

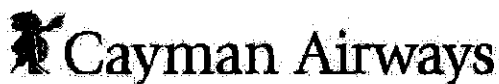
FINANCIAL STATEMENTS
CAYMAN AIRWAYS LIMITED

30 JUNE 2015

CAYMAN AIRWAYS LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2015

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STATEMENT OF RESPONSIBILITIES

30 June 2015

These financial statements have been prepared by Cayman Airways Limited in accordance with the provisions of the Public Management and Finance Law (2013 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 (2013 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 30 June, 2015.

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

- a) Completely and reliably reflect the financial transactions of Cayman Airways Limited for the year ended 30 June 2015;
- b) Fairly reflect the financial position as at 30 June 2015 and its comprehensive income for the year ended 30 June 2015;
- 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 of Auditing.

Mr. Philip Rankin
Chairman
Cayman Airways Limited

Date: MAY 18, 2016

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

Date: MARCH 18, 2016



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AUDITOR GENERAL'S REPORT

To the Shareholder & Board of Directors of Cayman Airways Limited

I have audited the accompanying financial statements of the Cayman Airways Limited and its subsidiary (together the "Company"), which comprise the consolidated statement of financial position as at 30 June 2015 and the consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 3 to 32 in accordance with the provisions of Section 60(1)(a)(ii) of the *Public Management and Finance Law (2013 Revision)*.

Management's Responsibilities for the 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.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I 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 consolidated 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.

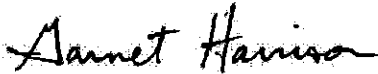
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. In rendering my audit opinion on the consolidated financial statements of the Company, I have relied on the work carried out on my behalf by a public accounting firm who performed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

Opinion

In my opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cayman Airways Limited and its subsidiary as at 30 June 2015, and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw your attention to Notes 2 and 13 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.



Garnet Harrison, CPA, CA
Acting Auditor General

18 March 2016
Cayman Islands

CAYMAN AIRWAYS LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(Expressed in United States dollars)

	As at 30 June 2015	As at 30 June 2014
ASSETS		
Current assets		
Cash on hand and at bank	\$ 6,078,316	\$ 2,802,602
Trade and other receivables (Notes 6)	4,484,823	4,465,667
Security deposits (Note 4)	36,196	140,196
Prepayments and other assets (Note 4)	<u>814,057</u>	<u>508,253</u>
Total current assets	<u>11,413,392</u>	<u>7,916,718</u>
Non-current assets		
Security deposits (Note 4)	953,940	962,273
Property, plant and equipment (Note 5)	<u>25,977,976</u>	<u>25,653,075</u>
Total non-current assets	<u>26,931,916</u>	<u>26,615,348</u>
TOTAL ASSETS	\$ <u>38,345,308</u>	\$ <u>34,532,066</u>
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities		
Bank overdraft (Note 7)	\$ -	\$ 2,647,611
Accounts payable and accrued expenses (Note 8)	40,911,940	41,922,097
Loans payable (Note 9)	5,037,523	2,341,961
Lease obligation (Note 15)	-	4,625,000
Unearned transportation revenue	11,055,098	10,988,844
Frequent flyer provision (Notes 11 and 21)	<u>3,044,500</u>	<u>2,894,500</u>
Total current liabilities	<u>60,049,061</u>	<u>65,420,013</u>
Non-current liabilities		
Loans payable (Note 9)	<u>24,228,226</u>	<u>29,257,062</u>
Total non-current liabilities	<u>24,228,226</u>	<u>29,257,062</u>
Total liabilities	<u>84,277,287</u>	<u>94,677,075</u>
Shareholder's deficit (Note 2)		
Share capital (Note 12)	38,376,215	38,376,215
Share subscriptions (Note 12)	64,637,174	54,064,356
Accumulated deficit	<u>(148,945,368)</u>	<u>(152,585,580)</u>
Total shareholder's deficit	<u>(45,931,979)</u>	<u>(60,145,009)</u>
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIT	\$ <u>38,345,308</u>	\$ <u>34,532,066</u>

Approved for issuance on behalf of the Cayman Airways Limited Board of Directors on March 18, 2016 by:

Philip Rankin

Director

Norman Bodden

Director

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

CAYMAN AIRWAYS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Expressed in United States dollars)

	Year ended 30 June,	
	2015	2014
Income		
Passenger revenue	\$ 59,202,752	\$ 58,042,968
Government output purchases (Note 16)	21,197,381	21,197,390
Cargo revenue	3,064,914	2,901,689
Handling revenue	2,179,158	2,923,256
Other revenues	<u>2,690,251</u>	<u>2,630,781</u>
Total income	<u>88,334,456</u>	<u>87,696,084</u>
Expenses		
Salaries and wages (Note 13)	20,737,682	20,000,193
Other staff costs (Note 14)	5,522,203	5,436,556
Aircraft fuel	17,532,681	22,239,749
Aircraft lease expense (Note 15)	3,315,357	5,766,266
Commissions and related sales costs	4,191,157	3,874,232
Maintenance, materials and repairs	4,812,819	5,766,206
Landing and parking fees	2,119,146	2,262,287
Aircraft and passenger service	12,245,013	12,429,905
Advertising and promotion	208,908	277,791
Communications	743,502	702,174
Information Technology Expenses	1,728,370	1,413,603
Professional Expenses	1,115,383	633,263
General and Administrative	2,387,663	2,651,574
Depreciation (Note 5)	3,183,430	1,173,436
Other operating expenses	<u>3,821,779</u>	<u>3,987,163</u>
Total expenses	<u>83,665,093</u>	<u>88,614,398</u>
NET INCOME (LOSS), BEFORE FINANCE COST	4,669,363	(918,314)
Finance cost		
Interest expense (Notes 7 and 9)	(1,029,151)	(1,442,472)
NET INCOME (LOSS) FOR THE YEAR (NOTE 2)	<u>\$ 3,640,212</u>	<u>\$(2,360,786)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 3,640,212</u>	<u>\$(2,360,786)</u>

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

CAYMAN AIRWAYS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(Expressed in United States dollars)

