

CABERNET LIMITED

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

CABERNET LIMITED

Financial Statements

For the year ended 31 December 2015

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Chairman's Statement

For the year ended 31 December 2015

Following the introduction of an Embraer E195 Jet and significant passenger growth in 2014, 2015 proved an equally challenging year. The program of Trislander replacement with the Dornier 228 continued as we took possession of two used Dornier 228s and put the aircraft type on to our AOC. In December we introduced our first new Dornier 228 delivered from the manufacturer. As well as the Dornier we also put the ATR 42 type on to our AOC and, in April 2015, introduced a leased ATR 42 into our fleet, primarily to replace the wet leased aircraft operating the London City route on our behalf.

Recapitalisation figures and forecasts were finally agreed with the States of Guernsey and Treasury and Resources put the recapitalisation proposal to the States of Deliberation in November, where it was passed.

Preparatory work was also undertaken on new routes for 2016 including research into direct flights from Guernsey to a summer destination around the Mediterranean.

Passenger numbers increased by 9% due to a full year of operation to Gatwick on the Jet and a full year of London City operations. This gave rise to an 11% increase in revenues and a £1.3m improvement in Operating Profit to £1.4m. The profit improvement was partly aided by lower fuel prices but the impact of these was mitigated by forward contracts taken as part of the Group's strategy to reduce risk.

In accordance with accounting standard FRS102, certain changes have been made to the way loans and forward contracts have been accounted for for the first time in 2015 (see note 26) and 2014 has been restated to reflect the change retrospectively. This has led to a £0.6m adjustment to the overall result for the year. Without this adjustment the loss would have been £2.5m compared to a loss for the prior year of £3.5m.

2016 sees work continuing on the introduction of the Dornier 228 as a replacement for the Trislander. Due to availability of training facilities this is proving significantly more complex than expected and the complete replacement of Trislanders is not expected before the fourth quarter. In April 2016 we placed an order for a second new Dornier 228 to be delivered in Q3 2017. The introduction of this second new aircraft, replacing one of the older units, will significantly improve reliability.

We will also be introducing three new routes during 2016. A year round service to Leeds, a seasonal, weekly service to Norwich and a short season weekly summer service to Barcelona.

2016 also sees the introduction of a Memorandum of Understanding between the States of Alderney, States of Guernsey and Aurigny. This specifies the level of services required and also puts some parameters on fares.

The recapitalisation of the Group, and Aurigny, was completed in April 2016 with the introduction of an additional £25,212,000 of share capital. This will allow progress to be made on moving Aurigny's registration to Guernsey and amalgamating the three legal entities of Cabernet Limited, Anglo Normandy Aero Engineering Limited and Aurigny.

Andrew Haining
Chairman

CABERNET LIMITED

Company Information

Directors of the Company

J Moulton	(Resigned 31/03/2016)
R Darby	
P O'Donovan	
M Coupar	
G St Pier	(Resigned 27/05/2016)
J Kuttelwascher	(Resigned 27/05/2016)
A Haining	(Appointed 18/03/2016)

Registered office

La Planque Lane
Forest
Guernsey
GY8 0DT

Independent Auditor

KPMG Channel Islands Limited
Chartered Accountants
Gategny Court
Gategny Esplanade
St Peter Port
Guernsey
GY1 1WR

CABERNET LIMITED

Directors' Report

For the year ended 31 December 2015

The Directors present their report and audited consolidated financial statements of Cabernet Limited (the "Company") together with Aurigny Air Services Limited and Anglo Normandy Aero Engineering Limited (the "Subsidiaries", together the "Group") for the year ended 31 December 2015. These comprise the Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and notes to the financial statements, which have been prepared in accordance with the Companies (Guernsey) Law, 2008.

Principal activities

The Company is the 100% holding Company for Aurigny Air Services Limited and Anglo Normandy Aero Engineering Limited. The principal activities of these subsidiaries are those of passenger and freight air transport services and aircraft engineering and repairing respectively.

Proposed dividend

The directors do not recommend the payment of a dividend.

Results

The results for the year are shown in the Consolidated Statement of Comprehensive Income on page 10.

Directors

The directors who held office during the year and up to the date of this report are stated on page 2.

Appointment of Directors

The articles of association do not provide for the rotation of Directors, but in the interests of corporate governance the directors consider that directors should retire by rotation each 3 years. Accordingly, Mark Darby will stand for re-election this year.

Statement of Directors' Responsibility

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards including FRS 102 *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland*, as issued September 2015.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors' Report (continued)

For the year ended 31 December 2015

Statement of Directors' Responsibility (continued)

The Directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Company as published on the States of Guernsey's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Safety and Risk

The Board of Aurigny is committed to safety and the promotion of a safety culture. During the year, the Compliance and Safety team has continued its work and continued to refine real time Flight Data monitoring as an additional tool in its safety management 'armoury'.

Our corporate objectives include the following:

"Our overall safety objective is the proactive management of identifiable hazards and their associated risks with the intent to eliminate their potential for affecting aviation safety, cause injury to our customers or staff and damage to our equipment or the environment. To that end, we will continuously examine our operation for these hazards and find ways to minimise them. We will encourage hazard and incident reporting, train staff on safety management, document our findings and mitigation actions and strive for continuous improvement".

