7).

Sensitivity analysis

A reasonably possible variation at the date of the report, in one of the most significant actuarial assumptions, and assuming that the rest of the variables had remained constant, would have affected the benefit obligations defined as of December 31, 2022 in the amounts shown below:

		Present value of the defined benefit obligation (In thousands of U.S. dollars)			
Assumptions		**Increase**		**Decrease**	
Discount rate:	50 basis points	US$	10,431	US$	11,589
Statutory minimum wage increase rate:					
	50 basis points	US$	11,197	US$	10,789
Salary increase rate:	50 basis points	US$	11,678	US$	10,380

18. Share-based payments

a) LTRP

On November 6, 2014, the shareholders of the Company and the shareholders of its subsidiary Servicios Corporativos, approved an amendment to the current LTRP for the benefit of certain key employees, based on the recommendations of the Board of Directors of the Company at its meetings held on July 24 and August 29, 2014. For such purposes on November 10, 2014 an irrevocable Administrative Trust was created by Servicios Corporativos and the key employees. The new plan was restructured and named LTIP, which consists of a share purchase plan (equity-settled transaction) and SARs plan (cash settled).

On October 18, 2018, the Board of Directors of the Company approved a new long-term retention plan LTRP for certain executives of the Company, through which the beneficiaries of the plan, will receive shares of the Company once the service conditions are met. This plan does not include cash compensations granted through appreciation rights on the Company's shares. The retention plans granted in previous periods under LTRP will continue in full force and effect until their respective due dates and the cash compensation derived from them will be settled according to the conditions established in each plan.

b) LTIP

- Share purchase plan (equity-settled)

Under the share purchase plan (equity- settled), in November 2014 certain key employees of the Company were granted with a special bonus by an amount of Ps.10,831 (US$797 as of November 11, 2014 based on an exchange rate of Ps.13.58 to US$1), to be used to purchase Company’s shares. The plan consisted in:

(i) Servicios Corporativos granted a bonus to each key executive;
(ii) The bonus amount by Ps.7,059 (US$520 as of November 11, 2014 based on an exchange rate of Ps.13.58 to US$1), net of withheld taxes, was transferred on November 11, 2014, as per the written instructions of each key employees, to the Administrative Trust for the acquisition of Series A shares of the Company through an intermediary authorized by the BMV based on the Administration Trust’s Technical Committee instructions;
(iii) Subject to specified terms and conditions set forth in the Administrative Trust, the acquired shares were in escrow under the Administrative Trust for its administration until the vesting period date for each key executive, date as of which the key executive can fully dispose of the shares and instruct as desired.
(iv) The share purchase plan provides that if the terms and conditions are not met by the vesting period date, then the shares would be sold in the BMV, and Servicios Corporativos would be entitled to receive the proceeds of the sale of shares.
(v) The key employees’ account balance will be tracked by the Administrative Trust. The Administrative Trust’s objectives are to acquire Series A shares on behalf of the key employees and to manage the shares granted to such key executive based on instructions set forth by the Technical Committee.

As the Administrative Trust is controlled and therefore consolidated by Controladora, shares purchased in the market and held within the Administrative Trust are presented for accounting purposes as treasury stock in the consolidated statement of changes in equity.

In November 2022, 2021 and 2020, the extensions to the LTIP were approved by the Company’s shareholder’s and the Company’s Board of Directors, respectively. The total cost of the extensions approved were US$5,703 (US$3,707 net of withheld taxes), US$5,086 (US$3,307 net of withheld taxes) and US$4,618 (US$3,003 net of withheld taxes), respectively. Under the terms of the incentive plan, certain key employees of the Company were granted a special bonus that was transferred to the Administrative Trust for the acquisition of Series A shares of the Company.

As of December 31, 2022 and 2021, the number of shares into the Administrative Trust associated with the Company’s share purchase payment plans is as follows:

	Number of Series A shares
Outstanding as of January 1st, 2021	5,805,311*
Purchased during the year	1,849,417
Granted during the year	-
Exercised/vested during the year	(2,612,575)
Forfeited during the year	(551,732)
Outstanding as of December 31, 2021	4,490,421*
Purchased during the year	**4,354,473**
Granted during the year	**-**
Exercised/vested during the year	**(2,161,968)**
Forfeited during the year	**(103,712)**
Outstanding as of December 31, 2022	**6,579,214***

*These shares are presented as treasury shares in the consolidated statement of financial position as of December 31, 2022, 2021 and January 1, 2021.

The vesting period of the shares granted under the Company's share purchase plans is as follows:

Number of Series A shares	Vesting period
3,084,981	November 2023
2,042,732	November 2024
1,451,501	November 2025
6,579,214	

In accordance with IFRS 2, the share purchase plans are classified as equity-settled transactions on the grant date. This valuation is the result of multiplying the total number of Series A shares deposited in the Administrative Trust and the price per share, plus the balance in cash deposited in the Administrative Trust.

For the years ended December 31, 2022, 2021 and 2020, the compensation expense recorded in the consolidated statement of operations amounted to US$5,074, US$4,410 and US$3,519, respectively.

