

FINANCIAL STATEMENTS
CAYMAN AIRWAYS LIMITED
30 June 2013

CAYMAN AIRWAYS LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2013

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STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by Cayman Airways Limited in accordance with the provisions of the *Public Management and Finance Law (2012 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2012 Revision)* – a variance is noted for the use of International Financial Reporting Standards (IFRS), versus the expected International Public Sector Accounting Standards (IPSAS), due to the international reporting requirements of the company.

As Chairman and Executive Vice President, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of Cayman Airways Limited.

As Chairman and Executive Vice President we are responsible for the preparation of Cayman Airways Limited financial statements and for the judgements made in them.

The financial statements fairly present the consolidated statements of financial position, financial performance, changes in shareholders equity, and cash flows the financial year ended June 30, 2013.

To the best of our knowledge we represent that these financial statements:

- (a) are complete and reliably reflect the financial transactions of Cayman Airways Limited for the year ended June 30, 2013;
- (b) fairly reflect the financial position as at June 30, 2013 and performance for the year ended June 30, 2013;
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General and its agent has been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.



Mr. Philip Rankin
Chairman
Cayman Airways Limited

Date: Aug 4, 2014



Mr. Paul Tibbetts
Executive Vice President & CFO
Cayman Airways Limited

Date: Aug 4, 2014





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AUDITOR GENERAL'S REPORT

To the Shareholder & Board of Directors of Cayman Airways Limited

I have audited the accompanying consolidated financial statements of Cayman Airways Limited, and its subsidiary (together, the "Company"), which comprise the consolidated statement of financial position as of 30 June 2013, and the consolidated statements of comprehensive loss, changes in shareholder's equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 29 in accordance with the Section 61(a)(i) of the *Public Management and Finance Law (2012 Revision)*.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion. In rendering my audit opinion on the consolidated financial statements of the Company, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

AUDITOR GENERAL'S REPORT (continued)

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cayman Airways Limited and its subsidiary as at 30 June 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Notes 2 and 14 to these consolidated financial statements, which state that the Company is dependent upon the financial support of the Government of the Cayman Islands, including purchase commitments, to enable it to continue as a going concern and to meet its obligations as they fall due. My opinion is not qualified in respect of this matter.



Alastair Swarbrick, MA(Hons), CPFA
Auditor General

5 August 2014
Cayman Islands

CAYMAN AIRWAYS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	<u>As at</u> <u>30 June 2013</u>	<u>As at</u> <u>30 June 2012</u> <u>Restated</u> (Note 4)	<u>As at</u> <u>1 July 2011</u> <u>Restated</u> (Note 4)
ASSETS			
Non-current assets			
Security deposits (Note 5)	2,102,234	2,098,476	1,927,301
Property, plant and equipment (Note 6)	13,667,886	13,877,873	14,500,623
Prepayments and other assets (Note 5)	<u>3,947,449</u>	<u>4,243,153</u>	<u>5,642,707</u>
Total non-current assets	<u>19,717,569</u>	<u>20,219,502</u>	<u>22,070,631</u>
Current assets			
Cash on hand and at bank	3,113,418	-	-
Trade and other receivables (Notes 7 and 22)	3,621,850	2,817,765	2,995,989
Aircraft & Flight Equipment held for sale	-	-	700,000
Prepayments and other assets (Note 5)	<u>1,919,950</u>	<u>3,316,313</u>	<u>2,237,987</u>
Total current assets	<u>8,655,218</u>	<u>6,134,078</u>	<u>5,933,976</u>
TOTAL ASSETS	<u>\$28,372,787</u>	<u>\$26,353,580</u>	<u>\$28,004,607</u>
LIABILITIES AND SHAREHOLDER'S DEFICIT			
Current liabilities			
Bank overdraft (Note 8)	2,866,520	8,679,448	1,247,179
Accounts payable and accrued expenses (Note 9)	35,666,349	26,743,937	29,501,450
Loans payable (Note 10)	5,041,213	9,979,155	11,197,350
Unearned transportation revenue	10,334,826	9,132,310	9,590,344
Provisions (Note 11)	1,514,316	5,161,851	3,839,896
Deferred revenue (Notes 12 and 22)	<u>3,144,500</u>	<u>2,611,499</u>	<u>2,611,499</u>
Total current liabilities	<u>58,567,724</u>	<u>62,308,200</u>	<u>57,987,718</u>
Long-term liabilities			
Provisions (Note 11)	4,427,098	3,893,728	6,305,029
Loans payable (Note 10)	<u>29,233,615</u>	<u>29,201,487</u>	<u>32,803,892</u>
Total long-term liabilities	<u>33,660,713</u>	<u>33,095,215</u>	<u>39,108,921</u>
Total liabilities	<u>92,228,437</u>	<u>95,403,415</u>	<u>97,096,639</u>
Shareholder's deficit (Note 2)			
Share capital (Note 13)	38,376,215	38,376,215	38,376,215
Share subscriptions (Note 13)	47,992,929	35,983,021	29,911,592
Accumulated deficit	<u>(150,224,794)</u>	<u>(143,409,071)</u>	<u>(137,379,839)</u>
Total shareholder's deficit	<u>(63,855,650)</u>	<u>(69,049,835)</u>	<u>(69,092,032)</u>
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIT	<u>\$28,372,787</u>	<u>\$26,353,580</u>	<u>\$28,004,607</u>

Approved for issuance on behalf of the Cayman Airways Limited Board of Directors on August 4, 2014 by:

Philip Rankin

Director

Wilbur Thompson

Director

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS**

(Expressed in United States dollars)

	Year ended 30 June.	
	2013	2012 <u>Restated</u> (Note 4)
Income		
Passenger revenue	53,020,541	54,031,710
Government output purchases (Note 17)	21,629,980	18,773,810
Cargo revenue	2,798,601	3,467,598
Handling revenue	3,144,040	3,150,266
Other revenues	2,446,107	1,992,080
Net gain on sale of aircraft and flight equipment held for sale	-	86,243
Total income	<u>83,039,269</u>	<u>81,501,707</u>
Expenses		
Salaries and wages (Note 14)	20,196,003	19,746,724
Other staff costs (Note 15)	5,000,592	4,835,911
Aircraft fuel	21,714,664	21,174,613
Aircraft lease expense (Note 16)	7,145,671	6,280,191
Commissions and related sales costs	3,715,700	3,727,249
Maintenance, materials and repairs	7,915,823	8,328,609
Landing and parking fees	2,110,794	1,978,064
Aircraft and passenger service	11,055,653	10,589,281
Advertising and promotion	254,481	241,574
Communications	735,267	693,162
General and administrative	2,377,135	2,756,161
Depreciation (Note 6)	974,595	1,321,584
Impairment loss	-	375,080
Other operating expenses	<u>4,935,188</u>	<u>4,693,409</u>
Total expenses	<u>88,131,566</u>	<u>86,741,612</u>
NET LOSS, BEFORE FINANCE COST	(5,092,297)	(5,239,905)
Finance cost		
Interest expense (Notes 8 and 10)	<u>(1,723,426)</u>	<u>(789,327)</u>
NET LOSS FOR THE YEAR (NOTE 2)	<u>\$(6,815,723)</u>	<u>\$(6,029,232)</u>
TOTAL COMPREHENSIVE LOSS	<u>\$(6,815,723)</u>	<u>\$(6,029,232)</u>

