ANNUAL REPORT

For

Cayman Airways Limited

For the 2018

Financial Year

Cayman Airways Report
31 December 2018

Contents

Airline Leadership

Board of Directors

Philip Rankin	Chairman of the Board (2012-current) *Director (2009-2012)*
Jeffrey DaCosta	Director (2013-current)
Christopher Kirkconnell	Director (2013-current)
Danielle Lookloy	Director (2013-current)
Wilbur Thompson	Director (2009-current)
James Tibbetts	Director (2013-current)
Robert Watler	Director (2015-current)
Raymond Hydes	Director (2018-current) – Public Servant, Cayman Turtle Center employee
Stran Bodden	Ex-officio (2011-current) – Chief Officer, Ministry of District Administration, Tourism and Transportation
Rosa Harris	Ex-officio (2013-current) – Director of Tourism, Cayman Islands
Kenneth Jefferson	Ex-officio (2013-current) – Financial Secretary
Fabian Whorms	Secretary – President & CEO

Executive Team

Fabian Whorms	President and Chief Executive Officer
Paul Tibbetts	Executive Vice President and Chief Financial Officer
Ivan Forbes	Vice President Airport Operations
Wayne Miller	Vice President Maintenance & Engineering
Dave Scott	Vice President Flight Operations
Steve Scott	Director Safety Management
Christopher McTaggart	Director Special Programs/Advisor on Aviation Security
Wendy Evans Williams	Director Human Resources
Johan Bjuroe	General Manager Express Operations

Cayman Airways Limited History

In 1955, Costa Rican airline LACSA started a subsidiary company, "Cayman Brac Airways," operating domestic passenger air service between Grand Cayman and Cayman Brac using Beechcraft 18 (C-45) and Douglas DC-3 aircraft. By the early sixties, a flag stop to Little Cayman had been added, following the construction of a small grass airfield on the island. Later, Cayman Brac Airways' would include limited service between Cayman Brac and Montego Bay, Jamaica – its sole international flight.

On August 7, 1968, some thirteen years after the start of Cayman Brac Airways, the Cayman Islands Government purchased 51% of the airline from LACSA. Following this purchase, the airline was renamed to Cayman Airways Limited ("Cayman Airways" or the "Company" or the "Airline"). The focus of Cayman Airways would now be to not only ensure reliable domestic service, but to look beyond the confines of the Cayman Islands and strategically connect the islands to the world.

Initially, the fledgling Cayman Airways continued with the use of DC-3 aircraft as had Cayman Brac Airways, offering the same service with flights between Grand Cayman and the sister islands. Things were set to change rapidly however. That same year, a British Aircraft Corporation BAC 1-11 jet aircraft (wet leased from LACSA) was added to the fleet and Cayman Airways' international service to Kingston, Jamaica began, following granting of route rights. In 1972, service began to Miami and, several years later, service to Houston was added. Many more routes would be introduced in the years to come, including Atlanta, Chicago and New York.

In 1977, Cayman Islands Government purchased LACSA's remaining shares resulting in the Airline becoming 100% Cayman owned and being designated as the National Flag Carrier of the Cayman Islands.

Today, Cayman Airways is a corporation registered in the Cayman Islands. The Cayman Islands Government still maintains its 100% ownership of the Airline and is its sole shareholder. As such, the Airline is legally considered a Government Owned Company ("GOC") under the law and therefore, in addition to standard corporate and business laws, the Airline is also subject to additional legislation applying only to GOC's, including the Public Management and Finance Law and the Freedom of Information Law. While the impact of this additional legislation is generally not onerous, it creates a situation where the Airline must comply with additional requirements as compared with its competition.

Cayman Airways holds Air Operators Certificates issued by the Civil Aviation Authority of the Cayman Islands ("CAACI") and licenses from the Cayman Islands Air Transport Licensing Authority, authorizing the Airline to provide passenger and cargo services domestically and internationally.

With its primary hub at Owen Roberts International Airport ("GCM") in Grand Cayman, Cayman Airways provides passenger service to twelve destinations with an annual passenger volume of around 400 thousand. The Company also provides cargo services at many of its locations, transporting over 1,600 tons of cargo each year.

2018 Year in Review

In 2018, Cayman Airways celebrated its 50th anniversary since its founding in 1968.

Throughout the year, various activities took place in each of its gateways to mark this momentous occasion. Sales campaigns and activations were also tied in with the 50th and golden anniversary themes.

Cayman Airways partnered with the Cayman Turtle Center which was also celebrating its 50th anniversary in the transportation and release of green turtles from the shores of Cayman Brac and Little Cayman. This special event showcased the benefits that can be achieved from the cooperation between Government entities.

In August 2018, in conjunction with the Cayman Islands Government, Cayman Airways announced the launch of new service to Denver. This new route was added following a recommendation from the Department of Tourism who has highlighted the significant potential for increased visitation from this region.

In November 2018, the Airline partnered with the Cayman Islands Museum to create an exhibit marking the history of Cayman Airways. This interactive exhibit was opened to much fanfare and good reviews. It will remain open to the general public through 2019.

On November 30, 2018, Cayman Airways took possession of its first Boeing 737-8 Max aircraft – the first in the Caribbean. Boeing partnered with Cayman Airways to coordinate a Caymanian themed arrival celebration for the aircraft, featuring Cayman Airways uniformed staff and complete with quadrille dancers, thatch rope making, conch shell horns and steel drums.

About Cayman Airways

As a GOC, Cayman Airways is used in a key role for the tourism and economic development strategies of the country. The Airline often operates under an atypical business model, ensuring that the interests of the Cayman Islands are always given priority even over the Airline's own profit producing ability. Under the larger national strategy, there are ten specific roles for the Airline to fulfil which include:

10 Key Roles of Cayman Airways

1. A lever for Strategic Tourism and Economic Development

   Cayman Airways is tasked with driving the Cayman Islands' economic development and growing tourism. To accomplish this, the Airline has a close relationship with the Cayman Islands Department of Tourism ("CIDOT") and other strategic partners. Activities include the joint promotion of the destination in existing and in potential new gateways along with tweaking schedule frequency and convenience. Cayman Airways allows for a complete Caymanian brand experience (Caymankind) for visitors from start to finish.

2. Provide an essential inter-island air-bridge

   The Cayman Islands are comprised of three islands and without road connections, a reliable air link is a necessity.