The Safety Management System ("SMS") has been successfully audited by the CAA against the latest EASA safety management standards. All staff are inducted into the safety culture with regular update training and reinforcement activities. New members of staff are required to undertake SMS training and all existing staff receive regular refresher training. The SMS consists of three Safety Action Groups, who review and resolve identified issues, and a Safety Review Board that oversees the performance of the Safety Action Groups. All of these groups met regularly.

The Board of Directors has overall responsibility for identifying, evaluating and managing major business risk. This is managed on a day to day basis by the Group's senior management who meet on a regular basis.

Reliability

Aurigny uses an industry standard of aircraft departing within defined bands to measure reliability. In 2015 departures within 15 minutes of scheduled time were 85% (2014: 86%) and within 60 minutes 95% (2014: 96%).

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going Concern

The directors have considered and confirmed the suitability of the going concern basis of accounting. The basis of this consideration is discussed in note 3(k).

CABERNET LIMITED

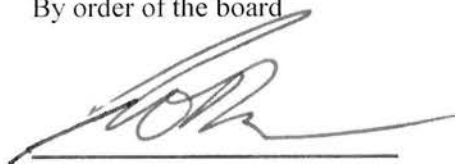
Directors' Report (continued)

For the year ended 31 December 2015

Auditor

KPMG Channel Islands Limited has indicated its willingness to continue in office and a resolution for their re-appointment as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Director

Date 20/6/2016



Director

Corporate Governance

For the year ended 31 December 2015

Shareholder and the Company

The Company is registered in Guernsey, and the whole of the issued share capital was held equally by the Minister and Deputy Minister of the Treasury and Resources Department as nominees, for the time being, on behalf of the States of Guernsey. The Treasury and Resources Department had established a Supervisory Sub Committee to oversee its trading companies, including the Group. The Sub Committee agreed specific objectives with the Group which included the retention of six pairs of slots at London Gatwick.

Following changes to government structure in Guernsey and following the government elections at the end of April 2016 a new body, the States Trading Supervisory Board, was formed which assumes the responsibilities previously exercised by the Supervisory Sub Committee. The shares in the Company have been transferred to “The States of Guernsey acting by and through the States Trading Supervisory Board”.

Financial Reporting

The Management and the Board review the Group’s financial performance on a monthly basis, and monthly reports have been submitted to the Treasury and Resources Department. Following the reorganisation within the Guernsey Government reports will, in future, be submitted to the States Trading Supervisory Board.

Compliance

The Group has procedures in place for financial and aviation compliance.

IT Systems

The Group continues to develop, strengthen and create greater resilience in its IT infrastructure. Work continues with the reservation system provider to produce greater functionality and improved reliability and reporting and progress has been made in this area. A review of alternate suppliers was undertaken and an alternative identified should it be required.

Internal Audit

The Group utilises the States of Guernsey internal audit department when appropriate and available. Regular audits of the Group’s aviation activity, both operational and procedural are undertaken by the UK Civil Aviation Authority.

Independent auditor's report to the members of Cabernet Limited

For the year ended 31 December 2015

We have audited the consolidated financial statements (the "financial statements") of Cabernet Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2015 which comprise the Consolidated Balance Sheet, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the Company's members, as a body, in accordance section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its result for the year then ended;
- are in accordance with UK accounting standards; and
- comply with the Companies (Guernsey) Law, 2008.

CABERNET LIMITED

Independent auditor's report to the members of Cabernet Limited (continued)

For the year ended 31 December 2015

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands

KPMG Channel Islands Limited
Chartered Accountants, Guernsey

Date: 23 June 2016

CABERNET LIMITED

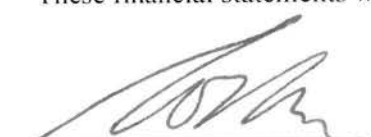
Consolidated Balance Sheet

As at 31 December 2015

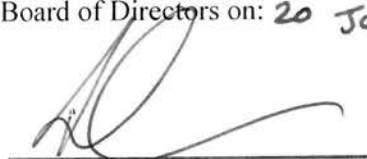
		2015		2014	
	Notes	£	£	£	£
Fixed Assets					
Tangible fixed assets	9		43,848,021		36,717,673
Current Assets					
Debtors (including £721,897 (2014: £232,174) due after more than one year)	10	2,747,950		2,393,728	
Cash at bank and in hand		27,220		13,844	
Stock and work in progress	12	976,403		969,974	
		<u>3,751,573</u>		<u>3,377,546</u>	
Creditors: amounts falling due within one year					
Bank overdraft	13	(696,800)		(468,188)	
Aircraft Loans	14	(1,108,909)		(1,056,228)	
Creditors: amounts falling due within one year	14	(28,305,233)		(46,638,159)	
Derivative financial instruments	16	(2,336,719)		(2,020,555)	
		<u>(32,447,661)</u>		<u>(50,183,130)</u>	
Net Current Liabilities			(28,696,088)		(46,805,584)
			15,151,933		(10,087,911)
Creditors: amounts falling due after one year					
Aircraft Loans	15	(10,735,000)		(11,843,910)	
Creditors: amounts falling due after more than one year	15	(25,807,237)		-	
		<u>(36,542,237)</u>		<u>(11,843,910)</u>	
Net Liabilities			<u>(21,390,304)</u>		<u>(21,931,821)</u>
Capital and Reserves					
Share Capital	18		2		2
Retained Earnings			(21,390,306)		(21,931,823)
Total Equity			<u>(21,390,304)</u>		<u>(21,931,821)</u>

