

CARIBBEAN AIRLINES LIMITED

Consolidated Financial Statements

December 31, 2019

CARIBBEAN AIRLINES LIMITED

Contents	Page
Independent Auditor's Report	1 - 3
Consolidated statement of financial position	4
Consolidated statement of comprehensive income	5
Consolidated Statement of Changes in Equity	6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8 – 54

Independent auditor's report

To the shareholders of Caribbean Airlines Limited

Disclaimer of opinion

We do not express an opinion on the consolidated financial statements of Caribbean Airlines Limited and its subsidiaries (together the "Group"). Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We were engaged to audit the accompanying consolidated financial statements of the Group, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for disclaimer of opinion

We were not appointed as auditors for the 2019 financial statement audit of the Group until 3 March 2021 resulting in an extended passage of time between the reporting period and the date of our audit report, during which there were significant changes in senior management personnel and members of the board of directors. We were unable to satisfy ourselves via alternative means to obtain sufficient appropriate audit evidence regarding multiple elements of the consolidated financial statements, including the ability to perform required audit procedures under International Standards on Auditing (ISAs) as management were not able to provide adequate supporting documentation for audit purposes. As a result of these matters, we were unable to determine whether any adjustments would be required to the consolidated statements of financial position, comprehensive income, changes in equity and cash flows, and notes as at 31 December 2019 and for the year then ended. In the prior year there were similar facts and circumstances which resulted in a disclaimer of opinion, which was issued on 14 July 2026.

Management responsibility for preparation of the consolidated financial statements and management representations

The current senior management are not willing and able to assume responsibility for preparation of the consolidated financial statements in accordance with International Financial Reporting Standards, as required under International Standard on Auditing (ISA) 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing and as recommended practice by the Institute of Chartered Accountants of Trinidad and Tobago. Senior management is also not willing to provide the representations required under the International Standard on Auditing (ISA) 580, Management Representations.

Approval of the consolidated financial statements by the board of directors

The current board of directors are not willing and able to approve the consolidated financial statements as required under Section 154 (1) of Companies Act Chapter 81:01 and International Accounting Standard 10 – Events after the reporting period, which requires disclosure of the date when the financial statements were authorised for issue and who gave the authorisation.

Basis for disclaimer of opinion (continued)

Insufficient accounting records and supporting documentation

We were unable to confirm or verify by alternative means the following financial statement items:

- Completeness and accuracy of journal entries including consolidation entries due to data integrity with the underlying source information and the absence of underlying supporting documentation to assess their validity, including management's response to its fraud risk assessment.
- Property, plant and equipment totalling \$493m (2018: \$533m).
- Right of use assets totalling \$349m (2018: \$413m).
- Lease liabilities totalling \$357m (2018: \$431m).
- Aircraft and other deposits totalling \$277m (2018: \$258m).
- We did not observe the counting of physical inventories at the end of the current and prior year totaling \$140m and \$143m respectively. In addition, we were unable to perform sufficient procedures to support the existence, valuation, completeness, and cut-off in respect of inventories.
- Trade receivables totalling \$245m (2018: \$109m).
- Prepayments and other receivables totaling \$36m (2018: \$49m).
- Cash and cash equivalent balances held with financial institutions for several bank accounts, the book balances of which totaled \$16m (2018: \$93m).
- Provisions totaling \$189m (2018: \$206m).
- Unearned revenues totaling \$497m (2018: \$504m).
- Trade payables totaling \$134m (2018: \$120m).
- Accrued expenses and other payables totaling \$350m (2018: \$337m).
- The occurrence, accuracy and cut-off assertions over passenger revenue of \$2,579m (2018: \$2,570m), cargo and mail revenue of \$223m (2018: \$198m) and other revenue of \$356m (2018 - \$251m).
- The completeness, occurrence and accuracy of operating expenses totalling \$3,109m (2018: \$2,964m).
- The completeness, occurrence and accuracy of related party transactions disclosures in Note 12 to the financial statements, amounts due from related parties of \$39m (2018: \$29m) and amounts due to related parties of \$36m (2018: \$34m).
- We were unable to obtain external legal confirmations regarding the Group's legal matters to determine whether all applicable matters were appropriately accounted for and or disclosed in the consolidated financial statements.
- The Group's accounting records did not provide sufficient appropriate evidence that all subsequent events occurring between the date of the consolidated financial statements and the date of our auditor's report were appropriately identified by management and that the necessary adjustments and/or disclosures were included in the consolidated financial statements.

In addition to the matters described above giving rise to our disclaimer of opinion, the consolidated financial statements are also materially misstated with respect to the following matters:

Withholding taxes, Current and deferred tax

The consolidated financial statements do not include withholding tax liabilities and expenses, including related penalties and interest on unpaid withholding taxes as at 31 December 2019. The withholding tax relates to leased assets (aircraft) and is payable under the Income Tax Act. Management has prepared an updated estimate of the principal liabilities due, which amounted to \$102m as at 31 December 2019 (2018: \$77m), which has not been recorded within the consolidated financial statements. As of the date of our audit report, management was in the process of taking steps to conclude its determination of the amounts due, including penalties and interest, based on legislative requirements. There are material implications for the effect of this matter on the Group's corporation tax position, tax losses and resultant deferred tax assets recognised, the effects of which are material but have not been quantified and recorded in the consolidated financial statements.

Basis for disclaimer of opinion (continued)

Statement of cash flows

The statement of cash flows does not include a reconciliation of the \$94m (2018: \$41m) government subvention received and its application to borrowings and finance costs, as well as the comparatives.

Our auditor's report was similarly modified regarding the matters above in the prior year.

Government subventions

The consolidated statement of financial position includes an amount receivable from the Government of the Republic of Trinidad and Tobago of \$36m within trade and other receivables that was not classified as due from related parties. Additionally, the required disclosures were omitted from the notes to the consolidated financial statements.

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 International Financial Reporting Standards, 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.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to conduct an audit of the Group's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers

Port of Spain
Trinidad, West Indies
16 July 2026

CARIBBEAN AIRLINES LIMITED

Consolidated Statement of Financial Position

As at 31 December 2019

(Expressed in thousands of Trinidad and Tobago Dollars, except where otherwise stated)

	Notes	2019 \$'000	2018 \$'000
Non-Current assets			
Property, plant and equipment	4	493,253	533,340
Intangible assets	5	10,836	8,594
Right of use assets	6	349,163	413,466
Investments in associates	7	20,047	19,991
Aircraft and other deposits	8	276,871	257,688
Deferred tax asset	17	105,209	112,563
		<u>1,255,379</u>	<u>1,345,642</u>
Current assets			
Inventories	9	139,981	143,006
Trade receivables	10a	245,346	109,436
Due from related parties	12	38,740	29,494
Prepayments and other receivables	10b	36,046	49,061
Other financial assets	11	143,102	203,620
Cash and cash equivalents	13	136,593	146,403
		<u>739,808</u>	<u>681,020</u>
Total assets		<u>1,995,187</u>	<u>2,026,662</u>
EQUITY AND LIABILITIES			
Equity			
Stated capital	14	1,599,425	1,599,425
Accumulated deficit		(2,134,055)	(2,235,243)
Foreign currency translation reserve		(26,672)	(26,981)
		<u>(561,302)</u>	<u>(662,799)</u>
Non-Current liabilities			
Lease liabilities	6	122,659	210,769
Provisions	15	138,020	164,826
Unearned revenue	19c	233,352	160,797
Deferred tax liability	17	105,209	112,563
		<u>599,240</u>	<u>648,955</u>
Current liabilities			
Trade payables		134,058	120,042
Accrued expenses and other payables	18	349,720	336,895
Provisions	15	51,172	41,208
Tax payable		3,025	4,168
Borrowings	16	885,651	941,518
Lease liabilities	6	234,268	220,211
Due to related parties	12	36,013	33,715
Unearned revenue	19c	263,342	342,749
		<u>1,957,249</u>	<u>2,040,506</u>
Total equity and liabilities		<u>1,995,187</u>	<u>2,026,662</u>

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

CARIBBEAN AIRLINES LIMITED

Consolidated Statement of Comprehensive Income Year ended 31 December 2019

(Expressed in thousands of Trinidad and Tobago Dollars, except where otherwise stated)

		2019	2018
	Note	\$'000	\$'000
	s		
Revenue			
Passenger revenue	19a	2,578,626	2,570,072
Cargo and mail revenue	19a	223,147	197,819
Other revenue	19b	355,963	250,662
		<u>3,157,736</u>	<u>3,018,553</u>
Operating expenses			
Staff costs	20	521,756	489,363
Fuel		623,652	638,300
Maintenance costs		320,970	297,439
Passenger expenses		215,907	199,737
Selling and marketing		156,610	133,763
Commissions		144,767	128,570
Aircraft ground handling and navigation		394,612	399,220
Crew expenses		39,911	38,325
Depreciation and amortisation	4,5,6	324,137	319,307
Other operating expenses	21a	367,101	319,698
		<u>3,109,423</u>	<u>2,963,722</u>
Profit from operations		<u>48,313</u>	<u>54,831</u>
Other income/(expenses)			
Gain on sale of property, plant and equipment		--	6,774
Write-offs/restructuring costs		(4,384)	286
Interest income		5,633	1,818
Interest expense	21b	(73,672)	(69,504)
Share of after-tax net loss of associated companies	7	56	(1,180)
Foreign currency loss		15,326	(7,150)
Government subvention (loans)		129,945	40,644
		<u>72,904</u>	<u>(28,312)</u>
Profit before taxation		121,217	26,519
Taxation	22	(20,029)	(18,457)
Profit after taxation		<u>101,188</u>	<u>8,062</u>
Other comprehensive loss:			
Foreign exchange differences on translation to presentation currency		309	(2,589)
Total comprehensive income for the year (net of tax)		<u>101,497</u>	<u>5,473</u>