3. Guarantee air service independent of foreign carrier priorities

   Airlines are profit driven and factor in a variety of items in determining their operations. As circumstances change or new opportunities arise, foreign airlines can make decisions at any time based on their needs which can severely impact the Cayman Islands.

4. Disaster relief before and after events

   In a small country there will always be a need to bring in supplies before or after disasters as well as provide a reliable means of transportation for relief workers, residents and others. This was clearly demonstrated by Cayman Airways during the period leading up to and the turmoil after hurricane Ivan in 2004

5. Tourist evacuation

   As of 2015, the Cayman Islands had the dubious distinction of being #1 in the Caribbean for most affected by tropical storms and hurricanes (#4 for all cities and islands in the entire Atlantic basin), with an impact every 1.69 years on average since 1871[1]. Therefore, in order to provide a worry-free experience to tourists during hurricane season (and whenever else

[1] http://www.hurricanecity.com/rank.htm

the need arises), Cayman Airways ensures that all tourists are able to be evacuated to safer locations when necessary.

6. Ensure competitive fare structure from foreign carriers

Pricing in the airline industry is generally market driven. With foreign carriers generally operating strictly from their hub cities, there is little overlap in service and little pressure to keep prices competitive. Cayman Airways plays a strategic role in ensuring that prices are appropriate simply by the Airline's market presence.

7. Prevent foreign carrier monopolies

The transportation industry, and particularly the Caribbean, is filled with examples where foreign carriers obtain monopolies on routes and then either raise prices or dictate demands to smaller nations that have no alternative, but to comply or lose air service.

8. Provide community support from corporate citizenship

Cayman Airways supports its community in a variety of ways including charitable gifts, humanitarian assistance and sponsorship. This critical role of the Airline is an avenue for the Airline's and the Cayman Islands Government's social responsibility, along with ensuring the success of many events and organizations that would not be possible were it not for the Airline.

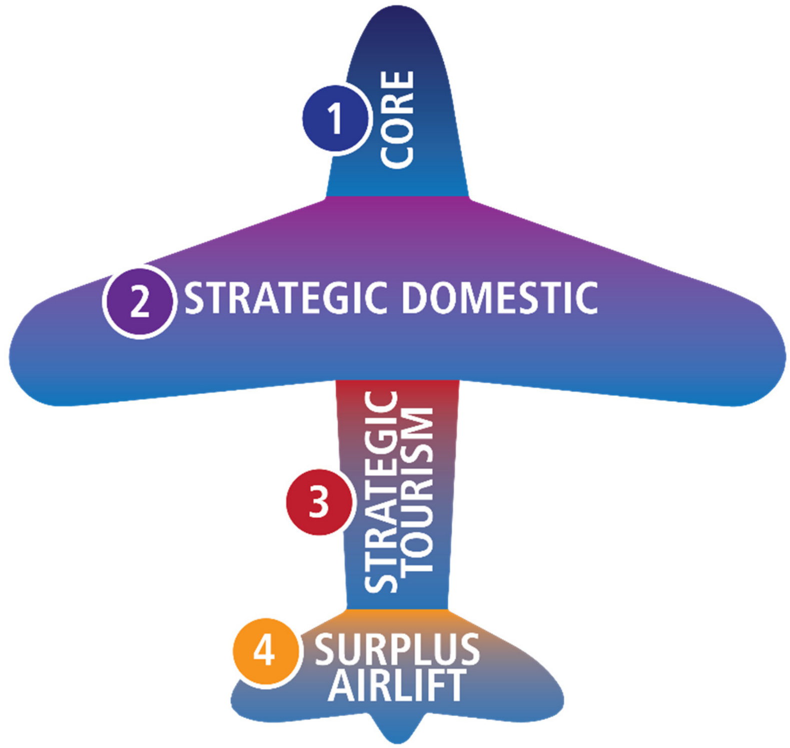
9. Contribute over US$200 million annually to the Cayman economy

In 2001, the Cayman Islands Government recruited the professional services firm Deloitte to conduct a study of Cayman Airways and its impact to the Cayman Islands. In that study, and in the two updated studies since then, it was identified that Cayman Airways contributes over US$200 million <u>each year</u> to the Cayman Islands economy. Cayman Airways is tasked with ensuring that it maintains this value and continues to contribute meaningfully to the Cayman economy.

10. Provide direct employment in the Cayman Islands to 370+ people.

Cayman Airways is one of the largest employers in the Cayman Islands. Its employees include mechanics, marketers, customer service agents, accountants, pilots and flight attendants and range from entry-level positions through to corporate executives. The financial contribution to the local economy of a Cayman-based work force is in excess of US$25 million and affords the local community exposure to roles that simply would not be available without the Airline.

In 2018, the Cayman Islands Government purchased CI$19.5 million worth of services from Cayman Airways. The associated deliverables related to these purchases were detailed in the 2018 Purchase Agreement between Cayman Airways and the Cayman Islands Government, calling for the Airline to provide certain strategic air services as well as carry out the various duties detailed above.



The "Airlift Framework"

In 2009, the Company established an "Airlift Framework" to serve as the basis for the costing and allocation of Government purchases, as well as better defining the Airline's roles and accountability with respect to the strategic operations undertaken by the Airline for the benefit of the Cayman Islands.

This framework features significantly in the Airline's operational planning and funding models and is broken into four primary areas defined as follows:

1. Core

   The Core is the business component of the Airline and is operated in a typical business manner with the aim of delivering a profit. This section is comprised of those routes and flights where the Airline has primary, or dominant, market share and has an established history of successful service in that market. Additionally, the Core includes any other profit-producing services such as Cargo operations.

2. Strategic Domestic

   With the distance between each of the Cayman Islands, air service is the only practical means of connecting. To ensure that flights are delivered in such quantities and at fares determined to be appropriate to facilitate ease of movement, the Cayman Islands Government buys certain Domestic routes and flights from Cayman Airways.

At the start of each fiscal year, a Purchase Agreement is defined between Cayman Airways and the Cayman Islands Government outlining the number of flights and anticipated loads for the Strategic Domestic service. In the Purchase Agreement the Cayman Islands Government agrees to quantities and a price to pay Cayman Airways for the provision of these services.

Management and the Board of Directors have responsibility to ensure flights are operated as safely and as economically as possible while the Cayman Islands Government has responsibility to fund amounts necessary to ensure that the quantity of flights and seats deemed necessary are provided at an appropriate fare.