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(Expressed in United States dollars)

	<u>Share capital</u> <u>(Note 13)</u>	<u>Share</u> <u>subscriptions</u> <u>(Note 13)</u>	<u>Accumulated</u> <u>deficit</u>	<u>Total</u>
Balance at 30 June 2011	38,376,215	29,911,592	(137,889,961)	(69,602,154)
Restatement (Note 4)	<u>-</u>	<u>-</u>	<u>510,122</u>	<u>510,122</u>
Balance as at 1 July 2011	38,376,215	29,911,592	(137,379,839)	(69,092,032)
Net loss for the year, restated	-	-	(6,029,232)	(6,029,232)
Share subscriptions	<u>-</u>	<u>6,071,429</u>	<u>-</u>	<u>6,071,429</u>
Balance at 30 June 2012, restated	38,376,215	35,983,021	(143,409,071)	(69,049,835)
Net loss for the year	-	-	(6,815,723)	(6,815,723)
Share subscriptions	<u>-</u>	<u>12,009,908</u>	<u>-</u>	<u>12,009,908</u>
Balance at 30 June 2013	<u>\$ 38,376,215</u>	<u>\$ 47,992,929</u>	<u>\$(150,224,794)</u>	<u>\$ (63,855,650)</u>

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in United States dollars)

	Year ended <u>30 June.</u>	
	<u>2013</u>	<u>2012</u> Restated (Note 4)
Cash flows from operating activities		
Net loss for the year	(6,815,723)	(6,029,232)
Adjustments to reconcile net loss to net cash provided by/ (used in) operating activities:		
Depreciation	974,595	1,321,584
Interest expense	1,723,426	1,340,957
(Increase) / Decrease in trade and other receivables	(804,084)	178,223
Decrease in prepayments, security deposits and other assets	1,688,309	150,054
Increase / (Decrease) in accounts payable and accrued expenses	8,922,412	(2,757,513)
Decrease in provisions	(3,114,166)	(1,089,346)
Increase / (Decrease) in unearned transportation liability	1,202,516	(458,034)
Increase in deferred revenue	533,000	-
Impairment of equipment held for resale	-	375,080
Gain on sale of property, plant and equipment	-	(86,243)
Loan amortisation	<u>169,000</u>	<u>(182,901)</u>
Net cash provided by/(used in) operating activities	<u>4,479,285</u>	<u>(7,237,371)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 6)	(764,608)	(758,855)
Proceeds from sale of aircraft and flight equipment held for sale	<u>-</u>	<u>470,738</u>
Net cash used in investing activities	<u>(764,608)</u>	<u>(288,117)</u>
Cash flows from financing activities		
Share subscriptions (Note 10 and 13)	6,071,427	6,071,428
Repayment of loans (Note 10)	(4,136,332)	(4,637,252)
Proceeds from loan	5,000,000	-
Interest paid	<u>(1,723,426)</u>	<u>(1,340,957)</u>
Net cash provided by financing activities	<u>5,211,669</u>	<u>93,219</u>
Net increase/ (decrease) in cash and cash equivalents	8,926,346	(7,432,269)
Cash and cash equivalents - beginning of year	<u>(8,679,448)</u>	<u>(1,247,179)</u>
Cash and cash equivalents - end of year	<u>\$ 246,898</u>	<u>\$(8,679,448)</u>
Cash and cash equivalents comprise:		
Cash on hand and at bank	3,113,418	-
Bank overdraft	<u>(2,866,520)</u>	<u>(8,679,448)</u>
Cash and cash equivalents - end of year	<u>\$ 246,898</u>	<u>\$(8,679,448)</u>

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2013

(Expressed in United States dollars)

1. Incorporation and activity

Cayman Airways Limited (the "Company") was incorporated in the Cayman Islands on 7 August 1968 and is wholly-owned by the Government of the Cayman Islands (the "Government", or the "Shareholder").

The Company's main activity is the provision of scheduled passenger and cargo air transportation to, from, & within the Cayman Islands.

On 4 February 2004, the Company established Cayman Airways Express Limited, being a wholly owned subsidiary incorporated in the Cayman Islands. Cayman Airways Express Limited was established to provide air transportation between Grand Cayman and the islands of Cayman Brac and Little Cayman.

The Company's registered office is 233 Owen Roberts Drive, George Town, Grand Cayman, Cayman Islands.

At 30 June 2013 the Company had 377 employees (2012: 373).

2. Going concern

Annually, the Government of the Cayman Islands contracts with the Company to purchase certain strategic flights and services (Note 17). Terms of this contract are defined in Purchase Agreements and the associated payments received by the Company are referred to as Output Payments. Purchase commitments made by the Government based on this agreement results in the Government being the single largest customer of the Company, with its Output Payments representing 26% (2012: 23%) of total revenue for the financial year.

Currently and historically, the Company has been structured in such a manner as to allow it to facilitate its requirements under these Purchase Agreements. Under this structure and because the Company's liabilities significantly exceed its assets, however, the Company relies upon; these purchase commitments; capital contributions; bank loan (Note 10) and lease (Note 16) guarantees made by the Government of the Cayman Islands in the Company's favour; as well as the Government's assistance in managing the settlement of amounts owed to other related parties (Note 9) which are under Government control, to allow it to continue as a going concern. The Company has incurred a loss of \$6,815,723 (2012 as restated: \$6,029,232) for the year ended 30 June 2013, and has a total shareholder's deficit of \$63,855,650 (2012 as restated: \$69,049,835) as at that date.

In 2010, the Government agreed to address the Company's Shareholder deficit through the repayment of \$60.1 million (CIS\$1.0 million) over 10 years (Note 21).

Consequently, the consolidated financial statements have been prepared on the going concern basis. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

In the event that the Government is unable to fulfil its annually contracted purchase commitment to the Company, and/or continue to provide the other support noted above, the Company would likely be unable to continue its operations as currently structured, and thus likely not continue as a going concern. In such a scenario the Company, in its current structure, would be unable to realize its assets and discharge its liabilities in the normal course of business.