The notes on pages 13 to 30 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on: 20 June 2016



Director



Director

CABERNET LIMITED

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	<i>Notes</i>	2015 £	2014 £
Turnover	4	44,894,816	40,719,887
Cost of Sales	7	(37,274,689)	(33,999,894)
Gross Profit		7,620,127	6,719,993
Administrative expenses	8	(7,199,194)	(7,503,832)
Other Operating Income		8,912	6,516
Operating Profit		429,845	(777,323)
Reorganisation Costs	3(g)	-	(200,000)
Aircraft introduction costs	3(h) & 24	(863,926)	(1,216,314)
Profit on sale of Fixed assets		-	3,654
Foreign exchange gain/(loss)		14,051	(2,870)
Interest receivable		10	25
Interest payable and similar charges		(247,473)	(258,324)
Interest payable on aircraft loan		(2,170,825)	(1,050,866)
Unrealised (loss)/gain on derivative financial instruments	3 (l)	(316,164)	581,746
Loss for the year		(3,154,482)	(2,920,272)

All material activities derive from continuing operations.

The notes on pages 13 to 30 form an integral part of these financial statements.

CABERNET LIMITED

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

31 December 2014	Notes	Share Capital £	Retained Earnings £	Total Equity £
Balance at 1 January		2	(19,011,551)	(19,011,549)
Loss for the year		-	(2,920,272)	(2,920,272)
Balance at 31 December		<u>2</u>	<u>(21,931,823)</u>	<u>(21,931,821)</u>
31 December 2015		£	£	£
Balance at 1 January		2	(21,931,823)	(21,931,821)
Loss for the year		-	(3,154,482)	(3,154,482)
Transaction with shareholder recorded directly in equity	14 (vii)	-	3,695,999	3,695,999
Balance at 31 December		<u>2</u>	<u>(21,390,306)</u>	<u>(21,390,304)</u>

The notes on pages 13 to 30 form an integral part of these financial statements.

CABERNET LIMITED

Consolidated Cash Flow Statement

For the year ended 31 December 2015

	2015 £	2014 £
Operating activities		
Loss for the year	(3,154,482)	(2,920,272)
Adjustments for:		
Depreciation	4,071,027	2,789,994
Loan interest	2,170,825	1,050,866
Increase in Stock and work in progress	(6,429)	(158,951)
Increase in debtors	(344,794)	(639,071)
Increase in creditors	389,274	1,798,964
Increase/(decrease) in derivative financial instruments	316,164	(581,745)
Net cash inflow from operating activities	3,441,585	1,339,785
Investing activities		
Purchase of tangible assets	(11,201,373)	(21,596,957)
Proceeds from sale of tangible assets	-	2,981
Net cash outflow from investing activities	(11,201,373)	(21,593,976)
Financing activities		
Repayment of bank loans	(10,056,229)	(1,117,624)
Amount received from shareholder	19,475,005	22,604,917
Loan interest paid	(1,874,224)	(1,050,866)
Net cash inflow from financing activities	7,544,552	20,436,427
Net (decrease)/increase in cash and cash equivalents	(215,236)	182,236
Cash and cash equivalents as at 1 January	(454,344)	(636,580)
Cash and cash equivalents as at 31 December	(669,580)	(454,344)

The notes on pages 13 to 30 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2015

1. Reporting entity

The Company was established on 14th February 2003 and is registered in Guernsey. The Company is governed by the provisions of the Companies (Guernsey) Law, 2008.

2. Basis of consolidation

The group financial statements consolidate the financial statements of the Company and its Subsidiaries for the year ended 31 December 2015. All intra-group sales have been excluded from the consolidated financial statements. All companies within the Group make up their financial statements to the same date.

3. Basis of accounting

These financial statements give a true and fair view, comply with the Companies (Guernsey) Law, 2008 and were prepared in accordance with United Kingdom Accounting Standards including 102 *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland* ("FRS 102") as issued in September 2015. The presentation currency of these financial statements is sterling.

In the transition to FRS 102 from old UK GAAP, the Group has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the Group is provided in note 26.

The Group has consistently applied the following accounting policies to all periods presented in these financial statements.

a) Revenue recognition

The Group's income is derived solely from its subsidiaries and is recognised as follows:

(i) *Aurigny Air Services Limited (hereafter "Aurigny")*

Passenger ticket sales are recorded as current liabilities in the "bookings paid in advance" account until recognised as revenue when the transportation service is provided. All other revenue types are accrued in the period to which they relate.

(ii) *Anglo Normandy Aero Engineering Limited (hereafter "Anglo Normandy")*

Turnover is expressed as a combination of completed work, which has been invoiced and part completed work, which is accounted for as work in progress. Any turnover billed in advance of work being performed is carried forward and not recognised as turnover in the period.

b) Provisions

Frequent Flyer Programme

During 2010, Aurigny introduced a frequent flyer programme, a loyalty programme to reward customers with free flights subject to the payment of taxes and surcharges. A provision for unused points is made in accordance with FRS 102. This provision is based on the anticipated fair value of rewards earned, which is calculated by multiplying the total number of points outstanding at the year-end by the average value of points redeemed.