	<u>Share capital</u> <u>(Note 12)</u>	<u>Share</u> <u>subscriptions</u> <u>(Note 12)</u>	<u>Accumulated</u> <u>deficit</u>	<u>Total</u>
Balance at 30 June 2013	38,376,215	47,992,929	(150,224,794)	(63,855,650)
Net loss for the year	-	-	(2,360,786)	(2,360,786)
Share subscriptions	-	<u>6,071,427</u>	-	<u>6,071,427</u>
Balance at 30 June 2014	38,376,215	54,064,356	(152,585,580)	(60,145,009)
Net income for the year	-	-	3,640,212	3,640,212
Share subscriptions (Notes 8 and 12)	-	<u>10,572,818</u>	-	<u>10,572,818</u>
Balance at 30 June 2015	<u>\$ 38,376,215</u>	<u>\$ 64,637,174</u>	<u>\$(148,945,368)</u>	<u>\$(45,931,979)</u>

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

CAYMAN AIRWAYS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in United States dollars)

	Year ended 30 June,	
	2015	2014
Cash flows from operating activities		
Net income (loss) for the year	3,640,212	(2,360,786)
Adjustments to reconcile net income/ (loss) to net cash provided by operating activities:		
Depreciation	3,183,430	1,173,436
Interest expense	1,029,151	1,442,472
Increase in trade and other receivables	(19,156)	(843,817)
(Increase) / decrease in prepayments and security deposits	(193,471)	5,278,911
(Decrease) / increase in accounts payable and accrued expenses	2,300,757	6,255,748
Decrease in provisions	-	(5,941,414)
Increase in unearned transportation liability	66,254	654,018
Increase / (decrease) in frequent flyer provision	150,000	(250,000)
Net cash provided by operating activities	<u>10,157,177</u>	<u>5,408,568</u>
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 5)	<u>(3,508,331)</u>	<u>(5,078,625)</u>
Net cash used in investing activities	<u>(3,508,331)</u>	<u>(5,078,625)</u>
Cash flows from financing activities		
Share subscriptions (Note 12)	7,261,904	6,071,427
Repayment of loans (Note 9)	(2,333,274)	(2,675,805)
Proceeds from loan (Note 9)	-	-
Finance lease payments (Note 5)	(4,625,000)	(2,375,000)
Interest paid	<u>(1,029,151)</u>	<u>(1,442,472)</u>
Net cash provided by financing activities	<u>(725,521)</u>	<u>(421,850)</u>
Net increase / (decrease) in cash and cash equivalents	5,923,325	(91,907)
Cash and cash equivalents - beginning of year	<u>154,991</u>	<u>246,898</u>
Cash and cash equivalents - end of year	<u>\$ 6,078,316</u>	<u>\$ 154,991</u>
Cash and cash equivalents comprise:		
Cash on hand and at bank	6,078,316	2,802,602
Bank overdraft	<u>-</u>	<u>(2,647,611)</u>
Cash and cash equivalents - end of year	<u>\$ 6,078,316</u>	<u>\$ 154,991</u>

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

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(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, and 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.

2. Going concern

At June 30, 2015 the Company's liabilities significantly exceed its assets.

Annually, the Government of the Cayman Islands contracts with the Company to purchase certain strategic flights and services (Note 16). 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 24% (2014: 24%) 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 its current structure the Company relies upon; these purchase commitments; capital contributions; bank loan (Note 9) and lease guarantees (Note 15) 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 8) which are under Government control, to allow it to continue as a going concern. For the year ended June 30, 2015, the Company has realized a net income of \$3,640,212 (2014: net loss of \$2,360,786). Cumulative shareholder's deficit as of June 30, 2015 was \$45,931,979 (2014: \$60,145,009).

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 20).

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 realise its assets and discharge its liabilities in the normal course of business.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(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 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 recognised 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 21. Actual results may differ from those estimates.

a) New standards and amendments adopted by the Company

The Company has adopted the following standards and amendments for the first time for their annual reporting period commencing 1 July 2014:

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.

Amendments to IAS 36, 'Impairment of assets' on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment did not have a significant effect on the Company's financial statements.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment did not have a significant impact on the Company's financial statements.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

b) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2014 and not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for June 30, 2015 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

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). These consolidated financial statements have been prepared in accordance with IFRS 10 – Consolidated Financial Statements.

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 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 indicators are present. Assets whose carrying values exceed their recoverable amount are written down to the recoverable amount, being the higher of fair value less costs of disposal or value in use (on a discounted cash flow basis), and the resulting impairment loss recorded in the Consolidated Statement of Comprehensive Income. To the extent that a previously recognised 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 Income.

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	12,000 – 30,000 flight hours
D checks and landing gear	21,000 flight hours or 105 months
Aircraft engines and related overhauls	
Engine	5 – 8 years
Limited life parts	20,000 cycles*
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.

*A cycle represents a one way completed flight from start up to shut down.

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

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Aircraft maintenance:

(a) Routine 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 may be 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, are required to be performed during the period of the lease and upon return of the aircraft to the lessor. In such circumstances 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 Income over the lease term. For aircraft where there are no such contractual commitments or lessor imposed conditions, the costs associated with maintenance are accounted for in accordance with (a) above.

For owned aircraft, major maintenance including spares and labour costs, is capitalised and depreciated over the expected life between major overhauls.

Trade and other receivables: Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment of trade and other 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 or other 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 recognised in the Consolidated Statement of Comprehensive Income. 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 Income.

Other assets: 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 when, it is virtually certain that reimbursement will be received. Expenditure and the related reimbursement under such arrangement are netted in the Consolidated Statement of Comprehensive Income.

Security deposits: Security deposits, which are refundable, are initially recognised at fair value and subsequently carried at amortised cost. 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. Accounts payable are recognised initially at fair value and subsequently measured at amortised 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.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Borrowings: Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income 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 and 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. Items included in the consolidated financial statements are measured using United States dollars which is the currency of the primary economic environment in which the Company operates (the "functional currency"). The consolidated financial statements are presented in 'United States dollars' ("USD"), which is the Company's presentation currency. 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 at US\$0.84 to C\$1.