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2013

(Expressed in United States dollars)

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation: The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and of financial assets and liabilities at fair value through profit or loss. As outlined in Note 2 above, the continued existence of the Company is based on the ongoing support from the Government and the maintenance of the credit facilities provided by the Company's bankers, pursuant to the guarantees provided by Government.

As management considers that this support will be ongoing and there are no indications which suggest otherwise, management considers this basis of preparation to be appropriate.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors management believes to be reasonable under the circumstances, and the results of such estimates form the basis of judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These underlying assumptions are reviewed on an ongoing basis. A revision to an accounting estimate is recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if these are also affected. Principle sources of estimation uncertainty are outlined in Note 22. Actual results may differ from those estimates.

There are no new standards or amendments to existing standards which are effective from 1 July 2012 that have a material impact on the Company's financial statements.

The following standards or amendments to existing standards that are relevant to the Company's financial statements, but not effective until future dates are as follows:

- IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Company's financial position or performance.
- IFRS 10, 'Consolidated financial statements', effective for annual periods beginning on or after 1 January 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is not expected to have any impact on the Company's financial position or performance.
- IFRS 12, 'Disclosures of interests in other entities', effective for annual periods beginning on or after 1 January 2013, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard is not expected to have any impact on the Company's financial position or performance.

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2013

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

- IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after 1 January 2013. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. The new standard is not expected to have any impact on the Company's financial position or performance.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Company.

The significant accounting policies of the Company, which have been consistently applied to all years presented (unless otherwise stated), are as follows:

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary (Note 1). All significant intercompany accounts and transactions have been eliminated on consolidation.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Aircraft and flight equipment held for sale: Aircraft and flight equipment held for sale is carried at the lower of their carrying amount and management's estimate of fair value less costs to sell. No depreciation is taken on the assets held for sale.

The Company periodically evaluates its aircraft and flight equipment held for sale for impairment. Factors that would indicate potential impairment would include, but are not limited to, significant decreases in the market value of an aircraft, or a significant change in an aircraft's physical condition.

Property, plant and equipment: Property, plant and equipment is initially recorded at cost. Cost includes all direct attributable costs of bringing the asset to working condition for its intended use.

Property, plant and equipment and other long lived, non-current assets, are reviewed annually at each reporting date for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or when impairment indications are present. Assets whose carrying values exceed their recoverable amount are written down to the recoverable amount, being the higher of market value or value in use (on a discounted cash flow basis), and the resulting impairment loss recorded in the Consolidated Statement of Comprehensive Loss. To the extent that a previously recognized impairment loss no longer exists or decreases, the carrying amount of the asset will be increased to the lower of recoverable amount or depreciated cost and the resulting reversal of impairment loss will be recorded in the Consolidated Statement of Comprehensive Loss.

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2013

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Depreciation: Property, plant and equipment are depreciated to their estimated residual values using the straight-line method over their estimated useful lives as measured in years or flight hours as follows:

<u>Type of Property, plant and equipment</u>	<u>Estimated useful life</u>
Owned aircraft airframe and related overhauls	
Airframe and related components	25,000 – 30,000 flight hours or 250 - 300 months
Other property, plant and equipment:	
Buildings	20 - 50 years
Rotables	12 years
Flight equipment	10 years
Ground Equipment	7 years
Other property, plant and equipment	3 - 15 years

Land is not depreciated.

The residual value for the aircraft engines is \$50,000 (2012: \$50,000) per engine. The residual value for flight equipment is 5%. All other property, plant and equipment have no salvage value.

Where impairment losses have been recorded against property, plant and equipment, the recoverable amount is depreciated to estimated residual value using the straight-line method over the remaining estimated useful life.

Aircraft maintenance:

(a) Routine maintenance and annual periodic maintenance

All routine aircraft maintenance is provided on a continuous basis and the related costs are expensed as incurred.

(b) Periodic major maintenance and overhauls

For aircraft held under operating lease agreements, the Company is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts, is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts, are accrued and charged to Consolidated Statement of Comprehensive Loss over the lease term.

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2013

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Trade receivable: Trade receivables are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Consolidated Statement of Comprehensive Loss. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the Consolidated Statement of Comprehensive Loss.

Where the Company expects a provision, recognised in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets", to be reimbursed under a contractual arrangement with a third party, the reimbursement is recognised as a separate asset but only to the extent recoverable from the third party. Expenditure and the related reimbursement under such arrangement are netted in the Consolidated Statement of Comprehensive Loss.

Security deposits: Security deposits, which are refundable, are initially recognized and subsequently carried at the fair value. Security deposits are classified as non-current assets where the period remaining to refund is greater than twelve months from the reporting date.

Accounts payable: Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Cash and cash equivalents: Cash and cash equivalents consist of cash on hand and at bank which is available on demand and short term bank overdrafts.

Borrowings: Borrowings are recognized initially at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the Consolidated Statement of Comprehensive Loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Share capital and share subscriptions: Ordinary shares are classified as equity. Where funds are received from the Shareholder in respect of the issuance of shares, but where those shares are not yet issued to the Shareholder, but pending issuance of shares at a future date, those funds are presented as Share subscriptions and classified as equity on the Consolidated Statement of Financial Position. When the formalities associated with the issuance of these new shares takes place, the amount shown in the Share subscription caption will be transferred to Share capital.

Foreign currency translation: The accounting records of the Company are maintained in United States dollars. Monetary assets and liabilities in a foreign currency are translated into United States dollars at the prevailing rates of exchange at reporting date. Revenue receipts and expense payments are translated into United States dollars at the prevailing exchange rate on the respective dates of transactions. The rate of exchange between United States dollars and Cayman Islands Dollars is fixed.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2013

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Revenues: Scheduled passenger and cargo revenues are recognized in the period in which transportation is provided, net of government taxes. Unearned revenue represents flight seats sold but not yet flown and is included as a current liability in an unearned transportation liability account. Passengers are only able to make reservations up to a twelve month period in advance of booking date. Consequently, all unearned transportation revenue is due within twelve months of the reporting date. It is released as income to the Consolidated Statement of Comprehensive Loss as passengers fly. Unused tickets are recognized as revenue on a systematic basis after an inactive period of 13 months has elapsed (the period after which the ticket becomes non-recoverable). Miscellaneous fees charged for any changes to flight tickets are recognized in revenue immediately.

Handling Revenue: Handling revenue relates to revenue generated from technical handling and third party maintenance agreements with other airlines flying to the Owen Roberts International Airport. Revenue from these agreements is recognized in the Consolidated Statement of Comprehensive Loss when the service is provided.