During 2022, 2021 and 2020, some key employees left the Company; therefore, the vesting conditions were not fulfilled. In accordance with the terms of the plan, Servicios Corporativos is entitled to receive the proceeds of the sale of such shares, the number of forfeited shares as of December 31, 2022, 2021 and 2020, were 103,712, 551,732 and 327,217, respectively.

- SARs (cash settled)

On November 6, 2014, the Company granted 4,315,264 SARs to key employees that entitle them to a cash payment and vest as long as the employee continues to be employed by the Company at the end of each anniversary, during a three - years period. The total amount of the appreciation rights granted under this plan at the grant date was Ps.10,831(US$796 as of November 6, 2014 based on an exchange rate of Ps.13.61 to US$1).

Fair value of the SARs was measured at each reporting date. The retention plan granted in previous periods expired in November 2020.

The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits over the service period. During the year ended December 31, 2020, the Company recorded a benefit of US$(95) in the consolidated statement of operations.

The fair value of these SARs was estimated at the grant date and at each reporting date using the Black-Scholes option pricing model, taking into account the terms and conditions on which the SARs were granted.

Such payment was determined based on the increase in the share price of the Company from the grant date to the exercisable date.

c) MIP

- MIP I

In April 2012, the Board of Directors authorized a MIP for the benefit of certain key employees, subject to shareholders' approval. On December 21, 2012, the shareholders approved the MIP consisting of: (i) the issuance of an aggregate of 25,164,126 Series A and Series B shares, representing 3.0% of the Company's fully diluted capital stock; (ii) a grant of options to acquire shares of the Company or CPOs having shares as underlying securities for which, as long as certain conditions occur, the employees will have the right to request the delivery of those shares (iii) the creation of an Administrative Trust to deposit such shares in escrow until they are delivered to the officers or returned to the Company in the case that certain conditions do not occur; and (iv) the execution of share sale agreements setting forth the terms and conditions upon which the officers may exercise its shares at Ps.5.31 (five Mexican pesos 31/100) per share.

On December 24, 2012, the Administrative Trust was created, and the share sale agreements were executed. On December 27, 2012, the trust borrowed Ps.133,723 (US$10,305 as of December 27 ,2012 based on an exchange rate of Ps. 12.97 to US$1) from the Company and immediately after; the trust paid the Company the same amount borrowed as purchase price for the shares.

The share sale agreements provide that the officers may pay for the shares at the same price upon the occurrence of either an initial public offering of the Company's capital stock or a change of control and as long as they remain employees until the options are exercised, with a maximum term of ten years. Upon payment of the shares by the officers to the Management Trust, it must pay such amount back to the Company as repayment of the loan, for which the Company charges no interest.

The MIP has been classified as equity-settled, by which, the grant date, fair value is fixed and is not adjusted by subsequent changes in the fair value of capital instruments. Equity-settled transactions are measured at fair value at the date the equity benefits are conditionally granted to employees. The total cost of the MIP determined by the Company was Ps.2,722 (US$213 as of December 24, 2012 based on an exchange rate of Ps.12.77 to US$1) to be recognized from the time it becomes probable the performance condition will be met over the vesting period. Total cost of the MIP related to the vested shares has been fully recognized in the consolidated statements of operations during the vesting years.

This cost was determined by using the improved Binomial valuation model from Hull and White, on the date in which the plan had already been approved by the shareholders and a shared understanding of the terms and conditions of the plan was reached with the employees (December 24, 2012, defined as the grant date), with the following assumptions:

	2012
Dividend yield (%)	0.00%
Volatility (%)	37.00%
Risk–free interest rate (%)	5.96%
Expected life of share options (years)	8.8
Exercise share price (in Mexican pesos Ps.)	5.31
Exercise multiple	1.1
Fair value of the stock at grant date	1.73

The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may not necessarily be the actual outcome. Under the methodology followed by the Company, at the grant date and December 31, 2012, the granted shares had no positive intrinsic value.

During 2020, there were no exercised shares under the MIP. For the year ended December 31, 2021, the key employees exercised 7,653,981 Series A shares. As a result, the key employees paid to the Management Trust Ps.40,668 (US$1,976) corresponding to the exercised shares for the year ended December 31, 2021.

Thereafter, the Company has received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

Movements in share options

The table of the next page illustrates the number of shares options and fixed exercise prices during the year 2021.

	Number of share options	Exercise price in Mexican pesos	Total in thousands of Mexican pesos
Outstanding as of January 1st, 2021	7,653,981	Ps. 5.31	Ps. 40,668
Granted during the year	-	-	-
Forfeited during the year	-	-	-
Exercised during the year	(7,653,981)	5.31	(40,668)
Outstanding as of December 31, 2021	-	Ps. -	Ps. -

As of December 31, 2021 all the share options were exercised.

On August 9, 2022, the Irrevocable Trust number F-307750 with HSBC Mexico S.A., Institución de Banca Múltiple, were terminated through payment of the outstanding amounts.