Revenues: Scheduled passenger and cargo revenues are recognised 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 Income as passengers fly. Unused tickets are generally recognised as revenue after an inactive period of 13 months has elapsed (the period after which the ticket becomes non-recoverable).

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 recognised in the Consolidated Statement of Comprehensive Income when the service is provided.

Other Revenue: Other revenue comprises revenue earned from the provision of other airline related services, including ticket change fees, refund penalties, in-flight sales and other product revenue. Inflight sales and certain other services are recognised in the Consolidated Statement of Comprehensive Income at the time the sale occurs or the service is provided. Ticket change fees and refund penalties are recognised in the Consolidated Statement of Comprehensive Income immediately.

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.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Frequent flyer revenue (continued): The frequent flyer provision 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 rate 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 provision on the Consolidated Statement of Financial Position until the points are redeemed or the passenger is uplifted in the case of flight redemptions. The frequent flyer provision 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.

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 and are recognised in the Consolidated Statement of Financial Position within "Accounts payable and accrued expenses". The liability is generally extinguished when payments are made to these agencies. Certain of these fees are payable only if a passenger travelled and are not due to be paid to these agencies and, subject to contract terms, are also not refundable if the travel did not occur. The Company derecognises the liability for the collection of such fees on unused expired tickets, which are then recorded as "Other revenue".

Government output purchases: Payments made by Government from its purchase commitments are non-refundable and are recognised in the Consolidated Statement of Comprehensive Income during the period necessary to match with costs that they are intended to compensate. Output Payments are calculated according to the Purchase Agreement in place with Government (Note 16).

The Output Payments are accounted for in accordance with IAS 20. Output Payments by the Government are recognised at their fair value where there is a reasonable assurance that the amount will be received and the Company will comply with all attached conditions.

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 Income.

Expenses: Expenses are recognised in the Consolidated Statement of Comprehensive Income on an accrual basis.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Operating 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 recognised 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 Income on a straight-line basis over the period of the lease. In connection with certain operating lease of the aircraft (Note 15), 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 when, it is virtually certain that reimbursement will be received from the lessor.

Finance Leases: Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in current liabilities. The interest element of the finance cost is charged to the Statement of Consolidated Loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Provisions and contingencies: A provision is recognised 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 cash outflow 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.

Fair valuation: The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Fair valuation (continued): The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Corresponding figures: Certain prior year corresponding figures in the Consolidated Statement of Comprehensive Income have been reclassified to conform to current year presentation.

4. Security deposits & Prepayment and other assets

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

	<u>30 June 2015</u>			<u>30 June 2014</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	\$ 30,000	320,000	\$ 350,000	\$134,000	320,000	\$454,000
Deposits with Airports & Handlers	-	431,755	431,755	-	431,755	431,755
Other deposits and assets	<u>6,196</u>	<u>202,185</u>	<u>208,381</u>	<u>6,196</u>	<u>210,518</u>	<u>216,714</u>
Security Deposits	<u>36,196</u>	<u>953,940</u>	<u>990,136</u>	<u>140,196</u>	<u>962,273</u>	<u>1,102,469</u>
Prepayments and other assets	<u>\$ 814,057</u>	<u>-</u>	<u>\$814,057</u>	<u>\$508,253</u>	<u>-</u>	<u>\$508,253</u>

As at 30 June 2015, in connection with the Company's leased aircraft arrangements (Note 15), the Company had placed deposits with a value of \$350,000 (2014: \$454,000) with the leasing agent as security in respect of its leasing obligations. The remainder of the security deposits represent various airport and ground handling deposits held by the airport handling agencies used by the Company to carry on its operations. These security deposits are available to the Company on the expiry the respective agreements.

Prepayments and other assets include prepayments for maintenance reserve payments only to the extent that they were expected to be recovered based on planned maintenance events during the lease term. The Company makes monthly payments to a maintenance reserve to the lessor as part of its operating lease agreements. 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. As at 30 June 2015 and 2014 only one operating lease arrangement was in existence and no maintenance reserve payments were expected to be recovered based on planned maintenance events during the remaining lease term or as part of lessor imposed return conditions.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

5. Property, plant and equipment

At 30 June 2015:

	<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 2014	\$18,636,886	\$ 4,704,680	\$ 8,679,801	\$ 891,417	\$ 862,686	\$33,775,470
Additions	1,798,945	1,203,235	6,010	138,875	361,266	3,508,331
Balance 30 June 2015	<u>\$20,435,831</u>	<u>\$ 5,907,915</u>	<u>\$ 8,685,811</u>	<u>\$ 1,030,292</u>	<u>\$ 1,223,952</u>	<u>\$37,283,801</u>
Depreciation						
Balance 1 July 2014	\$ 2,525,161	\$ 2,142,333	\$ 2,679,036	\$ 395,581	\$ 380,284	\$ 8,122,395
Charge for the year	2,356,507	425,517	136,689	129,429	135,288	3,183,430
Balance 30 June 2015	<u>\$ 4,881,668</u>	<u>\$ 2,567,850</u>	<u>\$ 2,815,725</u>	<u>\$ 525,010</u>	<u>\$ 515,572</u>	<u>\$11,305,825</u>
At 30 June 2015	<u>\$ 15,554,163</u>	<u>\$ 3,340,065</u>	<u>\$ 5,870,086</u>	<u>\$ 505,282</u>	<u>\$ 708,380</u>	<u>\$25,977,976</u>
At 30 June 2014	<u>\$16,111,725</u>	<u>\$ 2,562,347</u>	<u>\$ 6,000,765</u>	<u>\$ 495,836</u>	<u>\$ 482,402</u>	<u>\$25,653,075</u>

At 30 June 2014:

	<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 2013	\$ 6,199,876	\$ 9,263,692	\$ 8,679,801	\$ 2,467,262	\$ 3,503,606	\$30,114,237
Additions	12,437,010	538,128	-	105,490	77,997	13,158,625
Disposals	-	(5,097,140)	-	(1,681,335)	(2,718,917)	(9,497,392)
Balance 30 June 2014	<u>\$18,636,886</u>	<u>\$ 4,704,680</u>	<u>\$ 8,679,801</u>	<u>\$ 891,417</u>	<u>\$ 862,686</u>	<u>\$33,775,470</u>
Depreciation						
Balance 1 July 2013	\$ 2,068,728	\$ 6,903,043	\$ 2,542,350	\$ 1,952,955	\$ 2,979,275	\$16,446,351
Charge for the year	456,433	336,430	136,686	123,961	119,926	1,173,436
Disposals	-	(5,097,140)	-	(1,681,335)	(2,718,917)	(9,497,392)
Balance 30 June 2014	<u>\$ 2,525,161</u>	<u>\$ 2,142,333</u>	<u>\$ 2,679,036</u>	<u>\$ 395,581</u>	<u>\$ 380,284</u>	<u>\$ 8,122,395</u>
At 30 June 2014	<u>\$16,111,725</u>	<u>\$ 2,562,347</u>	<u>\$ 6,000,765</u>	<u>\$ 495,836</u>	<u>\$ 482,402</u>	<u>\$25,653,075</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>

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

5. Property, plant and equipment (continued)

The Company reviews its property, plant and equipment for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or when impairment indicators are present. As at 30 June 2015 and 2014 there is no impairment recorded in property, plant and equipment.

Aircraft and engines included the following amounts where the Company is a lessee under a finance lease:

	<u>2015</u>	<u>2014</u>
Cost -- capitalised finance lease	-	8,080,000
Accumulated depreciation	(-)	(92,387)
Net book value	<u>-</u>	<u>7,987,613</u>

During the year ended 30 June 2015, the three previously held finance leases were settled/ repaid in full. During the year ended 30 June 2014 the Company restructured three of its four lease agreements from operating into finance leases. The terms were all 12 months and ownership of the assets lies with the Company (Note 15(b)).

6. Trade and other receivables

Trade and other receivables comprise:

	<u>2015</u>	<u>30 June</u> <u>2014</u>
Trade receivables	2,222,623	2,238,582
Other	<u>2,314,646</u>	<u>2,524,717</u>
Total, before provision for impairment	4,537,269	4,763,299
Less: provision for impairment	(52,446)	(297,632)
Net receivables	<u>\$ 4,484,823</u>	<u>\$ 4,465,667</u>

Trade receivables relate to air travel tickets sold to customers including local companies and other government entities with payments due generally after 30 days of sale. At 30 June 2015 trade receivables of \$1,460,334 (2014: \$1,564,756) were due from related parties, being other Government entities. Other receivables include amounts due from airline clearing houses and credit card companies in respect of ticket and unsettled credit card transactions, respectively.

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

	<u>2015</u>	<u>30 June,</u> <u>2014</u>
Balance, beginning of year	\$ 297,632	\$ 330,378
(Decrease) /Increase in provision for impairment	-	-
Debts written off	<u>(245,186)</u>	<u>(32,746)</u>
Balance, end of year	<u>\$ 52,446</u>	<u>\$ 297,632</u>

During the year ended 30 June 2015, the Company wrote off \$245,186 (2014: \$32,746) relating to amounts due from customers.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

6. Trade and other receivables (continued)

As of 30 June 2015, the aging analysis of receivables is as follows:

	<u>2015</u>	<u>30 June,</u> <u>2014</u>
Neither past due nor impaired	\$ 2,589,063	\$ 3,039,064
Total past due but not impaired	1,895,760	1,426,603
Impaired:		
31 – 365 days		94,662
+365 days	<u>52,446</u>	<u>202,970</u>
Total impaired	\$ <u>52,446</u>	\$ <u>297,632</u>
Total receivables	\$ <u>4,537,269</u>	\$ <u>4,763,299</u>

As of 30 June 2015, receivables of \$1,895,760 (2014: \$1,426,603) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default or to related party customers guaranteed by the Cayman Islands Government. The ageing analysis of these receivables is as follows:

	<u>2015</u>	<u>2014</u>
31 – 365 days	644,677	422,148
+365 days	<u>1,251,083</u>	<u>1,004,454</u>
Total past due but not impaired	\$ <u>1,895,760</u>	\$ <u>1,426,603</u>

7. Bank overdraft

As at 30 June 2015, 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 (2014: \$3,000,000). 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 9). Notwithstanding compliance with applicable covenants and other terms and conditions as per the overdraft agreement, RBC may terminate this facility at any time, without notice.

8. Accounts payable and accrued expenses

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

	<u>2015</u>	<u>30 June,</u> <u>2014</u>
Trade accounts payable	\$30,367,417	\$ 34,862,271
Other accounts payable	7,788,979	6,221,173
Accruals	<u>2,755,544</u>	<u>838,653</u>
Total	\$ <u>40,911,940</u>	\$ <u>41,922,097</u>

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

8. Accounts payable and accrued expenses (continued)

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

	<u>2015</u>	<u>30 June,</u> <u>2014</u>
Trade accounts payable	\$29,887,843	\$ 29,410,361
Other accounts payable	2,701,977	2,085,624
Accruals	<u>734,558</u>	<u>82,000</u>
Total	<u>\$33,324,378</u>	<u>\$ 31,577,985</u>

At 30 June 2015 and 2014 the Company was in the process of working with Government in renegotiating the terms of repayment of a component of the above debt owed to various related parties including US\$21 million (2014: US\$21 million) to the Cayman Islands Airport Authority ("CIAA"). The CIAA charges the Company for airport landing and parking fees which are recognised in the Consolidated Statement of Comprehensive Income.

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. During the year ended 30 June 2015 the Government approved the write-off of \$3,310,914 (CI\$ 2,781,167) related to amounts due to one Statutory Authority. This liability has been derecognised and the amount of the write-off has been accounted for as an additional shareholder contribution (Notes 12 and 21).

Other accounts payable comprise primarily taxes and fees collected from passengers on ticket sales.

