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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER  
THE SECURITIES EXCHANGE ACT OF 1934

For the month of December 2020

Commission File Number: 001-36059

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

(Name of Registrant)

**Av. Antonio Dovalí Jaime No. 70, 13 Floor, Tower B**

**Colonia Zedec Santa Fe**

**United Mexican States, Mexico City, 01210**

**+(52) 55-5261-6400**

(Address of Principal Executive Offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒

Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ☐

No ☒

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ☐

No ☒

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐

No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Controladora Vuela Compañía de Aviación, S.A.B. de C.V. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 7, 2020

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

By: /s/ Enrique J. Beltranena Mejicano

Name: Enrique J. Beltranena Mejicano

Title: President and Chief Executive Officer

By: /s/ Jaime E. Pous Fernández

Name: Jaime E. Pous Fernández

Title: Interim Chief Financial Officer and Senior Vice President Chief  
Legal Officer and Corporate Affairs

## EXHIBIT INDEX

The following exhibit is filed as part of this Form 6-K:

Exhibit	Description
<a href="#"><u>99.56</u></a>	<a href="#"><u>Recent Developments dated December 7, 2020</u></a>
<a href="#"><u>99.57</u></a>	<a href="#"><u>Controladora Vuela Compañía de Aviación, S.A.B. de C.V.'s unaudited interim financial statements as of September 30, 2020 and for the nine month periods ended September 30, 2020 and 2019</u></a>

## RECENT DEVELOPMENTS

The discussion included herein of *Controladora Vuela Compañía de Aviación, S.A.B. de C.V.* (which we refer to as “Volaris,” the “Company” or “we”) results of operations for the nine month periods ended September 30, 2020 and 2019 should be read in conjunction with our annual report on Form 20-F for the fiscal year ended December 31, 2019, as filed with the U.S. Securities and Exchange Commission (which we refer to as the “SEC”) on April 28, 2020 (which we refer to as the “Form 20-F”) and with our unaudited interim financial statements as of September 30, 2020 and for the nine month periods ended September 30, 2020 and 2019, as furnished to the SEC on Form 6-K on October 23, 2020 included herein as Exhibit 99.57 (which we refer to as the “unaudited interim financial statements”). We hereby designate this report on Form 6-K as being incorporated by reference into our registration statement on Form F-3, as originally filed with the SEC on October 7, 2020 (File No. 333-249370), and amended by Amendment No. 1 to the Registration Statement filed with the SEC on November 27, 2020.

## COVID-19 Pandemic Update

The SARS-CoV-2 (“COVID-19”) pandemic has drastically reduced demand for air travel and caused major disruptions and volatility in global financial markets, resulting in the fall of stock prices (including the price of our stock), both trends which may continue. There are other broad and continuing concerns related to the potential effects of the COVID-19 pandemic on international trade (including supply chain disruptions and export levels), travel, restrictions on our ability to access our facilities or aircraft, requirements to collect additional passenger data, employee productivity, employee illness, increased unemployment levels, securities markets, and other economic activities, particularly for airlines, that may have a destabilizing effect on financial markets and economic activity.

From a macroeconomic point of view, the impact of the COVID-19 pandemic in Mexico is uncertain. The Mexican Central Bank’s (*Banco de México*) initial pre-COVID-19 estimates indicated that Mexico’s GDP was predicted to grow between 0.5% and 1.5% in 2020. In the Mexican Central Bank’s latest quarterly report, Mexico’s GDP expectations are based on one central COVID-19 pandemic scenario in which Mexican GDP is predicted to contract approximately 8.7% in 2020. Economic stagnation, the depreciation of the peso, contraction of demand and decreased income levels and increased unemployment levels could result in decreased passenger demand and lower net income in the long term, even after any potential COVID-19 related travel restrictions and border closures are lifted. For example, according to the Mexican Social Security Institute (*Instituto Mexicano del Seguro Social*) for the period from March 30, 2020 to September 30, 2020, 780,751 formal jobs were lost in Mexico. Furthermore, the COVID-19 pandemic has also resulted in increased volatility in both the local and the international financial markets and economic indicators, such as exchange rates, interest rates, credit spreads and commodity prices. Any shocks or unexpected movements in these market factors could result in additional financial losses.

The COVID-19 pandemic has had a negative impact on the Mexican airline industry, particularly in terms of passenger traffic. The following chart sets forth passenger traffic for the Mexican airline industry in each of the first three quarters of 2020 as compared to the same first three quarters of 2019, as reported by the Mexican Federal Agency of Civil Aviation (*Agencia Federal de Aviación Civil*, or “AFAC”):

	2019	2020	Variation
	(In thousands, except for %)		
First Quarter	15,753.9	15,229.4	(3.3)%
Second Quarter	17,966.2	1,868.5	(89.6)%
Third Quarter	18,427.2	6,983.7	(62.1)%
<b>Total</b>	<b>52,147.3</b>	<b>24,081.6</b>	<b>(53.8)%</b>

In terms of the impact on us, we reduced our capacity as compared to the same months in 2019 as measured by available seat miles (“ASMs”) by approximately 82% for the month of April, approximately 88% for the month of May, approximately 59% for the month of June, approximately 37% for the month of July, approximately 21% for the month of August, approximately 16% for the month of September, approximately 16% for the month of October and approximately 2% for the month of November. Additionally, we suspended service on certain routes. In particular, Costa Rica, Guatemala and El Salvador imposed operational and migration restrictions that made it impossible to operate international passenger flights to those countries. In order to mitigate the impact of the COVID-19 pandemic on us, we took the following measures:

- *Preserving liquidity and cash.* We implemented a strict liquidity preservation program, which has resulted in approximately U.S. \$266 million of savings as of September 30, 2020 through items such as cost reductions and deferral agreements with suppliers. For example, we deferred approximately 80% of our aircraft lease payments due in 2020 to 2021, resulting in the postponement of U.S.\$200 million in pre-delivery payments (“PDPs”). In addition, we negotiated cost reductions and payment deferrals with more than 360 suppliers and cut non-essential expenses. We also implemented online training and leave of absence programs in order to reduce costs. We expect to continue reducing costs with the aim of reaching a CASM ex-fuel (calculated based on total operating expenses, net excluding fuel expense divided by ASMs) similar to 2019 levels by the end of 2020. As of November 30, 2020, our cash and cash equivalents were approximately Ps. 7.5 billion. Additionally, at November 30, 2020 our credit lines totaled Ps. 9.3 billion, of which Ps. 6.9 billion were related to financial debt and Ps. 2.4 billion were related to letters of credit (and of which Ps. 1.8 billion were undisbursed).
- *Defending ourselves against sales declines.* We decreased scheduled capacity in order to protect our profitability. We also strengthened our relationships with customers by revamping our website and maintaining close communications via social media and email.
- *Developing commercial and network growth opportunities.* We are closely monitoring capacity reductions from competitors for possible opportunities, testing new ancillary products and running targeted promotions to test potential stimulation of air travel. Certain of our competitors are facing financial difficulties which has led them to stop utilizing certain slots at the Mexico City airport. We have been allowed to use some of these slots to open new destinations and increase operations at this airport, and currently hold 26% of the market share by ASMs. However, since the Mexico City airport has issued a waiver to the minimum usage requirement due to the COVID-19 pandemic, we will not be granted historical priority of such slots unless (i) the waiver is terminated, (ii) the slots are not reclaimed by their prior holders and (iii) we continue operating the slots in accordance with certain conditions, including usage at least 85% of the time and conducting on time operations at least 85% of the time (operations are considered on time if they fall within 15 minutes of the assigned slot time). We can offer no assurance that our competitors will not reclaim the use of such slots prior to the expiration of the waiver on March 27, 2021, or that the waiver will not be extended. If our competitors do reclaim the slots prior to the expiration of the waiver, we may lose the preferential use of such slots almost immediately. Since the start of the COVID-19 pandemic, we have launched five new domestic routes and seven new international routes, now operating 107 domestic and 64 international routes in total.
- *Reviewing our fleet plan.* Our new contractual fleet plan with Airbus allows us to maintain a “cautiously” sized fleet that will remain at approximately 88 aircraft, net of new deliveries and redeliveries, until 2023.
- *Protecting our customers and employees.* We launched a new biosecurity and cleaning protocol and are communicating proactively with all staff, especially with crews and airport staff, regarding health and COVID-19 developments. For employees who are able to work remotely, we have activated home office technologies and protocols.

Furthermore, a gradual opening of the economy and easing of lockdown measures in Mexico and the other countries in which we operate led to a recovery in our ASMs and route operation during the summer of 2020. In June, our load factor was 73.1%, and our capacity in terms of ASMs was 825 million. We were able to ramp up to 63% of July 2019 service in July, and expanded further to 79% of August 2019 service in August. Our load factor for July and August was 73.1% and 72.6%, respectively, and our capacity in terms of ASMs was 1,387 million and 1,690 million, respectively. September is typically a low travel month so we prudently increased capacity to 84% of prior year while focusing on increasing total revenue per available seat mile. Our load factor for September was 74.4% and our capacity in terms of ASMs was 1,686 million. For the full nine month period ended September 30, 2020, we operated 68% of ASMs compared to the same period in 2019. The Mexican domestic market led the capacity recovery, where we operated 73% ASMs as compared to the same period in 2019. In the international market, we operated 56% ASMs as compared to the same period in 2019. In the third quarter of 2020, our CASM ex-fuel was U.S.\$5.03 cents, our average base fare was U.S.\$32.00 and we flew around 3.6 million passengers. For the third quarter of 2020, our load factor was 73.4% and our capacity in terms of ASMs was 75.1% of our capacity in terms of ASMs for the third quarter of 2019. Ancillary revenues made up to 45% of our total revenues for the third quarter of 2020, with average ancillary revenue of U.S.\$27.00 per passenger. For October 2020, we operated 84.3% of ASMs as compared to the same month in 2019 and for November 2020 we operated 98% of ASMs as compared to the same month in 2019. Our load factor for October and November was 82.1% and 80.5%, respectively, and our capacity in terms of ASMs was 1,731 million and 1,998 million, respectively. During those months, our Central American operations remained closed. However, we resumed our Central American operations on November 23, 2020. Based on scheduled flights, our load factor for December 2020 is expected to be 80.5% and we expect to operate at approximately 100% capacity as compared to December 2019. Based on flights operated in October and November and flights scheduled in December, our capacity in terms of ASMs for the fourth quarter of 2020 is expected to be approximately 95% of fourth quarter capacity in 2019. Since the start of the COVID-19 pandemic, we have transported approximately 6.7 million passengers.

We are focused on taking advantage of the current situation and see opportunities to rebuild core market presence, expand existing market leadership, increase our domestic network overlap against distressed competitors to appropriately serve customer demand, continue United States expansion through visiting friends and relatives (“VFR”) niches and selected Mexico City-U.S. routes, eventually increasing capacity in central America and initiating operations in South America.

Despite the gradual recovery we have seen in ASMs and route operation, the ongoing COVID-19 pandemic is likely to continue to have a negative impact on our financial condition and results of operations, as a result of the following indicators:

- A resurgence of COVID-19 infection rates could lead Mexico and the countries in which we operate to return to partial or total lockdowns, which would most likely result in a decrease in demand for our flights (which in turn may require reductions to our ASMs at levels similar to the early months of the pandemic) and aircraft utilization rate and consequently a decrease in our total operating revenue;
- Any further downward volatility in the international capital markets could result in (i) the fall of stock prices, including the price of our stock and (ii) financial losses associated with our financial portfolio, which may cause a deterioration of our financial condition or limitations on our ability to meet our liabilities;
- If our revenues decrease for a significant portion of time, we may have less cash available to meet our obligations under our aircraft and engine lease agreements and additional sources of financing may be difficult to obtain at favorable rates; and
- Even after the COVID-19 pandemic eases, there is a risk that we will experience reduced demand in the near to mid-term due to the potential economic impact of the pandemic on the travel industry (business and leisure) and on our customers, as well as customer health concerns about the safety of air travel.

### **Operational and Other Developments**

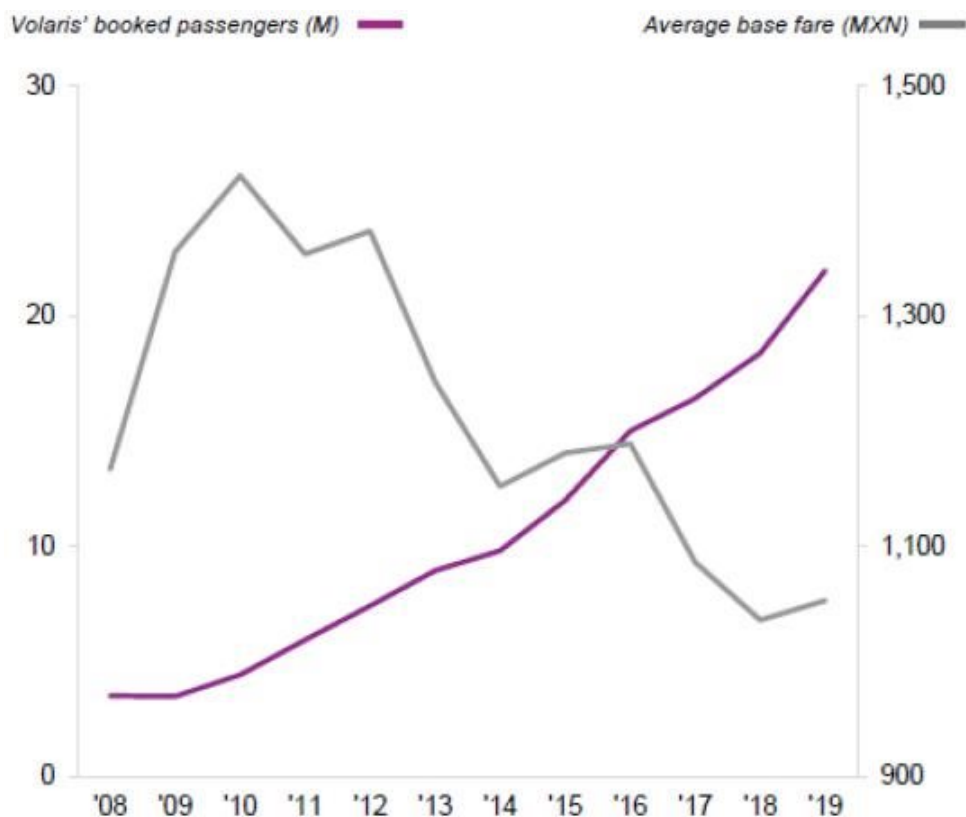
We currently operate at 43 of the 56 airports in Mexico, three of which we began serving in the second half of 2020. Of these 43 airports, we have a leadership position at 24. We have strong network positions in large VFR networks in the United States, including California and Illinois, and see significant opportunities for growth in Central America. We are also making certain changes to our fleet, transitioning to Airbus A320 and A321 NEOs to contribute to fuel efficiency and to allow us to take advantage of upgauging opportunities. For the years ended December 31, 2016, 2017, 2018 and 2019, our fleet was comprised of 1%, 8%, 21%, and 28% Airbus A320 and A321 NEOs, respectively. Based on our contractual order book, for the years ended December 31, 2020, 2021, 2022 and 2023, our fleet will be comprised of 35%, 39%, 52% and 60% Airbus A320 and A321 NEOs, respectively, with 86, 87, 93 and 85 Airbus A320 and A321 NEOs in our fleet at each respective calendar year end.