- MIP II

On February 19, 2016, the Board of Directors of the Company authorized an extension to the MIP for certain key employees. Such extension was modified on November 6, 2016. Under MIP II, 13,536,960 share appreciation rights of our Series A shares were granted to be settled annually in cash in a period of five years in accordance with the established service conditions. In addition, a five-year extension to the period in which the employees can exercise MIP II once the SARs are vested was approved.

Fair value of the SARs is measured at each reporting period using a Black-Scholes option pricing model, taking into consideration the terms and conditions granted to the employees. The amount of the cash payment is determined based on the increase in our share price between the grant date and the settlement date.

The carrying amount of the liability relating to the SARs as of December 31, 2022 and 2021 was US$1,562 and US$5,927, respectively. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits over the service period.

During the years ended December 31, 2022, 2021 and 2020, the Company recorded a (benefit) expense of US$(4,365), US$ (2,984) and US$5,457, respectively, in the consolidated statement of operations. During the years ended 2022, 2021 and 2020 were not exercised any SARs.

The summary related to (benefit) expense recognized for the Company's retention plans during the years 2022, 2021 and 2020 is shown in the following table:

		2022		2021		2020
(Benefit) expense arising from cash-settled share-based payments transactions	**US$**	**(4,365)**	US$	(2,984)	US$	5,362*
Expense arising from equity-settled share-based payments transactions		**5,074**		4,410		3,519
Total expense arising from share-based payments transactions	**US$**	**709**	US$	1,426	US$	8,881

* The figures included LTIP - SARs (cash settled) benefit of US$(95).

d) Board of Directors Incentive Plan (BoDIP)

Certain members of the Board of Directors of the Company receive additional benefits through a share-based plan, which has been classified as an equity-settled share-based payment and therefore accounted under IFRS 2 "Share based payment".

In April 2018, the Board of Directors of the Company authorized a Board of Directors Incentive Plan "BoDIP", for the benefit of certain board members. The BoDIP grants options to acquire shares of the Company or CPOs during a five - year period with an exercise share price at Ps.33.80, Ps.32.23 and Ps.9.74 for the years ended 2022, 2021 and 2020, respectively, which was determined on the grant date. Under this plan, no service or performance conditions are required to the board members for exercise the option to acquire shares, and therefore, they have the right to request the delivery of those shares at the time they pay for them.

For such purposes on August 29, 2018 the Fideicomiso Irrevocable de Administración número CIB/3081 was created by Controladora Vuela Compañía de Aviación S.A.B de C.V as trustee and CIBanco, S.A., Institucion de Banco Multiple as trustor. The number of shares held as of December 31, 2022, 2021 and 2020 available to be exercised is 5,945,417, 4,589,726 and 5,233,693, respectively and are included in treasury shares.

19. Equity

As of December 31, 2022, the total number of the Company's authorized shares was 1,165,976,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	**Variable Class II**	**Total shares**
Series A shares [1]	**10,478**	**1,108,452,326**	**1,108,462,804**
Series B shares [1]	**13,702**	**57,500,171**	**57,513,873**
	24,180	**1,165,952,497**	**1,165,976,677**
Treasury shares (Note 18)	**-**	**(13,452,393)**	**(13,452,393)** [1]
	24,180	**1,152,500,104**	**1,152,524,284**

[1] The number of forfeited shares as of December 31, 2022 were 103,712, which are included in treasury shares.

As of December 31, 2021, the total number of the Company's authorized shares was 1,165,976,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	**Variable Class II**	**Total shares**
Series A shares (1)	10,478	1,108,452,326	1,108,462,804
Series B shares (1)	13,702	57,500,171	57,513,873
	24,180	1,165,952,497	1,165,976,677
Treasury shares (Note 18)	-	(9,904,197)	(9,904,197) (1)
	24,180	1,156,048,300	1,156,072,480

(1) The number of forfeited shares as of December 31, 2021 were 551,732, which are included in treasury shares.

On December 11, 2020, the Company announced the closing of an upsized primary follow-on equity offering in which the Company offered 134,000,000 of its Ordinary Participation Certificates (Certificados de Participación Ordinarios), or CPOs, in the form of American Depositary Shares, or ADSs, at a price to the public of US$11.25 per ADS in the United States and other countries outside of Mexico, pursuant to the Company's shelf registration statement filed with the Securities and Exchange Commission. In connection with the offering, the underwriters exercised their option to purchase up to 20,100,000 additional CPOs in the form of ADSs. Each ADS represents 10 CPOs and each CPO represents a financial interest in one Series A share of common stock of the Company.

The net proceeds of US$164.4 million (after the deduction of the underwriters´ commission and expenses payable by the Company) obtained from the offering are to be used for general corporate purposes. The increase in capital stock amounted US$164.4 million.

On December 20, 2021, one of the Company´s shareholders concluded the conversion of 30'538,000 Series B Shares for the equivalent number of Series A Shares. This conversion had not impact either on the total number of outstanding shares nor on the earnings-per-share calculation.

All shares representing the Company's capital stock, either Series A shares or Series B shares, grant the holders the same economic rights and there are no preferences and/or restrictions attaching to any class of shares on the distribution of dividends and the repayment of capital. Holders of the Company's Series A common stock and Series B common stock are entitled to dividends when, and if, declared by a shareholders' resolution. The Company's revolving line of credit with Santander and Bancomext limits the Company's ability to declare and pay dividends if the Company fails to comply with the payment terms thereunder. Only Series A shares from the Company are listed.