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

CARIBBEAN AIRLINES LIMITED

Consolidated Statement of Changes in Equity

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

	Stated capital \$'000	Accumulated deficit \$'000	Foreign currency translation reserve \$'000	Total equity \$'000
Year ended December 31, 2018				
Balance as at January 1, 2018	1,599,425	(2,243,305)	(24,392)	(668,272)
Total comprehensive loss for the year:				
Profit after taxation	--	8,062	--	8,062
Other comprehensive loss	--	--	(2,589)	(2,589)
Total comprehensive gain/(loss)	--	8,062	(2,589)	5,473
Balance as at December 31, 2018	1,599,425	(2,235,243)	(26,981)	(662,799)
Year ended December 31, 2019				
Balance as at January 1, 2019	1,599,425	(2,235,243)	(26,981)	(662,799)
Total comprehensive income for the year:				
Profit after taxation	--	101,188	--	101,188
Other comprehensive income	--	--	309	309
Total comprehensive gain	--	101,188	309	101,497
Balance as at December 31, 2019	1,599,425	(2,134,055)	(26,672)	(561,302)

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

CARIBBEAN AIRLINES LIMITED

Consolidated Statement of Cash Flows

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

		2019	2018
	Notes	\$'000	\$'000
Cash flows from operating activities			
Profit before taxation		121,217	26,519
Adjustment to reconcile profit before taxation to net cash from/(used in) operating activities:			
Depreciation and amortisation on property, plant and equipment and intangible assets	4, 5	71,377	69,823
Depreciation on right-of-use assets	6	252,760	249,484
Gain/(loss) on sale of property, plant and equipment		1,467	(6,774)
Non-cash Government subventions (loans)		(93,961)	(40,644)
Interest income		(5,633)	(1,818)
Interest expense on borrowings	21b	49,486	42,578
Interest expense on lease liabilities	21b	19,171	22,725
Share of after-tax net (gain)/loss of associated companies	7	(56)	1,180
Unrealised foreign currency (gain)		(552)	--
		<u>415,276</u>	<u>363,073</u>
Net change in operating assets and liabilities	23	<u>(151,152)</u>	<u>(11,101)</u>
Cash generated from operations		<u>264,124</u>	<u>351,972</u>
Taxation paid		(20,822)	(20,770)
Interest received		5,633	1,818
Interest paid on lease liability		<u>(19,171)</u>	<u>(22,725)</u>
Net cash generated from operating activities		<u>229,764</u>	<u>310,295</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(33,941)	(44,935)
Proceeds from the disposal of property, plant and equipment		--	6,774
Investments in other financial assets		(143,102)	(203,620)
Maturity of other financial assets		203,620	202,915
Purchase of intangibles assets	5	<u>(3,849)</u>	<u>(739)</u>
Net cash generated/ (used in) from investing activities		<u>22,728</u>	<u>(39,605)</u>
Cash flows from financing activities			
Principal payments on lease liabilities	6	<u>(262,302)</u>	<u>(246,147)</u>
Net cash used in financing activities	26	<u>(262,302)</u>	<u>(246,147)</u>
(Decrease)/increase in cash and cash equivalents		<u>(9,810)</u>	<u>24,543</u>
Cash and cash equivalents at start of year		<u>146,403</u>	<u>121,860</u>
Cash and cash equivalents at end of year	13	<u><u>136,593</u></u>	<u><u>146,403</u></u>

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

1. Incorporation and principal activity

Caribbean Airlines Limited ("CAL" or "the Company") was incorporated in the Republic of Trinidad and Tobago on September 27, 2006 and commenced commercial operations on January 1, 2007. CAL is the national airline of Trinidad and Tobago with its main hub at the Piarco International Airport in Trinidad and Tobago. It operates international services in the Caribbean and to the United States, Canada, and South America. The Government of the Republic of Trinidad and Tobago (GORTT) and the Government of Jamaica (GOJ) hold ownership interests of 88.1% and 11.9%, respectively. CAL's registered office is located at Iere House, Golden Grove Road, Piarco. These consolidated financial statements comprise CAL and its wholly owned subsidiaries (together referred to as 'the Group').

Name of Group	Shareholding	Country of Incorporation
<i>Subsidiary Group</i>		
Tobago Express Limited	100%	Trinidad and Tobago
CARA Limited	100%	Barbados
<i>Associated Companies</i>		
Katerserv Limited	40%	Trinidad and Tobago
Allied Caterers Limited	36%	Trinidad and Tobago

Tobago Express Limited's (Tabex) principal activity was the provision of air transportation services between Trinidad and Tobago. On October 1, 2007, CAL acquired all of the issued share capital of Tabex and assumed all responsibilities for the operation of the domestic route. Subsequent to that date, Tobago Express Limited became dormant as all operations were absorbed by CAL.

CARA Limited was incorporated on May 18, 2008. The principal activities of CARA Limited were to facilitate the repayment of a loan with Canadian Regional Aircraft Finance Transaction No.1 Limited (CRAFT) for the purchase and transfer of ownership of three (3) Dash 800 aircraft. CARA Limited became dormant as at December 31, 2013.

CAL acquired 40% of the shares in Katerserv Limited on December 20, 2007. The principal activities of Katerserv Limited are the catering of food, beverage and other airport services for the airline industry.

CAL acquired 36% of the shares in Allied Caterers Limited on December 20, 2007. The principal activities of Allied Caterers Limited are the catering of food and beverage for the airline operations and the rental of its facilities and delivery equipment to Katerserv Limited.

2. Basis of preparation

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of accounting

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards and interpretations issued by the IFRS Interpretations Committee (IFRS IC). Prior to December 2022, IFRS Accounting Standards were formerly referred to as International Financial Reporting Standards.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

2. Basis of preparation

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(b) *Basis of measurement*

The consolidated financial statements have been prepared on a historical cost basis except for financial assets measured at fair value through profit or loss.

In preparing the financial statements, management has assessed the Group's business operations, principal risks and uncertainties, financial position and cash flows. Despite liquidity challenges, the Group continues to receive adequate financial support and commitments from its majority shareholder, the GORTT. Based on this, management has concluded that the going concern basis of accounting remains appropriate in preparing these consolidated financial statements. Refer to Note 27 for management's assessment of going concern.

(c) *Functional and presentation currency*

The consolidated financial statements are presented in thousands of Trinidad and Tobago dollars, unless otherwise stated. Management has determined, in accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates', that the Group's functional currency is United States dollars, as it is the currency of the primary economic environment in which it operates. This is based on the fact that the majority of the Group's transactions, including revenues, costs, and financing, are denominated in United States dollars.

However, the consolidated financial statements are presented in Trinidad and Tobago dollars for the following reasons:

- A significant portion of the Group's stakeholders, including investors and financial institutions, operate and report in Trinidad and Tobago dollars, and
- Management believes that presenting the financial statements in Trinidad and Tobago dollars provides more relevant and comparable financial information to users of the financial statements.

In accordance with IAS 21, assets and liabilities are translated into the presentation currency at the closing rate at the reporting date, income and expenses are translated at average exchange rates for the year (unless this is not a reasonable approximation), and all resulting exchange differences are recognised in other comprehensive income.

(d) *Critical accounting judgements, estimates and assumptions*

The preparation of these consolidated financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcomes may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

2. Basis of preparation (continued)

(d) Critical accounting judgements, estimates and assumptions (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following accounting policies and notes:

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. This requires significant management judgement regarding timing and the level of future taxable profits and tax planning opportunities. The Group has not recognised all deferred tax assets on the tax losses carried forward. Further details on taxes are disclosed in Note 17.

- Leases

(a) Leases - whether the contract is, or contains, a lease. (See note 3 (n))

(b) Lease term - whether the Group is reasonably certain to exercise extension options.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. (See note 3 (n)).

The Group applies judgement in evaluating whether it is reasonably certain in exercising the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive to either renew or terminate the lease. After the commencement date, the Group reassesses the lease term, for any significant event or change in circumstances that is within its control and affects its ability to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

In determining the lease term and assessing the length of the non-cancellable period of certain building leases, in lieu of signed contracts, the Group applied judgement by considering the definition of a contract and determining the period for which the contract is enforceable.

- Government grants

The Group applied judgement in determining whether the grants, relating to interest and principal payments on its borrowings, meet the criteria of government grants in accordance with IAS 20.

Estimates and assumptions

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

2. Basis of preparation (continued)

(d) *Critical accounting judgements, estimates and assumptions (continued)*

The Group based its assumptions and estimates on available data at the time of preparing the consolidated financial statements. Existing circumstances and assumptions about future developments, may change due to market forces or circumstances arising beyond the Group's control. These changes are reflected in the assumptions when they occur.

- *Impairment of financial assets*

Loss allowances for financial assets are based on assumptions associated with risk of default and expected loss rates. The Group utilises judgement in making these assumptions which included the selection of inputs to the impairment calculation, based on its history, existing market conditions as well as forward looking estimates.

- *Impairment of non-financial assets*

Impairment exists when the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The Group did not perform an impairment assessment on its assets or cash generating unit at the end of this financial year.