Other Revenue: Other revenue comprises revenue earned from the provision of other airline related services, including refund penalties, in-flight sales and other product revenue. Other revenue is recognized in the Consolidated Statement of Comprehensive Loss at the time the sale occurs or the service is provided.

Frequent flyer revenue: The Company's frequent flyer programme allows frequent travellers to accumulate 'Sir Turtle Rewards' points each time that they travel with the airline. These points entitle them to a choice of various awards, including free travel and upgrades. Additionally the Company sells Reward points to non-airline business partners.

The reward points are recognised as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the award points and the other components of the sale such that the reward points are initially recognised as deferred income at their fair value and subsequently recognised as revenue on redemption of the miles by the participants to whom the miles are issued.

The provision for deferred revenue in respect of the redemption under this programme is determined using various assumptions concerning the future behaviour of the participants. Those include the following assumptions:

- i) The fair value attributable to the awarded mileage credit has been calculated based on the weighted average fare price across all routes over the last five years; and
- ii) The ratio of the level of redemption for the program since its inception.

Revenue received against the issuance of Sir Turtle Rewards points is deferred as a liability and shown as deferred revenue on the Consolidated Statement of Financial Position until the points are redeemed or the passenger is uplifted in the case of flight redemptions. Deferred revenue is measured based on managements' estimates of the fair value of the expected awards for which the points will be redeemed. The fair value of the awards is reduced to take into account the proportion of points which are expected to expire.

Government output purchases: Payments made by Government from its purchase commitments are non-refundable and are recognized in the Consolidated Statement of Comprehensive Loss during the year to which the payments relate. Output purchase payments are calculated according to the Purchase Agreement in place with Government (Note 17).

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Pension plan: In accordance with the Cayman Islands National Pensions Law, 1996 (the "Law") those of Company's employees that are located in the Cayman Islands participate in a defined contribution pension plan. Employees are required to contribute an amount up to 5% of their annual salaries to the plan during the year and the Company matches such contributions up to 5%. Employees based in the United States of America are eligible to participate in a 401K defined contribution pension plan. Contributions are matched by the Company, to a maximum of 3% of the employee's basic salary. Independent trustees administer both of these plans. The pension contributions paid by the Company under these plans are expensed as incurred in the Consolidated Statement of Comprehensive Loss.

Expenses: Expenses are recognized in the Consolidated Statement of Comprehensive Loss on an accrual basis.

Leases: Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases and the associated leased assets are not recognized in the Company's Consolidated Statement of Financial Position. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Comprehensive Loss on a straight-line basis over the period of the lease. In connection with the lease of the aircraft (Note 16), the Company makes supplemental rental payments to the lessor based on usage of the aircraft. These supplemental rent payments are recognised as an asset only to the extent that they are considered recoverable from the lessor. At June 30, 2013, all aircraft leases are considered to be operating leases (Note 24).

Provisions and contingencies: A provision is recognized in the Consolidated Statement of Financial Position when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future outflow at a rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

The Company assesses the likelihood of any adverse outcomes to contingencies, including legal matters, as well as probable losses. Provisions are recorded for such contingencies when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability. Provisions are re-measured at each reporting date based on the best estimate of the settlement amount.

In relation to legal matters, estimates are developed in consultation with outside legal counsel handling the defence in these matters, using the current facts and known circumstances. The factors considered in developing the legal provisions include the merits and jurisdiction of the litigation, the nature and number of other similar current and past litigation cases, the nature of the subject matter of the litigation, the likelihood of settlement and current state of settlement discussions, if any.

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. Restatement

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The basis is consistent with the prior year except for the policies reflected below.

Major Aircraft Maintenance Costs

Previously, major airframe and engine overhaul expenditure were capitalized and amortized over the expected useful life between major overhauls, irrespective of whether the aircraft were owned or leased. In addition, where applicable, a provision for aircraft return conditions was raised for leased aircraft to cover the estimated costs to reinstate leased aircraft to expected delivery conditions.

During the financial year the Company assessed its accounting policy with regards to the capitalization of leasehold improvements on operating leased aircraft and determined that an approach that was more in line with common industry practices was required. The Company has revised the accounting policy which resulted in a restatement of prior period and the current year annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, performance and cash flows.

For leased aircraft, lessors normally impose an obligation on the lessee to perform specified maintenance events over the lease period. The policy was therefore changed by introducing a provision for scheduled maintenance for major maintenance events and return conditions from the commencement of the lease. The actual cost of the overhauls is charged against the provision as incurred. This policy removes significant volatility in the Statement of Comprehensive Loss by expensing maintenance obligations over the term of the lease agreement.

Additionally, the Company makes monthly payments to a maintenance reserve ("Supplemental Rent") to the lessor as part of its lease agreement. These payments are based on usage of various components of the aircraft, and the Company in accordance with the lease contracts, can be reimbursed from the maintenance reserve when certain qualifying maintenance events take place. Any unutilized balance of the maintenance reserves at the end of the lease is not refundable to the Company.

These payments were previously expensed as incurred, and offset against the cost of the capitalized maintenance event when received. The revised accounting policy also required the recognition of a recoverable asset from the lessor for maintenance reserve prepayments only to the extent that they were expected to be recovered based on planned maintenance events during the lease term.

Airline and Regulatory Fees

In connection with the sale of flights, fees are collected on behalf of related and third parties such as airports and regulatory agencies. The fees collected are treated as a liability on the books of the Company and extinguished when payments are made to these agencies. However, certain of these fees are payable based only if a passenger travelled and were not due to be paid to these agencies or, subject to contract terms, refunded if the travel did not occur.

Based on a review of industry practices and the obligations of the Company under such arrangements, and legal advice, the Company has revised its treatment of these fees collected. Previously, all fees collected were treated as a liability by the Company until extinguished, whereas; under the revised policy the Company will derecognise the liability for the collection of fees on unused expired tickets. Such fees collected on unused tickets are now recorded as revenue when the criteria for revenue recognition are met.

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. Restatement (continued)

The aggregate effect of the restatement on the consolidated financial statements for the year ended 30 June 2012 is summarized below. The opening accumulated deficit for 2011 has decreased by \$510,122 which is the amount of the adjustment relating to the year ended 30 June 2010 or earlier.