During the years ended December 31, 2022, 2021 and 2020 the Company did not declare any dividends.

In accordance with the Mexican Corporations Act, the Company is required to allocate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued until the legal reserve reaches 20% of capital stock. As of December 31, 2022 and 2021, the Company's legal reserve was US$17,363, or 8.5% and 8.5% respectively of our capital stock.

For the years ended December 31, 2022, 2021 and 2020, we did not allocate any amount to our legal reserve fund. As of December 31, 2022, 2021 and 2020 the Company's legal reserve has not reached the 20% of its capital stock.

Any distribution of earnings in excess of the net tax profit account (*Cuenta de utilidad fiscal neta* or "CUFIN") balance will be subject to corporate income tax, payable by the Company, at the enacted income tax rate at that time. A 10% withholding tax is imposed on dividends distributions to individuals and foreign shareholders from earnings generated starting January 1, 2014. Dividends paid will be free of Income taxes if they come from the ("CUFIN"). Dividends that exceed the CUFIN and the CUFINRE will cause a tax equivalent to 42.86%. Dividends paid that come from profits by the ISR will not be subject to any withholding or additional payment of taxes.

Shareholders may contribute certain amounts for future increases in capital stock, either in the fixed or variable capital. Said contributions will be kept in a special account until the shareholders meeting authorizes an increase in the capital stock of the Company, at which time each shareholder will have a preferential right to subscribe and pay the increase with the contributions previously made. As it is not strictly regulated in Mexican law, the shareholders meeting may agree to return the contributions to the shareholders or even set a term in which the increase in the capital stock must be authorized. As of December 31, 2022 and 2021, the Company had balance of US$0.1 and US$0.1, respectively.

a) **(Loss) earnings per share**

Basic (loss) earnings per share ("LPS or EPS") amounts are calculated by dividing the net (loss) earnings for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted (LPS) EPS amounts are calculated by dividing the (loss) earnings attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares, if any), by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares (to the extent that their effect is dilutive).

The following table shows the calculations of the basic and diluted earnings income per share for the years ended December 31, 2022, 2021 and 2020.

	As of December 31,					
		2022		2021		2020
Net (loss) income for the period	**US$**	**(80,224)**	US$	106,453	US$	(191,722)
Weighted average number of shares outstanding (in thousands):						
Basic		**1,155,030**		1,152,256		1,004,965
Diluted		**1,165,135**		1,165,612		1,021,286
LPS – EPS:						
Basic	**US$**	**(0.069)**	US$	0.092	US$	(0.191)
Diluted	**US$**	**(0.069)**	US$	0.091	US$	(0.188)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

20. Income tax

a) In accordance with the MITL, the Company and its Mexican subsidiaries are subject to income tax and each files its tax returns on an individual entity basis and the related tax results are included in the accompanying consolidated financial statements. The income tax is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on Adjusted assets values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the annual inflation adjustment.

(i) Based on the approved law, corporate income tax current rate for 2022, 2021 and 2020 and thereafter is 30%.

(ii) The tax rules include limits in the deductions of the exempt compensation amount certain items, as follows: Wages and benefits paid to workers 47% of income paid to workers and in certain cases up to 53% (holiday bonus, savings fund, employee profit sharing, seniority premiums) will be deductible for employers. As a result, certain wage and salary provisions have difference between tax and book values at year-end.

(iii) The MITL sets forth criteria and limits for applying some deductions, such as: the deduction of payments which, in turn, are exempt income for workers, contributions for creating or increasing provisions for pension funds, contributions to the Mexican Institute of Social Security payable by the worker that are paid by the employer, as well as the possible non-deduction of payments made to related parties in the event of failing to meet certain requirements.

(iv) Taxable income for purposes of the employee profit sharing is the same used for the Corporate Income Tax except for certain items.

(v) A 10% withholding tax is imposed on dividends distributions to individuals and foreign shareholders from earnings generated starting January 1, 2014.

The income tax rates for 2022, 2021 and 2020 were in Guatemala 25%, Costa Rica 30% and El Salvador 30%.

b) For the years ended December 31, 2022, 2021 and 2020, the Company reported on a combined basis taxable income of US$53,293, US$59,472 and US$15,140, respectively, which was partially offset by tax losses from prior years.

In accordance with the MITL and Costa Rican Income Tax Law (CRITL), tax losses may be carried forward against taxable income generated in the succeeding ten and three years, respectively. Carryforward tax losses are adjusted based on inflation.