9. Loans

At year end, the Company held the following loans, analysed by contractual maturity in effect as of 30 June 2015 and 2014:

As at 30 June 2015:

	<u>Within</u> <u>1 year</u>	<u>Between</u> <u>2 and 5 years</u>	<u>After more</u> <u>than 5 years</u>	<u>Total</u>
Royal Bank of Canada				
Loan (i)	\$ 2,302,900	9,057,315	-	\$11,360,215
Loan (ii)	664,312	2,584,557	-	3,248,869
First Caribbean International Bank (Cayman) Ltd.				
Loan (ii)	664,312	2,584,557	-	3,248,869
Loan (iii)	466,394	545,946	-	1,012,340
Loan (iv)	<u>939,605</u>	<u>4,110,498</u>	<u>5,345,353</u>	<u>10,395,456</u>
	<u>\$ 5,037,523</u>	<u>\$ 18,882,873</u>	<u>\$ 5,345,353</u>	<u>\$ 29,265,749</u>

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

(Expressed in United States dollars)

9. Loans (continued)

As at 30 June 2014:

	<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)	984,390	9,210,144	2,114,806	12,309,340
Loan (ii)	334,156	2,641,248	603,621	3,579,025
First Caribbean International Bank (Cayman) Ltd.				
Loan (ii)	334,156	2,641,248	603,621	3,579,025
Loan (iii)	231,605	1,015,944	-	1,247,549
Loan (iv)	<u>457,654</u>	<u>3,958,267</u>	<u>6,468,163</u>	<u>10,884,084</u>
	<u>\$ 2,341,961</u>	<u>\$ 19,466,851</u>	<u>\$ 9,790,211</u>	<u>\$ 31,599,023</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 2015 and 2014, the Company had failed to comply with a financial reporting covenant related to the provision of the Company's annual audited financial statements to the lenders, within 180 days of the financial year end. However, as at 30 June 2015 and 2014, 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.

As part of a plan to purchase three of its aircraft from its lessor, in the first calendar quarter of 2014, the Company sought and obtained a 12 month principal moratorium, beginning February 2014, from both Royal Bank of Canada and First Caribbean International Bank on all long term debt facilities. During this moratorium period the Company made interest only payments to both banks. As a result, the maturity dates on all loans have been extended by one year.

- 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 onto the existing loan facility. The monthly principal instalments were \$189,825 (2014: \$189,825). 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. Under the 2014 terms, described above, the loan is scheduled to expire on 30 May 2020. During the year ended 30 June 2015, the Company incurred an interest expense of \$327,410 (2014: \$361,727) in relation to this loan. As at 30 June 2015, the principal amount outstanding on this loan is \$11,360,215 (2014: \$12,284,340).

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

9. Loans (continued)

- 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 into a 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. As at June 30, 2015, as a result of the 12 month principal moratorium noted above, the monthly principal instalments were revised to \$110,052 (2014: \$111,720). The loan bears a floating rate of interest priced at one month Libor plus percentage spread per annum. Under the 2014 terms, described above, the loan expires on 30 May 2020 (2014: 30 May 2020). 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 2015, the Company incurred an interest expense of \$189,465 (2014: \$209,932) in relation to this loan. As at 30 June 2015, the principal amount outstanding on this loan to RBC is \$3,248,869 (2014: \$3,575,025) and to FCIB is \$3,248,869 (2014: \$3,575,025).

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. As at June 30, 2015, and as a result of the 12 month principal moratorium noted above, the monthly principal and interest instalments were revised to \$39,468 (2014: \$39,468). The loan bears a floating rate of interest priced at one month Libor plus percentage spread per annum. Under the 2014 terms, described above, the loan expires on 31 August, 2017 (2014: 31 August, 2017). The loan is secured by way of guarantee from the Government. During the year ended 30 June 2015, the Company incurred an interest expense of \$10,913 (2014: \$12,940) in relation to this loan. As at 30 June 2015, the principal and interest amount outstanding on this loan is \$1,012,340 (2014: \$1,247,549).
- 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. As at June 30, 2015, and as a result of the 12 month principal moratorium noted above the monthly principal and interest instalments were revised to \$108,415, subject to fluctuation in interest rates (2014: \$116,000). The loan bears a floating rate of interest priced at one month Libor plus percentage spread per annum. Under the 2014 terms described above, the loan expires on 31 December, 2024 (2014: 31 December 2024). The loan is secured by way of guarantee from the Government. During the year ended 30 June 2015, the Company incurred an interest expense of \$ 391,661 (2014: \$ 408,930) in relation to this loan. As at 30 June 2015, the principal and interest amount outstanding on this loan is \$10,395,456 (2014: \$ 10,881,083).

Letters of credit

Royal Bank of Canada has issued a number of letters of credit on behalf of the Company in the amount of \$978,948 (2014: \$977,781). 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.

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10. Provisions

The movement in the provision is as follows:

	<u>2015</u>	<u>30 June,</u> <u>2014</u>
Maintenance cost		
Opening balance	\$ -	\$ 5,941,414
Additions		
Payment during the year	<u>-</u>	<u>(5,941,414)</u>
Ending balance	\$ <u> </u>	\$ <u> </u>

In accordance with the Company's accounting policy a provision is made for major maintenance and overhauls on aircraft under certain operating leases over the lease terms because the Company may be 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 limited life parts upon return. In order to fulfil such conditions of the lease, maintenance is required to be performed during the period of the lease and upon return of the aircraft to the lessor. In such circumstances the estimated maintenance costs and the costs associated with the restitution of major limited life parts, are accrued and charged to Consolidated Statement of Comprehensive Income over the lease term. At 30 June 2015 and 2014, only one aircraft was held on an operating lease for which there were no contractual commitments with respect to major maintenance either during the lease term or as part of the contractual return conditions and as such no provision was made for major maintenance or overhauls on such basis. In addition, in respect of aircrafts held on operating leases during the year, there were no major overhauls or maintenance which required additional provisions during the remaining lease term or up to the date of restructuring the operating leases into finance leases.

11. Frequent flyer provision

Frequent Flyer programme:

	<u>2015</u>	<u>30 June,</u> <u>2014</u>
Current provision	\$ <u>3,044,500</u>	\$ <u>2,894,500</u>

Frequent flyer programme

The provision 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 provision is included as a liability on the Consolidated Statement of Financial Position.