3. Strategic Tourism

Under its role as a lever for Strategic Tourism and Economic Development, the Airline is used strategically to ensure that various flights are provided at fares determined to be appropriate to stimulate the market.

As with Strategic Domestic services, at the start of each fiscal year, a Purchase Agreement is defined between Cayman Airways and the Cayman Islands Government outlining the number of flights and anticipated loads for the Strategic Tourism service. In the Purchase Agreement the Cayman Islands Government agrees to quantities and a price to pay Cayman Airways for the provision of these services.

Management and the Board of Directors have responsibility to ensure flights are operated safely and as economically as possible, while the Cayman Islands Government has responsibility to fund amounts necessary to subsidize the passenger fare and to ensure that the quantity of flights and seats deemed necessary are provided.

4. Surplus Airlift

Once the previous three categories are fully serviced (without any displacement and not affecting required redundancy to maintain reliability of scheduled service), the Airline may opt to utilize any surplus capacity. This utilization takes the form of charter flights or other short-term provision of service. In all instances, the surplus is expected to provide good economic return.

Summary and Scope of Activities

Approved Nature and Scope of Activities

This section outlines the nature and scope of activities within which *Cayman Airways Limited* operated during the year.

GENERAL NATURE OF ACTIVITIES

Cayman Airways Limited's activities involve providing scheduled passenger and cargo flights to, from and within the Cayman Islands.

SCOPE OF ACTIVITIES

The scope of Cayman Airways Limited activities is as follows:

The Company owns three 737-300 aircraft and leases one 737-800 which provide international connection as well as service to Cayman Brac. The Company provides fee-based air transportation as well as air cargo services.

The Company owns two Twin Otter aircraft through a wholly owned subsidiary – Cayman Airways Express. The aircraft provide service between Grand Cayman and the sister islands of Cayman Brac and Little Cayman. The Company also owns two Saab 340 aircrafts which provide service between Grand Cayman and the sister island of Cayman Brac.

The Company generates additional revenue by providing handling services to other airlines at Owen Roberts Airport in Grand Cayman.

The Company's operations are divided 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:

Airlift 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 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. During periods of economic slow-down, the Government may also purchase certain of the Core operations from the Company as well.

CUSTOMERS AND LOCATION OF ACTIVITIES

The services provided by Cayman Airways Limited are provided to the following customers both locally and internationally:

The services provided by Cayman Airways Limited are provided through scheduled jet service between Grand Cayman, Cayman Brac, Little Cayman, Miami, Tampa, New York, Chicago, Dallas, Havana, Kingston, Montego Bay and La Ceiba.

Additional routes continue to be evaluated in conjunction with the Ministry of Tourism and the Cayman Islands Department of Tourism to facilitate decision making on any potential opportunities.

COMPLIANCE DURING THE YEAR

Cayman Airways Limited provided all services as outlined in the Purchase Agreement with the Government.

Strategic Goals & Objectives

Approved Strategic Goals and Objectives

The key strategic goals and objectives (from an ownership perspective) for *Cayman Airways Limited* for the 2018 financial year were as follows:

- The mission of Cayman Airways is to be the premier choice of safe, reliable, and enjoyable air transportation to all markets we serve, in the best interests of the Cayman Islands. A national airline of which we can all be immensely proud of, one which reflects a top-quality airline, delivering top quality service; an organization which is attracting the best and brightest Caymanian talent and developing its people and the airline to reach their full potential.

- The Airline is major employer within the Cayman Islands and must strive to attract and develop the best and brightest Caymanian talent. The Airline offers several unique employment opportunities in specialised fields and will continue to create an environment of opportunity for Caymanians. This role has an immeasurable socio-economic impact on the Cayman Islands and is crucial to continued national development and growth. The Airline will therefore, as it continues to target cost reductions, do so in a manner that places emphasis on the retention and provision of services and employment locally, versus overseas when possible.

- The Airline will continue the process of restructuring and operational reform in order to drive revenue, reduce costs, and achieve the maximum levels of efficiency where possible.

- Utilizing the Airlift Framework as a funding model, the Airline and Government shall have a common objective to ensure that the Airline is adequately funded to undertake the core and strategic roles defined in the Airlift Framework. Adequate levels of Government funding and the Airline's continued efforts to operate at maximum efficiency are necessary to ensure that no deficit between revenue and expenses arises.

- After years of historical losses, the Airline is faced with a severe deficiency of working capital. The Government and the Airline must together strive to create adequate levels of working capital in order to ensure that Airline has the ability to invest where necessary to improve efficiency and viability. This working capital deficiency may from time to time require external borrowings or equity injections from the Government in order to ensure the Airline's continued viability. The Airline therefore aims to have its historical debt (formal and informal), refinanced in a manner that improves cash flow and provides adequate levels of working capital to be realised, in order to increase the viability and efficiency of the Airlines of the operations.

- Should a deficit (revenue) arise due to unbudgeted situations during the course of the year, which are beyond the Airline's control, the Government may be asked to provide supplementary funding in order to ensure that the Airline maintains an ability to meet its operating obligations and fulfil the government's strategic objectives for the Airline. The Airline will do all possible to avoid this scenario and will keep the Government promptly educated on all situations that may lead to a need for additional funding within the budget year.

- The Airline is a major contributor to the Cayman Islands economy both directly and indirectly through employment and the purchase of goods and services within the Cayman Islands. The Airline is also a strategic tool used by the Government to drive economic activity, particularly in the tourism industry by providing guaranteed airlift and competitive market environment. This includes providing direct air service to the leading tourist source markets, targeted by the Cayman Islands Department of Tourism. The Airline will therefore continue to work with the Cayman Islands Department of Tourism to realise the maximum benefit from the Department of Tourism's marketing efforts by aligning capacity with the demand generated from the Department of Tourism's efforts.

- The total economic impact or contribution to the Cayman Islands by Cayman Airways (from studies going back more than ten years), is over CI$150M per annum. The Airline must therefore continue to balance its efforts to operate at peak efficiency with its efforts to create the maximum economic impact possible. The Airline's value on a macroeconomic level outweighs the Governments annual investment through this purchase agreement. Whilst this is an overriding value and an excellent return on investment, the Airline's economic contribution must continue to be provided in the most efficient manner. The Airline and the Government must therefore maintain alignment through consultation in the budget year to ensure the correct balance between the Airline's performance and the Airline's contribution to the local economy.