In addition to the opportunities we see to gain market share in light of the impact of the COVID-19 pandemic, discussed above, we also plan to use our low fares to continue gaining market share from the bus transportation market. This represents a substantial growth opportunity for us, as the air travel market represents just 3.4% of the bus market in Mexico. On approximately 40% of our routes, we operate without air competition and compete only with buses. We pioneered air service on 68 routes, and 6% of our passengers (1.2 million for the year ended December 31, 2019) were first time flyers. Low prices have stimulated demand historically and our fares are lower than bus fares in many markets. In addition, remittances to Mexico rose to a new twelve-month record in August 2020, increasing disposable income for Mexican families. The following chart shows comparisons of our fares and travel times against bus fares on certain of the routes we operate, which we believe present a clear and favorable value proposition:



(1) Fares by segment observed in December 2019 as reported by Volaris based on information from individual company websites.

We believe that our strategy of low base fares has stimulated air travel, which is further evidence by the following chart that shows the inverse relationship between our fares and the number of passengers we have carried over the last ten years:



The Mexican tax authority is currently performing an audit of our fiscal years 2013 and 2014. We are cooperating fully in respect of any requests for information, which have thus far focused on our deduction of certain expenses, such as maintenance and aircraft lease expenses. As of the date of this current report, such audits remain ongoing.

#### Recent Developments in the Mexican Airline Industry

Our competitors and the Mexican airline industry as a whole have also been significantly impacted by the COVID-19 pandemic. According to information published by AFAC, as of September 30, 2020, the number of commercial aircraft in service in Mexico had decreased to 258, as compared to 355 as of December 31, 2019. This 27% reduction was comprised mainly of narrow body aircraft, including 49 Airbus A320s, 20 Boeing 737s, and 12 Airbus A321s. On June 30, 2020, Grupo Aeroméxico, our largest competitor by domestic and international market share in 2019, announced that it was filing for Chapter 11 bankruptcy protection in the United States. According to its public filings with the CNBV, Grupo Aeroméxico has maintained regular operations during the restructuring process but has received court approval to return at least 19 aircraft to lessors, which would reduce its fleet size by around 15%. As of September 30, 2020, AFAC reports indicate that Grupo Aeroméxico's subsidiaries Aeroméxico and Aeroméxico Connect had fleets of 51 and 43 aircraft, respectively, as compared to 69 and 56, respectively, as of December 30, 2019. In addition, Interjet, our second largest competitor by international market share in 2019, has been unable to resume international flights since suspending the routes in March 2020. Interjet's fleet decreased by almost 90% in 2020, from 67 aircraft as of December 30, 2019 to seven as of September 30, 2020, according to information published by the AFAC. While VivaAerobus, our second largest competitor by domestic market share in 2019, has increased their fleet from 37 as of December 30, 2019 to 39 as of September 30, 2020, this increase does not compensate for the reductions observed in the market. In addition to these changes in fleet size, our market share has also increased. As of October 2020, our domestic market share had increased 9.4 percentage points to 40.5% and our international market share had increased 6.0 percentage points to 14.9%, in each case as compared to our market shares as of October 2019.



## Results of Operations

### Operating Revenues

	For the nine month periods ended September 30,			
	2019	2020	Variation	
	(In thousands of pesos, except for % and operating data)			
Operating Revenues				
Passenger revenues:				
Fare revenues	16,562,053	8,491,208	(8,070,845)	(48.7)%
Other passenger revenues	7,723,539	5,132,658	(2,590,881)	(33.5)%
Non-passenger revenues:				
Other non-passenger revenues	612,631	555,312	(57,319)	(9.4)%
Cargo	164,900	132,287	(32,613)	(19.8)%
Non-derivative financial instruments	(39,713)	(237,438)	(197,725)	>100%
Total operating revenues	25,023,410	14,074,027	(10,949,383)	(43.8)%
Operating Data				
Capacity (in ASMs in thousands) <sup>(1)</sup>	18,198,975	12,295,462	(5,903,513)	(32.4)%
% Load factor booked <sup>(2)</sup>	85%	80%	-	(5.0) pp
Booked passengers (in thousands) <sup>(1)</sup>	16,237	9,852	(6,385)	(39.3)%
Average ticket revenue per booked passenger <sup>(2)</sup>	1,022	862	(158)	(15.5)%
Average other passenger revenue per booked passenger <sup>(1)</sup>	476	521	45	9.5%
Average total ancillary revenue per booked passenger <sup>(1)</sup>	524	591	67	12.8%
Revenue passenger miles (RPMs in thousands) <sup>(1)</sup>	15,511,199	9,799,915	(5,711,284)	(36.8)%
	612,631	555,312	(57,319)	(9.4)%

<sup>(1)</sup> Includes scheduled & charter.

<sup>(2)</sup> Includes scheduled.

*Fare revenues.* The 48.7% decrease in fare revenues in the nine months ended September 30, 2020 as compared to the same period of 2019 was primarily due to a decrease in our ASM capacity of 32.4%, which in turn was as a result of reductions in operations due to the COVID-19 pandemic, despite the incorporation of four new net aircraft to our fleet. Additionally, our booked passengers decreased 39.3%, and our average ticket revenue per booked passenger decreased 15.5% as compared to the same period of the prior year.

*Other passenger revenues.* The 33.5% decrease in other passenger revenues in the nine months ended September 30, 2020 as compared to the same period of 2019 was primarily due to a lower volume of passengers electing to purchase additional services, which in turn was also due to the decrease in our passenger volume as a result of the COVID-19 pandemic.

*Other non-passenger revenues.* The 9.4% decrease in other non-passenger revenues in the nine months ended September 30, 2020 as compared to the same period of 2019 was primarily due to the decrease in passengers that acquired additional services.

*Cargo.* The 19.8% decrease in cargo revenues in the nine months ended September 30, 2020 as compared to the same period of 2019 was primarily due to reductions in our capacity of flights as result of the COVID-19 pandemic, which in turn resulted in a lower volume of cargo operations.

*Non-derivative financial instruments.* Non-derivative financial instruments loss increased 197.7 million in the nine months ended September 30, 2020 as compared to the same period of 2019, primarily due to the 14.4% depreciation of the peso against the U.S. dollar at the end of the period as compared to the exchange rate at the end of the same period of 2019.

## Operating Expenses, net

	For the nine month periods ended September 30,			
	2019	2020	Variation	
	(In thousands of pesos, except for %)			
Other operating income	(264,118)	(568,169)	(304,051)	>100%
Fuel expense, net	8,653,888	4,613,905	(4,039,983)	(46.7)%
Landing, take-off and navigation expenses	3,724,625	2,942,623	(782,002)	(21.0)%
Depreciation of right of use assets	3,522,130	3,751,958	229,828	6.5%
Salaries and benefits	2,647,710	2,470,210	(177,500)	(6.7)%
Sales, marketing and distribution expenses	1,038,344	1,505,708	467,364	45.0%
Maintenance expenses	1,128,348	714,038	(414,310)	(36.7)%
Aircraft and engine variable lease expenses	768,592	1,337,873	569,281	74.1%
Other operating expenses	948,129	869,463	(78,666)	(8.3)%
Depreciation and amortization	467,694	649,762	182,068	38.9%
<b>Total operating expenses, net</b>	<b>22,635,342</b>	<b>18,287,371</b>	<b>(4,347,971)</b>	<b>(19.2)%</b>

Total operating expenses, net decreased 19.2% in the nine months ended September 30, 2020 as compared to the same period of 2019 primarily as a result of reductions in operations caused by the COVID-19 pandemic and other factors described below.

*Other Operating Income.* Other operating income increased Ps. 304.1 million in the nine months ended September 30, 2020 as compared to the same period of 2019, primarily due to higher sale and leaseback gains recorded during the nine months ended September 2020 compared to the same period of the prior year.

*Fuel expense, net.* The 46.7% decrease in fuel expense in the nine months ended September 30, 2020 as compared to the same period of 2019 was primarily as a result of a decrease in the average fuel cost per gallon of 11.6% and a decrease in fuel gallons consumed of 35.7% which, in turn, was primarily due to fewer aircraft in operation, a 35.6% decrease in our departures and the decline of average oil and gasoline prices worldwide.

During the nine months ended September 30, 2020 and 2019, we entered into Asian Zero-Cost collar options and Asian call options contracts, which are contracts designated to hedge our projected fuel consumption. These instruments also qualify for hedge accounting. As a result, during the nine months ended September 30, 2020, their intrinsic value loss of Ps. 637.6 million was incorporated into the cost of fuel.

*Landing, Take-off and Navigation Expenses.* The 21.0% decrease in landing, take-off and navigation expenses in the nine months ended September 30, 2020 as compared to the same period of 2019 was primarily due to a decrease in our operations as measured by number of departures, which decreased by 35.6%. Additionally, we decreased the number of airports we served and observed a decline in number of passengers transported as a result of the COVID-19 pandemic.

*Depreciation of right of use assets.* The 6.5% increase in depreciation of right of use assets in the nine months ended September 30, 2020 as compared to the same period of 2019 was primarily due to an increase of our fleet, as we incorporated four new net aircraft and four new net engine leases during the period.

*Salaries and Benefits.* The 6.7% decrease in salaries and benefits in the nine months ended September 30, 2020 as compared to the same period of 2019, was primarily the result of a decrease of 0.7% in our total number of employees during the period. Additionally, the variable compensation of our workforce decreased primarily due to lower operations and block hours recorded during the period and the accounting accrual impact of our management retention plans. This decrease was partially offset by our annual salary increase.

*Sales, Marketing and Distribution Expenses.* The 45.0% increase in sales, marketing and distribution expenses in the nine months ended September 30, 2020 as compared to the same period of 2019 was mainly due to a one-time charge recorded during the nine months ended September 30, 2020 relating to an adjustment made on the Mexican northern border value added tax rate.

*Maintenance Expenses.* The 36.7% decrease in maintenance expenses in the nine months ended September 30, 2020 as compared to the same period of 2019 was mainly due to reductions in required maintenance tasks as a result of the decrease in operations and flight hours resulting from the COVID-19 pandemic. This decrease was partially offset by the depreciation of approximately 13.1% in the average exchange rate of the peso against the U.S. dollar during the nine months ended September 30, 2020 as compared to the same period of 2019, given that some of our maintenance expenses are denominated in U.S. dollars.

*Aircraft and engine variable lease expenses.* The 74.1% increase in aircraft and engine variable expenses in the nine months ended September 30, 2020 as compared to the same period of 2019 was primarily due to redelivery costs and the depreciation of approximately 13.1% in the average exchange rate of the peso against the U.S. dollar during the nine months ended September 30, 2020 as compared to the same period of 2019, given that the majority of these expenses are denominated in U.S. dollars.

*Other Operating Expenses.* The 8.3% decrease in other operating expenses in the nine months ended September 30, 2020 as compared to the same period of 2019 was mainly due to reductions in passenger services and other expenses as a result of reductions in our overall operations due to the COVID -19 pandemic. This decrease was partially offset by an increase in other operating expenses on a U.S. dollar basis due to the depreciation of approximately 13.1% in the average exchange rate of the peso against the U.S. dollar during the nine months ended September 30, 2020 as compared to the same period of 2019, given that some of these expenses are denominated in U.S. dollars.

*Depreciation and Amortization.* The 38.9% increase in depreciation and amortization in the nine months ended September 30, 2020 as compared to the same period of 2019 was primarily due to higher amortization of major maintenance events associated with the aging of our fleet. The cost of the major maintenance events is accounted for under the deferral method. During the nine months ended September 30, 2020 and 2019, we recorded amortization of major maintenance leasehold improvements of Ps. 463.1 million and Ps. 316.2 million, respectively.

## Operating Results

	For the nine month periods ended September 30,		
	2019	2020	Variation
	(In thousands of pesos, except for %)		
<b>Operating Results</b>			
Total operating revenues	25,023,410	14,074,027	(10,949,383)
Total operating expenses, net	22,635,342	18,287,371	(4,347,971)
Operating income (loss)	2,388,068	(4,213,344)	(6,601,412)

*Operating (loss) income.* As a result of the factors outlined above, our operating loss was Ps. 4,213 million in the nine months ended September 30, 2020, a decrease of Ps. 6,601 million compared to our operating income of Ps. 2,388 million in the nine months ended September 30, 2019.

## Financial Results

	For the nine months ended September 30,		
	2019	2020	Variation
	(In thousands of pesos, except for %)		
<b>Financing Results</b>			
Finance income	152,608	93,108	(59,500)
Finance cost	(1,594,394)	(2,523,404)	(929,010)
Exchange gain (loss), net	984,747	(418,751)	(1,403,498)
Total financing results	(457,039)	(2,849,047)	(2,392,008)

*Total Financing Results.* The significant increase in our total financing loss in the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 was primarily due to our foreign exchange loss.

During the nine months ended September 30, 2020, we recorded an exchange loss of Ps. 418.8 million, which resulted from the 14.4% depreciation of the peso against the U.S. dollar at the end of the period as compared to the exchange rate at the end of the same period of the prior year, since we maintained a net monetary liability position of U.S. \$1.8 billion in the nine months ended September 30, 2020. Our U.S. dollar net monetary liability position mainly resulted from the value of our lease liabilities and financial debt. Additionally, our finance income decreased by Ps. 59.5 million, mainly due to a decrease in our short-term investments as a result of a lower level of cash during the nine months ended September 30, 2020 as compared to the same period of 2019. Our finance cost increased by Ps. 929.0 million, mainly due to an increase in our lease financial cost related to the recognition of IFRS 16, interest paid on our asset backed trust notes and ineffective derivative financial instruments.

## Income Tax Expense and Net Income

	For the nine months ended September 30,			
	2019	2020	Variation	
	(In thousands of pesos, except for %)			
<b>Net income (loss)</b>				
Income (loss) before income tax	1,931,029	(7,062,391)	(8,993,420)	N.M.
Income tax (expense) benefit	(579,309)	1,871,534	2,450,843	N.M.
<b>Net income (loss)</b>	<b>1,351,720</b>	<b>(5,190,857)</b>	<b>(6,542,577)</b>	<b>N.M.</b>

We recorded a net loss of Ps. 5.2 billion in the nine months ended September 30, 2020 compared to a net income of Ps. 1.4 billion in the nine months ended September 30, 2019. During the nine months ended September 30, 2020 and 2019, we recorded a tax benefit (expense) of Ps. 1.9 billion and Ps. (579.3) million, respectively. At September 30, 2020, our tax loss carry-forwards amounted to Ps. 1.3 billion, as compared to Ps. 1.6 billion at September 30, 2019.

The effective tax rate during the nine months ended September 30, 2020 and 2019 was 26.5% and 30.0%, respectively.

## Liquidity

Our primary source of liquidity is cash provided by operations, with our primary uses of liquidity being working capital and capital expenditures.