EU261

Provision is made for passenger compensation claims when Aurigny has an obligation to recompense customers under regulation EU261 where technical issues have caused flights departing France or the United Kingdom to be delayed by more than 3 hours. Provisions are measured based on known eligible flight delays and historic claim rates and are expected to unwind across the claim window, which is 6 years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

c) *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation. The gain or loss on disposal of tangible fixed assets after deducting any costs associated with selling, disposing of or retiring the relevant asset is recognised in profit or loss.

Estimated residual values are reviewed annually at each period end, with reference to current market conditions. Where estimated residual values are found to have changed significantly, this is accounted for prospectively as a change in estimate and depreciation charges over the remaining useful life of the asset are adjusted to take account of the revised estimate of residual value.

d) *Depreciation – Excluding aircraft*

Depreciation is calculated to write down the cost of tangible fixed assets to their estimated residual values over the period of their estimated useful economic lives, at the following annual rates:

Asset	Depreciation per annum
Leasehold Property	5% straight line
Ground equipment	20% reducing balance
Plant, tools, equipment, office furniture and fittings	20% reducing balance
Motor vehicles	25% straight line / 25% reducing balance
Airport buildings and fittings	20% straight line
Radio equipment	10% straight line

e) *Aircraft depreciation*

In accordance with the requirements of FRS 102 section 17.6, the cost of each aircraft is split into its main components and each component is depreciated over the remaining useful economic life of that component. The remaining useful economic life of each component is expressed either as flying hours or aircraft landings and the annual depreciation charge is calculated by reference to the number of hours flown or landings made by each aircraft during the accounting period. The cost of major maintenance inputs is also capitalised and depreciated over the length of time until the input needs repeating. The depreciation of the core hull value is based on future valuations obtained when the aircraft were acquired. These are reviewed regularly. The Board intends to retire the Trislander fleet as soon as is practical. Accordingly the Trislanders values have been written down to zero.

f) *Stock and work in progress*

Stock is stated at the lower of cost and estimated net realisable value after making due provision for damaged, obsolete and slow moving items. All Trislander stocks have been valued at zero in anticipation of the impending retirement of the fleet.

The core value of rotatable parts is written down in a straight line over ten years.

Work in progress is valued at cost plus attributable profit less foreseeable losses and payments on account. The cost of work in progress includes labour and cost of parts utilised.

Where the cost plus attributable profit less foreseeable losses is in excess of payments on account the excess is included as “work in progress” under stock and work in progress in the consolidated balance sheet.

Where payments on account are in excess of cost plus attributable profit less foreseeable losses the excess is included as “excess payments on account” under sundry creditors in the consolidated balance sheet.

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

g) *Reorganisation costs*

In late 2014 Blue Islands announced a reduction in their Jersey operations which had a major adverse impact on the Aurigny's Jersey handling operation. Blue Islands were unwilling to renegotiate on handling rates and we therefore gave them notice to terminate our contract. The costs shown in 2014 represent the cost of closure of the operation including redundancy third party contract penalties.

h) *Aircraft introduction costs*

During 2014 the Group introduced an Embraer 195 and commenced the introduction of Dornier 228s to replace the Trislander fleet. The process of introducing the Dornier has continued throughout 2015, and the Group has also introduced a leased ATR 42-500 into the fleet. These costs represent the direct and indirect costs of these introductions which are non-reoccurring. A breakdown is included in note 24.

i) *Foreign currency translation*

Monetary assets and liabilities denominated in currencies other than sterling have been translated into sterling at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated at the historic rate ruling on the date of the transaction. Transactions during the year have been translated at the rates of exchange ruling at the date of the transaction. Foreign currency profits and losses are recognised in profit or loss.

j) *Pension costs*

The Subsidiaries operate a joint defined contribution pension scheme and pension contributions are charged to profit or loss.

k) *Going concern*

In assessing the suitability of the going concern basis of accounting the Directors have considered detailed budgeted profitability and cash flows of the Group for the year to 31 December 2016, together with a 3 year forecast to 2019. The Group's working capital finance is provided by the States of Guernsey, who are the sole shareholder of the Company. The States of Guernsey have loaned Aurigny £22,170,805 to support the purchase of an Embraer 195, £2,010,306 to support the purchase of an ATR 72 200, £2,678,555 to support the purchase of two Dornier 228s, £5,630,216 to support the purchase of one Dornier 228 NG and £18,639,464 to meet general working capital requirements.

Aurigny has a £1million overdraft facility supported by a States of Guernsey guarantee. At 31 December 2015, £273,355 (2014: £120,603) had been drawn down. There were also raised but uncleared payments of £351,419 (2014: £241,426)

The Group has historically operated with significant external debt financing through third parties and the States of Guernsey and no equity and the Board had previously requested that its balance sheet should be recapitalised by the ultimate shareholder, the States of Guernsey. This decision was deferred by the shareholder and funds have continued to be provided to the Group by way of the guarantee of bank borrowings or direct loans. The States of Guernsey approved the recapitalisation of the Group in November 2015 and an additional 25,212,000 £1 shares were authorised and issued in April 2016. This enabled the Group to repay all its working capital loans. The States of Guernsey has confirmed in writing its intention to continue to support the Group.