- Whilst the Airline is equipped with the full infrastructure of a typical Airline, the Airline is challenged to cover all its fixed costs from operating revenues, because of its relatively small size and the relatively small markets served (economies of scale). The Airline must therefore seek out opportunities within the surplus category of the Airlift Framework that increases passenger and cargo throughput, in order to maximise efficiency and reduce dependence on Government funding. This should include the exploration of strategic partnerships with other airlines and potential industry partners, to reduce costs and enhance revenue potential, but in a manner that does not degrade the Airline's strategic value to the Cayman Islands. The Airline expects to continue working with the public sector as well as to embark on joint initiatives with the private sector to coordinate marketing and advertising efforts. A key objective of the Airline is to stimulate incremental visitation through increased visitor arrivals and incremental room nights.

- Fuel is the most volatile and unpredictable cost facing the Airline. The company intends to continue to monitor and aggressively pursue alternatives to minimize the costs of fuel. Cayman Airways however expects to continue to be faced with high fuel prices and extreme volatility for the budget year. The Airline optimistically expects fuel prices to be between US$85 and US$100 per barrel for the budget year and has budget fuel expense and associated revenue from airfares accordingly. It must be noted that the Airline is not always able to pass on increases in fuel, without negatively affecting demand and overall revenues. The Airline will therefore strive to recoup fuel increases from the consumer to the maximum extent possible but will be limited in its efforts so as to not negatively impact the Airline's overall revenue performance nor the Airline's strategic value the local economy and tourism industry.

- The Airline has historically been operating with several outdated or manual systems to manage and control some of its commercial and operating functions. The Airline will continue to strive to implement technological advances that will improve the Airlines operating and financial performance.

- The National Flag Carrier will continue to explore commercial agreements with select international carriers where deemed beneficial to the Cayman Islands. The commercial agreements may range from connected websites to full code share agreements. Cayman Airways is committed to working closely with foreign carriers flying into the Cayman Islands, provided that the foreign carrier provides direct economic benefit to the country or serves to provide additional visitation opportunities.

Achievements during the Period

Throughout 2018, in keeping with its business plan, the Company focused its efforts on accomplishing its targeted objectives but was faced with many challenges including the continued erosion of a key market, increased competition and cost increases. Nonetheless, below is a summary of some of the 2018 achievements:

- During the year, the Airline worked with many different organizations to stimulate travel to the Cayman Islands. Examples of this effort include Sporting Events (Cayman Airways Invitational Youth Football Cup etc.), National Events (Pirates week, Batabano, etc.) and local accommodation partners.

- During the year, the Airline continued to promote aggressively the use of its website for booking and saw the majority of US visitors using it as their primary source of booking. The Airline remains focused on developing this resource further.

- Cayman Airways provided ground handling services to several foreign carriers throughout the year, including United, West Jet and Air Canada.

- The Airline delivered new and recurrent staff training with an aim to improve customer service and technical competence. This continues to be a focus of the airline.

- Cayman Airways continued its incorporation of a maintenance software solution and has embarked on several other initiatives which are expected to enhance service and reduce overall costs.

- Flight optimization and the "right-sizing" of domestic aircraft resulted in optimized fuel consumption. Through a variety of ways, Cayman Airways was able to reduce its fuel consumption during 2018 by approximately 6%. Despite this significant achievement, fuel prices increased so rapidly that the Airline was unable to realize any fuel expense savings.

- The Airline worked in tandem with the CIDOT to coordinate marketing and advertising efforts. The Airline was able to be used strategically to develop and drive a variety of national sales campaigns. This included being used as a means of encouraging local properties and tourism partners to participate in national events.

- During the year, Cayman Airways promoted and managed interline agreements with various foreign carriers to ensure that people were able to easily and affordably travel to the Cayman Islands.

- The Airline took possession of its first Boeing 737-8 Max aircraft, as part of its jet fleet modernization plan.

Ownership Performance Targets

The ownership performance targets achieved for *Cayman Airways Limited* for the 2018 financial year are as follows:

Financial Performance

Financial Performance Measure	2018 Actual CI$	2018 Budget CI$	Annual Variance CI$
Revenue from Cabinet	19,514,760	17,963,000	1,551,760
Revenue from ministries, portfolios, statutory authorities and government companies	1,354,000	1,354,000	0
Revenue from other persons or organisations	49,855,513	51,246,000	(1,390,487)
Surplus/deficit from outputs	70,724,273	70,563,000	161,273
Other expenses	82,377,389	70,517,000	11,860,389
Net Surplus/Deficit	(11,653,116)	46,000	(11,699,116)
Total Assets	31,288,622	37,250,000	(5,961,378)
Total Liabilities	(55,306,831)	(53,744,000)	(1,562,831)
Net Worth	(24,018,209)	(16,494,000)	(7,524,209)
Cash flows from operating activities	(8,214,945)	1,501,000	(9,715,945)
Cash flows from investing activities	(3,368,086)	(4,230,000)	861,914
Cash flows from financing activities	9,554,984	2,717,000	6,837,984
Change in cash balances	(2,028,047)	(12,000)	(2,040,047)

Explanation of Variances:

Performance Overview

The Airline ended the 2018 fiscal year with an Operating Loss of $1.3 million (Budget: Net Operating Profit of $3.8 million), before Depreciation and Interest. This $5.1 million variation was largely due to CI$3.1 million in increased fuel expense (a result of increased fuel prices beyond budget, partially offset by the airline's 7% reduction in consumption) and CI$1.4 million reduction in the Airline's revenue stream.

The Operating Loss of $1.3 million was a CI$2.7 million improvement over the previous financial period.

Interest Expense of CI$0.76 million, along with non-cash depreciation expense of CI$6.4 million on existing assets and a one-time impairment expense of CI$3.2 million (see *Expenses* below), then took the Net Deficit to CI$11.65 million.

Revenue

Despite Revenue growth in most markets, the continued fall of revenue in the Miami (down 7%) and Cuba (down 13%) markets from lost market share continued to impact revenue from operations. The net impact was that passenger revenue was down CI$1.4 million against budget.

As a result of an increase in fuel expense above expectations (see *Expenses* below), CIG provided CAL with a supplemental CI$1 million towards the amount. Additionally, CIG provided funding of CI$750k towards the startup costs surrounding the launch of new service to Denver and towards the COLA awarded by the Airline to staff, in conjunction with the Government.