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12. Share capital

	<u>2015</u>	<u>30 June,</u> <u>2014</u>
Authorised:		
50,000,000 Ordinary shares of CI\$1 each	CI\$50,000,000	CI\$50,000,000
Issued and fully paid:		
31,980,179 Ordinary shares of CI\$1 each	\$38,376,215	\$38,376,215

During the years prior to 30 June 2009, the Government assumed the obligations to repay certain debts owing to certain creditors of the Company and the Government subscribed in additional paid-in capital. Pursuant to these transactions, the Company was to issue ordinary shares of CI\$1 each to the Government. During the year ended 30 June 2015, the Government, as part of its addressing of the Shareholder deficiency in Cayman Airways, contributed US\$ 7,261,905 (2014: US\$6,071,427) in equity injections (Note 20). Pursuant to these transactions, the Company intends, in the future, to issue 6,100,000 (2014: 5,100,000) ordinary shares of CI\$1 each to the Government, corresponding to the capital injections in 2015.

In January 2010, the Board of Directors of the Company resolved to increase the authorised share capital of the Company from 50,000,000 units of shares to 100,000,000. However, as of 30 June 2015 and 2014, 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 2015, an amount of \$64,637,174 (2014: \$54,064,356) is shown on the Consolidated Statement of Financial Position, which represents subscriptions for shares not yet issued.

During the year ended 30 June 2015 the Government (as further discussed in Notes 8 and 21) approved the write-off of \$3,310,914 (CI\$ 2,781,167) owed by the Company to a Statutory Authority. The write-off of the amount owed was treated as a capital transaction by the shareholder (Note 21) and accordingly has been recognised as additional capital contribution.

13. 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.

The key management of the airline is comprised of 10 positions (2014: 9 positions), which are the President and Chief Executive Officer (along with 1 support staff function), one Executive Vice President/Chief Financial Officer, three Vice Presidents, three Director level positions and the General Manager of CAL Express. Total remuneration earned by key management during the year ended 30 June 2015 and 2014 is shown below. 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 (2014: \$Nil).

	<u>2015</u>	<u>2014</u>
Salaries and other short term employee benefits	\$1,536,328	\$1,393,216

CAYMAN AIRWAYS LIMITED

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13. Related party transactions and balances (continued)

All of the members of the Board of Directors are voluntary and do not receive any remuneration for services rendered. Directors are entitled to utilise 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 (Notes 6, 8, 12 and 16). Amounts due to and from related parties are unsecured and non-interest bearing.

14. Other Staff Costs

Significant components of other staff costs comprise health insurance, pensions and travel expenses. For employees based in the Cayman Islands, the Company and its employees make contributions to a defined contribution pension plan regulated in the Cayman Islands. The employees contributed 5% of their annual salaries to the plan during the year, as required by law, and the Company matched such contributions. 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. During the year ended 30 June 2015, the Company made \$930,612 (2014: \$ 911,908) in pension contributions which is included in other staff costs in the Consolidated Statement of Comprehensive Income.

15. Lease commitments

(a) Operating leases

The Company has entered into a number of operating lease agreements for its operations, including leases for rentals of aircraft and premises. During the year ended 30 June 2015, the Company made payments under these operating leases of \$3,884,714 (2014: \$6,542,722) which are included within the aircraft rentals and other operating expenses.

Year ended 30 June 2015:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
Operating lease payments	\$ <u>3,315,357</u>	\$ <u>569,357</u>	\$ <u>3,884,714</u>

Year ended 30 June 2014:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
Operating lease payments	\$ <u>5,766,266</u>	\$ <u>776,456</u>	\$ <u>6,542,722</u>

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. Lease commitments (continued)

Minimum lease commitments outstanding at the end of the year pursuant to these leases are as follows as at 30 June 2015:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
2016	\$ 1,137,555	\$ 102,190	\$ 1,239,745
2017 and beyond	<u>360,000</u>	<u>62,926</u>	<u>422,926</u>
Total	<u>\$ 1,497,555</u>	<u>\$ 165,116</u>	<u>\$ 1,662,671</u>

As at 30 June 2014:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
2015	\$ 637,500	\$ 73,124	\$ 710,624
2016 and beyond	<u>900,000</u>	<u>151,967</u>	<u>1,051,967</u>
Total	<u>\$ 1,537,500</u>	<u>\$ 225,091</u>	<u>\$ 1,762,591</u>

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 \$320,000 (2014: \$320,000) for the term of the lease. These deposits (Note 4) 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 2015 (2014: \$Nil).

(b) Finance leases

During the year ended 30 June 2015 the Company repaid all of its finance leases obligations.

In the second quarter of 2014, as a result of obtaining a principal moratorium and in consultation with the Government, the Company restructured three of its four aircraft lease agreements from operating into finance leases. Existing deposits on the three aircraft held by the lessor of \$1,080,000 (Note 4) were applied to the purchase price. The finance lease included two additional lump sum payments which were financed by the Government's equity injections with the Government's agreement to do so.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	<u>2015</u>	<u>2014</u>
Gross finance lease liabilities – minimum lease payments:		
No later than one year	-	4,625,000
Later than one year and no later than 5 years	-	-
Later than 5 years	<u>-</u>	<u>-</u>
	<u>-</u>	<u>4,625,000</u>
Future finance charges on finance lease liabilities	-	<u>(135,000)</u>
Present value of finance lease liabilities	<u>-</u>	<u>4,490,000</u>

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15. Lease commitments (continued)

(b) Finance leases (continued)

The present value of finance lease liabilities is as follows:

	<u>2015</u>	<u>2014</u>
No later than one year	-	4,490,000
Later than one year and no later than 5 years	-	-
Later than 5 years	<u>-</u>	<u>-</u>
	<u>-</u>	<u>4,490,000</u>

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 of \$2,240,000 (2014: \$2,240,000).

16. Government output purchases

The Company's operations are broken into several distinct categories under an "airlift framework". This framework features significantly in the Company's operational planning and funding models and is defined as follows:

Framework Category	Definition
Core	Routes/Flights/Operations that CAL dominates and knows the market well
	Routes/Flights/Operations that provide good economic return or at least break-even
Strategic Domestic	Domestic Routes/Flights that are purchased by, and operated on behalf of, the Government
Strategic Tourism	International Routes/Flights that have national tourism importance which are purchased by, and operated on behalf of, the Government
Surplus	Assumes prior 3 categories are being adequately serviced (without displacement and not affecting required redundancy to maintain reliability of service). Includes operations which must provide good economic return.