	For the nine months ended September 30,	
	2019	2020
	(In thousands of pesos)	
Net cash flows provided by operating activities	7,464,746	3,289,563
Net cash flows used in investing activities	(1,279,621)	(144,515)
Net cash flows used in financing activities	(4,238,918)	(4,405,049)

In recent years, we have been able to meet our working capital requirements through cash from our operations. Our capital expenditures consist primarily of the acquisition of flight equipment, including pre-delivery payments for aircraft acquisitions. From time to time, we finance pre-delivery payments related to our aircraft with revolving lines of credit with the commercial banks. We have obtained committed financing for pre-delivery payments in respect of all the aircraft to be delivered through 2022.

Our cash and cash equivalents increased by Ps. 221.6 million, from Ps. 8.0 billion at December 31, 2019 to Ps. 8.2 billion at September 30, 2020. At September 30, 2020, we had available credit lines totaling Ps. 10.0 billion, of which Ps. 7.3 billion were related to financial debt and Ps. 2.7 billion were related to letters of credit (and of which Ps. 1.7 billion were undisbursed). At December 31, 2019, we had available credit lines totaling Ps. 9.0 billion, of which Ps. 6.6 billion were related to financial debt and Ps. 2.4 billion were related to letters of credit (and of which Ps. 86.1 million were undisbursed).

At November 30, 2020, we had available credit lines totaling Ps. 9.3 billion, of which Ps. 6.9 billion were related to financial debt and Ps. 2.4 billion were related to letters of credit (and of which Ps. 1.8 billion were undisbursed).

We have an investment policy to optimize the performance and ensure availability of, and minimize the risk associated with, the investment of cash, cash equivalents and short-term investments. Such policy provides for guidelines regarding minimum balance, currency mix, instruments, deadlines, counterparties and credit risk. At September 30, 2020, 97% of our cash, cash equivalents and short-term investments were denominated in U.S. dollars and 3% were denominated in pesos.

*Net cash flows provided by operating activities.* We rely primarily on cash flows from operating activities to provide working capital for current and future operations. Net cash flows provided by operating activities totaled Ps. 3.3 billion and Ps. 7.5 billion in the nine months ended September 2020 and 2019, respectively. Our net cash flows decreased primarily due to the COVID-19 pandemic effects which impacted our operating cash flows. Additionally, we recorded a significant increase in guarantee deposits as compared to the nine months ended September 30, 2019, which in turn increased due to an increase in collateral deposits.

*Net cash flows used in investing activities.* During the nine months ended September 30, 2020, net cash flow used in investing activities totaled Ps. 0.1 billion, which consisted primarily of pre-delivery payments for aircraft and engine acquisitions totaling Ps. 1.4 billion, partially offset by pre-delivery payment reimbursements totaling Ps. 1.0 billion. Additionally, we recorded other capital expenditures relating to aircraft parts and rotatable spare parts acquisitions, intangible assets and major maintenance costs, net of disposals of Ps. 0.3 billion.

During the nine months ended September 2019, net cash flow used in investing activities totaled Ps. 1.3 billion, which consisted primarily of pre-delivery payments for aircraft and engine acquisitions totaling Ps. 0.5 billion, partially offset by pre-delivery payment reimbursements totaling Ps. 0.7 billion. Additionally, we recorded other capital expenditures relating to aircraft parts and rotatable spare parts acquisitions, intangible assets and major maintenance costs, net of disposals of Ps. 1.5 billion.

*Net cash flow used in financing activities.* During the nine months ended September 30, 2020, net cash flows used in financing activities totaled Ps. 4.4 billion, which consisted primarily of payments of the principal portion of lease liabilities of Ps. 4.3 billion (aircraft and spare engine rent payment), payments of financial debt related to the aircraft financing pre-delivery payments for a net amount of Ps. 1.1 billion and interest paid of Ps. 0.2 billion, which were partially offset by proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps. 1.3 billion. As of September 30, 2020, Ps. 4.1 billion was outstanding under this revolving credit facility.

During the nine months ended September 30, 2019, net cash flows used in financing activities totaled Ps. 4.2 billion, which consisted primarily of payments of the principal portion of lease liabilities of Ps. 4.8 billion (aircraft and spare engine rent payments), payments of financial debt related to the aircraft financing pre-delivery payments for a net amount of Ps. 0.7 billion, payments of working capital credit lines of Ps. 0.4 billion and interest paid of Ps. 0.1 billion, which were partially offset by proceeds from our asset backed trust notes (CEBUR) of Ps. 1.4 billion, which take into account amortized transaction costs and proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps. 0.4 billion. This credit facility provides for certain covenants, including limits on our ability to, among others, incur debt above a specified debt basket unless certain financial ratios are met. Due to the effects of the COVID-19 pandemic, we started negotiations with Banco Santander and Bancomext in order to amend the schedule for financing of PDPs and the grant of a waiver to one of the financial ratio covenants. On July 3, 2020, we, Banco Santander and Bancomext executed an amendment to the schedule for financing of PDPs. In addition, we requested a waiver of the financial ratio covenant that requires that our net debt to EBITDAR ratio be less than or equal to 6.5x from the banks and received one dated October 23, 2020, covering the third and fourth quarters of 2020 and the first and second quarters of 2021. Nonetheless, we can offer no assurance we will continue to be in compliance with such covenant after the waiver ends or whether our creditors would continue to grant an additional waiver beyond the current agreed dates.

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

**Interim Condensed Consolidated Statement Financial Statements**

As of September 30, 2020, and December 31, 2019  
with Independent Auditor's Report

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

**Interim condensed consolidated statement of financial position**

As of September 30, 2020, and December 31, 2019

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**CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES**  
(d.b.a. VOLARIS)  
**Interim Condensed Consolidated Statements of Financial Position**  
(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*) 2020		At September 30, 2020 (Unaudited)		At December 31, 2019 (Audited)	
Assets						
Current assets:						
Cash and cash equivalents (Note 8)	US\$	365,207	Ps.	8,201,566	Ps.	7,979,972
Accounts receivable:						
Related parties (Note 9)		2,122		47,657		23,442
Other accounts receivable, net		46,474		1,043,670		923,000
Recoverable value added tax and others		32,112		721,140		938,532
Recoverable income tax		26,868		603,375		435,360
Inventories (Note 10)		11,317		254,146		301,908
Prepaid expenses and other current assets		35,771		803,314		781,131
Financial instruments (Notes 5 and 7)		38		846		133,567
Guarantee deposits		64,297		1,443,943		600,327
Total current assets		584,206		13,119,657		12,117,239
Non-current assets:						
Rotable spare parts, furniture and equipment, net (Note 11)		333,864		7,497,678		7,385,334
Right-of-use assets (Note 13)		1,512,057		33,956,718		34,128,766
Intangible assets, net (Note 12)		7,447		167,248		167,397
Financial instruments (Notes 5 and 7)		41		927		2,695
Deferred income taxes		160,124		3,595,961		1,542,536
Guarantee deposits		387,793		8,708,761		7,644,421
Other assets		4,699		105,534		165,546
Other long-term assets		12,369		277,782		141,193
Total non-current assets		2,418,394		54,310,609		51,177,888
Total assets	US\$	3,002,600	Ps.	67,430,266	Ps.	63,295,127
Liabilities and equity						
Short-term liabilities:						
Unearned transportation revenue	US\$	292,651	Ps.	6,572,143	Ps.	3,679,926
Suppliers		107,903		2,423,184		1,597,099
Related parties (Note 9)		12,348		277,303		58,554
Accrued liabilities		105,043		2,359,010		2,531,861
Lease liabilities (Note 13)		333,889		7,498,243		4,720,505
Other taxes and fees payable (Note 1r)		106,102		2,382,766		2,102,455
Income taxes payable		81		1,829		140,609
Financial instruments (Notes 5 and 7)		19,100		428,929		-
Financial debt (Note 7)		103,676		2,328,272		2,086,017
Other liabilities		3,332		74,818		407,190
Total short-term liabilities		1,084,125		24,346,497		17,324,216
Long-term liabilities:						
Financial debt (Note 7)		155,223		3,485,910		2,889,952
Accrued liabilities		3,128		70,250		90,796
Lease liabilities (Note 13)		1,874,500		42,096,202		35,796,540
Other liabilities		117,464		2,637,929		1,469,595
Employee benefits		2,053		46,110		38,206
Deferred income taxes		6,953		156,136		156,139
Total long-term liabilities		2,159,321		48,492,537		40,441,228
Total liabilities		3,243,446		72,839,034		57,765,444
Equity (Note 14):						
Capital stock		132,409		2,973,559		2,973,559
Treasury shares		(8,829)		(198,281)		(169,714)
Contributions for future capital increases		-		1		1
Legal reserve		12,966		291,178		291,178
Additional paid-in capital		81,907		1,839,403		1,880,007
Retained (losses) earnings		(211,621)		(4,752,445)		438,412



Accumulated other comprehensive (loss) income	(247,678)	(5,562,183)	116,240
Total equity	(240,846)	(5,408,768)	5,529,683
Total liabilities and equity	<u>US\$ 3,002,600</u>	<u>Ps. 67,430,266</u>	<u>Ps. 63,295,127</u>

\*Convenience translation to U.S. dollars (Ps.22.4573)  
The accompanying notes are an integral part of these consolidated financial statements.

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

**Interim Condensed Consolidated Statements of Operations**

(In thousands of Mexican pesos, except for earnings per share expressed in Mexican pesos)

	(Thousands of U.S. dollars*, except for earnings per share)		For the nine months ended September 30		For the three months ended September 30	
	2020		2020	2019	2020	2019
Operating revenues (Notes 1e and 17):						
Passenger revenues:						
Fare revenues	US\$ 378,105	Ps. 8,491,208	Ps. 16,562,053	Ps. 2,763,978	Ps. 6,501,172	
Other passenger revenues	228,552	5,132,658	7,723,539	1,875,850	2,769,709	
	<u>606,657</u>	<u>13,623,866</u>	<u>24,285,592</u>	<u>4,639,828</u>	<u>9,270,881</u>	
Non-passenger revenues						
Other non-passenger revenues (Note 1e)	24,727	555,312	612,631	205,710	208,362	
Cargo	5,891	132,287	164,900	49,281	51,229	
Non-derivatives financial instruments	(10,573)	(237,438)	(39,713)	(171,147)	(28,716)	
	<u>626,702</u>	<u>14,074,027</u>	<u>25,023,410</u>	<u>4,723,672</u>	<u>9,501,756</u>	
Other operating income	(25,300)	(568,169)	(264,118)	(266,866)	(140,809)	
Fuel expense, net	205,453	4,613,905	8,653,888	1,648,451	2,883,822	
Depreciation of right of use assets (Note 13)	167,071	3,751,958	3,522,130	1,277,828	1,186,266	
Landing, take-off and navigations expenses	131,032	2,942,623	3,724,625	1,027,525	1,304,292	
Salaries and benefits	109,996	2,470,210	2,647,710	865,153	908,559	
Sales, marketing and distribution expenses	67,048	1,505,708	1,038,344	963,576	417,091	
Aircraft and engine variable lease expenses	59,574	1,337,873	768,592	537,304	225,858	
Maintenance expenses	31,795	714,038	1,128,348	314,696	405,647	
Other operating expenses	38,716	869,463	948,129	352,160	431,734	
Depreciation and amortization (Notes 11 and 12)	28,933	649,762	467,694	230,802	176,506	
Operating (loss) income	<u>(187,616)</u>	<u>(4,213,344)</u>	<u>2,388,068</u>	<u>(2,226,957)</u>	<u>1,702,790</u>	
Finance income	4,146	93,108	152,608	16,677	79,456	
Finance cost	(112,365)	(2,523,404)	(1,594,394)	(729,767)	(590,913)	
Foreign exchange (loss) gain, net	<u>(18,646)</u>	<u>(418,751)</u>	<u>984,747</u>	<u>185,949</u>	<u>(172,676)</u>	
(Loss) income before income tax	(314,481)	(7,062,391)	1,931,029	(2,754,098)	1,018,657	
Income tax benefit (expense) (Note 15)	83,337	1,871,534	(579,309)	579,046	(305,597)	
<b>Net (loss) income</b>	<u>US\$ (231,144)</u>	<u>Ps. (5,190,857)</u>	<u>Ps. 1,351,720</u>	<u>Ps. (2,175,052)</u>	<u>Ps. 713,060</u>	
(Loss) earnings per share basic:						
(Loss) earnings per share diluted:	US\$ (0.228)	Ps. (5.130)	Ps. 1.336	Ps. (2.150)	Ps. 0.705	

\*Convenience translation to U.S. dollars (Ps.22.4573)

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

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

**Consolidated Statements of Comprehensive Income**

(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*)	For the nine months ended September 30,		For the three months ended September 30,	
	2020	2020	2019	2020	2019
Net (loss) income for the year	US\$ (231,144)	Ps. (5,190,857)	Ps. 1,351,720	Ps. (2,175,052)	Ps. 713,060
Other comprehensive (loss) income:					
<b>Other comprehensive income (loss) to be reclassified   to profit or loss in subsequent periods:</b>					
Net (loss) gain on cash flow hedges	(25,650)	(576,025)	96,760	399,416	(45,784)
Income tax effect	7,695	172,807	(30,229)	(119,825)	723
Exchange differences on translation of foreign operations	163	3,657	2,344	(1,146)	(3,800)
Non-derivative financial instruments	(235,062)	(5,278,862)	(933,538)	741,450	(588,699)
<b>Other comprehensive (loss) income not to be   reclassified to profit or loss in subsequent periods:</b>					
Other comprehensive loss for the year, net of tax	US\$ (252,854)	Ps. (5,678,423)	Ps. (864,663)	Ps. 1,019,895	Ps. ( 637,560)
Total comprehensive (loss) income for the year, net of tax	US\$ (483,998)	Ps. (10,869,280)	Ps. 487,057	Ps. (1,155,157)	Ps. 75,500

\*Convenience translation to U.S. dollars (Ps.22.4573)

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

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

**Interim Condensed Consolidated Statements of Changes in Equity**

**As of September 30, 2020**

(In thousands of Mexican pesos)

	Capital stock	Treasury shares	Contributions for future capital increases	Legal reserve	Additional paid- in capital	Retained earnings (Accumulated losses)	Other comprehensive income (loss)	Total equity
Balance as of December 31, 2019	2,973,559	(169,714 )	1	291,178	1,880,007	438,412	116,240	5,529,683
Treasury shares	-	(35,011 )	-	-	1,210	-	-	(33,801 )
Long-term incentive plan cost	-	-	-	-	(35,370)	-	-	(35,370 )
Forfeited shares from incentive plan	-	6,444	-	-	(6,444)	-	-	-
Net loss for the period	-	-	-	-	-	(5,190,857 )	-	(5,190,857 )
Other comprehensive loss items	-	-	-	-	-	-	(5,678,423 )	(5,678,423 )
Total comprehensive loss	-	-	-	-	-	(5,190,857 )	(5,678,423 )	(10,869,280 )
Balance as of September 30, 2020	Ps. 2,973,559	Ps. (198,281)	Ps. 1	Ps. 291,178	Ps. 1,839,403	Ps. (4,752,445)	Ps. (5,562,183)	Ps. (5,408,768)
	US\$ 132,409	US\$ (8,829)	US\$ -	US\$ 12,966	US\$ 81,907	US\$ (211,621)	US\$ (247,679)	US\$ 240,847

Convenience translation to U.S. dollars (Ps.22.4573)