In accordance with Guatemala Income Tax Law (GITL) and El Salvador Income Tax Law (ESITL), tax losses cannot be carried forward against taxable income generated.

c) An analysis of consolidated income tax expense for the years ended December 31, 2022, 2021 and 2020 is as follows:

Consolidated statements of operations

	2022		2021		2020	
Current year income tax expense	**US$**	**(15,456)**	US$	(17,903)	US$	(3,978)
Deferred income tax (expense) benefit		**67,595**		(12,670) [1]		65,709 [2]
Total income tax benefit (expense)	**US$**	**52,139**	US$	(30,573)	US$	61,731

[1] Includes translation effect by US$ (118)
[2] Includes translation effect by US$ 90

Consolidated statements of comprehensive income

	2022		2021		2020	
Deferred income tax related to items recognized in OCI during the year						
Net (loss) gain cash flow hedges	**US$**	**(80)**	US$	(274)	US$	2,347
Remeasurement (loss) gain of employee benefits		**(79)**		138		39
Deferred income tax recognized in OCI	**US$**	**(159)**	US$	(136)	US$	2,386

d) A reconciliation of the statutory corporate income tax rate to the Company's effective tax rate for financial reporting purposes is as follows:

The Company´s effective income tax reconciliation using domestic tax rate

	2022	**%**	2021	%	2020	%
Statutory income tax rate	**(39,709)**	**30.00%**	41,108	30.00%	(76,036)	30.00%
Amendment tax return effects and other tax adjustments	**1,242**	**(0.94%)**	(29)	(0.02%)	(3,563)	1.41%
Inflation on furniture, intangible and equipment	**(309)**	**0.23%**	(2,323)	(1.70%)	(873)	0.34%
Inflation of tax losses	**(4,335)**	**3.28%**	(1,971)	(1.44%)	(676)	0.27%
Foreign countries difference with Mexican statutory rate	**(9)**	**0.00%**	124	0.10%	175	(0.07%)
Annual inflation adjustment	**(11,200)**	**8.46%**	(7,971)	(5.82%)	2,591	(1.02%)
Recorded deferred taxes on tax losses	**7**	**0.00%**	(434)	(0.32%)	3,733	(1.47%)
Non-deductible expenses	**7,695**	**(5.81%)**	2,069	1.51 %	12,918	(5.10%)
Difference in Foreign Exchange income (loss) for tax purposes	**(5,521)**	**4.17%**	-	-	-	-
	(52,139)	**39.39%**	30,573	22.31%	(61,731)	24.36%

Mexican income tax matters

For Mexican purposes, corporate income tax is computed on accrued basis. MITL requires taxable profit to be determined by considering revenue net of tax deductions. Prior years' tax losses can be utilized to offset current year taxable income. Income tax is determined by applying the 30% rate on the net amount after tax losses utilization. For tax purposes, income is considered taxable at the earlier of: (i) the time the revenue is collected, (ii) the service is provided or (iii) the time of the issuance of the invoice. Expenses are deductible for tax purposes generally on accrual basis, with some exceptions, once the requirements established in the tax law are fulfilled.

Central America (Guatemala, Costa Rica and El Salvador)

According to Guatemala Corporate Income tax law, under the regime on profits from business activities, net operating losses cannot offset taxable income in prior or future years. For the years ended December 31, 2022, 2021 and 2020, our subsidiary in Guatemala generated tax losses of US$10, US$32 and US$91, respectively.

According to Costa Rica Corporate Income tax law, under the regime on profits from business activities, tax losses can offset taxable income in a term of three years. For the year ended December 31, 2022, our subsidiary in Costa Rica generated net operating gain for an amount of US$3,869. For the years ended December 31, 2021 and 2020, our subsidiary in Costa Rica generated net operating losses for an amount of US$5,947 and US$2,794, respectively, for which no deferred tax asset has been recognized.

According to El Salvador Corporate Income tax law, under the regime on profits from business activities, net operating losses cannot offset taxable income in prior or future years. For the year ended December 31, 2022, our subsidiary in El Salvador generated net operating gain for an amount of US$17,078. For the years ended December 31, 2021 and 2020, our subsidiary in El Salvador generated net operating losses for an amount of US$2,601 and US$833, respectively.

e) An analysis of consolidated deferred taxes is as follows:

	2022		2021	
	Consolidated statement of financial position	**Consolidated statement of operations**	Consolidated statement of financial position	Consolidated statement of operations
Deferred income tax assets:				
Lease liability	**US$ 755,855**	**US$ 122,856**	US$ 633,033	US$ (7,745)
Unearned transportation revenue	**58,010**	**48,176**	9,885	(53,134)
Aircraft and engine lease return obligation	**77,007**	**23,951**	53,056	15,448
Tax losses available for offsetting against future taxable income	**38,387**	**33,122**	4,865	(24,499)
Intangible	**29,687**	**(364)**	30,052	10,430
Allowance for doubtful accounts	**4,854**	**(1,510)**	6,356	3,599
Employee benefits	**2,486**	**2,104**	294	(391)
Employee profit sharing	**134**	**(3,672)**	3,805	4,076
Non derivative financial instruments	**-**	**-**	-	24,360
	966,420	**224,663**	741,346	(27,856)
Deferred income tax liabilities:				
Right of use asset	**571,521**	**106,233**	465,382	(57,188)
Supplemental rent	**55,479**	**(7,872)**	63,351	(29,592)
Rotable spare parts, furniture and equipment, net	**120,561**	**54,960**	65,618	29,015
Provisions	**7,345**	**4,200**	2,430	12,789
Inventories	**4,594**	**338**	4,256	215
Other prepayments	**376**	**(1,034)**	1,431	675
Derivative Financial instruments	**33**	**-**	113	-
Prepaid expenses and other assets	**8,963**	**243**	8,684	29,017
	768,872	**157,068**	611,265	(15,069)
	US$ 197,548	**US$ 67,595**	US$ 130,081	US$ (12,787)