The Directors have therefore prepared the financial statements on a going concern basis.

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

l) Financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Derivative financial instruments and hedging

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices and it uses forward foreign exchange contracts and interest rate and commodity swaps to hedge these exposures. The Group does not use derivative financial instruments for trading purposes.

Derivative financial instruments are initially recognised at cost and subsequently re-measured at fair value. The fair value is estimated by calculating the difference between the rate used in the forward exchange contract or swap deals, and either the year end spot rate or available forward rate at the balance sheet date, thereby creating an unrealised loss or gain until the contract matures.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The method for determining fair value is described in note 26 (part v).

Loans at amortised cost

Loans at amortised cost are initially measured at fair value, net of transaction costs, then subsequently measured at amortised cost using the effective interest rate method.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

m) Operating Leases

Rental charges on operating leases are charged to profit or loss as incurred over the life of the lease.

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

j) *Leasing and hire purchase contracts*

Fixed assets acquired under finance leases and hire purchase contracts are capitalised in the consolidated balance sheet and depreciated over their estimated useful economic lives. The interest element of the rental obligations is charged to profit or loss account over the period of the agreement on a straight line basis.

4. Turnover

	2015 £	2014 £
Passenger Revenue	42,063,863	37,007,405
Other	2,830,953	3,712,482
	<hr/>	<hr/>
	44,894,816	40,719,887
	<hr/>	<hr/>

Other income includes revenue from ground handling, duty free sales and credit card charges among other sources. Turnover and operating profit derive wholly from continuing activities.

5. Taxation

The Group is taxed at a standard rate of 0%.

6. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

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

Frequent Flyer Programme

Arriving at a provision for unused frequent flyer points involves assumptions around the average value of the points outstanding at the balance sheet date and the volume of points earned that will have now expired. The assumptions used in arriving at this estimated value are detailed in note 3(b).

EU261 Compensation claims

The primary assumption needed in arriving at a value for the EU261 compensation provision is the percentage of potential claimants who will actually submit a claim, as the amount of potential claimants and the amount per claim are both known. The percentage of the total outstanding liability that has been included as a provision in these financial statements is based on experience of claims up to this point.

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

7. Cost of Sales

	2015 £	2014 £
Aircraft costs	5,060,139	4,752,558
Flight crew salaries and expenses	4,648,624	3,932,707
Aircraft Maintenance	6,116,677	4,742,256
Fuel	4,320,045	5,366,042
Landing fees and aerodrome charges	15,015,467	13,359,088
Catering	121,407	184,547
Third party seat costs	1,992,330	1,662,696
	<hr/>	<hr/>
	37,274,689	33,999,894
	<hr/>	<hr/>

8. Administrative expenses

	2015 £	2014 £
Station and ground expenses	2,715,905	3,167,637
Ticketing, sales and promotions	1,554,920	1,523,767
Depreciation	219,021	195,234
Audit fee (including non audit fees of £10,000: 2014 £nil)	74,269	63,367
Other	2,635,079	2,553,827
	<hr/>	<hr/>
	7,199,194	7,503,832
	<hr/>	<hr/>

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

9. Tangible fixed assets

	1 January 2015	Additions	Written off/ Disposals	31 December 2015
Cost	£	£	£	£
Aircraft	48,390,917	11,037,385	-	59,428,302
Tools, ground and radio equipment	1,680,214	62,441	-	1,742,655
Motor vehicles	224,051	29,161	-	253,212
Office furniture, equipment & computer equipment	692,811	57,178	-	749,989
Buildings	16,620	-	-	16,620
Leasehold Property	302,406	15,208	-	317,614
Total	51,307,019	11,201,373	-	62,508,392

	1 January 2015	Depreciation	Written off/ Disposals	31 December 2015
Accumulated Depreciation	£	£	£	£
Aircraft	12,794,081	3,852,006	-	16,646,087
Tools, ground and radio equipment	1,047,581	132,109	-	1,179,690
Motor vehicles	146,302	22,015	-	168,317
Office furniture, equipment & computer equipment	564,583	48,964	-	613,547
Buildings	16,620	-	-	16,620
Leasehold Property	20,179	15,931	-	36,110
Total	14,589,346	4,071,025	-	18,660,371

	1 January 2015	31 December 2015
Carrying Amount	£	£
Aircraft	35,596,836	42,782,215
Tools, ground and radio equipment	632,633	562,965
Motor vehicles	77,749	84,895
Office furniture, equipment & computer equipment	128,228	136,442
Buildings	-	-
Leasehold Property	282,227	281,504
Total	36,717,673	43,848,021

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

9. Tangible fixed assets (continued)

Included within tangible fixed assets are assets acquired under finance leases as follows:

	Cost £	Accumulated Depreciation £	Net Book Value £
Plant and equipment	124,180	81,831	42,349

10. Debtors

	2015 £	2014 £
Trade debtors	1,109,195	1,050,277
Prepayments	916,858	1,111,277
Due within one year	<u>2,026,053</u>	<u>2,161,554</u>
Lease and trade deposits	721,897	232,174
Due after more than one year	<u>721,897</u>	<u>232,174</u>
Total debtors	<u>2,747,950</u>	<u>2,393,728</u>

11. Investment in subsidiary undertakings

The subsidiaries of the Company, which are incorporated within these consolidated financial statements, are as follows:

	<i>Place of incorporation</i>	<i>Percentage of equity share capital held</i>	<i>Principal activity</i>
Aurigny Air Services Limited	Jersey	100%	Air transport services
Anglo Normandy Aero Engineering Limited	Guernsey	100%	Aircraft engineering

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

12. Stock and work in progress

	2015 £	2014 £
Stock	976,403	968,885
Work in progress	-	1,089
	<u>976,403</u>	<u>969,974</u>

13. Bank overdraft

Aurigny has an overdraft facility of £1m supported by a guarantee from the States of Guernsey. The overdraft bears interest at 1.125% above the Bank of England base rate. The book balance of £624,774 (2014: £362,029) represents an actual overdraft balance as at 31 December 2015 of £273,355 (2014: £120,603) and un-cleared payments of £351,419 (2014: £241,426).

The Anglo Normandy overdraft balance of £72,026 (2014: £106,159) is made up of an actual positive balance of £2,503 (2014: £37,543) and un-cleared payments of £74,529 (2014: £143,702). Anglo Normandy does not have an agreed borrowing facility.

14. Creditors: amounts falling due within one year

	2015 £	2014 £
Trade creditors	2,634,549	2,405,400
Bookings paid in advance	3,992,602	3,590,678
Accruals	1,518,095	1,735,521
Loans	-	9,000,000
Amount due to shareholder	20,157,497	29,889,127
Net capital obligations under finance leases	2,490	17,433
	<u>28,305,233</u>	<u>46,638,159</u>

Included within trade creditors £870,246 (2014: £830,371) which was payable to the States of Guernsey in relation to trading activities between the parties.

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

14. Creditors: amounts falling due within one year (continued)

Included in accruals is a provision in respect of estimated future liabilities under our frequent flyer scheme, the movement on which is reconciled as follows:

	2015	2014
	£	£
Opening balance	471,591	417,029
Movement in outstanding points	310,400	247,184
Expired points	(242,417)	(192,622)
	<hr/>	<hr/>
	539,574	471,591
	<hr/>	<hr/>

Also included in accruals is a provision in respect of retrospective liabilities under EU regulation 261 regarding flight delay compensation, the movement on which is reconciled as follows:

	2015	2014
	£	£
Opening balance	250,000	-
Additions	108,270	262,964
Charges	(108,270)	(12,964)
	<hr/>	<hr/>
	250,000	250,000
	<hr/>	<hr/>

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

14. Creditors: amounts falling due within one year (continued)

	2015 £		2014 £	
	Current	Non-current	Current	Non-current
<u>Aircraft Loans</u>				
(i) ATR aircraft loan	1,108,909	10,735,000	1,056,228	11,843,910
<u>Amount due to shareholder</u>				
(ii) Working capital loan	18,639,464	-	5,487,408	
(iii) Embraer Jet loan	991,206	19,754,560	23,955,218	-
(iv) ATR 72 200 loan	120,598	1,689,840	-	-
(v) Dornier 228 loan	166,773	2,391,056	446,501	-
(vi) Dornier 228 NG loan	239,456	5,371,179	-	-
(vii) Fair value adjustment upon initial recognition of refinanced loans	-	(3,399,398)	-	-
	20,157,497	25,807,237	29,889,127	-

The Company had entered into loan agreements totalling £9m in order to support the working capital requirements of the Group. These loans were paid off in full during the year using the working capital facility discussed below.

- (i) A loan facility of £19,799,383 was entered into by Aurigny in 2009 for the purposes of financing the purchase of 2 ATR Aircraft. Repayments have commenced and the outstanding balance at 31 December 2015 was £11,843,909. The loan bears interest at 0.18% per annum above LIBOR and is guaranteed by the States of Guernsey. Aurigny has entered into an interest rate swap arrangement in respect to the aircraft loan in order to fix future cash flow requirements. The fixed interest rate for the period of the loan is 5.35% and the value of this swap is shown within "Derivative financial instruments" under current liabilities, having been calculated in note 3(l) Derivative Financial Instruments and Hedging.
- (ii) Aurigny entered into two loan agreements with the States of Guernsey during 2013. One is an unlimited facility for the purpose of ongoing working capital requirements against which £18,639,464 has been drawn at the balance sheet date. This facility was used to settle the £9m loan from the Company during the year. This loan bears interest at the States Treasurer's Rate. This loan was repaid in full as part of the recapitalisation by the Shareholder.
- (iii) The other agreement is to fund the purchase of the Embraer jet and was initially a facility of £4.4m and has been extended to £22,170,805. As at the balance sheet date the entire loan had been drawn down but had reduced to £20,745,766 through scheduled repayments. This loan matures in June 2024.
- (iv) A further loan for £2,010,306 was entered into by Aurigny in 2014 for the acquisition of an ATR72 200. As at the balance sheet date the entire loan had been drawn down but had reduced to £1,810,438 through scheduled repayments. This loan matures in March 2019.

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

14. Creditors: amounts falling due within one year (continued)

- (v) Aurigny entered into an additional agreement with the States of Guernsey in 2014 for the purpose of purchasing two used Dornier 228 aircraft. This is a £2,678,555 facility. As at the balance sheet date the entire loan had been drawn down but had reduced to £2,557,829 through scheduled repayments. This loan matures in March 2020.