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

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

**Interim Condensed Consolidated Statements of Changes in Equity**

**As of September 30, 2019**

(In thousands of Mexican pesos)

	<b>Capital stock</b>	<b>Treasury shares</b>	<b>Contributions for future capital increases</b>	<b>Legal reserve</b>	<b>Additional paid- in capital</b>	<b>Retained earnings (Accumulated losses)</b>	<b>Other comprehensive income (loss)</b>	<b>Total equity</b>
Balance as of December 31, 2018	2,973,559	(122,661 )	1	291,178	1,837,073	(2,200,651 )	(73,346 )	2,705,153
Treasury shares	-	(18,892 )	-	-	-	-	-	(18,892)
Exercise of stock options	-	492	-	-	-	-	-	492
Long-term incentive plan cost	-	-	-	-	(21,960)	-	-	(21,960)
Net loss for the period	-	-	-	-	-	1,351,720	-	1,351,720
Other comprehensive loss items	-	-	-	-	-	-	(864,663 )	(864,663)
Total comprehensive loss	-	-	-	-	-	1,351,720	(864,663 )	487,057
<b>Balance as of September 30, 2019</b>	<b>Ps. 2,973,559</b>	<b>Ps. (141,061)</b>	<b>Ps. 1</b>	<b>Ps. 291,178</b>	<b>Ps. 1,815,113</b>	<b>Ps. (848,931)</b>	<b>Ps. (938,009)</b>	<b>Ps. 3,151,850</b>
	<b>US\$ 151,432</b>	<b>US\$ (7,184)</b>	<b>US\$ -</b>	<b>US\$ 14,829</b>	<b>US\$ 92,437</b>	<b>US\$ (43,233)</b>	<b>US\$ (47,769)</b>	<b>US\$ 160,512</b>

Convenience translation to U.S. dollars (Ps.19.6363)

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

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

**Interim Condensed Consolidated Statements of Cash Flows**

(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*)	For the nine months ended September 30,	
	2020	2020	2019
<b>Operating activities</b>			
(Loss) income before income tax	US\$ (314,481)	Ps. (7,062,391)	Ps. 1,931,029
Non-cash adjustment to reconcile income before tax to net cash flows from operating activities:			
Depreciation and amortization (including right-of-use-assets) (Notes 11,12 and 13)	196,004	4,401,720	3,989,824
Impairment	-	-	146,028
Provision for doubtful accounts	498	11,186	5,879
Finance income	(4,146)	(93,108)	(152,608)
Finance cost	92,112	2,068,596	1,592,682
Net foreign exchange differences	74,933	1,682,780	(1,035,727)
Financial instruments	48,415	1,087,261	20,039
Amortized cost (CEBUR)	228	5,121	1,712
Net gain on disposal of rotatable spare parts, furniture and equipment and gain on sale of aircraft	(24,563)	(551,621)	(222,448)
Employee benefits	383	8,610	4,341
Aircraft and engine lease extension benefit and other benefits from service agreements	(355)	(7,975)	(52,192)
Management incentive and long-term incentive plans	1,575	35,360	21,960
Cash flows from operating activities before changes in working capital	70,603	1,585,539	6,250,519
Changes in operating assets and liabilities:			
Related parties	8,663	194,534	(42,118)
Other accounts receivable	5,793	130,085	(232,208)
Recoverable and prepaid taxes	2,086	46,838	(311,063)
Inventories	2,127	47,762	3,722
Prepaid expenses	1,828	41,042	(180,108)
Other assets	1,654	37,134	27,410
Guarantee deposits	(103,044)	(2,314,090)	(608,452)
Suppliers	41,267	926,803	(144,061)
Accrued liabilities	(11,668)	(262,065)	633,279
Other taxes and fees payable	9,010	202,332	505,482
Unearned transportation revenue	128,787	2,892,217	1,175,760
Financial instruments	(42,408)	(952,365)	(24,437)
Other liabilities	30,664	688,638	328,102
	145,362	3,264,404	7,381,827
Interest received	4,146	93,108	152,608
Income tax paid	(3,026)	(67,949)	(69,689)
Net cash flows provided by operating activities	146,482	3,289,563	7,464,746
<b>Investing activities</b>			
Acquisitions of rotatable spare parts, furniture and equipment	(110,988)	(2,492,507)	(2,442,378)
Acquisitions of intangible assets	(3,360)	(75,446)	(43,840)
Pre-delivery payments reimbursements	43,092	967,739	704,852
Proceeds from disposals of rotatable spare parts, furniture and equipment	64,821	1,455,699	501,745
Net cash flows used in investing activities	(6,435)	(144,515)	(1,279,621)
<b>Financing activities</b>			
Proceeds from exercised stock options	-	-	492
Treasury shares purchase	(1,559)	(35,011)	(18,892)
Interest paid	(9,968)	(223,864)	(145,978)
Other finance interest paid	-	-	(60,442)
Payments of principal portion of lease liabilities	(193,692)	(4,349,801)	(4,786,987)
Payments of financial debt	(51,039)	(1,146,209)	(1,181,726)
Proceeds from financial debt	60,107	1,349,836	1,954,615
Net cash flows used in financing activities	(196,151)	(4,405,049)	(4,238,918)
(Decrease) increase in cash and cash equivalents	(56,104)	(1,260,001)	1,946,207

Net foreign exchange differences on cash balance	65,971	1,481,595	453
Cash and cash equivalents at beginning of period	355,340	7,979,972	5,862,942
Cash and cash equivalents at end of period	<u>US\$ 365,207</u>	<u>Ps. 8,201,566</u>	<u>Ps. 7,809,602</u>

\*Convenience translation to U.S. dollars (Ps.22.4573)  
The accompanying notes are an integral part of these consolidated financial statements.

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

**Notes to Interim Condensed Consolidated Financial Statements**

**As of September 30, 2020 and December 31, 2019**

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

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

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

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

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

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

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

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

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

On November 10, 2016, the Company, through its subsidiary Vuela Aviación, S.A. (“Volaris Costa Rica”), obtained from the Costa Rican civil aviation authorities an air operator certificate to provide air transportation services for passengers, cargo and mail, in scheduled and non-scheduled flights for an initial period of five years. On December 1, 2016, Volaris Costa Rica started operations.



The accompanying unaudited interim condensed consolidated financial statements and notes were authorized for their issuance by the Company's President and Chief Executive Officer, Enrique Beltranena, and Senior Vice President Chief Legal Officer and Corporate Affairs and Interim Chief Financial Officer, Jaime E. Pous, on December 7, 2020. Subsequent events have been considered through that date.

**a) Relevant events**

**COVID-19 Pandemic**

The ongoing outbreak of COVID-19 was first reported on December 31, 2019 in Wuhan, Hubei Province, China. From Wuhan, the disease spread rapidly to other parts of China as well as other countries, including Mexico and the United States, growing into a global pandemic. Since the outbreak began, countries have responded by taking various measures including imposing quarantines and medical screenings, restricting travel, limiting public gatherings and suspending certain activities. In terms of the impact, the Company reduced its capacity as compared to the same months in 2019 as measured by available seat miles ("ASMs") by approximately 82% for the month of April, approximately 88% for the month of May, approximately 59% for the month of June, approximately 37% for the month of July, approximately 21% for the month of August, approximately 16% for the month of September, approximately 16% for the month of October and approximately 2% for the month of November. Additionally, the Company suspended service on certain routes. In particular, Costa Rica, Guatemala and El Salvador imposed operational and migration restrictions that made it impossible to operate international passenger flights to those countries.

The Company has taken actions to preserve liquidity and sustain its operations during the period, establishing supplier's payment deferral agreements, reducing management's and operational staff compensation under temporary and voluntary leaves of absence, deferring and cutting capital expenditures to the minimum and non-essential operational expenses and other certain measures, while the operations are reduced as a result of the COVID-19 pandemic.

**Issuance asset backed trust notes**

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

**Shares conversion**

On February 16, 2018, one of the Company's shareholders concluded the conversion of 45,968,598 Series B Shares for the equivalent number of Series A Shares. This conversion has no impact either on the total number of outstanding shares nor on the earnings-per-share calculation.

**New code-share agreement**

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

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

**Purchase of 80 A320 New Engine Option ("NEO") aircraft**

On December 28, 2017, the Company amended the agreement with Airbus, S.A.S. ("Airbus") for the purchase of additional 80 A320NEO family aircraft to be delivered from 2022 to 2026, to support the Company's targeted growth markets in Mexico, United States and Central America. The related commitments for the acquisitions of such aircraft are disclosed in Note 16.

## **b) Basis of preparation**

### **Statement of compliance**

The unaudited interim condensed consolidated financial statements, which include the condensed consolidated statements of financial position as of September 30, 2020 (unaudited) and December 31, 2019 (audited), and the related condensed consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the nine months ended September 30, 2020 and 2019 (unaudited), have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting and using the same accounting policies applied in preparing the annual financial statements, except as explained below.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s annual consolidated financial statements as of December 31, 2019, 2018 and 2017 (audited).

Items included in the financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The presentation currency of the Company’s condensed consolidated financial statements is the Mexican peso, which is used also for compliance with its legal and tax obligations. All values in the condensed consolidated financial statements are rounded to the nearest thousand (Ps.000), except when otherwise indicated.

The Company has consistently applied its accounting policies to all periods presented in these annual financial statements and provide comparative information in respect of the previous period.

### **c) Basis of measurement and presentation**

The accompanying condensed consolidated financial statements have been prepared under the historical-cost convention, except for derivative financial instruments that are measured at fair value and investments in marketable securities measured at fair value through profit and loss (“FVTPL”).

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

#### d) Basis of consolidation

The accompanying unaudited interim condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries. At September 30, 2020 and December 31, 2019, for accounting purposes the companies included in the unaudited interim condensed consolidated financial statements are as follows:

Name	Principal Activities	Country	% Equity interest	
			September 30, 2020	December 31, 2019
Concesionaria	Air transportation services for passengers, cargo and mail throughout Mexico and abroad	Mexico	100%	100%
Vuela Aviación, S.A.	Air transportation services for passengers, cargo and mail in Costa Rica and abroad	Costa Rica	100%	100%
Vuela, S.A. ("Vuela") *	Air transportation services for passengers, cargo and mail in Guatemala and abroad	Guatemala	100%	100%
Vuela El Salvador, S.A. de C.V.*	Air transportation services for passengers, cargo and mail in El Salvador and abroad	El Salvador	100%	100%
Comercializadora Volaris, S.A. de C.V.	Merchandising of services	Mexico	100%	100%
Servicios Earhart, S.A.*	Recruitment and payroll	Guatemala	100%	100%
Servicios Corporativos Volaris, S.A. de C.V. ("Servicios Corporativos")	Recruitment and payroll	Mexico	100%	100%
Servicios Administrativos Volaris, S.A. de C.V. ("Servicios Administrativos")	Recruitment and payroll	Mexico	100%	100%
Comercializadora V Frecuenta, S.A. de C.V. ("Loyalty Program") **	Loyalty Program	Mexico	100%	100%
Viajes Vuela, S.A. de C.V. ("Viajes Vuela")	Travel agency	Mexico	100%	100%
Deutsche Bank México, S.A., Trust 1710	Pre-delivery payments financing	Mexico	100%	100%
Deutsche Bank México, S.A., Trust 1711	Pre-delivery payments financing	Mexico	100%	100%
Irrevocable Administrative Trust number F/307750 "Administrative Trust"	Share administration trust	Mexico	100%	100%
Irrevocable Administrative Trust number F/745291 "Administrative Trust"	Share administration trust	Mexico	100%	100%
Irrevocable Administrative Trust number CIB/3081 "Administrative Trust"	Share administration trust	Mexico	100%	100%
Irrevocable Administrative Trust number CIB/3249 "Administrative Trust"	Asset backed securities trustor & administrator	Mexico	100%	100%

\*The Companies have not started operations yet in Guatemala and El Salvador.

\*\*The Company has not started operations yet

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

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

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

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

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

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

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

On consolidation, the assets and liabilities of foreign operations are translated into Mexican pesos at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income ("OCI"). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in profit or loss.

#### **e) Revenue recognition**

##### **Passenger revenues**

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

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

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

The Company also classifies as other passenger revenue "V Club" and other similar services, which are recognized as revenue over time when the service is provided, as a modification of the tickets sold to V Club members.

Tickets sold by other airlines where the Company provides the transportation are recognized as passenger revenue when the service is provided.

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

## **Non-passenger revenues**

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

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

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

## **Other considerations analyzed as part of revenue from contracts with customers**

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

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

Trade receivables are mainly with financial institutions due to transactions with credit and debit cards, and therefore they are non-interest bearing and are mainly on terms of 24 to 48 hours.

The Company has the right of collection at the beginning of the contracts and there are no discounts, payment incentives, bonuses or other variable considerations subsequent to the purchase that could modify the amount of the transaction price.

The Company does not have any obligations for returns, refunds and other similar obligations. All revenues from the Company related to future services, or services are rendered through a period of time less than 12 months.

## Breakdown of revenues:

As of September 30, 2020 and 2019, the revenues from customers of contracts is described as follows:

Revenue recognition as of September 30, 2020	At the flight time		At the sale		Total Revenues
	Domestic	International	Domestic	International	
<b>Passenger Revenues</b>					
Fare Revenues	Ps. 5,629,141	Ps. 2,862,067	Ps. -	Ps. -	Ps. 8,491,208
Other Passenger Revenues	3,835,539	1,180,208	88,562	28,347	5,132,656
	9,464,680	4,042,275	88,562	28,347	13,623,864
<b>Non-Passenger Revenues</b>					
Other Non-Passenger revenues	550,679	4,635	-	-	555,314
Cargo	128,469	3,818	-	-	132,287
<b>Total</b>	Ps. 10,143,828	Ps. 4,050,728	Ps. 88,562	Ps. 28,347	Ps. 14,311,465
<b>Non-derivative financial instruments</b>					(237,438)
					Ps. 14,074,027

Revenue recognition as of September 30, 2019	At the flight time		At the sale		Total Revenues
	Domestic	International	Domestic	International	
<b>Passenger Revenues</b>					
Fare Revenues	Ps. 11,411,238	Ps. 5,150,815	Ps. -	Ps. -	Ps. 16,562,053
Other Passenger Revenues	5,220,000	2,374,248	86,253	43,038	7,723,539
	16,631,238	7,525,063	86,253	43,038	24,285,592
<b>Non-Passenger Revenues</b>					
Other Non-Passenger revenues	605,885	6,746	-	-	612,631
Cargo	159,170	5,730	-	-	164,900
<b>Total</b>	Ps. 17,396,293	Ps. 7,537,539	Ps. 86,253	Ps. 43,038	Ps. 25,063,123
<b>Non-derivative financial instruments</b>					(39,713)
					Ps. 25,023,410

## Transactions from unearned transportation revenues.

	As of September 30, 2020	As of December 31, 2019
<b>January 1,</b>	Ps. 3,679,926	Ps. 2,438,516
Deferred	16,516,081	34,940,609
Recognized in revenue during the year	(13,623,864)	(33,699,199)
<b>December 31,</b>	Ps. 6,572,143	Ps. 3,679,926

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

## f) Cash and cash equivalents

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

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

### **g) Financial instruments -initial recognition and subsequent measurement**

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

### **i) Financial assets**

#### **Initial recognition**

#### **Classification of financial assets and initial recognition**

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

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

#### **Subsequent measurement**

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

1. Financial assets at FVTPL which include financial assets held for trading.
2. Financial assets at amortized cost, whose characteristics meet the SPPI criterion and were originated to be held to collect principal and interest in accordance with the Company’s business model.
3. Derivative financial instruments are designated for hedging purposes under the cash flow hedge (“CFH”) accounting model and are measured at fair value.