- *Useful lives and residual values of property, plant and equipment*

The Group reviews the estimated residual values and expected useful lives of property, plant and equipment at least annually.

- *Component costs are estimated at initial recognition for the owned-aircrafts*

The Group estimates the value of major aircraft components on initial recognition. These major components are recognised and depreciated separately.

- *Provision for return conditions*

The Group recognises a provision for estimated costs of returning the aircraft to their lessor in the agreed upon condition. This estimate involves assumptions regarding future maintenance costs, aircraft usage, discount rates and related inflation. The provision was determined utilising hindsight where the analysis of actual outcomes represented a reliable estimate. Any difference arising between actual and estimated cost as well as changes in estimates are recognised in maintenance expenses for the period.

- *Provision for inventory obsolescence*

The provision for obsolescent inventory was determined through analysis of historical and planned usage of spare parts as well as technological obsolescence.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

2. Basis of preparation (continued)

(d) Critical accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

- *Frequent flyer programme*

The frequent flyer programme has two major contributors that are considered revenue arrangements with multiple performance obligations:

- (i) Mileage credits earned with travel.
- (ii) Mileage credits sold to credit cards and other partners.

The Group estimates the fair value of miles in those transactions using a blended calculation of rates charged when miles are sold to other partners and the average value of a mile flown by a customer. A specialist was engaged to determine the expected breakage (i.e. the portion of miles earned that is anticipated to expire unused) which reduces the reported liability.

- *Incremental borrowing rate (IBR) for leases*

The Group cannot readily determine the interest rate implicit for its leases, therefore, it utilises an IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over similar terms and securities, to attain the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

- *Fair value measurement*

The Group measures certain financial instruments at fair value at the date of each statement of financial position. Fair values of financial instruments measured at amortised cost are disclosed in Note 25.

Fair value is the price that would be received to sell an asset or what would be 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:

- in the principal market for the asset or liability, or
- 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a 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 Group 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 minimising the use of unobservable inputs.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

2. Basis of preparation (continued)

(d) Critical accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

- *Fair value measurement (continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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:

- i) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- ii) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- iii) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. 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. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

3. Significant accounting policies

(a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the reporting date. Differences arising from the settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Non-monetary items denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign currency translation rates prevailing at the dates the fair value was determined.

The results and financial position of the Group are translated from the functional currency into the presentation currency as follows:

- Assets and liabilities are translated at foreign exchange rates ruling at the balance sheet date.
- Income and expenses are translated at average exchange rates, unless these are not approximate to the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences resulting from retranslation to the presentation currency are recognised in other comprehensive income and accumulated in a separate component of equity shown in the consolidated statement of changes in equity as 'foreign currency translation reserve'.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(b) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy 3(h)). Owned aircraft are disaggregated into major components to reflect differing useful lives aligned with scheduled overhaul cycles.

Subsequent expenditures that enhances the value of the asset are capitalised if recognition criteria are met.

(ii) Depreciation

Depreciation is provided on a straight-line basis on all items of property, plant and equipment. The depreciation expense for owned assets is calculated on a basis of the cost of the asset, less any estimated residual value, spread over the assets' estimated useful lives. For owned aircrafts, depreciation rates are allocated amongst major components based on their respective useful lives up to the next scheduled overhaul. Assets are depreciated from the date of acquisition or, with respect to internally constructed assets, from the time an asset is completed and available for use. The costs of improvements to assets are amortised over the remaining useful life of the asset or the estimated useful life of the improvement, whichever is shorter.

The five aircraft components (included in 'aircraft parts and spares') are depreciated over the following useful lives:

Engines	–	3 years
Propellers	–	7 years
Landing gears	–	7 years
Flaps	–	8 years
Airframe	–	20 years.

Other assets are depreciated over the following useful lives:

Leasehold improvements	–	the shorter of 5 to 10 years or lease term.
Machinery and equipment	–	5 to 10 years
Motor vehicles	–	5 years
Computer equipment	–	3 years
Aircraft parts and spares	–	3 to 20 years.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

(iii) Disposal

An item of property, plant and equipment including any significant component parts initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains or losses on the disposal of property, plant and equipment are determined by reference to their carrying amounts and are considered in determining the net income for the year when the asset is derecognised.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(c) *Intangible assets*

Intangible assets acquired separately are initially measured at cost. Those acquired in a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets are derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income.

(d) *Aircraft and other deposits*

Aircraft deposits are cash deposits paid primarily to aircraft lessors. The aircraft deposits are refundable to the Group at the end of the lease term once the leased aircraft are returned to the lessors in the conditions stipulated in the respective lease agreements. Other deposits consist primarily of cash security deposits paid to certain credit card institutions which are refundable.

(e) *Inventories*

Inventories are measured at the lower of cost and net realisable value, determined by the average cost method, which is net of any provision for obsolescence. Inventories include mainly aircraft spare parts (expendables), items for duty-free operations and inflight services.

(f) *Cash and cash equivalents*

For the purposes of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand. These investments have original maturities of three months or less and can be readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

The Group evaluates the terms and conditions relating to its restricted cash to determine where it should be presented, as current assets in cash and cash equivalents or as non-current assets.

(g) *Financial instruments*

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

Financial assets

Initial recognition and measurement

Financial assets in the consolidated statement of financial position include aircraft and other deposits, trade receivables, due from related parties, other receivables, cash and cash equivalents, other short-term, highly liquid investments such as term deposits and mutual funds.

Financial assets are classified, at initial recognition, which are subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. These assets are recognised on the trade date.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Group's business model for managing them.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective of holding financial assets to collect contractual cash flows.

Accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the consolidated statement of comprehensive income when the asset is derecognised, modified or impaired. All the Group's financial assets are measured at amortised cost, except mutual funds which are measured at fair value through profit or loss.

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial instruments are initially recognised and carried at original invoice amount less an allowance for uncollectible amounts or expected credit losses.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, those designated upon initial recognition at fair value through profit or loss, or those that are mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of comprehensive income.

Derecognition

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group 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 (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

When the Group has transferred its rights to receive cash flows from an asset or has entered 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 assets nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In this instance, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment

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

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Losses arising from impairment are recognised under 'Other operating expenses' in the consolidated statement of comprehensive income.

Initial recognition and measurement

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

Financial liabilities in the Consolidated statement of financial position includes Due to related parties, Trade payables, Other payables, Borrowings and Financing. Details included within the respective policy notes. The Group's Financial liabilities are classified at amortised cost.

After initial recognition, all borrowings and loans are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised costs are calculated by ensuring that any discount or premium on acquisition and fees or costs that are an integral part of the EIR is included in the calculation. The EIR amortisation is included as finance costs in the Statement of Comprehensive Income. These liabilities are recognised on the trade date.

(i) Impairment on non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are combined into the smallest identifiable group that generates cash inflows from ongoing use and is largely independent of the cash inflows of other assets or asset groups. This grouping is referred to as the "cash-generating unit" (CGU).

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(i) *Impairment on non-financial assets (continued)*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

(j) *Trade payables*

These are liabilities for goods and services provided to the group prior to the end of financial year, which are unpaid. The balances are unsecured and paid within 30 days from initial recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(k) *Provisions*

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Re-delivery and engine repair

The Group recognises a provision for re-delivery expenses (including engine and airframe repairs upon re-delivery to the lessor) on commencement of the lease, the Group is required to return the aircraft to the lessor in contractually pre-determined conditions. The expected cash outflow, as a result of this obligation, is measured at present value with the discount unwound over the term of the lease.

The Group is also contractually obligated to maintain leased aircrafts and engines at pre-determined flight potential. Flight potential is depleted by usage, therefore a provision is also recognised over the period until the next maintenance cycle. The provision is determined by prorating the expense of the expected repairs and maintenance required to restore the flight potential.

The movement of the provision is further disclosed in Note 15.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(I) Revenue recognition

Revenue is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration which the Group expects to be entitled to in exchange for those goods or services. The consideration received or receivable is measured by contractually defined terms of payment, excluding taxes or duties.

The following specific recognition criteria must also be met before revenue is recognised:

Passengers

Passenger revenue primarily comprises of passenger ticket sales, frequent flyer miles redeemed and ancillaries' revenues associated with a passenger's flight (such as chartered flights, baggage fees, flight date change fees and upgrades).

Passenger ticket revenue is recognised in the consolidated statement of comprehensive income at the fair value of the consideration receivable, net of applicable taxes, when the transportation service is provided or when the ticket expires unused, rather than at the point of sale. Scheduled passengers are credited to unearned revenue on sale of service and subsequently transferred to revenue when passengers or cargo are transported.

The Group sells certain tickets for connecting flights that include segments operated by partner airlines. For these partner-operated segments, the Group acts as an agent, as the partner airlines are responsible for fulfilling their portion of the contract. Accordingly, the Group reduces its contract liability when it remits consideration to the partner airlines and recognises revenue only for the net amount representing the commission it retains for those segments flown by other carriers.

Contract liabilities (unearned revenue)

A contract liability (unearned revenue) is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer). Contract liabilities comprise unearned transportation revenue for ticket sales for transportation that has not yet been provided, unearned frequent flyer revenue for unutilised miles and Club Caribbean subscriptions.

Expired tickets

A portion of the value of tickets classified as "expired tickets" is recognised as other revenue based on data reflecting the actual expiration of tickets as at year-end. One year after the date of sale, the actual breakage amount is removed from the contract liability (unearned revenue) and recognised as revenue.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(l) Revenue recognition (continued)

Tickets expire one year after the sale date, and any revenue associated with tickets sold for future travel is recognised within 12 months.