The above asset based loans initially bore interest at the States Treasurer's rate. On April 1st 2015 these loans were converted to fixed interest rate loans at rates varying between 4.047% pa and 4.066% pa.

- (vi) Aurigny entered into an additional agreement with the States of Guernsey in 2015 for the purpose of purchasing a new Dornier 228 NG aircraft. This is a £5,630,216 facility. As at the balance sheet date the entire loan had been drawn down but had reduced to £5,610,635 through scheduled repayments. The loan bears a fixed interest rate of 4.124% pa. This loan matures in November 2025.
- (vii) When the loans with the States of Guernsey were refinanced to fixed interest rate loans on 1 April 2015, a fair value adjustment upon initial recognition of £3,695,999 was recognised. This adjustment was calculated using an external market rate of 6.4% to determine the net present value of future cashflows. As this is a financing transaction with the ultimate shareholder, it has been recognised directly in equity and also reduced the balance of the loan held on the balance sheet. The effective interest rate method has increased the interest being charged through profit or loss to unwind this unrealised gain over the life of the loans. This increased the interest charged during the year by £296,601. As at 31 December 2015 the remaining balance was £3,399,938.

15. Creditors: amounts falling due after more than one year

	2015 £	2014 £
Aircraft Loan	10,735,000	11,843,910
Amount due to parent company shareholder	25,807,237	-
	<u>36,542,237</u>	<u>11,843,910</u>

Maturity of debt:

	2015 £	2014 £
One to two years	2,756,694	1,108,909
Two to five years	17,510,775	10,735,001
More than five years	<u>16,274,768</u>	<u>-</u>
	<u>36,542,237</u>	<u>11,843,910</u>

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

16. Derivative financial instruments

	2015	2014
	£	£
Aircraft interest rate swap	(1,458,126)	(2,020,555)
Fuel Forward Contracts	(878,593)	-
	<hr/>	<hr/>
	(2,336,719)	(2,020,555)
	<hr/>	<hr/>

Details of the Aircraft Loan Swap are disclosed in note 14.

The Fuel Forward Contract relates to the hedging of fuel costs and the outstanding contracts at the Balance Sheet date totalled 6,200 tonnes. All of these contracts expire in 2016.

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

17. Categories of financial instruments

	Financial assets at fair value through profit or loss £	Debt instruments at amortised cost £	Financial liabilities measured at fair value through profit or loss £	Other financial liabilities measured at amortised cost £	Total £
31 December 2015					
Debtors	-	2,747,950	-	-	2,747,950
Cash and cash equivalents	-	(669,580)	-	-	(669,580)
Creditors	-	-	(18,639,464)	(35,473,006)	(54,112,470)
Aircraft Loans	-	-	-	(11,843,909)	(11,843,909)
Derivative financial instruments	-	-	(2,336,719)	-	(2,336,719)
	-	2,078,370	(20,976,183)	(47,316,915)	(66,214,728)
31 December 2014					
Debtors	-	2,393,728	-	-	2,393,728
Cash and cash equivalents	-	(454,344)	-	-	(454,344)
Creditors	-	-	(29,889,127)	(16,749,032)	(46,638,159)
Aircraft Loans	-	-	-	(12,900,138)	(12,900,138)
Derivative financial instruments	-	-	(2,020,555)	-	(2,020,555)
	-	1,939,384	(31,909,682)	(29,649,170)	(59,619,468)

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

18. Called up share capital

	2015 £	2014 £
Authorised		
10,000 ordinary shares of £1 each	10,000	10,000
Issued and Fully Paid		
2 ordinary shares of £1	2	2

19. Pension costs

The Subsidiaries operate a joint defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £172,174 (2014: £176,399). There was no amount payable at the end of the year (2014: £nil). A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay any further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

20. Financial commitments

	Aircraft £	Land & Buildings £
The total of future minimum lease payments under non-cancellable operating leases are:		
In less than one year	645,000	258,817
In one to five years	2,150,000	1,035,268
Over five years	-	2,846,987
	2,795,000	4,141,072

21. Contingent liabilities

Aurigny has provided a guarantee in favour of Guernsey Customs and Excise to the value of £500 and the UK Customs and Excise to the value of £5,000, guaranteeing duty-free stock held by Aurigny.

Anglo Normandy has provided a guarantee in favour of Guernsey Customs and Excise to the value of £40,000, guaranteeing duty-free stock held by Anglo Normandy.

22. Ultimate controlling party

The controlling party, which has interests in 100% (2014: 100%) of the issued share capital of the Company, is the States of Guernsey.

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

23. Related party transactions

On 22 July 2011 Cabernet Limited signed a 21 year lease agreement, commencing on 1 January 2011 and ending on 31 December 2031, with the States of Guernsey for the hangar and land situated at La Planque Lane, Forest. Rents of £227,317 (2014: £227,317) were paid.

Key management personnel compensation of the Group totalled £677,861.

24. Aircraft introduction costs

	2015 £	2014 £
Embraer crew costs incurred prior to introduction	-	313,718
Embraer acceptance/introduction costs	-	173,222
Wet lease costs ^a	429,585	579,956
Dornier crew costs incurred prior to introduction ^b	373,188	149,418
ATR 42 crew costs incurred prior to introduction ^c	61,153	-
	<u>863,926</u>	<u>1,216,314</u>

^aThese costs relate to a wet lease arrangement with VLM airlines to provide a service on the London City to Guernsey route until Aurigny was in a position to provide this service using its own aircraft. This agreement ended in April 2015.