#### **Derecognition**

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

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

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

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

## **ii) Impairment of financial assets**

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired in the Cash Generating Units (CGU). An impairment exists if one or more events has occurred since the initial recognition of an asset (an incurred 'loss event'), that has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in receivable, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For trade receivables, the Company records allowance for credit losses in accordance with the objective evidence of the incurred losses.

Based on this evaluation, allowances are taken into account for the expected losses of these receivables.

## **iii) Financial liabilities**

### **Initial recognition and measurement**

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

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

### **Subsequent measurement**

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

#### **Financial liabilities at amortized cost**

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



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

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

#### **Financial liabilities at FVTPL**

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

#### **Derecognition**

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

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

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

#### **Offsetting of financial instruments**

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

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

#### **h) Other accounts receivable**

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

#### **i) Inventories**

Inventories consist primarily of flight equipment expendable parts, materials and supplies, and are initially recorded at acquisition cost. Inventories are carried at the lower of cost and their net realization value. The cost is determined on the basis of the method of specific identification and expensed when used in operations.

## **j) Intangible assets**

Cost related to the purchase or development of computer software that is separable from an item of related hardware is capitalized separately measured at cost and amortized over the period in which it will generate benefits not exceeding five years on a straight-line basis. The Company annually reviews the estimated useful lives and salvage values of intangible assets and any changes are accounted for prospectively.

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

The value in use calculation is based on a discounted cash flow model, using our projections of operating results for the near future. The recoverable amount of long-lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation. For the nine months ended September 30, 2020, the Company did not record any impairment loss in the value of its intangible assets. Additionally, for the years ended December 31, 2019, 2018 and 2017, the Company did not record any impairment loss in the value of its intangible assets.

## **k) Guarantee deposits**

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

### **Aircraft maintenance deposits paid to lessors**

Most of the Company's lease agreements require the Company to pay maintenance deposits to aircraft lessors to be held as collateral in advance of the Company's performance of major maintenance activities. These lease agreements provide that maintenance deposits are reimbursable to the Company upon completion of the maintenance event in an amount equal to the lesser of (i) the amount of the maintenance deposits held by the lessor associated with the specific maintenance event, or (ii) the qualifying costs related to the specific maintenance event.

Substantially all these maintenance deposits are calculated based on a utilization measure of the leased aircrafts and engines, such as flight hours or cycles, and are used solely to collateralize the lessor for maintenance time run off the aircraft and engines until the completion of the maintenance of the aircraft and engines.

Maintenance deposits expected to be recovered from lessors are reflected as guarantee deposits in the accompanying consolidated statement of financial position. These deposits are recorded as a monetary asset and are revaluated in order to record the foreign currency changes at each reported period. The Company makes certain assumptions at the inception of the lease and at each consolidated statement of financial position date to determine the recoverability of maintenance deposits. These assumptions are based on various factors such as the estimated time between the maintenance events, the date the aircraft is due to be returned to the lessor, and the number of flight hours the aircraft and engines is estimated to be utilized before it is returned to the lessor.

Some other aircraft lease agreements do not require the obligation to pay maintenance deposits to lessors in advance in order to ensure major maintenance activities, so the Company does not record guarantee deposits regarding these aircraft. However, certain of these lease agreements include the obligation to make a maintenance adjustment payment to the lessors at the end of the lease period. These maintenance adjustments cover maintenance events that are not expected to be made before the termination of the lease; for such agreements the Company accrues a liability related to the amount of the costs to be incurred at the lease term, since no maintenance deposits had been made. The portion of prepaid maintenance deposits that is deemed unlikely to be recovered and accruals in lieu of maintenance deposits, are recorded as a variable lease payment and is presented as supplemental rent in the consolidated statements of operations.

The maintenance event for which the maintenance deposits were previously expensed was scheduled to occur after the original lease term and as such the supplemental rental payments were expensed. However, when the leases were amended the maintenance deposits amounts became probable of recovery due to the longer lease term and as such they are being recognized as an asset. The effect of these lease extensions was recognized as a lease incentive reducing the right of use asset.

#### **D) Aircraft and engine maintenance**

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

Fleet maintenance requirements may involve short cycle engineering checks, for example, component checks, monthly checks, annual airframe checks and periodic major maintenance and engine checks.

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

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

All other maintenance activities are sub-contracted to qualified maintenance business partner, repair and overhaul organizations. Routine maintenance also includes scheduled tasks that can take from seven to 14 days to accomplish and typically are required approximately every 22 months. All routine maintenance costs are expensed as incurred.

(ii) Major maintenance consists of a series of more complex tasks that can take up to six weeks to accomplish and typically are required approximately every five to six years.

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

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

(iii) The Company has a power-by-the hour agreement for component services, which guarantees the availability of aircraft parts for the Company's fleet when they are required. It also provides aircraft parts that are included in the redelivery conditions of the contract (hard time) without constituting an additional cost at the time of redelivery. The monthly maintenance cost associated with this agreement is recognized as incurred in the consolidated statements of operations.

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

#### **m) Rotable spare parts, furniture and equipment, net**

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

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

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

#### **Depreciation rates are as follows:**

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

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

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

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

During 2019 and September 30, 2020, the Company performed its impairment test. The recoverable amount of rotatable spare parts, furniture and equipment and right of use assets was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management, covering a five-year period. The projected cash flows have been updated at date of the test to reflect the future operating cashflows. During each year ended December 31, 2019, 2018 and 2017, there were no impairment charges recorded in respect of the Company's cash generating unit. For the nine months ended September 30, 2020 the Company did not recognize no impairment.

#### **n) Foreign currency transactions and exchange differences**

The Company's condensed consolidated financial statements are presented in Mexican peso, which is the reporting and functional currency of the parent company. For each subsidiary, the Company determines the functional currency and items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

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

- Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates at the dates of the transactions.
- All monetary assets and liabilities were translated at the exchange rate at the consolidated statement of financial position date.
- All non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.
- Equity accounts are translated at the prevailing exchange rate at the time the capital contributions were made and the profits were generated.
- Revenues, costs and expenses are translated at the average exchange rate during the applicable period.

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

Foreign currency differences arising on translation into the presentation currency are recognized in OCI.

**o) Liabilities and provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**p) Employee benefits**

**i) Personnel vacations**

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

**ii) Termination benefits**

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

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

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

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

For the period ended September 30, 2020 and for the year ended December 31, 2019, no termination benefits provision has been recognized.

**iii) Seniority premiums**

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

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

The latest actuarial computation was prepared as of December 31, 2019. Remeasurement gains and losses are recognized in full in the period in which they occur in OCI. Such remeasurement gains and losses are not reclassified to profit or loss in subsequent periods.

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

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

#### **iv) Incentives**

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

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

The Company has adopted a Long-term incentive plan ("LTIP"). This plan consists of a share purchase plan (equity-settled) and a share appreciation rights "SARs" plan (cash settled), and therefore accounted under IFRS 2 "Shared based payments". This incentive plan has been granting annual extensions in the same terms from the original granted in 2014.

During 2019 and 2018, the Company approved a new long-term retention plan ("LTRP"), which consisted in a purchase plan (equity-settled). This plan does not include cash compensations granted through appreciation rights on the Company's shares. The retention plans granted in previous periods will continue in full force and effect until their respective due dates and the cash compensation derived from them will be settled according to the conditions established in each plan.

#### **vi) Share-based payments**

##### **a) LTIP**

##### **- Share purchase plan (equity-settled)**

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

- SARs plan (cash settled)

The Company granted SARs to key employees, which entitle them to a cash payment after a service period. The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and the time of exercise. The liability for the SARs is measured, initially and at the end of each reporting period until settled, at the fair value of the SARs, taking into account the terms and conditions on which the SARs were granted. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period.

**b) Management incentive plan (“MIP”)**

- MIP I

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

- MIP II

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

**c) Board of Directors Incentive Plan (BoDIP)**

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

In April 2018, the Board of Directors of the Company authorized a Board of Directors Incentive Plan “BoDIP”, for the benefit of certain board members. The BoDIP grants options to acquire shares of the Company or CPOs during a four years period with an exercise price share at Ps.16.12, which was determined on the grant date. Under this plan, no service or performance conditions are required to the board members for exercise the option to acquire shares, and therefore, they have the right to request the delivery of those shares at the time they pay for them.

**vii) Employee profit sharing**

The Mexican Income Tax Law (“MITL”), establishes that the base for computing current year employee profit sharing shall be the taxpayer’s taxable income of the year for income tax purposes, including certain adjustments established in the Income Tax Law, at the rate of 10%. The employee profit sharing is presented as an expense in the consolidated statements of operations. Subsidiaries in Central America do not have such profit-sharing benefit, as it is not required by local regulation.



**q) Leases**

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

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

**i) Right-of-use assets**

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

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

Aircraft and engines	up to 18 years
Spare engines	up to 14 years
Buildings leases	one to ten years
Maintenance component	up to eight years

**ii) Lease Liabilities**

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

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

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

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

### **iii) Sale and leaseback**

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

The Company measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the Company recognizes in the Statement of Operations only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The rest of the gain is amortized over the lease term.

### **iv) Return obligations**

The aircraft lease agreements of the Company also require that the aircraft and engines be returned to lessors under specific conditions of maintenance. The costs of return, which in most cases are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight-line basis as a component of variable rent expenses and the provision is included as part of other liabilities, through the remaining lease term. The Company estimates the provision related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed.

### **r) Other taxes and fees payable**

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

### **s) Income taxes**

#### **Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in equity is recognized in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### **Deferred tax**

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except, in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

The charge for income taxes incurred is computed based on tax laws approved in Mexico, Costa Rica, Guatemala and El Salvador at the date of the consolidated statement of financial position.

#### **t) Derivative and non-derivative financial instruments and hedge accounting**

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

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

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

Under the cash flow hedge (CFH) accounting model, the effective portion of the hedging instrument's changes in fair value is recognized in OCI, while the ineffective portion is recognized in current year earnings. During the years ended December 31, 2019, 2018 and 2017, there was no ineffectiveness with respect to derivative financial instruments. During the nine months ended September 30, 2020 the Company recorded the ineffective portion of Ps. 448.6 million. The amounts recognized in OCI are transferred to earnings in the period in which the hedged transaction affects earnings.

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

#### **Accounting for the time value of options**

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

#### **u) Financial instruments – Disclosures**

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

#### **v) Treasury shares**

The Company's equity instruments that are reacquired (treasury shares), are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of treasury shares. Any difference between the carrying amount and the consideration received, if reissued, is recognized in additional paid in capital. Share-based payment options exercised during the reporting period are settled with treasury shares (Note 14).

#### **w) Operating segments**

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

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

#### **x) Current versus non-current classification**

The Company presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is: (i) expected to be realized or intended to be sold or consumed in the normal operating cycle, (ii) expected to be realized within twelve months after the reporting period, or, (iii) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current. A liability is current when: (i) it is expected to be settled in the normal operating cycle, (ii) it is due to be settled within twelve months after the reporting period, or, (iii) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

#### **y) Impact of new International Financial Reporting Standards**

##### **New and amended standards and interpretations**

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of new standards and interpretations effective as of January 1, 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

##### ***Amendments to IFRS 3: Definition of a Business***

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments did not have an impact on the unaudited interim condensed consolidated financial statements of the Company.

### ***Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform***

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the unaudited interim condensed consolidated financial statements of the Company.

### ***Amendments to IAS 1 and IAS 8 Definition of Material***

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the unaudited interim condensed consolidated financial statements of the Company.

### ***Amendments to IFRS 16 Covid-19 Related Rent Concessions***

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

## **2. Significant accounting judgments, estimates and assumptions**

The preparation of these unaudited interim condensed consolidated financial statements in accordance with IAS 34 requires management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company’s unaudited interim condensed consolidated financial statements.

## **3. Convenience translation**

U.S. dollar amounts at September 30, 2020 shown in the unaudited interim condensed consolidated financial statements have been included solely for the convenience of the reader and are translated from Mexican pesos, using an exchange rate of Ps.22.4573 per U.S. dollar, as reported by the Mexican Central Bank (Banco de México) as the rate for the payment of obligations denominated in foreign currency payable in Mexico in effect on September 30, 2020. Such translation should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at this or any other rate. The referred information in U.S. dollars is solely for information purposes and does not represent the amounts are in accordance with IFRS or the equivalent in U.S. dollars in which the transactions were conducted or in which the amounts presented in Mexican pesos can be translated or realized.

#### **4. Seasonality of operations**

The results of operations for any interim period are not necessarily indicative of those for the entire year because the business is subject to seasonal fluctuations. The Company expects demand to be greater during the summer in the northern hemisphere, in December and around Easter, which can fall either in the first or second quarter, compared to the rest of the year. The Company and subsidiaries generally experience their lowest levels of passenger traffic in February, September and October, given their proportion of fixed costs, seasonality can affect their profitability from quarter to quarter. This information is provided to allow for a better understanding of the results; however, management has concluded that this does not constitute “highly seasonal” as considered by IAS 34.

#### **5. Financial instruments and risk management**

##### **Financial risk management**

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

The Company’s global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on net earnings and working capital requirements. The Company uses derivative financial instruments to hedge part of such risks. The Company does not enter into derivatives for trading or speculative purposes. The sources of these financial risks exposures are included in both “on balance sheet” exposures, such as recognized financial assets and liabilities, as well as in “off-balance sheet” contractual agreements and on highly expected forecasted transactions. These on and off-balance sheet exposures, depending on their profiles, do represent potential cash flow variability exposure, in terms of receiving less inflows or facing the need to meet outflows which are higher than expected, therefore increase the working capital requirements.

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

##### **Market risk**

###### **a) Jet fuel price risk**

Since the contractual agreements with jet fuel suppliers include reference to jet fuel index, the Company is exposed to fuel price risk which might have an impact in the forecasted consumption volumes. The Company’s jet fuel risk management policy aims to provide the Company with protection against increases in jet fuel prices. In an effort to achieve the aforesaid, the risk management policy allows the use of derivative financial instruments available on over the counter (“OTC”) markets with approved counterparties and within approved limits. Aircraft jet fuel consumed in the three months ended September 30, 2020 and 2019 represented 24% and 37%, of the Company’s operating expenses, respectively. Additionally, the aircraft jet fuel consumed in the nine months ended September 30, 2020 and 2019 represented 25% and 38%, of the Company’s operating expenses, respectively.

For the three months ended September 30, 2020; did not enter into derivative financial instruments to hedge US Gulf Coast Jet Fuel 54.

For the three and nine months ended September 30, 2020, the Company recognized an unwind of the Zero cost collar of Ps.18,282 and Ps.42,643, respectively which was recognized as part of finance cost. During the nine months ended September 30, 2019 the derivative financial instruments were effectiveness.