Frequent flyer programmes

The airline's frequent flyer programmes operate through the airline's Caribbean Miles membership programme. The programme allows frequent travelers to use the services of participating partners to accumulate mileage credits that entitle them to various awards, primarily free travel. The fair value assigned to earned mileage credits is deferred as a contract liability when miles are awarded and, transferred to the unearned transportation liability when the miles are redeemed by members and recognised as revenue when the related travel is provided.

Additionally, frequent flyer miles that are issued but not redeemed before they expire or become invalid are classified as "breakage," which is estimated based on observed redemption patterns. Breakage rates are reviewed annually and adjusted for non-recurring or specific events that may influence members' redemption behavior, which is based on management's judgment.

Ancillary revenues

Ancillary revenues primarily comprise of services performed in conjunction with a passenger's flight, including administrative fees (such as ticket change fees), baggage fees, and other ticket-related fees. These ancillary fees are part of the travel performance obligation and, as such, are recognised as passenger revenue when the travel occurs.

Cargo and mail

Cargo and mail revenue is recognised in profit or loss at the fair value of the consideration receivable net of applicable taxes when transportation is provided and the risks on the merchandise and goods are transferred.

Other operating revenue

Airlines specific transportation fees (also known as YQ fees) are recognised as part of other revenue and are recognised when the transportation service is provided. Other revenue also includes Club Caribbean and duty-free revenue.

Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

(m) Maintenance costs

Maintenance and repair costs for owned and leased aircrafts and engines, including heavy C-check maintenance, are charged to operating expenses as incurred. Component maintenance and repair costs covered by Component Support Programme (CSP) arrangements are paid and expensed as incurred, on the basis of hours flown per the contract. Under the terms of these agreements, a set dollar amount per aircraft fleet flight hours flown monthly is paid to a third-party vendor who assumes the obligation to repair the components, subject to certain specified exclusions.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(m) Maintenance costs (continued)

Additionally, under the terms of the 737 lease agreements, the Group pays maintenance reserves supplemental rent to aircraft and engine lessors to cover maintenance of leased aircraft and engines.

These reserves are calculated based on flight hours, and the lessor is legally obligated to reimburse the Group for the cost of any major maintenance activity for which maintenance reserves were paid based on specific recovery criteria. The lessor is entitled to retain any excess deposits at the expiration of the lease.

The maintenance reserves paid under lease agreements do not transfer either the obligation to maintain the aircraft or the cost risk associated with the maintenance activities to the aircraft lessor. In addition, the Group maintains the right to select any third-party maintenance providers. The Group records the maintenance reserves paid as maintenance cost in the Statement of Comprehensive Income and recognises as a trade receivable the actual cost of major maintenance activities where a claim against maintenance reserves supplemental rent paid is allowed for the maintenance event.

(n) Employee benefits

Employee benefits are all forms of consideration given by the Group in exchange for services rendered by employees. These include current or short-term benefits such as salaries, bonuses, National Insurance (NIS) contributions, annual leave and non-monetary benefit such as medical care.

Liabilities for employee benefits, including wages, salaries, and annual leave expected to be settled within 12 months of the year-end, represent the present obligations arising from services employees have provided up to the reporting date. These liabilities are measured using the wage and salary rates the Group expects to pay as at the reporting date.

Retirement plans

On 31 December 2008, the Group established a defined contribution pension plan for its employees in Trinidad and Tobago. For defined contribution plans, the Group pays contributions to the pension plan, there is no further obligation once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The assets of this Plan are held in a trustee administered fund. In 2018, the Group contributed to the pension plan at the rate of 6% (2017: 6%) of its Trinidad and Tobago employees' remuneration and recognises these contributions as an expense when an employee has rendered service during the period.

(o) Leases

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

- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset; and
- The Group has the right to direct the use of the identified asset.

(i) Right-of-use assets

At the commencement date, the Group recognises a right-of-use asset and a lease liability (i.e., the date the underlying asset is available for use).

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(o) Leases (continued)

(i) Right-of-use assets (continued)

The right-of-use asset is 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 comprises:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or component, or lease term. The estimated useful life of right-of-use asset is determined on the same basis of owned property, plant and equipment.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. In this regard, the Group applies the following, by class of underlying asset:

- for the leases of real estate, the Group has elected to separate non-lease components.
- for aircraft leases, the value of major maintenance inspection or overhaul embedded in the aircraft is recognised as a separated component and is depreciated over the estimated time period until the first maintenance event is performed or the remaining life of lease term (as appropriate) whichever is shorter.

(ii) Lease liabilities

The lease liability, is initially measured at the present value of the lease payments that are not paid at that date, it is discounted using the interest rate implicit in the lease, if that rate can be readily determined or the lessee's incremental borrowing rate.

The lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

Variable lease payments that do not depend on an index or a rate are recognised as lease expenses in the period in which the event or condition that triggers the payment occurs, under 'Other operating and administrative expenses' in the consolidated statement of comprehensive income.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(o) Leases (continued)

(ii) Lease liabilities (continued)

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced by the lease payments made. The carrying amount of lease liabilities is also remeasured when there is a lease modification, a change in the lease term, a change in lease payments (such as those arising from revisions to an index or rate used to determine future payments), or a change in the assessment of a purchase option for the underlying asset.

(iii) Short term leases and leases of low value assets

The Group applies the short-term leases lease recognition exemption to leases with terms of 12 months or less. It also applies the lease the low-value asset recognition exemption to leases of office equipment that are considered low in value. Lease payments for both short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(p) Taxation

Tax on income comprises current tax and the change in deferred tax. Current tax comprises of tax payable calculated on the basis of the expected taxable income for the year, using the tax rate enacted by the reporting date or business levy.

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable income (loss).

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rate that is expected to apply to the period when the asset is realised, or the liability is settled. The effect on the deferred tax of any changes in the tax rate is charged to profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

(q) Government grants

CAL receives government grants from the Government Of the Republic of Trinidad and Tobago (GORTT) and records these in accordance with IAS 20 'Government Grants' as follows:

- i. Grants as a subsidy for the provision of services on the Trinidad and Tobago Airbridge and as subventions to assist with the general provision of air transportation. The subsidy received for the provision of services on the Trinidad and Tobago Airbridge is a fixed amount based on tickets sold and is recognised as part of other revenue in the consolidated statement of comprehensive income when the ticket has been flown. The receivable balance is included in Due from Related parties (see Note 12 (a)). Subventions received are recognised as part of other revenue when there is reasonable assurance that:
 - the entity will comply with the conditions attached to them;
 - the grants will be received. (see Note 19).

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(q) Government grants (continued)

- ii. Grants relating to the interest and principal payments on the Group's borrowings. GORTT remits the interest and principal directly to the financial institution when they become due. This is also recorded as a government grant and recognised as 'government subvention (loans)' in the Consolidated statement of comprehensive income when the payments are rendered by GORTT to the financial institution. See Note 2 (d) for the areas of significant judgement relating to government grants.

(r) Borrowings

The Group's borrowing transactions are recognised in the consolidated statement of financial position at the time the funds are transferred to the Group. The borrowing transactions are recognised at amortised cost, less transaction costs and the interest element of payments made is included in interest expense in profit and loss.

(s) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiary have been changed where necessary to align it with the policies adopted by the Group.

(ii) Associated companies

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investment in its associates is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. Thus, reversals of impairments may effectively include reversal of goodwill impairments. Impairments and reversals are presented within 'Share of profit of an associate' in the Consolidated statement of comprehensive income.

The Consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of these investees are included in the Group's OCI. When changes are recognised directly in the equity of the associate, the Group records its share of such changes, where applicable, in the Statement of Changes in Equity. changes in equity. Unrealised

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(s) Basis of consolidation (continued)

gains and losses arising from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

(iii) Loss of control or significant influence

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Upon loss of significant influence over the associate the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(t) New and amended standards effective 2019

The new and amended standards and interpretations that are issued and effective, up to the date of issuance of the Group's consolidated financial statements are:

IFRIC 22 - Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, 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 an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(t) *New and amended standards effective 2019 (continued)*

This interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 - Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2, 'Share-based Payment' that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The Group did not apply these exemptions.