Expenses

Operating costs grew during the period, driven primarily from an unanticipated increase in fuel prices well above the average of the prior three years. The Airline achieved a targeted 7% reduction in fuel consumption, but the high fuel prices negated that reduction and ultimately resulted in a CI$3.1 million increase in fuel expense over budget. Additionally, higher maintenance expense of approximately CI$2 million occurred resulting from the repairs of a Boeing 737-800 engine that failed in late 2017 and lease of a spare engine during that time. Depreciation and amortization expense also saw some slight increases, primarily from the late 2017 purchase of the Saab 340B+ aircraft, with the agreement of the Cayman Islands Government.

Assets & Liabilities (and related cash flow)

Annually, 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 31 December 2018 impairment indicators were apparent in relation to the 737-300 fleet and an impairment loss amounting to CI$3.2 million arose due to the imminent arrival of the 737-MAX aircrafts, committed to as part of the Company fleet. The amount wholly related to significant maintenance events previously capitalised in accordance with company policy which had to then be immediately expensed as impairment.

An additional CI$7.5M in Equity Injections was paid to Cayman Airways during the period. The entire amount was paid out immediately to settle outstanding bills with the CIAA.

Summarized Financial Statements

A full set of financial statements for *Cayman Airways Limited* is provided in the Appendix to this Ownership Agreement Annual Report.

A summary of the actual and budget data is as follows.

Operating Statement	2018 Actual CI$	2018 Budget CI$	Annual Variance CI$
Revenue (includes Government funding)	70,724,273	70,563,000	161,273
Total Expenses	82,377,389	70,517,000	11,860,389
Net Surplus/Deficit	(11,653,116)	46,000	(11,699,116)

Balance Sheet	2018 Actual CI$	2018 Budget CI$	Annual Variance CI$
Assets	31,288,622	37,250,000	(5,961,378)
Liabilities	(55,306,831)	(53,744,000)	(1,562,831)
Net Worth	(24,018,209)	(16,494,000)	(7,524,209)

Statement of Cash Flows	2018 Actual CI$	2018 Budget CI$	Annual Variance CI$
Net cash flows from operating activities	(8,214,945)	1,501,000	(9,715,945)
Net cash flows from investing activities	(3,368,086)	(4,230,000)	861,914
Net cash flows from financing activities	9,554,984	2,717,000	6,837,984

Explanation of Variances:

See *Ownership Performance Targets* section above

Other Financial Information

Detailed below is information about specific financial transaction required to be included in the Ownership Agreement by the Public Management and Finance Law (2005 Revision).

Transaction	2018 Actual CI$	2018 Budget CI$	Annual Variance CI$
Equity Investments into *Cayman Airways Limited*	12,600,000	5,100,000	7,500,000
Government Grant	-	-	-
Capital Withdrawals from *Cayman Airways Limited*	-	-	-
Dividend or Profit Distributions to be made by *Cayman Airways Limited*	-	-	-
Government Loans to be made to *Cayman Airways Limited*	-	-	-
Government Guarantees to be issued in relation to *Cayman Airways Limited*	No New Guarantees	No New Guarantees	-

<u>Explanation of Variances:</u>

See ***Ownership Performance Targets*** section above

Appendix A:

2018 Financial Statements

See Attached

Note: Audited financial statements are expressed in United States Dollars. This Annual Report is in Cayman Islands Dollars with a standard conversion of US$1 = CI$0.84.

SENT UNDER SEPARATE COVER

CAYMAN AIRWAYS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

CAYMAN AIRWAYS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

CONTENTS

Cayman Airways

STATEMENT OF RESPONSIBILITIES
31 December 2018

These consolidated financial statements have been prepared by Cayman Airways Limited in accordance with the provisions of the Public Management and Finance Law (2018 Revision).

We accept responsibility for the accuracy and integrity of the financial information in these consolidated financial statements and their compliance with the Public Management and Finance Law (2018 Revision).

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 consolidated 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 consolidated financial statements and for the judgements made in them.

The consolidated financial statements fairly present the consolidated statements of financial position, financial performance, changes in shareholder's equity, and cash flows of Cayman Airways Limited for the financial year ended 31 December 2018.

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

a) Completely and reliably reflect the financial transactions of Cayman Airways Limited for the financial year ended 31 December 2018.
b) Fairly reflect the consolidated financial position as at 31 December 2018 and its comprehensive income for the year ended 31 December 2018.
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 have been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

PHILIP RANKIN	PAUL TIBBETTS
Mr. Philip Rankin Chairman Cayman Airways Limited	Mr. Paul Tibbetts Executive Vice President & CFO Cayman Airways Limited
Date: 18 February 2020	Date: 18 February 2020

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AUDITOR GENERAL'S REPORT

To the Board of Directors of Cayman Airways Limited.

Opinion

I have audited the consolidated financial statements of Cayman Airways Limited (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

I have conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. In rendering my audit opinion on the financial statements of the Company, I have relied on the work carried out on my behalf by a public accounting firm that performed its work in accordance with International Standards on Auditing.

Emphasis of Matter

I draw attention to Note 2 of the consolidated financial statements, which indicates that the Group has a shareholder's deficit of US$28,593,106 as at 31 December 2018, and that the Group is dependent on the financial support of the Government of the Cayman Islands, including its purchase commitments, to enable it to continue as a going concern and meet its obligations as they fall due. My opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of section 60(1)(a) of the Public Management and Finance Law (2018 Revision). I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Sue Winspear, CPFA
Auditor General

18 February 2020
Cayman Islands

CAYMAN AIRWAYS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	As at 31 December, 2018	2017
ASSETS		
Current assets		
Cash on hand and at bank	$ 2,789,202	$ 2,027,822
Trade and other receivables (Note 6)	3,531,531	8,397,458
Security deposits (Note 4)	500,000	550,000
Prepayments and other assets (Note 4)	931,441	2,366,788
Total current assets	7,752,174	13,342,068
Non-current assets		
Security deposits (Note 4)	3,875,875	2,585,875
Property, plant and equipment (Note 5)	25,620,311	33,493,514
Total non-current assets	29,496,186	36,079,389
TOTAL ASSETS	$ 37,248,360	$ 49,421,457
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities		
Bank overdraft	$ 4,569,740	$ 1,394,018
Accounts payable and accrued expenses (Note 7)	26,480,180	35,440,248
Loans payable (Note 8)	5,527,325	2,831,154
Unearned transportation revenue (Note 10)	9,440,931	8,649,940
Deferred income (Note 17 and 22)	236,000	876,190
Major maintenance provision (Note 9, 17 and 22)	690,240	6,141,411
Frequent flyer programme (Notes 11 and 22)	3,340,000	2,840,000
Total current liabilities	50,284,416	58,172,961
Non-current liabilities		
Loans payable (Note 8)	15,557,050	20,968,846
Total non-current liabilities	15,557,050	20,968,846
Total liabilities	65,841,466	79,141,807
Shareholder's deficit (Note 2)		
Share capital (Note 12)	38,376,215	38,376,215
Share subscriptions (Note 12)	104,815,746	89,815,746
Accumulated deficit	(171,785,067)	(157,912,311)
Total shareholder's deficit	(28,593,106)	(29,720,350)
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIT	$ 37,248,360	$ 49,421,457