^bDornier crew costs reflects the recruitment of additional crews and the retention and retraining of Trislander crews in anticipation of introducing the Dornier 228. It also includes £68,454 of training costs uncured by Anglo which comprised of direct training costs and the cost of sub-contract cover to release the engineers from their daily tasks in order to undertake the training.

^cThese costs reflect the recruitment of additional crews and the retention and retraining of ATR crews for operation of the ATR42 aircraft that Aurigny has leased in the year. The lease began in April 2015 and aircraft is primarily used on the London City to Guernsey route.

25. Post Balance Sheet Events

The block seat arrangement between Aurigny and Blue Islands for services between Guernsey and Jersey expired in March 2016 and was not renewed.

An order for a second new generation Dornier 228 was placed in April 2016 for delivery in Q3 2017. Funding for this aircraft will be provided by the States of Guernsey.

In April 2016 the Company's share capital was increased by £25,212,000 by the issue of 25,212,000 ordinary £1 shares. The States of Guernsey subscribed for all the additional shares. At the same point Aurigny's share capital was also increased by £25,212,000 by the issue of 25,212,000 ordinary £1 shares. The Company subscribed for all the additional shares.

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

26. Explanation of transition to FRS 102

As stated in note 3, these are the Group's first financial statements prepared in accordance with FRS 102. This section summarises the changes to prior years due to the introduction of FRS102 and also its impact on 2015.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 102 Balance sheet at 1 January 2014 (the Group's date of transition).

In preparing its opening FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with UK Accounting Standards in issue prior to 1 January 2015 ("previous GAAP"). An explanation of how the transition from previous GAAP to FRS 102 has affected the Group's Equity position and financial performance is set out in the following notes and tables. Note that all of these adjustments relate to Aurigny.

- (i) Items previously included in Stock in Aurigny have been reclassified under aircraft in Fixed Assets as this is a stock of high value aircraft spares that Aurigny expects to use during more than one period, therefore they are deemed capital under FRS 102 17.5.
- (ii) The interest swap deal in place on the aircraft loan that was previously not recognised in the financial statements needs to be recognised at fair value per FRS 102 12.8. The fair value has been estimated by calculating the difference between the interest payments due under the swap deal, and those that would be due using the year end spot rate charged by the Group's bankers.
- (iii) The fuel forward contract deals in place at 1 January 2014, 31 December 2014 and 31 December 2015 that would previously not have been recognised in the financial statements needs to be recognised at fair value per FRS 102 12.8. The fair value has been estimated by calculating the difference between the total cost of the contracts (number of tonnes of fuel contracted to purchase multiplied by the contracted rate) and the cost of the equivalent amount of fuel had it been purchased at the forward rates available as at 1 January 2014, 31 December 2014 and 31 December 2015.
- (iv) As disclosed in note 14 loans were established with the States of Guernsey for the acquisition of assets and provision of working capital. These loans bore interest at the States' Treasurer rate. This is a variable rate dependent on the rate of return achieved by the States of Guernsey on their pooled investments. Under FRS 102 such loans are accounted for as liabilities held at fair value with any adjustment being made through profit and loss. The Directors have concluded that the carrying value of these loans at 31 December 2014 and 31 December 2015 approximates to their fair value. There is therefore no adjustment required.
- (v) States of Guernsey loans to support asset purchases are at fixed interest rates (see note 14). Acquiring these loans on the open market would have generated a higher interest rate of approx. 6.4% (Source: local bank). Accordingly, a fair value of the loans has been calculated using this rate (discounted for future cashflows), and the interest charge has been increased to release the unrealised gain over the life of the loan. Previously these loans had born interest at the State's Treasurer Rate.

CABERNET LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2015

26. Explanation of transition to FRS 102 (continued)

Reconciliation of Equity

	<i>Notes</i>	2015 £	2014 £
Opening equity under previous GAAP		(19,911,269)	(16,409,251)
Aircraft Loan interest fair value adjustment	(ii)	(2,020,554)	(2,616,574)
Fuel forward contract fair value adjustment	(iii)	-	14,274
Opening equity under FRS 102		(21,931,823)	(19,011,551)
 (Loss) using previous GAAP		(2,541,717)	(3,502,018)
Aircraft Loan interest fair value adjustment	(ii)	562,429	596,020
Fuel forward contract fair value adjustment	(iii)	(878,593)	(14,274)
Increased interest charge to unwind unrealised gain	14 & (v)	(296,601)	-
Profit/(Loss under FRS 102)		(3,154,482)	(2,920,272)
 Closing equity under previous GAAP		(22,452,986)	(19,911,269)
Aircraft Loan interest fair value adjustment	(ii)	(1,458,125)	(2,020,554)
Fuel forward contract fair value adjustment	(iii)	(878,593)	-
Transaction with ultimate shareholder recorded directly in equity	14 & (v)	3,695,999	-
Increased interest charge to unwind unrealised gain	14 & (v)	(296,601)	-
Closing equity under FRS 102		(21,390,306)	(21,931,823)