During the nine months ended September 30, 2020, the Company entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge 23,967 thousand gallons. Such hedges represented a portion of the projected consumption for the 2Q20, 3Q20 & 1Q21. Additionally, during the same period, the Company entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 81,646 thousand gallons. Such hedges represent a portion of the projected consumption for the 2Q20, 2H20 & 2Q21.

During the year ended December 31, 2019, the Company entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge 13,492 thousand gallons. Such hedges represented a portion of the projected consumption for the 4Q 2019. Additionally, during the same period, the Company entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 70,136 thousand gallons. Such hedges represent a portion of the projected consumption for the 3Q2019 and the year 2020.

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

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

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

As of September 30, 2020, the fair value of the outstanding US Gulf Coast Jet Fuel Asian call options was an unrealized gain of Ps.846; as for the Zero- Cost collars it was an unrealized loss of Ps.428,929 and is presented as part of the financial assets and financial liabilities in the unaudited interim condensed consolidated statement of financial position.

As of December 31, 2019, the fair value of the outstanding US Gulf Coast Jet Fuel Zero-Cost Collars options was an unrealized gain of Ps.133,567 and is presented as part of the financial assets and financial liabilities in the unaudited interim condensed consolidated statement of financial position.

During the three months ended September 30, 2020 and 2019, the intrinsic value of the Asian call options recycled to the fuel cost was an expense of Ps.18,278 and Ps.13,995, respectively, which was recognized in the fuel cost.



During the nine months ended September 30, 2020, the intrinsic value of the Asian call options recycled to unaudited interim condensed consolidated statement of operations cost was an expense of Ps.33,627 (Ps.20,645 which was recognized in the fuel cost and an expense of Ps.12,982 in finance cost). For the nine months ended September 30, 2019, the intrinsic value of the Asian call options recycled to the fuel cost was an expense of Ps.14,761.

During the three months ended September 30, 2020, the intrinsic value of the Zero-Cost Collars recycled to unaudited interim condensed consolidated statement of operations cost was an expense of Ps.301,005 (Ps.299,695 which was recognized in the fuel cost and an expense of Ps.1,310 in finance cost). For the three months ended September 30, 2019, the intrinsic value of the Zero-Cost Collars options recycled to the fuel cost was a benefit of Ps.8,320.

During the nine months ended September 30, 2020, the intrinsic value of the Zero-Cost Collars recycled to unaudited interim condensed consolidated statement of operations cost was an expense of Ps.1,009,866 (Ps.616,931 which was recognized in the fuel cost and an expense of Ps.392,935 in finance cost). For the nine months ended September 30, 2019, the intrinsic value of the Zero-Cost Collars options recycled to the fuel cost was an expense of Ps.9,477, respectively.

The amount of cost of hedging derived from the extrinsic value changes of the jet fuel hedged position as of September 30, 2020 recognized in other comprehensive income totals Ps.441,816 (The positive cost of hedging in December 2019 totals Ps.133,567), and will be recycled to the fuel cost during 4Q20 and 2021, as these options expire on a monthly basis and the jet fuel is consumed.

The following table includes the notional amounts and strike prices of the derivative financial instruments outstanding as of the end of the period:

	Position as of September 30, 2020 Jet fuel contracts maturities			
	4Q 2020	2020 Total	1 Half 2021	2021 Total
<b>Jet fuel risk Asian Calls</b>				
Notional volume in gallons (thousands)*	-	-	7,280	7,280
Strike price agreed rate per gallon (U.S. dollars) **	US\$ -	US\$ -	US\$ 1.90	US\$ 1.90
Approximate percentage of hedge (of expected consumption value)	-%	-%	6%	3%
<b>Jet fuel risk Zero-Cost collars</b>				
Notional volume in gallons (thousands)*	47,294	47,294	7,556	7,556
Strike price agreed rate per gallon (U.S.dollars)**	US\$ 1.37/1.77	US\$ 1.37/1.77	US\$ 1.23/1.93	US\$ 1.23/1.93
Approximate percentage of hedge (of expected consumption value)	83%	83%	6%	3%
<b>All-in</b>				
Approximate percentage of hedge (of expected consumption value)	83%	83%	12%	6%

\* US Gulf Coast Jet 54 as underlying asset

\*\* Weighted average

According with the recent COVID 19 outbreak in Mexico and other countries where the airline has operations, performance will be affected and therefore, hedge ratios reported in this document may adjust with its respective accounting.

Position as of December 31, 2019						
Jet fuel Zero-Cost Collar						
collars option contracts maturities						
	1 Half 2020		2 Half 2020		2020 Total	
Jet fuel risk Zero-Cost collars						
Notional volume in gallons (thousands)*		34,480		22,164		56,644
Strike price agreed rate per gallon (U.S. dollars)**	US\$	1.63/1.82	US\$	1.65/1.81	US\$	1.64/1.82
Approximate percentage of hedge (of expected consumption value)		25%		15%		20%
All-in						
Approximate percentage of hedge (of expected consumption value)		25%		15%		20%

\* US Gulf Coast Jet 54 as underlying asset

\*\* Weighted average

#### b) Foreign currency risk

Though the Mexican Peso is the functional currency of the Company, a significant portion of its operating expenses are denominated in U.S. dollar; thus, Volaris relies on sustained U.S. dollar cash flows coming from operations in the United States of America and Central America to support part of its commitments in such currency, however there's still a mismatch.

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

While most of the Company's revenue is generated in Mexican pesos, 29% of its revenues came from operations in the United States of America and Central America for the year ended on December 31, 2019.

For the three months ended September 30, 2020, 18% of the Company's revenues came from operations in the United States of America and Central America (31% for the three months ended September 30, 2019).

For the nine months ended September 30, 2020, 27% of the Company's revenues came from operations in the United States of America and Central America (30% for the nine months ended September 30, 2019).

For the three months ended September 30, 2020 and 2019 the U.S. dollar denominated collections accounted were 53% and 43%, respectively.

For the nine months ended September 30, 2020 and 2019 the U.S. dollar denominated collections accounted were 47% and 43%, respectively.

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

The Company's foreign exchange exposure as of September 30, 2020 and December 31, 2019, is as set forth below:

	Thousands of U.S. dollars	
	September 30, 2020	December 31, 2019
<b>Assets:</b>		
Cash and cash equivalents	US\$ 353,744	US\$ 373,099
Other accounts receivable, net	38,380	23,620
Guarantee deposits	451,793	437,499
Derivative financial instruments	38	7,088
Total assets	843,955	841,306
<b>Liabilities:</b>		
Financial debt	183,820	176,927
Lease liabilities	2,312,159	2,263,849
Suppliers	149,155	76,471
Other taxes and fees payable	15,216	22,486
Derivative financial instruments	19,100	-
Total liabilities	2,679,450	2,539,733
Net foreign currency position	US\$ (1,835,495)	US\$ (1,698,427)

At December 7, 2020, date of issuance of these financial statements, the exchange rate was Ps.19.9083 per U.S. dollar.

As of September 30, 2020, and December 31, 2019, the Company did not enter into foreign exchange rate derivatives financial instruments. All the Company's remaining position in FX plain vanilla forwards matured throughout the first quarter of 2019 (January).

For the nine months ended September 30, 2019, the net gain (loss) on the foreign currency forward contracts was Ps.4,199, which was recognized as part of rental expense in the consolidated statements of operations.

#### i) Hedging relationships with non-derivative financial instruments

During 2019, the Company established hedges on its U.S. dollar denominated revenues through a non-derivative financial instrument, using the lease liabilities denominated in U.S. dollar as a hedge instrument. This hedging relationship was designated as a cash flow hedge of forecasted revenues to mitigate the volatility of the foreign exchange variation arising from the revaluation of the lease liabilities.

During the three months period ended September 30, 2020 and 2019, the Company recorded of these hedges was Ps.171,147 and Ps.28,716, respectively, which has been presented as part of the total operating revenue.

During the nine months period ended September 30, 2020 and 2019, the Company recorded of these hedges was Ps.237,438 and Ps.39,713, respectively, which has been presented as part of the total operating revenue.

Additionally, during 2019, the Company established hedges on a portion of its forecasted fuel expense, through a non-derivative financial instrument, using as a hedge instrument a portion of its U.S. dollar denominated monetary assets. This hedging relationship was designated as a cash flow hedge of forecasted fuel expense to mitigate the volatility of the foreign exchange variation arising from the revaluation of this portion of U.S. dollar denominated monetary asset.

During the three months period ended September 30, 2020 and 2019, the Company recorded of these hedges was Ps.153,517 and Ps.26,428, respectively, which has been presented as part of the total fuel expense.

During the nine months period ended September 30, 2020 and 2019, the Company recorded of these hedges was Ps.324,940 and Ps.40,531, respectively, which has been presented as part of the total fuel expense.

For the hedging relationships described, the effective portion of the hedging instrument's change in fair value is recognized in Other Comprehensive Income or OCI. The accounting records corresponding to the recycling of the OCI are made in accordance with IFRS 9. Under this Standard, the portion recorded in OCI is recognized in the results in the same period in which the expected forecast transaction occurs hedging for cash flows affect the result of the period. As of September 30, 2020, OCI includes a negative foreign exchange effect of Ps.5,264,766. As of December 31, 2019, OCI includes a positive foreign exchange effect of Ps.14,096.

### **c) Interest rate risk**

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

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

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

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

The Irrevocable Trust number CIB/3249, whose trustor is the Company, entered a Cap to mitigate the risk due to interest rate increases on the CEBUR ("*Asset backed trust notes*") coupon payments. The floating rate coupons reference referring to THIE 28 are limited under the Cap to 10% on the reference rate for the life of the CEBUR and have the same amortization schedule. Thus, the cash flows of the CEBUR are perfectly matched by the hedging instrument. The cap start date was July 19, 2019 and the maturity date is June 20, 2024; consists of 59 caplets with the same specifications that the CEBUR coupons for reference rate determination, coupon term, and fair value.

As of September 30, 2020, and December 31, 2019, the fair value of the CAP was an unrealized gain of Ps.927 and Ps.2,695, respectively, and is presented as part of the financial assets in the unaudited interim condensed consolidated statement of financial position. For the three and nine months ended September 30, 2020, the net loss on the Interest Rate CAP contracts was Ps.339 and Ps.1,126, respectively, which was recognized as part of the finance cost in the unaudited interim condensed statements of operations..

#### d) Liquidity risk

Liquidity risk represents the risk that the Company has insufficient funds to meet its obligations.

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

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

The Company has future obligations related to maturities of bank borrowings, leases liabilities and derivative contracts.

The Company concluded that it has a low concentration of risk since it has access to alternate sources of funding.

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

	September 30, 2020		
	Within one year	One to five years	Total
<b>Interest-bearing borrowings:</b>			
Pre-delivery payments facilities	Ps. 1,981,426	Ps. 2,128,260	Ps. 4,109,686
Short-term working capital facilities	200,000	-	200,000
Asset backed trust note	125,000	1,375,000	1,500,000
<b>Derivative financial instruments:</b>			
Jet fuel Asian Zero-Cost collars options contracts	428,929	-	428,929
<b>Lease liabilities:</b>			
Aircraft, engines, land and buildings leases	7,498,243	42,096,202	49,594,445
Aircraft and engine lease return obligation	-	2,387,929	2,387,929
Total	<u>Ps. 10,233,598</u>	<u>Ps. 47,987,391</u>	<u>Ps. 58,220,989</u>

	December 31, 2019		
	Within one year	One to five years	Total
<b>Interest-bearing borrowings:</b>			
Pre-delivery payments facilities	Ps. 1,855,956	Ps. 1,452,553	Ps. 3,308,509
Short-term working capital facilities	200,000	-	200,000
Asset backed trust note	-	1,500,000	1,500,000
<b>Lease liabilities:</b>			
Aircraft, engines, land and buildings leases	4,720,505	35,796,540	40,517,045
Aircraft and engine lease return obligation	383,093	1,469,595	1,852,688
<b>Total</b>	<b>Ps. 7,159,554</b>	<b>Ps. 40,218,688</b>	<b>Ps. 47,378,242</b>

#### e) Credit risk

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

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

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

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

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

To manage credit risk, the Company selects counterparties based on credit assessments, limits overall exposure to any single counterparty and monitors the market position with each counterparty. The Company does not purchase or hold derivative financial instruments for trading purposes. At September 30, 2020, and December 31, 2019, the Company concluded that its credit risk related to its outstanding derivative financial instruments is low, since it has no significant concentration with any single counterparty and it only enters into derivative financial instruments with banks with high credit-rating assigned by international credit-rating agencies.

## **f) Capital management**

Management believes that the resources available to the Company are enough for its present requirements and will be sufficient to meet its anticipated requirements for capital expenditures and other cash requirements for the 2020 fiscal year.

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios to support its business and maximize the shareholder's value. No changes were made in the objectives, policies or processes for managing capital during the nine months ended September 30, 2020 and the twelve months ended December 31, 2019. The Company is not subject to any externally imposed capital requirement, other than the legal reserve.

### **6. Fair value measurements**

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

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

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

	Carrying amount		Fair value	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
<b>Assets</b>				
Derivative financial instruments	Ps. 1,773	Ps. 136,262	Ps. 1,773	Ps. 136,262
<b>Liabilities</b>				
Financial debt	(5,809,686)	(5,008,509)	(5,995,688)	(5,194,316)
Derivative Financial instruments	(428,929)	-	(428,929)	-
<b>Total</b>	<b>Ps. (6,236,842)</b>	<b>Ps. (4,872,247)</b>	<b>Ps. (6,422,844)</b>	<b>Ps. (5,058,054)</b>

The following table summarizes the fair value measurements at September 30, 2020:

	Fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
<b>Assets</b>				
Derivatives financial instruments:				
Jet fuel Asian call options contracts *	Ps. -	Ps. 846	Ps. -	Ps. 846
Interest Rate Cap	-	927	-	927
<b>Liabilities</b>				
Derivatives financial instruments:				
Jet fuel Asian Zero-Cost collars options contracts*	-	(428,929)	-	(428,929)
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings**	-	(5,995,688)	-	(5,995,688)
<b>Net</b>	<b>Ps. -</b>	<b>Ps. (6,422,844)</b>	<b>Ps. -</b>	<b>Ps. (6,422,844)</b>

\* Jet fuel forwards levels and LIBOR curve.

\*\* LIBOR curve and TIIE Mexican interbank rate. Includes short-term and long-term debt.

There were no transfers between level 1 and level 2 during the period.



The following table summarizes the fair value measurements at December 31, 2019:

	Fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
<b>Assets</b>				
Derivatives financial instruments:				
Jet fuel Zero-Cost collar options contracts*	Ps. -	Ps. 133,567	Ps. -	Ps. 133,567
Interest rate Caps	-	2,695	-	2,695
<b>Liabilities for which fair values are disclosed:</b>				
Interest-bearing loans and borrowings**	-	(5,194,316)	-	(5,194,316)
<b>Net</b>	<u>Ps. -</u>	<u>Ps. (5,058,054)</u>	<u>Ps. -</u>	<u>Ps. (5,058,054)</u>

\* Jet fuel forwards levels and LIBOR curve.

\*\* LIBOR curve and TIIE Mexican interbank rate. Includes short-term and long-term debt.

There were no transfers between level 1 and level 2 during the period.