		30 June, <u>2012</u>	1 July, <u>2011</u>
<u>Statement of financial position</u>	Notes		
Property, Plant & Equipment:	6		
Previously stated		17,633,093	15,908,529
Net capitalized maintenance cost on leased aircraft reversed- prior years		(1,407,906)	(596,910)
Net capitalized maintenance cost on leased aircraft reversed - current year		<u>(2,347,314)</u>	<u>(810,996)</u>
Restated balance		<u>13,877,873</u>	<u>14,500,623</u>
Prepayments and other assets:	5		
Previously stated		402,501	637,800
Maintenance reserve adjustment - prior years		7,242,895	5,252,214
Current year maintenance reserve payments		1,810,761	1,990,680
Maintenance reserves reimbursements received		(1,600,188)	-
Movement in impairment of reserves		<u>(296,503)</u>	<u>-</u>
Restated balance		<u>7,559,466</u>	<u>7,880,694</u>
Accounts payable and accrued expenses:	9		
Previously stated		32,055,651	34,321,510
Related party travel related collections – prior years		(4,820,060)	(4,820,060)
Related party travel related collections - current year		<u>(491,654)</u>	<u>-</u>
Restated balance		<u>26,743,937</u>	<u>29,501,450</u>
Provisions:	11		
Previously stated		-	-
Provision for liabilities - prior years		10,144,925	7,574,790
Cost of Maintenance events - current year		(4,412,243)	(1,221,498)
Provision for maintenance liabilities - current year		<u>3,322,897</u>	<u>3,791,633</u>
Restated balance		<u>9,055,579</u>	<u>10,144,925</u>

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

4. Restatement (continued)

30 June,
2012

Statement of Comprehensive Income

Other Revenues:

Previously stated	1,500,426
Related party travel related collections - current year	<u>491,654</u>
Restated balance	<u>1,992,080</u>

Maintenance, materials and repairs:

Previously stated	6,508,806
Reverse prior year's net capitalized maintenance costs	11,164
Maintenance reserves adjustment	(1,810,761)
Provision for lease liabilities	3,322,897
Movement in impairment of reserves	<u>296,503</u>
Restated balance	<u>8,328,609</u>

Depreciation:

Previously stated	1,797,491
Reversal of depreciation on net maintenance costs capitalized	<u>(475,907)</u>
Restated balance	<u>1,321,584</u>

Other than the adjustment to purchases of property, plant and equipment (in current and prior periods) described below, there was no cash flow impact as a result of the restatement other than the consequential adjustments as a result of the restatement of the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income as at 30 June 2012 and for the year then ended.

Statement of Cash Flows

30 June,
2012

Purchase of property, plant and equipment:

Previously stated	(3,582,075)
Reversal of previously capitalized aircraft leasehold improvements	<u>2,823,220</u>
Restated balance	<u>(758,855)</u>

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

5. Security deposits & Prepayment and other assets

Security deposits and Prepayment and other assets are comprised of the following:

	<u>30 June 2013</u>			<u>30 June 2012</u>		
	<u>Current</u>	<u>Non-current</u>	<u>Total</u>	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Deposits for Aircraft & Engines	-	1,559,000	1,559,000	-	1,559,000	1,559,000
Deposits with Airports & Handlers	-	431,755	431,755	-	431,755	431,755
Other deposits and assets	-	<u>111,479</u>	<u>111,479</u>	-	<u>107,721</u>	<u>107,721</u>
Security Deposits	-	<u>2,102,234</u>	<u>2,102,234</u>	-	<u>2,098,476</u>	<u>2,098,476</u>
Prepayments and other assets	<u>1,919,950</u>	<u>3,947,449</u>	<u>5,867,399</u>	<u>3,316,313</u>	<u>4,243,153</u>	<u>7,559,466</u>

As at 30 June 2013, in connection with the Company's leased aircraft arrangements (Note 16), the Company had placed deposits with a value of \$1,400,000 (2012: \$1,400,000) with the leasing agent as security in respect of its leasing obligations (Note 24). The remainder of the security deposits represent various airport and ground handling deposits held by the airport handling agencies used by the entity to carry on its operations. These security deposits are available to the Company on the expiry the respective agreements.

6. Property, plant and equipment

At 30 June 2013:

	<u>Aircraft & engines</u>	<u>Rotables</u>	<u>Land & Buildings</u>	<u>Office & communications equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost						
Balance 1 July 2012 \$	5,967,828	\$ 8,840,843	\$ 8,663,159	\$2,393,693	\$ 3,484,106	\$ 29,349,629
Additions	232,048	422,849	16,642	73,569	19,500	764,608
Disposals	-	-	-	-	-	-
Balance 30 June 2013 \$	<u>6,199,876</u>	<u>9,263,692</u>	<u>8,679,801</u>	<u>2,467,262</u>	<u>3,503,606</u>	<u>\$30,114,237</u>
Depreciation						
Balance 1 July 2012 \$	1,793,854	\$ 6,603,429	\$2,405,930	\$ 1,840,469	\$ 2,828,074	\$15,471,756
Charge for the year	274,874	299,614	136,420	112,486	151,201	974,595
Disposals	-	-	-	-	-	-
Balance 30 June 2013 \$	<u>2,068,728</u>	<u>6,903,043</u>	<u>2,542,350</u>	<u>1,952,955</u>	<u>2,979,275</u>	<u>\$16,446,351</u>
At 30 June 2013	<u>\$ 4,131,148</u>	<u>\$ 2,360,649</u>	<u>\$ 6,137,451</u>	<u>\$ 514,307</u>	<u>\$ 524,331</u>	<u>\$13,667,886</u>
At 30 June 2012	<u>\$ 4,173,974</u>	<u>\$ 2,237,414</u>	<u>\$ 6,257,229</u>	<u>\$ 553,224</u>	<u>\$ 656,032</u>	<u>\$13,877,873</u>

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2013

(Expressed in United States dollars)

6. Property, plant and equipment (continued)

At 30 June 2012 (Restated):

	<u>Aircraft & engines</u>	<u>Rotables</u>	<u>Land & Buildings</u>	<u>Office & communications equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost						
Balance 1 July 2011	\$ 5,703,122	\$ 8,537,703	\$ 8,655,284	\$ 2,335,905	\$ 3,453,720	\$ 28,685,734
Additions	264,706	398,100	7,875	57,788	30,386	758,855
Disposals	-	(94,960)	-	-	-	(94,960)
Balance 30 June 2012	\$ 5,967,828	\$ 8,840,843	\$ 8,663,159	\$ 2,393,693	\$ 3,484,106	\$29,349,629
Depreciation						
Balance 1 July 2011	\$ 1,485,784	\$ 6,486,465	\$2,269,404	\$ 1,694,281	\$ 2,249,177	\$14,185,111
Charge for the year	308,070	151,904	136,526	146,188	578,897	1,321,585
Disposals	-	(34,940)	-	-	-	(34,940)
Balance 30 June 2012	\$ 1,793,854	\$ 6,603,429	\$ 2,405,930	\$ 1,840,469	\$ 2,828,074	\$15,471,756
At 30 June 2012	\$ 4,173,974	\$ 2,237,414	\$ 6,257,229	\$ 553,224	\$ 656,032	\$13,877,873
At 1 July 2011	\$ 4,217,338	\$ 2,051,238	\$ 6,385,880	\$ 641,624	\$ 1,204,543	\$14,500,623

The Company reviews its property, plant and equipment, as well as any other non-current assets, for impairment losses, if any impairment indicators exist, or at least on an annual basis.