Reflected in the consolidated statement of financial position as follows:

	2022	2021
Deferred tax assets	**US$ 208,010**	US$ 141,272
Deferred tax liabilities	**(10,462)**	(11,191)
Deferred tax assets, net	**US$ 197,548**	US$ 130,081

A reconciliation of deferred tax asset, net is as follows:

		2022		2021
Opening balance as of January 1,	**US$**	**130,081**	US$	146,816
Deferred income tax benefit (expense) during the current year recorded on profits*		**67,595**		(12,787)
Deferred income tax expense during the current year recorded in accumulated other comprehensive loss		**(159)**		(136)
Conversion effects		**31**		(3,812)
Closing balance as of December 31,	**US$**	**197,548**	US$	130,081

*In 2021 includes the tax effect of the discontinuation of the hedging reserve by US$24 million.

According to IAS 12, *Income Taxes*, a deferred tax asset should be recognized for the carry-forward of available tax losses to the extent that it is probable that future taxable income will be available against which the available tax losses can be utilized. In these regards, the Company has recognized as of December 31, 2022 and 2021 a deferred tax asset for tax losses of US$38,387 and US$4,865, respectively.

An analysis of the available tax losses carry-forward of the Company at December 31, 2022 is as follows:

Year of loss		Historical Loss		Inflation adjusted tax loss		Utilized		Total remaining amount	Year of expiration
2019	US$	239	US$	304	US$	166	US$	138	2029
2020		5,461		5,461		2,126		3,335	2023
2020		2,745		3,427		103		3,324	2030
2021		6,457		6,404		-		6,404	2024
2021		550		651		-		651	2031
2022		110,922		**114,105**		**-**		**114,105**	**2032**
	US$	**126,374**	**US$**	**130,352**	**US$**	**2,395**	**US$**	**127,957**	

During the years ended December 31, 2022 and 2021 the Company utilized US$4,035 and US$94,489, respectively of the available tax loss carry-forwards.

During the year ended December 31, 2022 the Company recognized US$110,922 of the available tax loss carry-forwards.

A breakdown of available tax loss carry-forward of Controladora and its subsidiaries as of December 31, 2022 is as follows:

		Historical loss		Inflation adjusted tax loss		Utilized		Total remaining amount
Concesionaria	**US$**	**110,685**	**US$**	**113,861**	**US$**	**-**	**US$**	**113,861**
Vuela Aviación		**13,476**		**13,423**		**3,684**		**9,739**
Comercializadora		**2,628**		**3,256**		**166**		**3,090**
Viajes Vuela		**1,143**		**1,370**		**103**		**1,267**
	US$	**127,932**	**US$**	**131,910**	**US$**	**3,953**	**US$**	**127,957**
Unrecognized NOLs								**-**
							US$	**127,957**
Tax rate								**30%**
Deferred income tax							**US$**	**38,387**

The temporary differences associated with investments in the Company's subsidiaries, for which a deferred tax liability has not been recognized in the periods presented, aggregate in 2022 was US$7,143 (2021 US$7,648). The Company has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The Company has an agreement with its associate that the profits of the associate will not be distributed until it obtains the consent of the Company. The Company does not anticipate giving such consent at the reporting date. Furthermore, the Group will not distribute its profits until it obtains the consent of all venture partners.

e) At December 31, 2022 the Company had the following tax balances:

		2022
Adjusted contributed capital account (*Cuenta de capital de aportación* or "CUCA")	**US$**	**489,080**
CUFIN*		**226,885**

*The calculation comprises all the subsidiaries of the Company.

As of December 31, 2022, the Company has tax proceedings regarding uncertain tax positions by an amount of about U.S. $31 million, associated to the deductibility of certain Company expenses during 2013 and 2014. The Company has filed legal administrative procedures. Volaris considers that has solid arguments to believe that it will not have adverse effects. Nonetheless, until all stages in the procedures are exhausted in each proceeding, the Company cannot assure the achievement of a final favorable resolution.