Approved for issuance on behalf of the Cayman Airways Limited Board of Directors on 18 February 2020 by:

PHILIP RANKIN
....
Chairman

DANIELLE LOOKLOY
....
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 31 December, 2018	18 Month Period ended 31 December, 2017
Income		
Passenger revenue	$ 51,850,014	$ 80,852,834
Government output purchases (Note 16)	23,231,857	29,398,821
Cargo revenue	3,672,500	5,344,890
Handling revenue	1,949,530	2,429,774
Government Grant income (Note 17)	-	2,100,000
Other revenues	3,491,662	4,529,151
Total income	84,195,563	124,655,470
Expenses		
Salaries and wages (Note 13)	23,356,882	36,088,381
Other staff costs (Note 14)	6,259,984	10,280,954
Aircraft fuel	15,821,778	19,305,911
Aircraft lease expense (Note 15)	4,515,265	5,849,838
Commissions and related sales costs	3,694,849	5,949,156
Maintenance, materials and repairs (Note 17)	6,227,399	10,410,136
Landing and parking fees	2,173,492	3,430,037
Aircraft and passenger service	13,643,779	22,270,234
Advertising and promotion	306,482	453,082
Communications	810,173	1,191,895
Information technology	1,663,983	2,820,862
Professional expenses	739,021	1,235,689
General and administrative	2,404,380	3,866,241
Other operating expenses	4,078,221	6,194,903
Total expenses (excluding depreciation and interest)	85,695,688	129,347,319
NET LOSS BEFORE INTEREST AND DEPRECIATION	(1,500,125)	(4,691,849)
Interest expense (Notes 8)	909,394	1,203,857
Depreciation (Note 5)	7,611,721	6,890,103
Impairment loss (Note 5)	3,851,517	-
NET LOSS FOR THE YEAR/ PERIOD (NOTE 2)	$(13,872,757)	$(12,785,809)
TOTAL COMPREHENSIVE (LOSS)	$(13,872,757)	$(12,785,809)

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)

	Share capital (Note 11)	Share subscriptions (Note 11)	Accumulated deficit	Total
Balance at 30 June 2016	38,376,215	73,565,746	(145,126,502)	(33,184,541)
Net income for the period	-	-	(12,785,809)	(12,785,809)
Share subscriptions (Notes 12 and 21)	-	16,250,000	-	16,250,000
Balance at 31 December 2017	38,376,215	89,815,746	(157,912,311)	(29,720,350)
Net income for the year	-	-	(13,872,757)	(13,872,757)
Share subscriptions (Notes 12 and 21)	-	15,000,000	-	15,000,000
Balance at 31 December 2018	$ 38,376,215	$ 104,815,746	$(171,785,068)	$(28,593,106)

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 31 December, 2018	18 Month Period ended 31 December, 2017
Cash flows from operating activities		
Net loss for the year/ period	(13,872,757)	(12,785,809)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	7,611,721	6,890,103
Interest expense	909,394	1,203,857
Impairment loss	3,851,517	-
Loss on disposal of property, plant and equipment	419,592	312,132
Decreases/ (Increase) in trade and other receivables	4,865,927	(269,156)
Increase/ (Decrease) in prepayments and security deposits	195,347	(3,203,513)
Decrease in accounts payable and accrued expenses	(8,960,068)	(3,744,335)
(Decrease)/ Increase in major maintenance provision	(5,451,171)	6,141,411
Increase/ (Decrease) in unearned transportation revenue	790,991	(2,023,792)
Increase in frequent flyer programme	500,000	-
(Decrease)/ Increase in deferred income	(640,190)	876,190
Net cash used in operating activities	(9,779,697)	(6,602,912)
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 5)	(4,009,626)	(11,713,825)
Net cash used in investing activities	(4,009,626)	(11,713,835)
Cash flows from financing activities		
Share subscriptions (Note 12)	15,000,000	16,250,000
Repayment of loans (Note 8)	(2,715,625)	(447,084)
Interest paid	(909,394)	(1,203,857)
Net cash provided by financing activities	11,374,981	14,599,059
Net decrease in cash and cash equivalents	(2,414,342)	(3,717,688)
Cash and cash equivalents - beginning of the year/ period	633,804	4,351,492
Cash and cash equivalents - end of the year/ period	$ 1,780,538	$ 633,804
Cash and cash equivalents comprise:		
Cash on hand and at bank	2,789,202	2,027,822
Bank overdraft	(4,569,740)	(1,394,018)
Cash and cash equivalents - end of year/ period	$(1,780,538)	$ 633,804

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

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

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 a Purchase Agreement and the associated payments received by the Company are referred to as "Output Payments". Purchase commitments made by the Government based on this agreement result in the Government being the single largest customer of the Company, with its Output Payments representing 28% (2017: 24%) of total revenue for the financial period.

Currently and historically, the Company has been structured in such a manner as to allow it to facilitate its requirements under the Purchase Agreement. Under its current structure the Company relies upon these purchase commitments, capital contributions and bank loan (Note 8) guarantees made by the Government of the Cayman Islands in the Company's favour, as well as the Government's assistance in managing the settlement of amounts owed to related parties (Note 7) which are under Government control, allowing it to continue as a going concern. For the year ended 31 December 2018, the Company has realized a net loss of $13,872,757 (2017 net loss of $12,785,809). Cumulative shareholder's deficit as of 31 December 2018 was $28,593,106 (2017: $29,720,350).

In 2017, the Government agreed to provide equity injections amounting to $15 million (CI$12.6 million) (2017: $19.3m (CI$16.2 million) for the year ended 31 December 2018 (Note 12 and 21).

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

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

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 periods presented, unless otherwise stated.