Strategic Domestic and Strategic Tourism are operations which are considered, by the Government, critical for the Cayman Islands, but do not provide sufficient economic justification themselves for an airline to operate. Accordingly, the Government purchases these operations from the Company (these purchases are referred to as "Output Payments"). During periods of economic slow-down, the Government may also purchase certain of the Core operations from the Company as well. During the year ended 30 June 2015, the Government paid Output Payments to the Company totalling \$ 21,197,381 (2014: \$ 21,197,390) for it to provide these services as part of a defined Purchase Agreement. The Purchase Agreement is a formal contract which is agreed and executed between the Company and the Government prior to the start of any subsequent fiscal year as part of the Government Budget process. The Purchase Agreement requires the Company to provide defined services within a range relating to both a quantity of flights and number of passengers. For both 2015 and 2014, the Company provided the defined services within the specified ranges. Additionally, the Company is required to file quarterly reports with the Government indicating its compliance with these provision requirements. Output Payments are paid quarterly in four equal instalments.

CAYMAN AIRWAYS LIMITED

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17. Financial instruments risk

The Company is exposed to a variety of financial risks: credit risk, liquidity risk, market risk (interest rate risk) and commodity price risk. The Company's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Company's financial position and performance.

Risk management is carried out by the Senior Finance Management team with guidance from the Financial Affairs committee of the Board of Directors. The senior management team identifies and evaluates financial risks in close co-operation with the Company's various operating units.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. To mitigate this risk, the Company has adopted a policy of dealing only with creditworthy counterparties. Financial assets which potentially expose the Company to credit risk comprise cash and cash equivalents, accounts receivable and security deposits.

The Company seeks to mitigate its credit risk on cash at bank by placing its cash and cash equivalents with reputable financial institutions. At 30 June 2015 and 2014, substantially all of the operating cash at bank is placed with 2 financial institutions, being RBC and Bank of America (located in the United States), which in the opinion of management are stable financial institutions. Management does not anticipate any material losses as a result of this concentration.

Credit risk arising from default by customers represents the most significant source of risk to the Company.

For trade customers, the Company performs adequate due diligence (including, but not limited to, independent credit ratings, assessment of credit quality, taking into account its financial position, past experience and other factors) on the stability of the customer and their repayment capabilities prior to extending credit. On an on-going basis, management regularly monitor the level debts outstanding from customers to ensure that the risk of loss arising from default is minimised. All customers are generally granted contractual credit terms of 30 days, however, in practice, the level of credit days by customers is significantly greater. The majority of the customers making up the trade customer balance are various government agencies 58% (2014: 70%). Accordingly, delays in payment are expected, but no significant risk of non-payment is expected. However, to mitigate the risk arising from default, management maintains regular contact with the customers to ensure that repayment is timely, and to identify early any potential indicators of default.

Note 6 presents' further details on the status of the trade receivables at year end, including a summary of the credit status of the trade receivables.

The carrying value of these financial assets represents the maximum exposure to credit risk. No collateral is required from the Company's debtors.

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17. Financial instruments risk (continued)

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As discussed in Notes 7 and 9, the Company has an overdraft facility and long term debt which are priced at a floating rate of interest, which is reset monthly as market rate changes. The Company is exposed to cash flow interest rate risk should market rates change. Management does not consider the Company to be exposed to interest rate risk on cash at bank, since this cash is held on call.

The table below illustrates the sensitivity of the Company's reported net loss (and shareholders' deficit) to reasonably possible changes in interest rates for the overdraft and long term debt:

	<u>2015</u>	<u>2014</u>
+ 1.00%	(292,657)	(313,801)
- 1.00%	292,657	313,801

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due.

The Company is reliant significantly on the on-going support from the Government in order to ensure its continued operations and to meets its obligations as they fall due (Note 2).

Prudent liquidity risk management implies maintaining sufficient cash at bank and funding (in the form of bank overdraft) to sustain operations of the Company. The Company maintains liquidity for its operations and payment of its debt through retaining sufficient available funds in the form of cash at bank and making use of the bank overdraft facility (Note 7), and seeking additional financing as required from Government as and when the need arises.

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17. Financial instruments risk (continued)

Liquidity risk (continued)

The table below presents the undiscounted cash flows payable by the Company under financial instruments by outstanding contractual maturities at the reporting dates:

As at 30 June 2015:

	<u>< 1 year</u>	<u>>1 < 5 Years</u>	<u>5 years +</u>	<u>Total</u>
Cash outflows				
Accounts payable and acc. expenses	40,911,940	-	-	40,911,940
Loans	5,037,522	18,882,874	5,345,353	29,265,749
Interest payments on loans	<u>799,129</u>	<u>2,033,249</u>	<u>278,263</u>	<u>3,110,641</u>
Total cash outflows	<u>\$ 46,748,591</u>	<u>\$ 20,916,123</u>	<u>\$ 5,623,616</u>	<u>\$ 73,288,330</u>

As at 30 June 2014:

	<u>< 1 year</u>	<u>>1 < 5 Years</u>	<u>5 years +</u>	<u>Total</u>
Cash outflows				
Bank overdraft	2,647,611	-	-	2,647,611
Accounts payable and acc. expenses	41,922,097	-	-	41,922,097
Loans	2,341,961	19,466,851	9,790,211	31,599,023
Interest payments on loans	911,110	2,391,411	723,642	4,026,163
Finance Lease Obligations	<u>4,625,000</u>	<u>-</u>	<u>-</u>	<u>4,625,000</u>
Total cash outflows	<u>\$ 52,447,779</u>	<u>\$ 21,858,262</u>	<u>\$ 10,513,853</u>	<u>\$ 84,819,894</u>

Commodity price risk

The Company's fuel requirements expose the Company to the market volatility of jet fuel prices. The Company is subject to jet fuel price risk resulting from its operating activities. The volatility of jet fuel prices has been significant in recent years and can have a significant effect on the profitability of operations. The Company does not engage in any hedging activities with respect to mitigating the risk of fluctuations in jet fuel prices. The Company purchases jet fuel at the daily spot rate as the demand exists, consequently, the Company is exposed to significant risk in the event of significant fluctuations in the price of jet fuel.