7. Trade and other receivables

Trade receivable comprise:

	<u>2013</u>	<u>30 June, 2012 Restated</u>
Trade receivables	2,411,759	2,133,006
Other	1,540,469	1,196,059
Total, before provision for impairment	3,952,228	3,329,065
Less: provision for impairment	(330,378)	(511,300)
Net trade receivables	\$3,621,850	\$ 2,817,765

CAYMAN AIRWAYS LIMITED
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7. Trade and other receivables (continued)

The movement in the provision for impairment of receivables is as follows:

	<u>2013</u>	<u>30 June,</u> <u>2012</u> <u>Restated</u>
Balance, beginning of year	511,300	501,247
(Decrease) /Increase in provision for impairment	(180,122)	38,224
Debts written off	(800)	(28,171)
Balance, end of year	<u>\$ 330,378</u>	<u>\$511,300</u>

During the year ended 30 June 2013, the Company wrote off \$800 (2012: \$28,171) relating to amounts due from customers.

As of 30 June 2013, the aging analysis of receivables is as follows:

	<u>2013</u>	<u>30 June,</u> <u>2012</u> <u>Restated</u>
Neither past due nor impaired	\$1,848,954	\$ 1,190,666
Total past due but not impaired	1,772,896	1,627,099
Impaired:		
31 – 365 days	72,614	108,599
+365 days	<u>257,764</u>	<u>402,701</u>
Total impaired	<u>330,378</u>	<u>511,300</u>
Total trade receivables	<u>\$3,952,228</u>	<u>\$ 3,329,065</u>

Receivables at 30 June 2013 included \$1,966,996 due from related parties (2012: \$1,384,205).

8. Bank overdraft

As at 30 June 2013, the Company has an overdraft facility with Royal Bank of Canada (located in the Cayman Islands) ("RBC") for a total value of \$3,000,000 (2012: \$8,000,000). The overdraft facility was obtained to supplement the working capital requirements of the Company and bears a floating rate of interest priced at RBP (Royal Bank Prime) Rate plus 1% per annum. The overdraft facility is secured by way of guarantee from the Government.

The overdraft facility is subject to the same covenants as those relating to the long-term loans (Note 10). Notwithstanding compliance with applicable covenants and other terms and conditions as per the overdraft agreement, the Bank may terminate this facility at any time, without notice or demand.

CAYMAN AIRWAYS LIMITED
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(Expressed in United States dollars)

9. Accounts payable and accrued expenses

At year end, accounts payable and accrued expenses are comprised of the following:

	<u>2013</u>	<u>30 June,</u> <u>2012</u> Restated
Trade accounts payable	\$ 30,411,381	\$20,211,093
Other accounts payable	4,984,791	4,524,315
Accruals	<u>270,177</u>	<u>2,008,529</u>
Total	<u>\$ 35,666,349</u>	<u>\$26,743,937</u>

At year end, the following balances were due to related parties:

	<u>2013</u>	<u>30 June,</u> <u>2012</u> Restated
Trade accounts payable	\$ 27,295,701	\$16,675,725
Other accounts payable	1,488,619	1,214,011
Accruals	<u>230,065</u>	<u>1,273,087</u>
Total	<u>\$ 29,014,385</u>	<u>\$19,162,823</u>

At 30 June 2013 the Company was in the process of working with Government in renegotiating the terms of repayment of the debt owed to various related parties including US\$21 million (2012: US\$13 million) to the Cayman Islands Airport Authority.

Amounts due to related parties represent balances due to entities under common control of the Company's shareholder. These include Ministries, Statutory Authorities and other companies where the Cayman Islands Government has controlling interest. At the year end the Company was in negotiations with the Shareholder on settlement of the debts. There have been no specific demands for payment of these debts.

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10. Loans

At year end, the Company held the following loans, analysed by contractual maturity in effect as of 30 June 2013 (Note 24) and 2012:

As at 30 June 2013:

	<u>Within 1 year</u>	<u>Between 2 and 5 years</u>	<u>After more than 5 years</u>	<u>Total</u>
Royal Bank of Canada				
Loan (i)	2,277,900	9,111,600	2,155,867	13,545,367
Loan (ii)	670,320	2,681,280	558,091	3,909,691
First Caribbean International Bank (Cayman) Ltd.				
Loan (ii)	670,320	2,681,280	558,091	3,909,691
Loan (iii)	467,816	1,056,349	-	1,524,165
Loan (iv)	<u>954,857</u>	<u>4,302,806</u>	<u>6,128,251</u>	<u>11,385,914</u>
	<u>\$ 5,041,213</u>	<u>\$ 19,833,315</u>	<u>\$ 9,400,300</u>	<u>\$ 34,274,828</u>

As at 30 June 2012:

	<u>Within 1 year</u>	<u>Between 2 and 5 years</u>	<u>After more than 5 years</u>	<u>Total</u>
Royal Bank of Canada				
Loan (i)	1,464,688	5,859,696	2,685,671	10,010,055
Loan (ii)	670,320	2,681,280	1,196,960	4,548,560
First Caribbean International Bank (Cayman) Ltd.				
Loan (ii)	670,320	2,681,280	1,196,960	4,548,560
Loan (iii)	456,937	1,521,968	-	1,978,905
Loan (iv)	947,410	4,165,062	7,212,610	12,325,082
Government (v)	<u>5,769,480</u>	<u>-</u>	<u>-</u>	<u>5,769,480</u>
	<u>\$9,979,155</u>	<u>\$16,909,286</u>	<u>\$12,292,201</u>	<u>\$39,180,642</u>

Pursuant to the agreements with RBC (i), (ii), and FCIB (ii), (iii) and (iv), the Company must comply with certain covenants, namely ensuring that all scheduled repayments are current and the provision of audited financial statements and other financial data of both the Company and the Government (as guarantor). In the event of default, RBC and FCIB may, by written notice to the Company, declare all borrowings under the agreements to be immediately due and payable. During the years ending 30 June 2013 and 2012, the Company had failed to comply with certain of those financial reporting covenants including the provision of the Government's audited financials which were not available. However, as at 30 June 2013 and 2012, neither RBC nor FCIB had provided written notice of intent to act as a result of this failure and had instead provided waivers of such covenants to the Company.