Amendments to IAS 28 - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(t) *New and amended standards effective 2019 (continued)*

Amendments to IFRS 1 - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

(u) *New, revised and amended standards and interpretations not yet effective*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are:

- IFRIC 23: Uncertainty over Tax Treatments (effective January 1, 2019)
- Amendments to IFRS 3: Reference to the Conceptual Framework (effective January 1, 2022)
- Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use (effective January 1, 2022)
- Amendments to IAS 37: Onerous Contracts – Costs of Fulfilling a Contract – (effective January 1, 2022)
- IFRS 17: Insurance Contracts (effective January 1, 2023)
- Amendments to IAS 8: Definition of Accounting Estimates (effective January 1, 2023)
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies (effective January 1, 2023)
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective January 1, 2023)
- Amendment to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date pending)
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback (effective January 1, 2024)
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current (effective January 1, 2024)
- Amendments to IAS 7 and IFRS 7: Disclosures: Supplier Finance Arrangements (effective January 1, 2024)
- Amendments to IAS 21: The effects of Changes in Foreign Exchange Rates – effective January 1, 2025
- Amendments to IFRS 9 and IFRS 7: Classification and Measurement of Financial Instruments – effective January 1, 2026
- Amendments to IFRS 9 and IFRS 7: Power Purchase Agreements – effective January 1, 2026
- IFRS 18: Presentation and Disclosure in Financial Statements: Replaces IAS 1 Presentation of Financial Statements – effective January 1, 2027

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

3. Significant accounting policies (continued)

(u) New, revised and amended standards and interpretations not yet effective (continued)

- IFRS 19: Subsidiaries without Public Accountability: Disclosures – effective January 1, 2027
- Annual Improvements to IFRS Standards 2015–2017 Cycle, which is effective for annual reporting periods beginning on or after January 1, 2019:
 - Amendments to IFRS 3, *Business Combinations* and IFRS 11, *Joint Arrangements*, clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business. The amendments also provide further guidance on what constitutes the previously held interest. This is the entire previously held interest in the joint operation.
 - Amendments to IAS 12, *Income Taxes*, clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
- Amendments to IAS 23, *Borrowing Costs*, clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that are intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. The changes are to be applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective January 1, 2023)
- Amendment to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date pending)
- Annual Improvements to IFRS Standards 2018–2020 cycle contain amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, IAS 41 Agriculture, and are effective for annual periods beginning on or after January 1, 2022.

Improvements to IFRS Accounting Standards

The annual improvements process of the International Accounting Standards Board deals with non urgent but necessary clarifications and amendments to IFRS. The following amendments are applicable to annual periods beginning on or after January 1, 2026:

1. IFRS 9 *Financial Instruments* amendment clarifies that – for the purpose of performing the ‘10 per cent test’ for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees 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.
2. IFRS 16 *Leases* amendment removes the illustration of payments from the lessor relating to leasehold improvements.
3. The amendments to IAS 41 *Agriculture* removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 *Fair Value Measurement*.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

4. Significant accounting policies (continued)

(u) *New, revised and amended standards and interpretations not yet effective (continued)*

4. IFRS 1 – First-time Adoption of International Financial Reporting Standards – Hedge accounting by a first-time adopter
5. IFRS 7 ‘Financial Instruments: Disclosures –Gain or loss on derecognition
6. IFRS 9 ‘Financial Instruments – Derecognition of lease liabilities and Transaction price
7. IFRS 10 ‘Consolidated Financial Statements – Determination of a ‘de facto agent
8. IAS 7 ‘Statement of Cash Flows – Cost method

The Group has not early adopted these new and amended standards and interpretations but will continue to assess and does not anticipate that these new standards and interpretations will have a material impact on the Group's consolidated financial statements when they become effective.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

4. Property, plant and equipment

	Aircraft, spares and parts	Computer equipment	Motor vehicles	Machinery and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost						
Balance as at January 1, 2018	910,073	16,077	2,850	22,298	19,169	970,467
Adjustment for Forex	2,123	--	--	--	--	2,123
Additions	39,392	1,819	150	3,314	260	44,935
Disposals	(365)	--	--	--	--	(365)
Balance as at December 31, 2018	951,223	17,896	3,000	25,612	19,429	1,017,160
Balance as at January 1, 2019	951,223	17,896	3,000	25,612	19,429	1,017,160
Adjustment for Forex	(2,079)	--	--	--	--	(2,079)
Additions	26,281	2100	42	3,825	1,693	33,941
Disposals	(3,304)	--	--	--	--	(3,304)
Balance as at December 31, 2019	972,121	19,996	3,042	29,437	21,122	1,045,718
Depreciation						
Balance as at January 1, 2018	373,599	15,610	2,184	14,300	8,910	414,603
Adjustment for Forex	886	--	--	--	--	886
Charge for the year	61,826	612	210	2,319	3,432	68,399
Disposals	(68)	--	--	--	--	(68)
Balance as at December 31, 2018	436,243	16,222	2,394	16,619	12,342	483,820
Balance as at January 1, 2019	436,243	16,222	2,394	16,619	12,342	483,820
Adjustment for Forex	712	--	--	--	--	712
Charge for the period	64,335	978	225	2,149	2,083	69,770
Disposals	(1,837)	--	--	--	--	(1,837)
Balance as at December 31, 2019	499,453	17,200	2,619	18,768	14,425	552,465
Net book value						
At December 31, 2018	514,980	1,674	606	8,993	7,087	533,340
At December 31, 2019	472,668	2,796	423	10,669	6,697	493,253

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

5. Intangible assets

	Software
	\$'000
Cost	
Balance as at January 1, 2018	32,551
Additions	739
Balance as at December 31, 2018	33,290
Balance as at January 1, 2019	33,290
Additions	3,849
Balance as at December 31, 2019	37,139
Amortisation	
Balance as at January 1, 2018	23,272
Charge for the year	1,424
Balance as at December 31, 2018	24,696
Balance as at January 1, 2019	24,696
Charge for the year	1,607
Balance as at December 31, 2019	26,303
Net book value	
Balance at December 31, 2018	8,594
Balance at December 31, 2019	10,836

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

6. Leases

Right of use assets

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

	Buildings \$'000	Aircraft \$'000	Total \$'000
Balance at 1 January 2018	104,668	547,838	652,506
Additions	--	10,340	10,340
Modifications	104	--	104
Depreciation expense	(16,657)	(232,827)	(249,484)
As at 31 December 2018	88,115	325,351	413,466
Balance at 1 January 2019	88,115	325,351	413,466
Additions	924	11,371	12,295
Modification	21,801	154,152	175,953
Forex	--	209	209
Depreciation expense	(19,215)	(233,545)	(252,760)
As at 31 December 2019	91,625	257,538	349,163

Lease liabilities

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

	2019 \$'000	2018 \$'000
At 1 January,	430,980	666,683
Additions	12,295	10,340
Modification	175,954	104
Accretion of interest (Note 21(b))	19,171	22,725
Payments	(280,921)	(269,114)
Forex	(552)	242
As at 31 December	356,927	430,980
Current	234,268	220,211
Non-current	122,659	210,769
	356,927	430,980

The maturity analysis of lease liabilities disclosed in Note 26

The Group had total cash outflows for leases of \$437 million in 2019 and \$422 million in 2018.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

6. Leases (continued)

Lease payments:

	2019 \$'000	2018 \$'000
Fixed rent	281,473	269,114
Variable rent	155,520	152,695
	<u>436,993</u>	<u>421,809</u>

Amounts recognised in the consolidated statement of profit or loss related to leases:

	2019 \$'000	2018 \$'000
Depreciation and amortisation		
Depreciation expense of right of use assets	252,760	249,484
Finance cost		
Interest expense on lease liabilities	19,171	22,725
Other operating and administrative expenses		
Variable lease payments not included in the measurement of lease liabilities	155,520	152,695
Expense relating to short-term leases	63,694	18,885
Expense relating to leases of low-value assets	1,338	1,400
	<u>492,483</u>	<u>445,189</u>

Some aircraft leases contain variable payment terms that depend on the aircraft's flight hours.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

7. Investments in associated companies

The following table summarises the financial information of Katerserv Limited and Allied Caterers Limited.

	Katerserv Limited		Allied Caterers Limited	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
	40%	40%	36%	36%
Non-current assets	327	425	18,673	19,574
Current assets	18,893	18,405	30,592	21,927
Non-current liabilities	--	--	(3,064)	(3,292)
Current liabilities	(4,034)	(3,560)	(30,025)	(22,281)
Net assets (100%)	15,186	15,270	16,176	15,928
Group's share of net assets (40%/36%)	6,074	6,108	5,823	5,734
Implicit goodwill on acquisition of investment	8,148	8,148	--	--
Carrying amount of interest in associates	14,222	14,256	5,823	5,734
Revenue	32,086	32,767	87,066	63,788
Profit/(loss) from continuing operations and total comprehensive income (100%)	(54)	2,027	540	(5,530)
Opening RE adjustments (IFRS 9)	(31)	--	(291)	--
Total comprehensive income	(85)	2,027	249	(5,530)
Group's share of total comprehensive income	(34)	811	90	(1,991)
	Aggregate			
	2019	2018		
	\$'000	\$'000		
Carrying amount at January 1	19,991	21,171		
Share of after-tax net profit/(loss)	56	(1,180)		
Carrying amount at December 31	20,047	19,991		

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

8. Aircraft and other deposits

	2019 \$'000	2018 \$'000
Aircraft deposits	111,052	92,670
Security deposits made to third-party payment agents	165,819	165,018
	<u>276,871</u>	<u>257,688</u>

9. Inventories

	2019 \$'000	2018 \$'000
Expendable aircraft spares	133,567	137,449
Commercial items	11,410	11,133
Duty free items	18,098	12,915
Provision for obsolescence	(23,094)	(18,491)
	<u>139,981</u>	<u>143,006</u>

In 2019, inventories of \$128,581 (\$131,782 in 2018) were recognised as an expense and included in operating expenses.