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18. Financial instruments - fair values

Fair values approximate amounts at which financial assets and liabilities could be exchanged between willing parties and are determined using judgment and after consideration of uncertainties. Therefore, the aggregate fair value amounts should not be interpreted as being realisable in an immediate settlement of the instruments.

The main assumptions and valuation techniques used at arriving at fair values are outlined below.

Financial instruments carried at other than fair value

Cash and cash equivalents, trade and other receivables (net of provisions), security deposits, prepayments and other assets, accounts payable and accrued expenses, loans payable and unearned transportation revenue approximate their fair value due to the short-term maturities of these assets and liabilities. Per the fair value hierarchy of IFRS 13, cash is classified as level 1, and the remaining financial assets and liabilities are classified as level 2 (Note 3).

19. Contingent liabilities

The Company is routinely engaged in litigation arising in the ordinary course of its business. Management does not believe that any such litigation will individually or in aggregate have a material adverse effect on the financial condition of the Company. It is management's policy to rigorously assert its position in such cases. Management believes that the possible liabilities arising from unsuccessful litigation are not accurately determinable. However, such liabilities would not be expected to materially adversely affect the Company's results of operations or financial position.

20. Capital management

The Company's objectives when managing its working capital, is to safeguard the Company's ability to continue as a going concern, through the on-going support from the Government (Note 2), so that it can continue to provide the specified activity for which the Company was established (Note 1).

The Financial Secretary of the Government has advised the Company, that pursuant to a Cabinet meeting of the Government on 20 April 2010, the Government has resolved to formally address the shareholder's deficiency by committing to make 120 monthly equity injections of \$505,952 (CIS\$425,000) (or an amount as per the principal debt service agreement(s) then in effect) commencing 1 July 2010 until 30 June 2020. During the year ended 30 June 2015, in addition to the monthly payments of \$505,952 (CIS\$425,000) the Government has paid an additional \$1,190,480 (CIS\$1,000,000) to the Company totalling \$7,261,904 (2014: \$6,071,427) in equity injections for the year.

The Company is not subject to any externally imposed working capital requirements by third party lenders or the Cayman Islands Government.

21. Certain significant estimates

The Company believes that its critical accounting policies, which are those that require management's most difficult, subjective and complex judgments, are as described below. These critical accounting policies, the judgments and other uncertainties affecting application of these policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered in reviewing the consolidated financial statements are detailed below.

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21. Certain significant estimates (continued)

Property, plant and equipment

In accounting for property, plant and equipment, the Company must make estimates about the useful lives of the assets. Additionally, property, plant and equipment 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 fair value less costs of disposal or value in use (on a discounted cash flow basis).

In estimating the useful lives and recoverable amount of its property, plant and equipment, the Company has primarily relied on its own industry experience, and other available marketplace information. Subsequent revisions to these estimates could be caused by a change in the physical condition, obsolescence, changes in usage patterns and changes in market demand. Additionally, changes in recoverable amounts used in impairment analyses, could be caused by changes in cash generating abilities or market value of the aircraft airframe and engines, rotables, land and buildings, and other assets. The Company evaluates its estimates and assumptions in each reporting period, and, when warranted, adjusts these assumptions when first known of or reasonably estimable; such adjustments can be significant.

Heavy maintenance

An element of the cost of an acquired aircraft is attributed, on acquisition, to its service potential, reflecting the maintenance condition of the engines and airframe. Additionally, under operating leases, when the Company has a commitment to perform aircraft maintenance, a provision is recognised during the lease term for this obligation (Note 10). Both of these elements of accounting policies involve the use of estimates in determining the quantum of both the initial maintenance asset and/or the amount of provisions to be recorded and the respective periods over which such amounts are charged to income. In making such estimates, the Company has primarily relied on its own industry experience and industry regulations; however, these estimates can be subject to revision, depending on a number of factors, such as the timing of the planned maintenance, the ultimate utilisation of the aircraft, changes to government regulations and increases and decreases in estimated costs. The Company evaluates its estimates and assumptions in each reporting period and, when warranted, adjusts its assumptions.

Frequent flyer provision

As outlined in Note 11, the frequent flyer provision is based on expected redemption of outstanding miles. The expected redemption level is based on the Company's actual history of redemption for the program since inception (over 10 years). The expected redemption level is not expected to fluctuate significantly from the actual redemption.

Government output purchases

The Company accounts for the Output Payments as a government grant using the income approach in accordance with IAS 20. The arrangement disclosed in Note 16 imposes compliance with certain conditions and/ or obligations on the Company and as such the Company recognises income in the Consolidated Statement of Comprehensive Income over the period in which it recognises costs that they are intended to compensate. Management has exercised judgment in determining that the Output Payments received are recognised in the Consolidated Statement of Comprehensive Income as income and are not capital in nature.

Government debts write-off

Management accounts for the write-off of debts due to Government and/ or its Statutory Authorities as a capital transaction on the basis that the write-off was approved by Government as a financing device, and consequently the write-off does not impose compliance with certain conditions or obligations to the Company. Management exercised judgment in concluding that the write-off of \$3,310,914 (CIS 2,781,167) due to a Statutory Authority (Notes 8 and 12), which was approved by the Government is recognised in the Statement of Changes in Shareholders Equity as a capital contribution.

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22. Taxation

Under the current laws of the Cayman Islands, there are no income, sales or other Cayman Islands taxes payable by the Company. Management believes that the Company currently conducts its affairs so as not to be liable for income taxation in any other jurisdiction. The Company does incur taxes, Government fees, and other regulatory fees on airline tickets and air freight, but these are charged directly to the customer and in turn remitted to the appropriate regulatory authorities/bodies.

23. Subsequent Events

In the first quarter of 2016, the Company entered into a lease agreement with Montrose Global LLP for the provision of a Saab 340B+ aircraft to provide service between Grand Cayman and the sister island of Cayman Brac. The Saab 340B+ lease will replace the InterCaribbean Airways Embraer EMB120 wet lease arrangement which is currently in effect for this route.

The Company has no other subsequent event through the date of sign off of the financial statements.