Basis of preparation: The consolidated 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. Principal sources of estimation uncertainty are outlined in Note 22. Actual results may differ from those estimates.

a) New standards and amendments adopted by the Company

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 2018 and earlier application is permitted.

The Company has applied IFRS 15 with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The Company recognises revenue when it transfers the control of the promised goods and services to the customer. The Company measures revenue, for the consideration to which the Company is expected to be entitled in exchange for transferring promised goods or services. Variable considerations are included in the transaction price when it is highly probable that there will be no significant reversal of the revenue in the future. The Company identifies the various performance obligations of the contract and allocates the transaction price to these performance obligations.

The adoption of IFRS 15 had no impact upon the reporting of revenue within these Consolidated Financial Statements.

IFRS 9 'Financial Instruments' became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39.

3. Summary of significant accounting policies (continued)

Classification and measurement of debt assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss ("ECL") impairment model.

IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

IFRS 9 has been applied retrospectively by the Company. The classification of financial assets has changed from loans and receivables to amortised cost with the adoption of IFRS 9. There has been no other changes in the measurement of financial assets and no change to the measurement or classification of financial liabilities upon adoption of IFRS 9.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2018 and not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 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 16, 'Leases' primarily affects the accounting by lessees and will result in the recognition of almost all leases on the Consolidated Statement of Financial Position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. The Consolidated Statement of Comprehensive Income will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years and operating expense is replaced with interest and depreciation. The standard is effective for accounting periods beginning on or after 1 January 2019 and earlier application is permitted only if IFRS 15 is adopted at the same time. The Company is assessing the impact of IFRS 16.

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.

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.

Reporting period: The comparative reporting period is for an 18-month period ended 31 December 2017. The change in reporting period was driven by a decision taken by the Government to move the reporting period to a calendar year. As a Government Company, Cayman Airways Limited has adhered to the Government directive. Therefore, amounts included within these consolidated financial statements are not entirely comparable.

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

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:

Type of Property, plant and equipment	Estimated useful life
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
C checks	24 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.

* During the year ended 31 December 2018, management adjusted the useful economic life of each 737-300 in line with the fleet modernisation plan. This resulted in additional depreciation being charged during the year amounting to US$2,235,000.

**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.

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 labor costs, is recognised and depreciated over the expected life between major overhauls.

Trade and other receivables: Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. At each reporting date, the Company shall measure the loss allowance on amounts due from trade and other receivables equal to the lifetime expected credit losses applying the simplified approach permitted by IFRS 9 of measuring credit losses of trade receivables and contract assets on lifetime basis from initial recognition. 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.

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 presentational 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$1 to CI$0.84.

Revenues: Scheduled passenger and cargo revenues are recognised in the period in which transportation is provided, net of government taxes, at a point in time. Unearned revenue represents flight seats sold but not yet flown, a contract liability, 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 over time as the contract terms are met 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 at the point in time in which transportation is provided in the Consolidated Statement of Comprehensive Income.

3. Summary of significant accounting policies (continued)

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

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

The frequent flyer programme 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 on the Consolidated Statement of Financial Position until the points are redeemed through a passenger being uplifted or expired due to inactivity. The frequent flyer programme is measured based on management's 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 over time as the contract terms are met 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 the 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.

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.

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 financial instruments, assets and liabilities 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).

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.

(Expressed in United States dollars)

4. Security deposits & Prepayment and other assets

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

	As at 31 December,					
	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Deposits for Aircraft & Engines	$ 500,000	3,061,450	$3,561,450	$ 550,000	1,771,450	$2,321,450
Deposits with Airports & Handlers	-	659,525	659,525	-	659,525	659,525
Other deposits and assets	-	154,900	154,900	-	154,900	154,900
Security Deposits	500,000	3,875,875	4,375,875	550,000	2,585,875	3,135,875
Prepayments and other assets	$ 931,441	-	$ 931,441	$2,366,788	-	$ 2,366,788

As at 31 December 2018, in connection with the Company's leased aircraft arrangements (Note 15), the Company had placed deposits 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 31 December 2018 one (2017: 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.

5. Property, plant and equipment

	Aircraft & engines	Rotables	Land & Buildings	Office & communications equipment	Other assets	Total
Cost						
Balance 1 January 2017	$33,631,730	$ 8,982,775	$ 8,707,537	$ 1,363,664	$ 1,917,645	$54,603,351
Additions	2,799,465	784,811	237,677	75,000	112,673	4,009,626
Disposals	-	(568,974)	-	-	-	(568,974)
Impairment loss	(3,851,517)	-	-	-	-	(3,851,517)
Balance 31 December 2018	$32,579,678	$ 9,198,612	$ 8,945,214	$ 1,438,664	$ 2,030,318	$54,192,486
Depreciation						
Balance 1 January 2017	$11,288,503	$ 4,612,930	$ 3,157,524	$ 978,185	$ 1,072,695	$21,109,837
Charge for the period	6,441,556	619,508	138,707	166,383	245,568	7,611,722
Disposals	-	(149,384)	-	-	-	(149,384)
Balance 31 December 2018	$17,730,059	$ 5,083,054	$ 3,296,231	$ 1,144,568	$ 1,318,263	$28,572,176
At 31 December 2018	$14,849,619	$ 4,115,558	$ 5,648,983	$ 294,096	$ 712,055	$25,620,311

(Expressed in United States dollars)

5. Property, plant and equipment (continued)

	Aircraft & engines	Rotables	Land & Buildings	Office & communications equipment	Other assets	Total
Cost						
Balance 1 July 2016	$24,282,329	$ 7,558,460	$ 8,685,811	$ 1,218,731	$ 1,559,183	$43,304,514
Additions	9,349,401	1,839,313	21,726	144,933	358,462	11,713,835
Disposals	-	(414,998)	-	-	-	(414,998)
Balance 31 December 2017	$33,631,730	$ 8,982,775	$ 8,707,537	$ 1,363,664	$ 1,917,645	$54,603,351
Depreciation						
Balance 1 July 2016	$ 6,912,290	$ 3,060,039	$ 2,952,411	$ 698,976	$ 698,884	$14,322,600
Charge for the year	4,376,213	1,655,757	205,113	279,209	373,811	6,890,103
Disposals	-	(102,866)	-	-	-	(102,866)
Balance 31 December 2017	$11,288,503	$ 4,612,930	$ 3,157,524	$ 978,185	$ 1,072,695	$21,109,837
At 31 December 2017	$22,343,227	$ 4,369,845	$ 5,550,013	$ 385,479	$ 844,950	$33,493,514

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 31 December 2018 impairment indicators were apparent in relation to the 737-300 fleet (2017: No impairment indicators apparent). An impairment loss amounting to US$3,851,517 arose due to the imminent arrival of the 737-MAX aircrafts, committed to as part of the Company fleet modernisation plan (Note 15), given market value assessments identified an impairment loss. The amount wholly relates to significant maintenance events previously capitalised in accordance with Company policy.