10. Trade and other receivables and prepayments

(a) Trade receivables

	2019 \$'000	2018 \$'000
Trade receivables	292,100	158,311
Allowance for expected credit losses	(46,754)	(48,875)
	<u>245,346</u>	<u>109,436</u>

The movement in the allowance for expected credit losses of trade receivables during the year was as follows:

	2019 \$'000	2018 \$'000
Balance at January 1	48,875	33,049
Write-offs	(15,687)	(1,756)
Charge for the year (Note 21 (a))	13,566	17,582
Balance at December 31	<u>46,754</u>	<u>48,875</u>

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

10. Trade and other receivables and prepayments (continued)

(d) Prepayments and other receivables

	<u>2019</u> \$'000	<u>2018</u> \$'000
VAT	7,991	19,489
Other	<u>28,055</u>	<u>29,572</u>
	<u>36,046</u>	<u>49,061</u>

11. Other financial assets

	<u>2019</u> \$'000	<u>2018</u> \$'000
Investments at amortised cost		
Term deposits	39,828	103,912
Investment at fair value through profit or loss		
Mutal funds	<u>103,274</u>	<u>99,708</u>
	<u>143,102</u>	<u>203,620</u>

Term deposits earned interest based on rates determined by the banks in which the instruments are held. The use of these instruments before its maturity date depends on the cash requirements of the Group.

As at December 31, 2019, the Group has pledged \$29.6 million (2018: \$26.6 million) of term deposits in order to fulfil the collateral requirements for some letters of credits established with RBC Royal Bank (Trinidad and Tobago) Limited. Refer to Note 24 for further details.

Investments at fair value through profit or loss ("FVPL") include investments in shares of mutual funds. Fair values of these shares are determined by reference to published price quotations in an active market. During 2019, the Group recognised a net unrealised gain on instruments at FVPL of \$2.7 million (2018: \$1.5 million) recorded under 'interest income' in the consolidated statement of comprehensive income.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

12. Related party transactions

Related party transactions and balances

	2019	2018
	\$'000	\$'000
<i>(i) Balances</i>		
Due from related parties		
Division of Tourism THA	22,066	16,585
GORTT	10,238	6,679
Nutramix Feeds Limited	636	1,477
Other	5,801	4,753
	<u>38,740</u>	<u>29,494</u>
Due to related parties		
Trinidad & Tobago National Petroleum Marketing Company Limited	26,268	21,792
Airports Authority Trinidad and Tobago	2,014	1,002
Katerserv Limited	2,779	4,362
Other	4,953	6,559
	<u>36,013</u>	<u>33,715</u>

'Other' represents the aggregate of balances with entities also controlled by GORTT. Balances with related parties are unsecured, interest free and repayable on demand.

(ii) Transactions

A number of transactions have been entered into with its related parties in the normal course of business. The transactions relating to items of revenue and expenditure are included in the respective captions in the consolidated statement of comprehensive income as follows:

	2019	2018
	\$'000	\$'000
Other revenue		
Airbridge domestic subsidy (see Note 19)	106,784	56,466
Expenses		
Trinidad & Tobago National Petroleum Marketing Company Limited	299,635	299,266
Airports Authority of Trinidad and Tobago	48,115	45,548
Katerserv Limited	27,213	27,365
Other	9,671	9,288
Other income/(expenses)		
Government subvention (loans)	129,945	40,644

'Other' represents the aggregate of transactions with entities also controlled by GORTT.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

12. Related party transactions (continued)

(a) Transactions with key management personnel

In addition to their salaries, the Group also provides non-cash benefits to executive officers. The key management personnel compensation is as follows:

	2019 \$'000	2018 \$'000
Short-term employee benefits	16,404	12,043
Directors' fees	561	535
Pension contributions	448	356
	<u>17,413</u>	<u>12,934</u>

13. Cash and cash equivalents

	2019 \$'000	2018 \$'000
Bank balances	136,593	146,403

14. Stated capital

	2019 \$'000	2018 \$'000
Authorised		
An unlimited number of ordinary shares of no par value		
Issued and fully paid		
252,800,000 ordinary shares of no par value	<u>1,599,425</u>	<u>1,599,425</u>

15. Provisions

	2019 \$'000	2018 \$'000
<i>Aircraft redelivery including engine restoration</i>		
Balance at the beginning of year	206,034	210,694
Provisions recognised	20,057	16,313
Provisions utilised	(41,247)	(24,426)
Foreign exchange movements	(325)	62
Unwinding of discount (Note 21b)	<u>4,673</u>	<u>3,391</u>
Balance at the end of the year	<u>189,192</u>	<u>206,034</u>
Current	51,172	41,208
Non-current	<u>138,020</u>	<u>164,826</u>
	<u>189,192</u>	<u>206,034</u>

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

16. Borrowings

	2019 \$'000	2018 \$'000
(a) <i>Current</i>		
Bank loans	885,651	941,518
(b) <i>Bank loans comprise of the following:</i>		
First Citizens Bank Limited US\$64.2M loan	--	435,305
First Citizens Bank Limited US\$74.66M loan (i)	451,508	506,213
Ansa Bank US\$64.2M loan (ii)	434,143	--
	885,651	941,518

(i) On 21 January 2015, CAL entered into a loan facility with First Citizens Bank Limited (FCB) for the amount of US\$75 million with a term of 8 years, interest of 6-month LIBOR plus 2.18% and principal and interest payable semi-annually. In November 2017, this facility was refinanced and restructured into a new loan. This restructured facility is explained in (iii) below.

(ii) The First Citizens Bank loan facility of US\$64.2 million (See Note 4 (c)) with a maturity date of January 31, 2016, was refinanced on April 27, 2016 with a maturity date of April 22, 2019. The facility carried an interest rate of six-month LIBOR plus 2.25% with semi-annual interest payments and the principal due at maturity. On April 8, 2019, the Ministry of Finance of the Government of Trinidad & Tobago, acting as guarantor, requested a three-month extension of the facility to July 22, 2019, to allow time for

Refinancing arrangements. Subsequently, on July 18, 2019, the Ministry selected ANSA Merchant Bank to refinance the facility.

A 10-year term loan was executed at a fixed interest rate of 5.875%, with semi-annual interest payments and a bullet principal repayment at maturity. ANSA Merchant Bank fully settled the First Citizens Bank facility on July 22, 2019.

(iii) This facility is the restructure of the US\$75 million loan explained in (i) above. In November 2017, the principal of the original facility was adjusted to US\$74.66 million with the disbursement of an additional US\$20 million. The restructured facility has a term of 9 years maturing on 19 November 2026 with interest of 6-month LIBOR plus 2.18%. The current effective rate is 3.1821% per annum. There is a moratorium on principal payments with interest to be paid semi-annually for the first year and an eight (8) year amortisation period with blended payments of principal and interest payable semi-annually. This facility is unsecured and guaranteed by the Government of Trinidad and Tobago. As per the terms and conditions under both long-term loan agreements with FCB, the Group is required to comply with certain non-financial covenants, such as the delivery of quarterly management accounts by the 15th day of the month following each quarter then ended and delivery of audited annual financial statements within 180 days after the end of the period. As at December 31, 2019 and 2018, the Group was not compliant with these covenants and accordingly, an event of default under the terms of the loan agreements has occurred. Consequently, the full outstanding loan balance for both loans has been classified as a current liability in the consolidated statement of financial position. Refer to Note 28 (i) for further details.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

17. Deferred tax

Deferred income tax assets and liabilities in the consolidated statement of financial position are attributed to temporary differences relating to property, plant and equipment (PP&E), tax losses and leases. Movement is as follows:

	2019 \$'000	2018 \$'000
(i) <i>Deferred tax asset</i>		
Balance at beginning of year	112,563	114,887
Movement due to tax losses and leases	(7,354)	(2,324)
Balance at end of year	105,209	112,563
(ii) <i>Deferred tax liability</i>		
Balance at beginning of year	112,563	114,887
Movement due to temporary differences on PP&E	(7,354)	(2,324)
Balance at end of year	105,209	112,563

The Group has unutilised tax losses of \$2,247 million (2018: \$2,328 million) which have not yet been assessed and agreed to by the Board of Inland Revenue.

The Group does not expect to generate taxable income in foreseeable future that would fully utilise existing tax losses and has recognised as deferred tax asset on tax losses and leases only to the extent that there are available taxable temporary differences.

If the Group was able to recognise all unrecognised deferred tax assets, the profit would increase by \$571 million (2018: \$591 million).

18. Accrued expenses and other payables

	2019 \$'000	2018 \$'000
Accrued expenses:		
- Passenger	20,034	23,638
- Personnel	38,089	31,189
- Staff vacation balances	21,504	27,763
- Other	90,089	76,641
- Sales taxes & penalties	--	1,882
VAT & payroll taxes	5,963	8,487
Loan interest payable	16,118	7,479
Aircraft handling & navigation	57,173	66,324
Air transportation taxes, charges and fees	100,750	93,492
	349,720	336,895
Current	349,720	336,895

Included in 'other' are amounts relating to accruals for leases of aircrafts and engines, maintenance and building rent.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

19. Revenue

(a) Revenue from contracts with customers

Disaggregated revenue information

The following table shows disaggregated operating revenues:

	2019	2018
	\$'000	\$'000
Passenger		
Passenger revenue	2,383,825	2,389,300
Miles redeemed	52,596	55,114
Chartered flights	5,825	2,465
Baggage fees, flight date change fees and upgrades	136,380	123,193
	<u>2,578,626</u>	<u>2,570,072</u>
Cargo and mail	<u>223,147</u>	<u>197,819</u>

(b) Other revenue

	2019	2018
	\$'000	\$'000
Airbridge domestic subsidy (Note 12)	106,784	56,466
Expired tickets	92,045	52,621
Duty free revenue	56,017	52,697
Club Caribbean revenue	5,620	9,106
Other	95,497	79,772
	<u>355,963</u>	<u>250,662</u>
Total Revenue	<u>3,157,736</u>	<u>3,018,553</u>

(c) Contract balances – unearned revenue

The table below presents the changes in the transportation liability:

	2019	2018
	\$'000	\$'000
Balance at the beginning of the year	268,786	266,064
Tickets issued	2,447,316	2,436,206
Revenue recognised	(2,389,650)	(2,391,765)
Miles redeemed not yet flown	6,096	10,902
Expired tickets	(92,045)	(52,621)
Balance at end of year	<u>240,503</u>	<u>268,786</u>
Current	<u>240,503</u>	<u>268,786</u>

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

19. Revenue (continued)

(c) Contract balances – unearned revenue (continued)

The table below presents the changes in the Frequent Flyer liability:

	2019	2018
	\$'000	\$'000
Restated balance at the beginning of the year	231,235	216,077
Unearned revenue	77,695	81,174
Revenue recognised	(52,596)	(55,114)
Miles redeemed not yet flown	(6,096)	(10,902)
Balance at end of year	250,238	231,235
Current	16,886	70,438
Non-Current	233,352	160,797
	250,238	231,235

The table below presents the changes in the deferred Club Caribbean revenue:

	2019	2018
	\$'000	\$'000
Balance at the beginning of the year	3,525	4,154
Unearned revenue	8,048	8,477
Revenue recognised	(5,620)	(9,106)
Balance at end of year	5,953	3,525
Current	5,953	3,525
Total unearned revenue:		
Current	263,342	342,749
Non-Current	233,352	160,797

20. Staff costs

	2019	2018
	\$'000	\$'000
Salaries and wages	418,932	387,351
Crew allowances	29,716	30,297
National insurance and health and payroll taxes surcharge	22,411	21,756
Pension contribution	17,093	17,584
Other personnel expenses	33,604	32,375
	521,756	489,363

The total number of employees as at December 31, 2019 was 1,791 (2018: 1686).

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

21. Expenses

(a) Other operating expenses

	<u>2019</u> \$'000	<u>2018</u> \$'000
Security and other direct expenses	10,420	10,103
Administrative charges	98,577	111,915
Professional fees	27,860	29,338
Duty free cost of sales	37,851	38,305
Building and utilities	6,588	6,382
Expected credit losses	13,566	17,582
Computer, telephone and communication charges	40,549	35,223
Freighter rentals	72,872	56,405
Aircraft and engine rentals (see Note 3 (t))	58,818	14,445
	<u>367,101</u>	<u>319,698</u>

(b) Interest expenses

	<u>2019</u> \$'000	<u>2018</u> \$'000
Interest expense on borrowings	49,486	42,578
Unwinding of discount – provision (Note 15)	4,673	3,391
Interest expense on lease liabilities (Note 6)	19,171	22,725
Late payment charges	342	810
	<u>73,672</u>	<u>69,504</u>

22. Taxation

	<u>2019</u> \$'000	<u>2018</u> \$'000
(a) Business levy	20,029	18,457
Deferred tax recovery	(7,354)	(2,324)
Deferred tax charge	7,354	2,324
	<u>20,029</u>	<u>18,457</u>

(b) The Group's effective tax rate differs from the statutory rate as a result of the differences shown below:

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

22. Taxation

	2019	2018
	\$'000	\$'000
Profit before taxation	121,217	26,519
Corporation tax at the statutory rate of 30%	36,607	7,956
Tax effect of non-deductible items	9,503	7,869
Non-taxable income	(20,162)	(6,399)
Tax effect of losses not recognised	(25,128)	(9,800)
Other movements	(820)	374
Business levy	20,029	18,457
	<u>20,029</u>	<u>18,457</u>

23. Net change in operating assets and liabilities

	2019	2018
	\$'000	\$'000
Trade receivables	(135,910)	(10,375)
Net due from/to related parties	(6,947)	1,118
Prepayments and other receivables	13,015	(2,542)
Trade payables	14,016	374
Accrued expenses and other payables	4,177	25,256
Inventories	3,025	(9,180)
Aircraft and other deposits	(19,183)	(28,211)
Provisions	(16,632)	(4,723)
Unearned revenue	(6,713)	17,182
	<u>(151,152)</u>	<u>(11,101)</u>

24. Contingent liabilities, commitments and guarantees

The Group has established Letters of Credit with RBC Royal Bank (Trinidad) Limited amounting to \$22,212 (2018: \$23,875) and Citibank amount to \$64,899 (2018: \$65,002). These Letters of Credit are established with suppliers for provision of air transportation services and credit card acquiring services. The Group also has Customs Bonds amounting to \$18,344 (2018: \$20,096).

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

25. Fair value measurement

The carrying amounts of the Group's cash and cash equivalents, other financial assets, trade and other receivables, trade and other payables and due from related parties approximate their fair value, in view of their short-term maturities of a year or less.

The fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values are set out below:

	Carrying amount 2019 \$'000	Fair value 2019 \$'000	Carrying amount 2018 \$'000	Fair value 2018 \$'000
Financial liabilities:				
Borrowings	885,651	892,714	941,518	941,645

Fair value measurement hierarchy as at December 31, 2019:

	Quoted prices in active markets (Level 1) \$'000	Significant observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000
Assets measured at fair value:			
Mutual funds	103,274	--	--
Liabilities for which fair values are disclosed:			
Borrowings	--	892,714	--

Fair value measurement hierarchy as at December 31, 2018:

	Quoted prices in active markets (Level 1) \$'000	Significant observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000
Assets measured at fair value:			
Mutual funds	99,708	--	--
Liabilities for which fair values are disclosed:			
Borrowings	--	941,645	-

There were no transfers between Level 1 and Level 2 during 2019.

The fair values of the interest-bearing borrowings are determined by using the discounted cashflows method, using discount rates that reflect the issuers' borrowing rates as at the end of the reporting period.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

26. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's overall risk management programme seeks to minimise potential adverse effects on financial performance of the Group.

Credit risk

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

The Group seeks to manage credit risk by limiting the aggregate exposure to any individual counterparty, customer or financial institution.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group operates in legal jurisdictions in North America, South America and the Caribbean and is exposed to credit risk as a result of geo-political and legal issues of operating in these jurisdictions. The operations in Venezuela are exposed to credit risk. The Central Bank of Venezuela controls and limits the movement of currency that can be repatriated from the Venezuelan financial market. Continuous devaluation of the currency by the Central Bank of Venezuela has forced management to discontinue sale of tickets in VEF.

In addition, the Group has deposits with aircraft suppliers as referred to in Note 8, however these are considered fully secured against leased aircraft.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Cash and cash equivalents and other financial assets

Credit risk from balances with banks and financial institutions is managed by the Group's treasury function in accordance with the Group's policy. The Group invests only in cash, short term deposits and mutual funds with very low credit risk.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

26. Financial risk management (continued)

Credit risk (continued)

Exposure to credit risk

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

	2019 \$'000	2018 \$'000
Trade receivables	292,100	158,311
Less: allowance for expected credit losses	(46,754)	(48,875)
Trade receivables (net)	245,346	109,436
Cash and cash equivalents	136,593	146,403
Other financial assets	143,102	203,620
Due from related parties	38,740	29,494
Aircraft and other deposits	276,871	257,688
	840,652	746,641

The maximum exposure to credit risk from trade receivables, net of allowance, at the reporting date by geographic region was:

	2019 \$'000	2018 \$'000
Domestic	99,741	12,087
International	145,605	97,349
	245,346	109,436

The aging of trade receivables, at the reporting date was:

Current 0–30 days	130,626	64,846
Past due 31–90 days	78,260	9,120
More than 90 days	37,075	35,470
	245,961	109,436

During 2019, the Group did not renegotiate any of the terms of its trade receivables (2018: NIL).

Impairment losses

The allowance accounts in respect of trade and other receivables are used to record impairment losses. If the Group is satisfied that no recovery of the amount owing is possible, the amount is considered irrecoverable and is written off against the financial asset directly.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

26. Financial risk management (continued)

Credit risk (continued)

Exposure to credit risk (continued)

Changes in liabilities arising from financing activities

The following table shows the Group's contractually agreed undiscounted cash flows, including expected interest payments, which are payable under financial liabilities at the balance sheet date.