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

10. Loans (continued)

- i) During the year ended 30 June 2004, the Company entered into a loan agreement with Royal Bank of Canada (Cayman Islands) ("RBC") to obtain funds to a total value of \$23,602,333, which was to be repaid over a fifteen year period. This funding was obtained in order to provide funds for operational needs. In November 2011, the Company entered in new agreement with RBC covering all existing credit facilities ("Credit Facilities") with RBC at that time, the terms of which supersede all previous borrowing agreements.

In June 2013, the agreement was further amended to add \$5 million from the overdraft (Note 8) onto the existing loan facility. The monthly principal instalments were increased to \$189,825 effective for the 2013/14 financial year. The loan bears a floating rate of interest priced at one month Libor plus percentage spread per annum. This loan and loans (ii) and (iii) are secured by way of guarantee up to the amount of US\$46,993,148 from the Government. The loan is scheduled to expire on May 30, 2019. During the year ended 30 June 2013, the Company incurred an interest expense of \$256,731 (2012: \$229,899) in relation to this loan. As at 30 June 2013, the principal amount outstanding on this loan is \$13,545,367 (2012: \$10,010,055).

- ii) During the year ended 30 June 2004, the Company entered into a loan agreement with RBC to obtain funds to a total value of \$21,055,000, which was to be repaid over a fifteen year period. The agreement required another local bank in the Cayman Islands to provide 50% of the required. Consequently to the agreement, RBC entered into a participation agreement with First Caribbean International Bank (Cayman) Ltd. ("FCIB") to provide funding to a total value of \$10,527,500. This funding was obtained in order to provide funds for operational needs. In November 2011, the Company entered in new agreement with RBC covering all existing credit facilities ("Credit Facilities") with RBC at that time, the terms of which supersede all previous borrowing agreements. Under the terms of the new agreement, the Company is required to pay monthly principal payments of \$111,720 plus accrued interest on the outstanding balance. The loan bears a floating rate of interest priced at one month Libor plus percentage spread per annum. The loan expires on May 30, 2019. This loan and loans (i) and (iii) are secured by way of guarantee up to the amount of US\$46,993,148 from the Government. During the year ended 30 June 2013, the Company incurred an interest expense of \$237,178 (2012: \$211,062) in relation to this loan. As at 30 June 2013, the principal amount outstanding on this loan to RBC is \$3,909,691 (2012: \$4,548,560) and to FCIB is \$3,909,691 (2012: \$4,458,560).

In connection with the funds advanced under the Credit Facilities agreement with RBC, a right of set-off exists with respect to funds held in current or call accounts against any obligations owed by the Company to RBC.

- iii) During the year ended 30 June 2007, the Company entered into a loan agreement with FCIB to obtain funds to a total value of \$4,200,000, which will be repaid over a ten year period. This funding was obtained in order to provide funds for capital expenditure. The Company is required to pay an amount of \$40,000 monthly relating to both principle and interest. The loan bears a floating rate of interest priced at one month Libor plus percentage spread per annum. The loan is secured by way of guarantee from the Government. During the year ended 30 June 2013, the Company incurred an interest expense of \$25,200 (2012: \$876) in relation to this loan. As at 30 June 2013, the principal amount outstanding on this loan is \$1,524,165 (2012: \$1,978,905).

CAYMAN AIRWAYS LIMITED
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(Expressed in United States dollars)

10. Loans (continued)

- iv) During the year ended 30 June 2009, the Company entered into a loan agreement with FCIB to obtain funds to a total value of \$15,000,000, which will be repaid over a fifteen year period. This funding was obtained in order to provide funds for operational needs. The Company is required to pay an amount of \$116,000 monthly relating to both principle and interest. The loan bears a floating rate of interest priced at one month Libor plus percentage spread per annum. The loan is secured by way of guarantee from the Government. During the year ended 30 June 2013, the Company incurred an interest expense of \$516,000 (2012: \$500,673) in relation to this loan. As at 30 June 2013, the principal amount outstanding on this loan is \$11,385,914 (2012: \$12,325,082).
- v) During the year ended 30 June 2010, the Company obtained a loan facility of \$5,952,381 (CIS\$5,000,000) from the Government, which is unsecured and non-interest bearing. During the year ended 30 June 2013, the Company and the Government of the Cayman Islands agreed to extinguish the demand loan of CIS\$5,000,000, due to the Government by the Company, for additional equity interest in the Company of an equivalent value represented by subscriptions for shares not issued. The amortised carrying value of the loan at 30 June 2012 was \$5,769,480. The funding from this loan was to allow the Company to pay any outstanding and past due third party payables. The amounts drawn down under this loan were due on demand at the request of Government. The loan was being amortised, to the ultimate principal amount payable, over the expected loan term.

Letters of credit

Royal Bank of Canada has issued a number of letters of credit on behalf of the Company in the amount of \$884,549 (2012: \$634,549). These are used as collateral for United States Customs bonds and credit account support. The letters of credit bear interest at a rate of 1% per annum.

11. Provisions

Provisions comprise:

	<u>30 June,</u>	
	<u>2013</u>	<u>2012</u>
		<u>Restated</u>
Current- Liabilities		
Provision for maintenance cost	\$ <u>1,514,316</u>	\$ <u>5,161,851</u>
Total current	\$ <u>1,514,316</u>	\$ <u>5,161,851</u>
<u>Non-current liabilities</u>		
Provision for maintenance cost	\$ <u>4,427,098</u>	\$ <u>3,893,728</u>
Total Non-current	\$ <u>4,427,098</u>	\$ <u>3,893,728</u>
Total	\$ <u>5,941,414</u>	\$ <u>9,055,579</u>

CAYMAN AIRWAYS LIMITED
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11. Provisions (continued)

The movement in the provision is as follows:

	<u>2013</u>	<u>30 June,</u> <u>2012</u> <u>Restated</u>
Maintenance cost		
Opening balance	\$ 9,055,579	\$ 10,144,924
Additions	2,004,436	3,322,898
Utilised during the year	<u>(5,118,601)</u>	<u>(4,412,243)</u>
Ending balance	<u>\$ 5,941,414</u>	<u>\$ 9,055,579</u>

12. Deferred revenue

At year end, deferred revenue constitutes the following:

Frequent Flyer programme:

	<u>2013</u>	<u>30 June,</u> <u>2012</u>
Current	<u>\$ 3,144,500</u>	<u>\$ 2,611,499</u>

Frequent flyer programme

The deferred revenue in respect of the frequent flyer programme is released when points are used or when they become non-redeemable. Points are redeemable for a maximum of three years in the event of non-activity in dormant accounts. The Company uses an estimated value of redeemed travel, based on historical average fares, to determine the value attributed on each mile. The deferred revenue is included as a liability on the Consolidated Statement of Financial Position.