The following table summarizes the (loss) gain from derivatives financial instruments recognized in the unaudited interim condensed consolidated statements of operations for the three months ended September 30, 2020 and 2019:

#### Consolidated statements of operations

Instrument	Financial statements line	Three months ended September 30,	
		2020	2019
Jet fuel Asian call options contracts	Fuel	Ps. (18,279)	Ps. (13,995)
Jet fuel Asian Zero-Cost collars options	Fuel	(299,695)	8,320
Interest Rate Cap	Finance cost	(339)	-
Total		<u>Ps. (318,313)</u>	<u>Ps. (5,675)</u>

The following table summarizes the (loss)from derivatives financial instruments recognized in the unaudited interim condensed consolidated statements of operations for the nine months ended September 30, 2020 and 2019:

**Consolidated statements of operations**

Instrument	Financial statements line	Nine months ended September 30,	
		2020	2019
Jet fuel Asian call options contracts	Fuel	Ps. (20,645)	Ps. (14,761)
Jet fuel Asian Zero-Cost collars options	Fuel	(616,930)	(9,477)
Interest Rate Cap	Finance cost	(1,126)	-
Total loss		Ps. (638,701)	Ps. (24,238)

The following table summarizes the net gain (loss) on CFH before taxes recognized in the unaudited interim condensed consolidated statements of comprehensive income for the three months ended September 30, 2020 and 2019:

**Consolidated statements of other comprehensive income**

Instrument	Financial statements line	Three months ended September 30,	
		2020	2019
Jet fuel Asian call options	OCI	Ps. 11,212	Ps. 33,137
Jet fuel Zero cost collars	OCI	389,087	8,643
Interest Rate Cap	OCI	(883)	4,004
Non derivative financial instruments	OCI	741,450	588,699
Total		Ps. 1,140,866	Ps. 634,483

The following table summarizes the net gain (loss) on CFH before taxes recognized in the unaudited interim condensed consolidated statements of comprehensive income for the nine months ended September 30, 2020 and 2019:

**Consolidated statements of other comprehensive income**

Instrument	Financial statements line	Nine months ended September 30,	
		2020	2019
Jet fuel Asian call options	OCI	Ps. (12,887)	Ps. (20,586)
Jet fuel Zero cost collars	OCI	(562,496)	135,591
Foreign currency contracts	OCI	-	(14,241)
Interest Rate Cap	OCI	(642)	(4,004)
Non derivative financial instruments	OCI	(5,278,862)	(933,538)
Total		Ps. (5,854,887)	Ps. (836,778)

**7. Financial assets and liabilities**

At September 30, 2020, and December 31, 2019, the Company's financial assets are represented by cash and cash equivalents, trade and other accounts receivable, accounts receivable with carrying amounts that approximate their fair value.

**a) Financial assets**

	September 30, 2020	December 31, 2019
<b>Derivative financial instruments designated as cash flow hedges (effective portion recognized within OCI)</b>		
Jet fuel Asian call options	Ps. 846	Ps. -
Jet fuel Zero-Cost collars	-	133,567
Interest rate cap	927	2,695
Total financial assets	Ps. 1,773	Ps. 136,262

Presented on the consolidated statements of financial position as follows:

Current	Ps. 846	Ps. 133,567
Non-current	Ps. 927	Ps. 2,695

## b) Financial debt

(i) At September 30, 2020 and December 31, 2019, the Company's short-term and long-term debt consists of the following:

	September 30, 2020	December 31, 2019
I. Revolving line of credit with Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander ("Santander") and Banco Nacional de Comercio Exterior, S.N.C. ("Bancomext"), in U.S. dollars, to finance pre-delivery payments, maturing on May 31, 2022, bearing annual interest rate at the three-month LIBOR plus a spread of 260 basis points.	Ps. 4,109,686	Ps. 3,308,509
II. The Company issued in the Mexico market Asset backed trust notes ("CEBUR"), in Mexican pesos, maturing on June 20 <sup>th</sup> , 2024 bearing annual interest rate at TIIE 28 days plus 175 basis points.	1,500,000	1,459,871
III. In December 2019, the Company entered into a short-term working capital facility with Banco Sabadell S.A., Institución de Banca Múltiple ("Sabadell") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a spread of 300 basis points.	200,000	200,000
IV. Amortized transaction costs	(17,351)	(22,472)
V. Accrued interest and other financial cost	21,847	30,061
	5,814,182	4,975,969
Less: Short-term maturities	2,328,272	2,086,017
Long-term	Ps. 3,485,910	Ps. 2,889,952

TIIE: Mexican interbank rate

(ii) The following table provides a summary of the Company's scheduled principal payments of financial debt and accrued interest at September 30, 2020:

	Within one year	October 2021- September 2022	October 2022- September 2023	October 2023- September 2024	October 2024- September 2025	Total
Santander/Bancomext	Ps. 1,999,845	Ps. 1,999,605	Ps. 128,656	Ps. -	Ps. -	Ps. 4,128,106
CEBUR	127,435	500,000	500,000	375,000	-	1,502,435
Banco Sabadell	200,992	-	-	-	-	200,992
Total	Ps. 2,328,272	Ps. 2,499,605	Ps. 628,656	Ps. 375,000	Ps. -	Ps. 5,831,533

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

- Incur debt above a specified debt basket unless certain financial ratios are met.
- Create liens.
- Merge with or acquire any other entity without the previous authorization of the Banks.
- Dispose of certain assets.
- Declare and pay dividends or make any distribution on the Company's share capital unless certain financial ratios are met.

At September 30, 2020, the Company was not in compliance with the financial ratio, therefore, the Company requested a waiver to the banks. The company received a waiver dated October 23, 2020, for the covenant regarding the financial ratio for the PDP financing facility that included the 3Q20, 4Q20, 1Q21 and 2Q21. The waiver was provided by both banks, Santander and Bancomext.

At December 31, 2019, the Company was in compliance with the covenants under the above-mentioned loan agreement.

For purposes of financing the pre-delivery payments, Mexican trust structures were created whereby, the Company assigned its rights and obligations under the Airbus Purchase Agreement with Airbus S.A.S. ("Airbus"), including its obligation to make pre-delivery payments to the Mexican trusts, and the Company guaranteed the obligations of the Mexican trusts under the financing agreement (Deutsche Bank Mexico, S.A. Trust 1710 and 1711).

On June 20, 2019, the Company, through its subsidiary Concesionaria issued 15,000,000 asset backed trust notes under the ticket VOLARCB 19 for the amount of Ps.1.5 billion Mexican pesos through the Irrevocable Trust number CIB/3249 created by Concesionaria. The issuance amount is part of a program approved by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) for an amount of up to Ps.3.0 billion Mexican pesos.

The notes have a five year maturity annual reductions of Ps.250,000, Ps.500,000, Ps.500,000 and Ps.250,000 in 2021, 2022, 2023 and 2024, respectively, with a floating one-month coupon rate referenced to THIE 28 plus with a 175 basis point spread. The notes start amortizing at the end of the second year.

The asset backed trust notes structure operates on specific rules and provides a DSCR "Debt Service Coverage Ratio" which is computed by comparing the Mexican Peso collections over the previous six months to the next 6 months of debt service. In general, there is a fund retention event if the ratio is less than 2.5 and or equal to 1.75 times. The amortization of the debt of the asset backed trust notes begins in July of 2021. In addition, early amortization applies if:

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

In December 2019, the Company entered into a short-term working capital facility with Banco Sabadell S.A., Institución de Banca Multiple ("Sabadell") in Mexican pesos, bearing annual interest rate at THIE 28 days plus a 120 basis points. The "Sabadell" working capital facility has the following covenant:

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

At September 30, 2020 and December 31, 2019, the Company was in compliance with the covenants under the terms and conditions of the asset backed trusted notes and short-term working capital facilities.

### c) Other financial liabilities

At September 30, 2020 and December 31, 2019, the derivative financial instruments designated as CFH from the Company are summarized in the following table:

	September 30, 2020	December 31, 2019
<b>Derivative financial instruments designated as CFH (effective portion recognized within OCI): Zero cost collar options</b>	<b>Ps. 428,929</b>	<b>Ps. -</b>
Total financial liabilities	<b>Ps. 428,929</b>	<b>Ps. -</b>
Presented on the consolidated statements of financial position as follows:		
Current	<b>Ps. 428,929</b>	<b>Ps. -</b>
Non-current	<b>Ps. -</b>	<b>Ps. -</b>

### 8. Cash and cash equivalents

An analysis of this caption is as follows:

	September 30, 2020	December 31, 2019
Cash in banks	<b>Ps. 5,639,267</b>	<b>Ps. 4,612,927</b>
Short-term investments	<b>2,456,474</b>	<b>3,231,125</b>
Cash on hand	<b>14,785</b>	<b>44,880</b>
Restricted funds held in trust related to debt service reserves	<b>91,040</b>	<b>91,040</b>
<b>Total cash and cash equivalents</b>	<b>Ps. 8,201,566</b>	<b>Ps. 7,979,972</b>

As of September 30, 2020, and December 31, 2019, the Company recorded a portion of advance ticket sales by an amount of Ps.91,040 as a restricted fund. The restricted funds held in Trust are used to constitute the debt service reserves and cannot be used for purposes other than those established in the contract of the Trust.

### 9. Related parties

a) An analysis of balances due from/to related parties at September 30, 2020, and December 31, 2019 is provided below.

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

	Type of transaction	Country of origin	September 30, 2020	December 31, 2019	Terms
<b>Due from:</b>					
Frontier Airlines Inc. ("Frontier")	Code-share	USA	<b>Ps. 47,657</b>	<b>Ps. 23,442</b>	30 days
			<b>Ps. 47,657</b>	<b>Ps. 23,442</b>	

	Type of transaction	Country of origin	September 30, 2020	December 31, 2019	Terms
<b>Due to:</b>					
Grupo Aeroportuario del Centro Norte ("OMA")	Airport Services	Mexico	Ps. 213,270	Ps. -	30 days
Aeromantenimiento, S.A. ("Aeroman")	Aircraft and engine maintenance	Mexico/El Salvador	63,545	1,474	30 days
Mijares, Angoitia, Cortés y Fuentes, S.C.	Professional fees	Mexico	488	996	30 days
One Link, S.A. de C.V. ("One Link")	Call center fees	El Salvador	-	39,838	30 days
Frontier Airlines, Inc. ("Frontier")	Code-share	USA	-	16,246	30 days
			Ps. 277,303	Ps. 58,554	

As of September 30, 2020, and December 31, 2019, the Company did not recognize any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

b) During the three months ended September 30, 2020 and 2019, the Company had the following transactions with related parties:

Related party transactions	Country of origin	2020	2019
<b>Revenues:</b>			
Transactions with affiliates			
Frontier Airlines Inc.			
Code share	USA	Ps. 24,471	Ps. 67,467
Related party transactions	Country of origin	2020	2019
<b>Expenses:</b>			
Transactions with affiliates			
Aeromantenimiento, S.A.			
Aircraft and engine maintenance	Mexico/El Salvador	Ps. 67,083	Ps. 40,781
Technical support	Mexico/El Salvador	936	1,891
Grupo Aeroportuario del Centro Norte			
Airport services	Mexico	8,805	-
Servprot, and MACF			
Call center fees and other professional Fees	Mexico	1,374	714

c) During the nine months ended September 30, 2020 and 2019, the Company had the following transactions with related parties:

Related party transactions	Country of origin	2020	2019
<b>Revenues:</b>			
Transactions with affiliates			
Frontier Airlines Inc.			
Code share	USA	Ps. 107,506	Ps. 163,448
Related party transactions	Country of origin	2020	2019
<b>Expenses:</b>			
Transactions with affiliates			
Aeromantenimiento, S.A.			
Aircraft and engine maintenance	Mexico/El Salvador	Ps. 174,196	Ps. 175,535
Technical support	Mexico/El Salvador	3,005	3,207
Servprot, Onelink, and MACF			
Call center fees and other professional Fees	Mexico/El Salvador	76,309	2,227
Grupo Aeroportuario del Centro Norte			
Airport services	Mexico	13,838	-

d) Servprot

Servprot S.A. de C.V. ("Servprot") is a related party because Enrique Beltranena, the Company's President and Chief Executive Officer, and Rodolfo Montemayor, who served as an alternate member of our board of directors until April 19, 2018, are shareholders of such company. Servprot provides security services for Mr. Beltranena and his family, as well as for Mr. Montemayor. As of September 30, 2020 and December 31, 2019, the Company did not have net balance with Servprot.

During the three months ended September 30, 2020 and 2019 the Company expensed Ps.953 and Ps.714, respectively, for this concept.

During the nine months ended September 30, 2020 and 2019 the Company expensed Ps.2,647 and Ps.2,227, respectively, for this concept.

e) Aeroman

Aeroman is a related party, because Marco Baldocchi a member of the board of the Company's board of directors is an alternate director of Aeroman. The Company entered into an aircraft repair and maintenance service agreement with Aeroman on January 1, 2017. This agreement provides that the Company must use Aeroman, exclusively for aircraft repair and maintenance services, subject to availability. Under this agreement, Aeroman provides inspection, maintenance, repair and overhaul services for aircraft. The Company makes payments under this agreement depending on the services performed. This agreement is for a 5 years term. As of September 30, 2020, and December 31, 2019, the balances due under the agreement with Aeroman were Ps.63,545 and Ps.1,474, respectively.

During the three months ended September 30, 2020 and 2019, the Company incurred expenses in aircraft, engine maintenance and technical support under this agreement amounted to Ps.68,019 and Ps.42,672, respectively.



During the nine months ended September 30, 2020 and 2019, the Company incurred expenses in aircraft, engine maintenance and technical support under this agreement amounted to Ps.177,201 and Ps.178,742, respectively.

f) Mijares, Angoitia, Cortés y Fuentes

Mijares, Angoitia, Cortés y Fuentes, S.C. (“MACF”) is a related party because Ricardo Maldonado Yañez and Eugenio Macouzet de León, member and alternate member, respectively, of the board of the Company since April 2018, are partners of the MACF. As of September 30, 2020, and December 31, 2019, the balances due under the agreement with MACF were Ps.488 and Ps.996, respectively.

During the three months ended September 30, 2020 and 2019, the Company incurred expenses in professional fees under this agreement amounted to Ps.421 and Ps.0, respectively.

During the nine months ended September 30, 2020 and 2019, the Company incurred expenses in professional fees under this agreement amounted to Ps.495 and Ps.0, respectively.

g) Frontier

Frontier is a related party because Mr. William A. Franke and Brian H. Franke are members of the board of the Company and Frontier as well as Indigo Partners has significant investments in both Companies. As of September 30, 2020 and December 31, 2019, the accounts receivable from Frontier were Ps.47,657 and Ps.23,442, respectively. Additionally, as of September 30, 2020, and December 31, 2019, the account payable was Ps.0 and Ps.16,246, respectively.

During the three months ended September 30, 2020 and 2019, the Company recognized revenue under this agreement of Ps.24,471 and Ps.67,467, respectively.