	January 1, 2019	Cash flows	Foreign exchange movement	New Leases	Other	December 31, 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current lease liabilities (Note 6)	220,211	(262,302)	(282)	--	276,641	234,268
Current borrowings (Note 16)	941,518	--	(2,751)	--	(53,116)	885,651
Non-current lease liabilities (Note 6)	210,769	--	(270)	188,249	(276,089)	122,659
Total liabilities from financing activities	1,372,498	(262,302)	(3,303)	188,249	(52,564)	1,242,578

	January 1, 2018	Cash flows	Foreign exchange movement	New Leases	Other	December 31, 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current lease liabilities (Note 6)	249,153	(246,147)	90	--	217,115	220,211
Current borrowings (Note 16)	939,098	--	2,420	--	--	941,518
Non-current lease liabilities (Note 6)	417,530	--	152	10,444	(217,357)	210,769
Total liabilities from financing activities	1,605,781	(246,147)	2,662	10,444	(242)	1,372,498

The 'Other' column includes the effect of reclassifications between non-current and current borrowings and lease liabilities, and the effect of accrued but not yet paid interest on borrowings. The Group classifies interest paid as cash flows from operating activities.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

26. Financial risk management (continued)

Liquidity risk (continued)

The Group uses budgets which assist in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The table below summarises the Group's financial liabilities according to their maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

	Carrying Amount	Contractual Amount	1 Year and Less	1–2 Years	2–5 Years
	\$'000	\$'000	\$'000	\$'000	\$'000
December 31, 2019					
Trade payables	(134,058)	(134,058)	(134,058)		
Other payables (excluding accruals)	(16,118)	(16,118)	(16,118)		
Due to related parties	(36,013)	(36,013)	(36,013)		
Borrowings	(885,651)	(1,077,743)	(1,077,743)		
Lease liabilities	(356,927)	(386,331)	(250,595)	(65,749)	(69,987)
	<u>(1,428,767)</u>	<u>(1,650,263)</u>	<u>(1,514,527)</u>	<u>(65,749)</u>	<u>(69,987)</u>

	Carrying Amount	Contractual Amount	1 Year and Less	1–2 Years	2–5 Years
	\$'000	\$'000	\$'000	\$'000	\$'000
December 31, 2018					
Trade payables	(120,042)	(120,042)	(120,042)		
Other payables (excluding accruals)	(7,479)	(7,479)	(7,479)		
Due to related parties	(33,715)	(33,715)	(33,715)		
Borrowings	(941,518)	(1,039,171)	(1,039,171)		
Lease liabilities	(430,980)	(457,052)	(233,531)	(139,852)	(83,669)
	<u>(1,533,734)</u>	<u>(1,657,459)</u>	<u>(1,433,938)</u>	<u>(139,852)</u>	<u>(83,669)</u>

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

26. Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to currency risk on sales and purchases that are denominated in currencies other than its functional currency. These other currencies are primarily Canadian Dollar (CAD), Sterling (GBP) and Venezuelan Bolívar fuerte (VEF).

Foreign currency risk

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group does business in approximately 15 currencies and generates surpluses in most of these currencies after paying local expenses. Surpluses are converted mainly to United States dollars or local currency to meet payments for fuel, lease costs, major overhaul, payments to other carriers, local salaries and expenses. The Group manages its foreign currency exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for United States dollars. Balances held in soft currencies are constantly reviewed and managed to reduce the Group's exposure.

Sensitivity analysis

The Group settles all its foreign currency obligations in the stated foreign currency and has substantial long-term liabilities denominated in US dollar and cash in bank held in Venezuela (see Note 13) that is subject to volatile changes in exchange rates.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the US dollar and other exchange rates, with all other variables held constant on comprehensive income.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

26. Financial risk management (continued)

Market risk (continued)

Exposure to foreign currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	Carrying Amount	USD	TTD	Other
	\$'000	\$'000	\$'000	\$'000
December 31, 2019				
Cash and cash equivalents	136,593	60,211	29,409	46,973
Trade receivables	245,346	120,787	99,741	24,818
Due from related parties	38,740		38,740	
Other financial assets	143,102	103,274	39,172	656
Aircraft and other deposits	276,871	274,350	129	2,392
Trade payables	(134,058)	(111,149)	(21,082)	(1,827)
Due to related parties	(36,013)		(36,013)	
Other payables (excluding accruals)	(16,118)	(16,118)	--	--
Borrowings	(885,651)	(885,651)	--	--
Lease liabilities	(356,927)	(348,890)	(5,878)	(2,159)
Net Gap	(588,115)	(803,186)	144,217	70,853
Reasonably possible change in currency rate		±5%	--	±5%
Effect on profit before tax		±(40,159)	--	±3,543

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

26. Financial risk management (continued)

Market risk (continued)

Exposure to foreign currency risk

	Carrying Amount	USD	TTD	Other
	\$'000	\$'000	\$'000	\$'000
December 31, 2018				
Cash and cash equivalents	146,403	91,848	6,307	48,248
Trade receivables	109,436	87,217	12,087	10,132
Due from related parties	29,494	--	29,494	--
Other financial assets	203,620	99,707	103,240	673
Aircraft and other deposits	257,688	256,488	172	1,028
Trade payables	(120,042)	(95,792)	(14,486)	(9,764)
Due to related parties	(33,715)	--	(33,715)	--
Other payables (excluding accruals)	(7,479)	(7,479)	--	--
Borrowings	(941,518)	(941,518)	--	--
Lease liabilities	(430,980)	(421,067)	(6,976)	(2,937)
Net gap	(787,093)	(930,596)	96,123	47,380
Reasonably possible change in currency rate		±5%	--	±5%
Effect on profit before tax		±(46,530)	--	±2,369

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group is exposed to changes in interest rates on the floating rate component of debt financing, in particular, London Inter-bank Offered Rate (LIBOR). Interest rate risk on borrowings is managed through negotiating the balance of fixed and floating rate debt within the specific loan financing structure. As the Group's debt obligations are repaid by the GORTT and therefore has a net nil effect on the consolidated statement of comprehensive the impact of changes to the interest rate is consider to be minimal.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, maintain an optimal capital structure, reduce the cost of capital and to provide benefits to it shareholder and stakeholders. Total capital is defined as share capital (Note 14) and accumulated deficit as displayed in the consolidated statement of equity. The majority shareholder, GORTT, has influence as to how the Group manages capital, total debt (Note 16) and total debt to total capital ratio, that would allow the Group to operate as a going concern. Within net debt, the Group includes interest bearing loans and borrowings, lease liabilities, trade and other payables and accrued expenses less cash and cash equivalents.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

26. Financial risk management (continued)

Capital management

	<u>2019</u> \$'000	<u>2018</u> \$'000
Borrowings	885,651	941,518
Trade payables	134,058	120,042
Accrued expenses and other payables	349,720	336,895
Lease liabilities	356,927	430,980
Less: cash and cash equivalents	<u>(136,593)</u>	<u>(146,403)</u>
Net debt	<u>1,589,763</u>	<u>1,683,032</u>

27. Going concern assessment

Management have assessed the Group's ability to continue as a going concern, taking into consideration its principal risks and uncertainties, operating performance and current financial position, including cash flow projections, liquidity status and the availability of financial support.

As at December 31, 2019, the Group reported a working capital deficit of \$1,217 million, an improvement from the \$1,360 million deficit in 2018. The Group's ability to meet obligations and fund fleet expansion is dependent on continued financial backing from its majority shareholder. The current financial condition limits the Group's capacity to secure independent third-party financing.

Despite the Group's liquidity constraints and continued working capital deficit, the Government of the Republic of Trinidad and Tobago (GORTT), the Group's majority shareholder, has historically provided financial support. On 11 March 2025, the Honourable Minister of Finance provided a Deed of Support and Guarantee letter from the GORTT stating that the GORTT as majority shareholder will continue to provide appropriate financial support to CAL to enable the Group to continue its operations and meet its obligations as they fall due in the normal course of business for a period of at least 24 months from the date of the letter. An updated Deed of Support and Guarantee was obtained from GORTT dated 4 December 2025, effective for a period of at least 24 months from that date. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

CARIBBEAN AIRLINES LIMITED

Notes to the Consolidated Financial Statements (continued)

Year ended December 31, 2019

(Expressed in thousands of Trinidad and Tobago dollars, except where otherwise stated)

28. Event after the reporting date

(i) *Borrowing and financing*

To support operations during the COVID-19 pandemic (see note 26 (v)) the following government-guaranteed loan facilities were secured:

- Ansa Merchant Bank Limited – US\$65.6 million on June 24, 2020, with a 7.3% interest rate, interest payable semi-annually and principal due at maturity on (June 24, 2025).
- First Citizens Bank Limited – US\$50 million on July 20, 2021, with a 5.55% interest rate; interest payable semi-annually and principal due at maturity (July 20, 2029).
- NCB Merchant Bank (T&T) Limited – US\$25 million on August 8, 2022, with a 5.69% interest rate and an 8-year term; semi-annual blended payments of principal and interest, with a one-year moratorium.
- Ansa Merchant Bank Limited – US\$25 million on November 30, 2022, with a 6.62% effective interest rate and a 5-year term; semi-annual blended payments with a one-year moratorium.

(ii) *Upgrade of Boeing 737 NG fleet to Boeing 737 Max 8 fleet*

CAL entered into the following lease agreements to upgrade its Boeing 737 Next Generation (NG) fleet to the Boeing 737 Max 8 model.

- (a) Deliveries were delayed due to the global grounding of the 737 Max 8 for FAA recertification. CAL began accepting deliveries from April 2021.

(iii) *COVID-19 Pandemic – Historical Impact and Current Status*

The COVID-19 pandemic (2020 -2022) significantly impacted CAL's operations, with border closures in Trinidad & Tobago and Jamaica resulting in the severe decline of passenger revenue. At its highest impact, in early 2021, passenger revenue was approximately 15% of 2019 levels. Cargo operations remained stable due to freighter capacity, while duty free sales were suspended from April 2020 to July 2021.

GORTT provided US\$165 million in loan guarantees and US\$38 million in direct subventions to sustain operations. Lease return obligations were also renegotiated from US\$43 million to US\$21 million by year-end 2020.

The World Health Organisation (WHO) declared the end of the COVID-19 pandemic on May 5, 2023. CAL has since returned to pre-pandemic operational capacity under its 2023-2027 business plan, focusing on revenue diversification, cargo expansion, fleet renewal and route growth.

(iv) *Collective Agreement – Trinidad and Tobago Airline Pilots Association*

On December 11, 2024, CAL and the Trinidad and Tobago Airline Pilots Association finalised the collective agreement for the 2015–2020 period. During 2019, a liability of \$4.8 million (2018: \$3.7m) was recorded in relation to this, within accrued expenses and other payables in the statement of financial position.