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13. Share capital

	<u>2013</u>	<u>30 June,</u> <u>2012</u>
Authorised:		
50,000,000 ordinary shares of CI\$1 each	<u>\$60,000,000</u>	<u>\$60,000,000</u>
Issued and fully paid:		
31,980,179 ordinary shares of CI\$1 each	<u>\$38,376,215</u>	<u>\$38,376,215</u>

During the years prior to 30 June 2009, the Government assumed the obligations to repay certain debts owing to certain creditors to a total value of \$20,990,163 of the Company and the Government subscribed a further \$2,850,000 in additional paid-in capital. Pursuant to these transactions, the Company was to issue 20,025,738 ordinary shares of CI\$1 each to the Government. During the year ended 30 June 2013, the CI Government, as part of its addressing of the Shareholder deficiency in Cayman Airways, contributed US\$12,009,908 (2012: US\$6,071,428) in equity injections (Notes 10 and 21). Pursuant to these transactions, the Company was to issue 10,100,000 (2012: 5,100,000) ordinary shares of CI\$1 each to the Government, corresponding to the capital injections in 2013.

In January 2010, the Board of Directors of the Company resolved to increase the authorized share capital of the Company from 50,000,000 units of shares to 100,000,000. However, as of 30 June 2013 and 2012, the Government, as Shareholder, had not given effect to those resolutions as passed by the Board of Directors, nor had the formalities for the issuance of the outstanding shares to the Shareholder been fully executed. Consequently, as at 30 June 2013, an amount of \$47,992,929 (2012: \$35,983,021) is shown on the Consolidated Statement of Financial Position, which represents subscriptions for shares not yet issued.

14. Related party transactions and balances

As outlined in Note 1, the Company is wholly owned by the Government. The Company engages with other entities and bodies which are related to the Government in the ordinary course of business.

As outlined in Note 2, the Company has entered into various arrangements with Government or with Government support. As a result, it is probable that the terms obtained by the Company under these arrangements would likely be less favorable than without the Government, or indeed, whether the Company would have been able to avail of those facilities without the Government involvement in first instance.

The Government has undertaken to provide financial support to the Company as discussed in Note 2. Consequently, the consolidated financial statements have been prepared on the going concern basis and do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

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14. Related party transactions and balances (continued)

The key management of the airline is comprised of 9 positions (2012: 8 positions), which are the President and Chief Executive Officer (along with 1 support staff function), one Executive Vice President, three Vice Presidents and two Director level positions and a Chief Commercial Officer. Total remuneration earned by key management during the year ended 30 June 2013 was \$1,474,153 (2012: \$1,334,715). Total remuneration for the period includes medical and pension contribution, housing allowances, acting allowances and severance pay. There were no salary advances or loans issued to key management during the period (2012: \$Nil).

All of the members of the Board of Directors are voluntary and do not receive any remuneration for services rendered. Directors are entitled to utilize certain flight benefits. Furthermore, current and retired staff and their family members receive travel benefits with the Company. As these benefits are generally dependent upon space available and not guaranteed, and as the incremental cost of providing the benefit is immaterial, the Company does not record the perceived value nor make an adjustment for staff costs.

Due to the nature of the Company's purpose and its ownership by the Government, related party transactions occur throughout its entire operations. Other significant related party transactions and balances are disclosed throughout these financial statements

15. Other Staff Costs

Significant components of other staff costs comprise health insurance, pensions and travel expenses. The Company and its employees make contributions to a defined contribution pension plan regulated in the Cayman Islands. These employees contributed 5% of their annual salaries to the plan during the year and the Company matched such contributions. During the year ended 30 June 2013, the Company made \$948,427 (2012: \$911,159) in pension contributions which is included in other staff costs in the Consolidated Statement of Comprehensive Loss.

16. Lease commitments

The Company has entered into a number of operating lease agreements for its operations, including leases for rentals of four aircraft and premises. During the year ended 30 June 2013, the Company made payments under these leases of \$7,493,520 (2012: \$6,625,756) which are included within the aircraft rentals and other operating expenses. A number of the leases have an option for renewal at the end of their primary lease term at the option of the Company.

Year ended 30 June 2013:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
Lease payments	<u>\$7,145,671</u>	<u>\$ 347,849</u>	<u>\$7,493,520</u>

Year ended 30 June 2012:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
Lease payments	<u>\$6,280,191</u>	<u>\$ 345,565</u>	<u>\$6,625,756</u>

CAYMAN AIRWAYS LIMITED
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16. Lease commitments (continued)

Minimum lease commitments outstanding at the end of the year pursuant to these leases and to rights of renewal that the Company expects to exercise are as follows as at 30 June 2013:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
2014	\$ 4,715,000	\$ 148,445	\$ 4,863,445
2015 and beyond	<u>641,000</u>	<u>-</u>	<u>641,000</u>
Total	<u>\$ 5,356,000</u>	<u>\$ 148,445</u>	<u>\$ 5,504,445</u>

As at 30 June 2012:

	<u>Aircraft</u>	<u>Premises</u>	<u>Total</u>
2013	\$ 5,569,500	\$ 170,773	\$5,740,273
2014	3,698,000	124,445	3,822,445
2015 and beyond	<u>641,000</u>	<u>-</u>	<u>641,000</u>
Total	<u>\$ 9,908,500</u>	<u>\$ 295,218</u>	<u>\$10,203,718</u>

Aircraft leases

The Company has entered into lease agreements with International Lease Finance Corporation ("ILFC") and Castle 2003 1A LLC ("Castle") (the "lessors") in connection with the leasing of Boeing 737-300 aircraft. Both ILFC and Castle have the same ultimate parent company. Pursuant to the lease agreements, the Company advanced a number of refundable security deposits to a total value of \$1,400,000 for the term of the lease. These deposits (Note 5) are refundable at the end of the lease term. Lease payments are due monthly in advance, and all balances overdue are subject to an interest charge of 8% per annum. There are no balances overdue as at 30 June 2013 (2012: \$nil). As at 30 June 2013, included within accounts payable is an amount of \$1,028,161 (2012: \$2,464,804) owing to ILFC and Castle in respect of lease rental obligations, which is offset by a \$1,494,803 receivable for reimbursements of maintenance costs incurred.

Under the terms of the lease agreements, the Government has issued guarantees to ILFC in respect of lease obligations relating to aircraft up to a maximum value of 24 months worth of lease payments (i.e. 6 months against each of the 4 individual aircraft leases in place) of approximately \$2,240,000 (2012: \$2,240,000) as at 30 June 2013.