During the nine months ended September 30, 2020 and 2019, the Company recognized revenue under this agreement of Ps.107,506 and Ps.163,448, respectively.

h) OneLink

OneLink S.A. de C.V. (“Onelink”) was a related party until December 31, 2017, because Marco Baldocchi, a member of the board, was a director of Onelink. As of October 24, 2019 and until June 30, 2020 Onelink, Holdings, S.A. (“Onelink Holdings”) and its subsidiary Onelink were related parties, because Mr. Rodrigo Antonio Escobar Nottebohm, a former alternate board member of Onelink Holdings, became an alternate Director of the Company. Pursuant to this agreement, Onelink received calls from the customers to book flights and provides customers with information about fares, schedules and availability. As of September 30, 2020, and December 31, 2019, the account payable under this agreement was Ps.0 and Ps.39,838, respectively.

During the three months period ended September 30, 2020 and 2019, the Company expensed Ps.0 and Ps.0, respectively, for this concept.

During the nine months period ended September 30, 2020 and 2019, the Company expensed Ps.73,167 and Ps.0, respectively, for this concept.

i) Grupo Aeroportuario del Centro Norte (OMA)

In April 22, 2020, Grupo Aeroportuario del Centro Norte (OMA) became a related party because Mrs. Guadalupe Phillips Margain is an independent member of the board of directors the Company and member of the board of directors of OMA. Mr. Ricardo Maldonado Yañez is also an independent member of the board of directors the Company and OMA. As of September 30, 2020, the account payable with OMA was Ps.213,270.

During the three and nine months period ended September 30, 2020, the Company recognized expenses with OMA of Ps.8,805 and Ps.13,838, respectively.

j) Directors and officers

During the three months ended September 30, 2020 and 2019, all the Company's senior managers received an aggregate compensation of short and long-term benefits of Ps.19,946 and Ps.34,318, respectively.

During the nine months ended September 30, 2020 and 2019, all the Company's senior managers received an aggregate compensation of short and long-term benefits of Ps.133,730 and Ps.112,120, respectively.

During the three months ended September 30, 2020 and 2019, the chairman and the independent members of the Company's board of directors received an aggregate compensation of approximately Ps.1,379 and Ps.2,119, respectively, and the rest of the directors received a compensation of Ps.93 and Ps.1,130, respectively.

During the nine months ended September 30, 2020 and 2019, the chairman and the independent members of the Company's board of directors received an aggregate compensation of approximately Ps.4,470 and Ps.4,314, respectively, and the rest of the directors received a compensation of Ps.3,602 and Ps.2,401, respectively.

## 10. Inventories

An analysis of inventories at September 30, 2020 and December 31, 2019 is as follows:

	2020	2019
Spare parts and accessories of flight equipment	Ps. 246,635	Ps. 294,390
Miscellaneous supplies	7,511	7,518
	Ps. 254,146	Ps. 301,908

The inventory items are consumed during or used mainly in delivery of in-flight services and for maintenance services by the Company and are valued at the lower of cost or replacement value. During the nine months ended as of September 30, 2020 and 2019, the amount of consumption of inventories, recorded as an operating expense as part of maintenance expense was Ps.169,340,734 and Ps.210,798,382, respectively.

### 11. Rotable spare parts, furniture and equipment, net

For the nine months ended September 30, 2020 and 2019, the Company acquired rotatable spare parts, furniture, and equipment by an amount of Ps.2,492,507 and Ps.2,442,378 respectively.

Rotable spare parts, furniture and equipment by Ps.2,423,438 and Ps.1,206,597, were disposed for the nine months ended September 30, 2020 and 2019, respectively. These amounts included reimbursements of pre-delivery payments for aircraft acquisition of Ps.967,739 and Ps.704,852, respectively.

#### b) Depreciation expense

Depreciation expense for the three months ended September 30, 2020 and 2019 was Ps.206,177 and Ps.150,116, respectively. Depreciation expense for the nine months ended September 30, 2020 and 2019 was Ps.574,060 and Ps.407,670, respectively. Depreciation charges for the period are recognized as a component of operating expenses in the unaudited interim condensed consolidated statements of operations.

### 12. Intangible assets, net

#### a) Acquisitions

For the nine months ended September 30, 2020 and 2019, the Company acquired intangible assets by an amount of Ps.75,446 and Ps.43,840, respectively.

#### b) Amortization expense

Software amortization expense for the three months ended September 30, 2020 and 2019 was Ps.24,625 and Ps.26,390, respectively. Software amortization expense for the nine months ended September 30, 2020 and 2019 was Ps.75,702 and Ps.60,023, respectively. These amounts were recognized in depreciation and amortization in the unaudited interim condensed consolidated statements of operations.

### 13. Leases

The most significant leases are as follows:

Aircraft and engine represent the Company's most significant lease agreements. At September 30, 2020, the Company leases 83 aircraft (81 as of December 31, 2019) and 18 spare engines under leases (14 as of December 31, 2019) that have maximum terms through 2033. The leases are generally guaranteed by either deposit in cash or letters of credits.

Composition of the fleet and spare engines leases\*:

Aircraft Type	Model	At September 30, 2020	At December 31, 2019
A319	132	3	3
A319	133	3	4
A320	233	39	39
A320	232	1	2
A320NEO	271N	21	17
A321	231	10	10
A321NEO	271N	6	6
		<u>83</u>	<u>81</u>

Engine Type	Model	At September 30, 2020	At December 31, 2019
V2500	V2524-A5	2	2
V2500	V2527M-A5	3	3
V2500	V2527E-A5	5	3
V2500	V2527-A5	2	2
PW1100	PW1127G-JM	5	3
PW1100	PW1133G-JM	1	1
		<b>18</b>	<b>14</b>

\* Certain of the Company's aircraft and engine lease agreements include an option to extend the lease term period. Terms and conditions are subject to market conditions at the time of renewal.

During the three months period ended September 30, 2020 the Company enter into Aircraft sale and leaseback transactions of three new aircraft A320 NEO and also returned one aircraft A320 to its respective Lessor.

During the nine months period ended September 30, 2020 the Company enter into Aircraft sale and leaseback transaction of four new aircraft A320 NEO, and also returned one aircraft A319 and one aircraft A320 to their respective Lessor.

During the nine months ended September 30, 2020, the Company also incorporated two NEO spare engine to its fleet based on the terms of the Pratt & Whitney purchase agreement (FMP), also the Company sold two own CEO spares. Those engines were subject to sale and leaseback transactions and their respective lease agreements were accounted as leases.

During the year ended December 31, 2019, the Company added seven new leased aircraft to its fleet (three A320 NEO's acquired through sale and leaseback transactions under our existing Airbus purchase agreement and four obtained directly from the lessor's). Also, the Company extended the lease term of one spare engine (effective from 2019) and returned two aircraft to their respective lessors. All the aircraft incorporated through the lessor's aircraft order book was not subject to sale and leaseback transactions.

During the year ended December 31, 2019, the Company also leased two NEO spare engines (based on the terms of the Pratt & Whitney purchase agreement FMP) and two CEO spare engines to its fleet. These four engines incorporated were subject to sale and leaseback transactions and their respective lease agreements were accounted as leases. Additionally, during 2019 the Company extended the lease term of one spare engine (effective from November 2019).

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

	Aircraft leases	Spare engine leases	Land and building leases	Total
As at 31 December 2019	Ps. 33,312,089	Ps. 677,198	Ps. 139,479	Ps. 34,128,766
Additions	3,276,573	288,115	15,222	3,579,910
Depreciation on right of use assets	(3,540,462)	(154,111)	(57,385)	(3,751,958)
As at September 30, 2020	<b>Ps. 33,048,200</b>	<b>Ps. 811,202</b>	<b>Ps. 97,316</b>	<b>Ps. 33,956,718</b>

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

	As of September 30, 2020	As of December 31, 2019
<b>As at January 1<sup>st</sup></b>	<b>Ps. 40,517,045</b>	<b>Ps. 39,565,146</b>
Additions	3,852,593	7,186,613
Accretion of interest	1,796,736	2,037,540
Foreign exchange effect	7,491,785	(1,772,452)
Payments	(4,063,714)	(6,499,802)
<b>At the end of the reported period</b>	<b>Ps. 49,594,445</b>	<b>Ps. 40,517,045</b>
Current	7,498,243	4,720,505
Non-current	42,096,202	35,796,540

The following are the amounts recognized in profit or loss for the three months ended September 30, 2020 and 2019:

	As of September 30, 2020	As of September 30, 2019
Depreciation of right-of-use assets	Ps. (1,277,828)	Ps. (1,186,266)
Interest expense on lease liabilities	(661,742)	(520,543)
Aircraft and engine variable expenses	(537,304)	(225,858)
<b>Total amount recognized in profit or loss</b>	<b>Ps. (2,476,874)</b>	<b>Ps. (1,932,667)</b>

The following are the amounts recognized in profit or loss for the nine months ended September 30, 2020 and 2019:

	As of September 30, 2020	As of September 30, 2019
Depreciation of right-of-use assets	Ps. (3,751,958)	Ps. (3,522,130)
Interest expense on lease liabilities	(1,904,106)	(1,510,478)
Aircraft and engine variable expenses	(1,337,873)	(768,592)
<b>Total amount recognized in profit or loss</b>	<b>Ps. (6,993,937)</b>	<b>Ps. (5,801,200)</b>

The Company had total cash outflows for leases of Ps.4,349,801 as of September 30, 2020 (Ps.4,786,987 as of September 30, 2019).

#### 14. Equity

As of September 30, 2020, the total number of the Company's authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares	10,478	923,814,326	923,824,804
Series B shares	13,702	88,038,171	88,051,873
	24,180	1,011,852,497	1,011,876,677
Treasury shares	-	(18,088,320)	(18,088,320)
	24,180	993,764,177	993,788,357

As of December 31, 2019, the total number of the Company's authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		Total shares
	Fixed Class I	Variable Class II	
Series A shares <sup>(1)</sup>	10,478	923,814,326	923,824,804
Series B shares <sup>(1)</sup>	13,702	88,038,171	88,051,873
	24,180	1,011,852,497	1,011,876,677
Treasury shares	-	(15,136,057)	(15,136,057) <sup>(1)</sup>
	24,180	996,716,440	996,740,620

<sup>(1)</sup>The number of forfeited shares as of December 31, 2019 were 294,541, which are include in treasury shares.

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

As of September 30, 2020, and December 31, 2019, the Company did not declare any dividends.

#### a) (Loss) earnings per share

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

Diluted LPS or EPS amounts are calculated by dividing the (loss) profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

The following table shows the calculations of the basic and diluted (loss) earnings per share for the three months ended September 30, 2020 and 2019:

	Three months ended September 30	
	2020	2019
Net (loss) income for the period	Ps. (2,175,052)	Ps. 713,060
<b>Weighted average number of shares outstanding (in thousands):</b>		
Basic	1,011,877	1,011,877
Diluted	1,011,877	1,011,877
<b>(LPS) EPS:</b>		
Basic	(2.150)	0.705
Diluted	(2.150)	0.705

The following table shows the calculations of the basic and diluted (loss) earnings per share for the nine months ended September 30, 2020 and 2019:

	Nine months ended September 30	
	2020	2019
Net (loss) income for the period	Ps. (5,190,857)	Ps. 1,351,720
<b>Weighted average number of shares outstanding (in thousands):</b>		
Basic	1,011,877	1,011,877
Diluted	1,011,877	1,011,877
<b>(LPS) EPS:</b>		
Basic	(5.130)	1.336
Diluted	(5.130)	1.336

#### 15. Income tax

i) The Company calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the unaudited interim condensed statement of operations are:

##### Consolidated statement of operations

	Three months ended September 30,	
	2020	2019
Deferred income tax benefit (expense)	Ps. 579,046	Ps. (305,597)
Total income tax benefit (expense) on profits	Ps. 579,046	Ps. (305,597)

The Company's effective tax rate during the three months period ended September 30, 2020 and 2019 was 21.0% and 30.0% respectively.

The Company calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the unaudited interim condensed statement of operations are:

##### Consolidated statement of operations

	Nine months ended September 30,	
	2020	2019
Deferred income tax benefit (expense)	Ps. 1,871,534	Ps. (579,309)
Total income tax benefit (expense) on profits	Ps. 1,871,534	Ps. (579,309)

The Company's effective tax rate during the nine months period ended September 30, 2020 and 2019 was 26.5% and 30.0% respectively

## ii) Value-added tax

During the third quarter of 2020, the Company recorded a one-time VAT expense of Ps.746 million, resulting from an adjustment to the northern-border value added tax rate. The adjustment was recorded as sales, marketing and distributions expenses within the unaudited interim condensed consolidated statements of operations. The Company also adjusted the northern-border value added tax rate for future sales.

## 16. Commitments and contingencies

### Aircraft related commitments and financing arrangements

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

	Commitment expenditures in U.S. dollars	Commitment expenditures equivalent in Mexican pesos (1)
2020	\$ 31,213	Ps. 700,960
2021	47,537	1,067,553
2022	66,349	1,490,019
2023	366,807	8,237,495
2024 and thereafter	3,926,927	88,188,178
	<u>\$ 4,438,833</u>	<u>Ps. 99,684,205</u>

(1) Using the exchange rate as of September 30, 2020 of Ps.22.4573.

All aircraft acquired by the Company through the Airbus purchase agreement at September 30, 2020, and December 31, 2019, have been executed through sale and leaseback transactions.

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

	Aircraft sale prices estimated	
	in U.S. dollars	in Mexican pesos (1)
2020	US\$ 146,500	Ps. 3,289,994
2021	209,500	4,704,804
2022 and thereafter	547,746	12,300,896
	<u>US\$ 903,746</u>	<u>Ps. 20,295,694</u>

(1) Using the exchange rate as of September 30, 2020 of Ps.22.4573.



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

	Aircraft leases	
	in U.S. dollars	in Mexican pesos <sup>(1)</sup>
2020	US\$ 1,536	Ps. 34,494
2021	20,796	467,022
2022	50,692	1,138,405
2023	74,036	1,662,649
2024 and thereafter	745,664	16,745,600
	<u>US\$ 892,724</u>	<u>Ps. 20,048,170</u>

(1) Using the exchange rate as of September 30, 2020 of Ps.22.4573.

## Litigation

Company is a party to legal proceedings and claims that arise during the ordinary course of business. The Company believes the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

## 17. Operating segments

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

	Three months ended September 30,	
	2020	2019
Operating revenues:		
Domestic (Mexico)	Ps. 3,868,006	Ps. 6,593,788
International:		
United States of America and Central America (1)	855,666*	2,907,968*
Total operating revenues	<u>Ps. 4,723,672</u>	<u>Ps. 9,501,756</u>

\*Includes non -derivative financial instruments.

(1) United States of America represents approximately 18%, and 31% of total revenues from external customers in the three months ended September 30, 2020 and 2019, respectively.

	Nine months ended September 30,	
	2020	2019
Operating revenues:		
Domestic (Mexico)	Ps. 10,232,390	Ps. 17,482,546
International:		
United States of America and Central America <sup>(1)</sup>	3,841,637*	7,540,864*
Total operating revenues	<u>Ps. 14,074,027</u>	<u>Ps. 25,023,410</u>

(1) United States of America represents approximately 27%, and 30% of total revenues from external customers in the nine months ended September 30, 2020 and 2019, respectively.

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

#### **18. Subsequent events**

After September 30, 2020 and through December 7, 2020:

On November 23, 2020, the Company was selected as an index component of the Dow Jones Sustainability (DJSI) MILA Pacific Alliance Index.