21. Operating Revenues

For the years ended December 31, 2022, 2020 and 2021, the revenues from contracts with customers is described as follows:

Revenue recognition for the year ended December 31, 2022	**At the flight time**				**At the sale**				**Total**	
	Domestic		**International**		**Domestic**		**International**		**Revenues**	
Passenger Revenues										
Fare Revenues	**US$**	**1,097,480**	**US$**	**563,696**	**US$**	**-**	**US$**	**-**	**US$**	**1,661,176**
Other Passenger Revenues		**695,602**		**365,243**		**11,403**		**6,003**		**1,078,251**
		1,793,082		**928,939**		**11,403**		**6,003**		**2,739,427**
Non-Passenger Revenues										
Other Non-Passenger revenues		**92,088**		**889**		**-**		**-**		**92,977**
Cargo		**13,171**		**1,615**		**-**		**-**		**14,786**
Total	**US$**	**1,898,341**	**US$**	**931,443**	**US$**	**11,403**	**US$**	**6,003**	**US$**	**2,847,190**

Revenue recognition for the year ended December 31, 2021	At the flight time				At the sale				Total	
	Domestic		International		Domestic		International		Revenues	
Passenger Revenues										
Fare Revenues	US$	860,143	US$	405,837	US$	-	US$	-	US$	1,265,980
Other Passenger Revenues		707,368		151,261		6,700		1,615		866,944
		1,567,511		557,098		6,700		1,615		2,132,924
Non-Passenger Revenues										
Other Non-Passenger revenues		76,306		566		-		-		76,872
Cargo		11,410		472		-		-		11,882
Total	US$	1,655,227	US$	558,136	US$	6,700	US$	1,615	US$	2,221,678
Non-derivative financial instruments										(21,378)
									US$	2,200,300

Revenue recognition for the year ended December 31, 2020	At the flight time				At the sale				Total	
	Domestic		International		Domestic		International		Revenues	
Passenger Revenues										
Fare Revenues	US$	411,107	US$	215,802	US$	-	US$	-	US$	626,909
Other Passenger Revenues		332,497		75,865		6,014		1,621		415,997
		743,604		291,667		6,014		1,621		1,042,906
Non-Passenger Revenues										
Other Non-Passenger revenues		41,520		321		-		-		41,841
Cargo		9,387		260		-		-		9,647
Total	US$	794,511	US$	292,248	US$	6,014	US$	1,621	US$	1,094,394
Non-derivative financial instruments										(19,408)
									US$	1,074,986

Transactions from unearned transportation revenues

	2022		2021	
January 1,	**US$**	**303,982**	US$	293,298
Deferred		**2,781,914**		2,154,865
Recognized in revenue during the year		**(2,739,427)**		(2,132,924)
Foreign currency translation effect		**-**		(11,257)
December 31,	**US$**	**346,469**	US$	303,982

The performance obligations related to contract liability are recognized over the following 12 months and are related to the scheduled flights and other passenger services purchased by the client in advance.

22. Other operating income and expenses

An analysis of other operating income is as follows:

	2022		2021		2020	
Gain on sale and leaseback (Note 12)	**US$**	**21,193**	US$	9,668	US$	32,695
Loss on sale of rotable spare parts, furniture and equipment		**(1,645)**		(122)		(127)
Other income		**5,518**		1,212		1,051
	US$	**25,066**	US$	10,758	US$	33,619

An analysis of other operating expenses is as follows:

	2022		2021		2020	
Administrative and operational support expenses	**US$**	**49,431**	US$	37,042	US$	29,827
Technology and communications		**25,708**		21,296		17,913
Others		**15,756**		92		9
Insurance		**6,574**		3,753		2,561
Passenger services		**5,116**		3,675		4,103
	US$	**102,585**	US$	65,858	US$	54,413

23. Finance income and cost

An analysis of finance income is as follows:

	2022		2021		2020	
Interest on cash and equivalents	**US$**	**12,036**	US$	2,872	US$	4,384
Interest on cash and equivalents held in the trust CIB/3249		**711**		280		301
Interest on recovery of guarantee deposits		**155**		379		99
	US$	**12,902**	US$	3,531	US$	4,784

An analysis of finance cost is as follows:

		2022		2021		2020
Interest expense on lease liabilities and aircraft and engine lease return obligation	**US$**	**174,769**	US$	128,159	US$	108,907
Interest on asset backed trust notes		**12,049**		5,672		5,448
Cost of letter credit notes		**4,131**		3,025		3,410
Other finance costs		**584**		1,589		481
Interest on debts and borrowings*		**533**		703		768
Bank fees and others		**308**		226		176
Derivative financial instruments loss		**161**		-		19,130
	US$	**192,535**	US$	139,374	US$	138,320

* The borrowing costs related to the acquisition or construction of qualifying assets are capitalized as part of the cost of the asset (Note 12). Interest expense not capitalized is related to the short-term working capital facility from Citibanamex.

		2022		2021		2020
Interest on debts and borrowings	**US$**	**8,448**	US$	7,801	US$	18,640
Capitalized interest (Note 12)		**(7,915)**		(7,098)		(17,872)
Net interest on debts and borrowing in the consolidated statements of operations	**US$**	**533**	US$	703	US$	768

24. Components of other comprehensive loss

a. An analysis of the other comprehensive loss for the years ended December 31, 2022 and 2021 is as follows:

		Remeasurements of employee benefits		**Derivative and non-derivative financial instruments**		**Exchange differences on the translation of foreign**		**Total**
Other comprehensive loss:								
Balance as of January 1st, 2021	US$	(427)	US$	(80,124)	US$	(137,635)	US$	(218,186)
Comprehensive (loss) income of the year		(432)		80,033		(10,489)		69,112
Deferred tax effect		138		(274)		-		(136)
Balances as of December 31, 2021		(721)		(365)		(148,124)		(149,210)
Comprehensive income of the year		**253**		**336**		**3,471**		**4,060**
Deferred tax effect		**(79)**		**(80)**		**-**		**(159)**
Net balances as of December 31, 2022	**US$**	**(547)**	**US$**	**(109)**	**US$**	**(144,653)**	**US$**	**(145,309)**

b. An analysis of the effects of the derivative financial instruments in other comprehensive income (loss) for the years ended December 31, 2022, 2021 and 2020 is as follows:

		2022		2021		2020
Derivative and non- derivative financial instruments:						
Extrinsic value of changes on jet fuel Asian call options	**US$**	**-**	US$	601	US$	(601)
Extrinsic value of changes on jet fuel Zero cost collars		**-**		484		(7,572)
Income (loss) of the interest rate Cap		**336**		(128)		(34)
		336		957		(8,207)
Non derivative financial instruments*		**-**		79,076		(79,824)
Total	**US$**	**336**	US$	80,033	US$	(88,031)

*As of December 31, 2021, includes the effect of the discontinuation of the hedging strategies by US$ 109 million as described in note 3b (i).

25. Commitments and contingencies

Aircraft related commitments and financing arrangements

Committed expenditures for aircraft purchase and related flight equipment related to the Airbus purchase agreement, including estimated amounts for contractual prices escalations and pre-delivery payments, will be as follows:

	Commitment expenditures in thousands of U.S. dollars	
2023	**US$**	224,629
2024		275,363
2025		711,455
2026		1,410,003
2027 and thereafter		4,204,369
.	**US$**	**6,825,819**

All aircraft acquired by the Company through the Airbus purchase agreement through December 31, 2022, have been executed through sale and leaseback transactions.

In addition, we have commitments to execute sale and leaseback over the next three years. The estimated proceeds from these commitments are as follows:

	Aircraft sale prices estimated in thousands of U.S. dollars	
2023	US$	165,500
2024		998,000
2025		389,500
	US$	**1,553,000**

For future aircraft deliveries the Company will review the lease and financing structure applicable based on the then current market conditions.

The future lease payments for these non-cancellable sale and leaseback contracts are as follows:

	Aircraft leases in thousands of U.S. dollars	
2023	**US$**	7,977
2024		51,720
2025		104,014
2026		108,400
2027 and thereafter		1,028,688
	US$	**1,300,799**

Purchase of additional A320 New Engine Option ("NEO") family aircraft

On December 28, 2017, the Company amended the agreement with Airbus, S.A.S. ("Airbus") for the purchase of additional 80 A320NEO family aircraft to be delivered from 2022 to 2026, which was further amended in July 2020 to reschedule the deliveries between 2023 and 2028. Additionally, in November 2021 the Company entered into a new amendment to the referred agreement to purchase 39 additional A32O New Engine Option Family Aircraft to be delivered between 2023 and 2029, in addition to the acquisition of these 39 aircraft, the Company exercised its rights under the purchase agreement with Airbus to convert 20 aircraft from A320NEO to A321NEO aircraft of its current order, all to support the Company's targeted growth markets in Mexico, United States, Central America and South America.

On October 10th, 2022, the Company executed an amendment to our existing Airbus purchase agreement for the purchase of 25 A32NEO aircraft, all to be delivered in 2030.

Litigation

The Company is a party to legal proceedings and claims that arise during the ordinary course of business. Certain proceedings are considered possible obligations. Based on the plaintiffs' claims, as of December 31, 2022, 2021 and 2020 these possible contingencies amount to a total of US$7.8 million, US$8 million and US$6 million, respectively.

26. Operating segments

The Company is managed as a single business unit that provides air transportation services. The Company has two geographic segments identified below:

		2022		2021		2020
Operating revenues:						
Domestic (Mexico)	**US$**	**1,909,744**	US$	1,661,927	US$	800,525
International*:						
United States of America		**758,609**		509,976		271,899
Central America and South America		**178,837**		49,775		21,970
Non-derivative financial instruments		**-**		(21,378)		(19,408)
Total operating revenues	**US$**	**2,847,190**	US$	2,200,300	US$	1,074,986

*For the year ended December 31, 2022, the total revenue from international customers increased US$377,695 (67%) compared to the year ended December 31, 2021.

Revenues are allocated by geographic segments based upon the origin of each flight. The Company does not have material non-current assets located in foreign countries.

27. Subsequent events

Subsequent to December 31, 2022 and through April 18, 2023:

Execution of a contract to be adhered to a Loyalty Program

On January 23, 2023, the Company through its subsidiary Concesionaria entered into an agreement with Lealtad Mercadotecnia y Conocimientos Agregados, S.A.P.I. de C.V. (the "Supplier"), a subsidiary of Fomento Económico Mexicano, S. A. B. de C. V. (FEMSA), through the aforementioned contract Concesionaria is adhered as a participating company to the Loyalty Program established and managed by the Supplier (the "Program"). The Program will offer exclusive benefits to its users, allowing them to accumulate and redeem reward points with OXXO and Volaris.