6. Trade and other receivables

Trade and other receivables comprise:

	31 December, 2018	31 December, 2017
Trade receivables	1,901,223	2,536,405
Other receivables	1,730,741	6,023,133
Total, before provision for impairment	3,631,964	8,559,538
Less: provision for impairment	(100,433)	(162,080)
Net receivables	$ 3,531,531	$ 8,397,458

Trade receivables relate to air cargo services sold to local customers and other government entities with payments generally due after 30 days of sale. At 31 December 2018 trade receivables of $1,433,240 (2017: $1,624,084) were due from related parties, being other Government entities. Other receivables include an amount of $Nil (2017: $3,691,864) owed from a third party (Note 17) in respect of major maintenance and amounts due from airline clearing houses and credit card companies in respect of ticket and unsettled credit card transactions, respectively.

(Expressed in United States dollars)

6. Trade and other receivables

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

	31 December, 2018	2017
Balance, beginning of period	$ 162,080	$ 47,368
(Decrease) /Increase in provision for impairment	(38,241)	138,375
Debts written off	(23,406)	(23,663)
Balance, end of period	$ 100,433	$ 162,080

During the year ended 31 December 2018, the Company wrote off $23,406 (2017: $23,663) relating to amounts due from customers.

As of 31 December 2018, the aging analysis of receivables and expected credit losses is as follows:

	31 December, 2018		2017	
	Gross carrying amount	Impairment	Gross carrying amount	Impairment
Current (not past due)	1,925,091	2,596	6,828,586	4,362
1-30 days past due	242,207	5,220	339,001	7,305
31- 60 days past due	132,579	6,057	75,894	3,623
61-150 days past due	62,382	4,244	82,958	7,199
151 -360 days past due	87,341	4,453	352,642	47,253
More than 360 days past due	1,182,364	77,863	880,457	92,338
		100,433		162,080
Total impaired		$ 100,433		$ 162,080
Total receivables	$3,631,964		$8,559,538	

The Company measures the loss allowance on amounts due from trade and other receivables equal to the lifetime expected credit losses applying the simplified approach permitted by IFRS 9 of measuring credit losses of trade receivables and contract assets on a lifetime basis from initial recognition. The above table provides information about expected credit losses for trade and other receivables from individual customers.

Non-impaired receivables represent a number of independent customers from whom there is no recent history of default or to related party Government entities whose collectability is expected given the nature of the relationship between the Company, Shareholder and other Government entities.

(Expressed in United States dollars)

7. Accounts payable and accrued expenses

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

	31 December, 2018	31 December, 2017
Trade accounts payable	$ 16,194,058	$ 26,481,273
Other accounts payable	7,402,327	7,017,789
Accruals	2,883,795	1,941,186
Total	$26,480,180	$ 35,440,248

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

	31 December, 2018	31 December, 2017
Trade accounts payable	$10,889,058	$ 20,315,523
Other accounts payable	2,419,487	1,589,936
Accruals	707,918	753,233
Total	$14,016,463	$ 22,658,692

At 31 December 2018 the Company was working with Government to address repayment of a component of the above debt owed to various related parties including $9.5 million (2017: $18 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 Government Companies where the Cayman Islands Government has controlling interest. At the period end the Company was in negotiations with the Shareholder on settlement of the debts.

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

8. Loans payable

At period end, the Company held the following loans, analysed by contractual maturity in effect as of 31 December, 2018 and 2017:

As at 31 December 2018:

	Within 1 year	Between 2 and 5 years	After more than 5 years	Total
Floating rate secured USD loans (i)	$ 5,527,325	$ 15,557,050	$ -	$ 21,084,375
	$ 5,527,325	$ 15,557,050	$ -	$ 21,084,375

(Expressed in United States dollars)

8. Loans payable (continued)

As at 31 December 2017:

	Within 1 year	Between 2 and 5 years	After more than 5 years	Total
Floating rate secured USD loans (i)	$ 2,831,154	$ 20,968,846	$ -	$ 23,800,000
	$ 2,831,154	$ 20,968,846	$ -	$ 23,800,000

(i) During the 18-month period ended 31 December 2017, the Company consolidated all existing loan arrangements with a single local bank. The loan bears interest based on Libor. The loan is secured by way of a guarantee from the Government (Note 2) and is repayable by 2022.

During the year ended 31 December 2018, the Company incurred an interest expense of $761,114 (2017: $1,118,223).

Pursuant to the agreement with the local bank, 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, the local bank may, by written notice to the Company, declare all borrowings under the agreements to be immediately due and payable. During the 18-month period ended 31 December 2017 the Company 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. At 31 December 2018 the local banks provided waivers of such covenants to the Company.

Letters of credit

A local bank has issued a number of letters of credit on behalf of the Company in the amount of $986,561 (2017: $986,561). 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.

9. Provisions

Major Maintenance Provision

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 the Consolidated Statement of Comprehensive Income over the lease term.

During September 2017 an incident occurred that resulted in a major maintenance event being necessary during the lease term of an operating lease (Note 17). Therefore, a provision in the amount of $6,141,411 was made at 31 December 2017 for the major maintenance in respect of the operating lease agreement and the expense was charged to the Consolidated Statement of Comprehensive Income. At 31 December 2018 a provision in the amount of $690,240 remained as the Company continues to make contractual payments related to this event. Otherwise, all aircrafts held on an operating lease for which there were contractual commitments with respect to major maintenance either during the lease term or as part of the contractual return conditions did not require a provision. The Company made monthly supplemental rent payments in respect of the anticipated future major maintenance events and return conditions and these are expected to exceed or be equal to the future cost of such events.

(Expressed in United States dollars)

10. Unearned transportation revenue

Unearned revenue represents flight seats sold but not yet flown, a contract liability, 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).

During the year ended 31 December 2018, unearned transportation revenue recognised, that had been included in the contract liability balance at the beginning of the period, amounted to $8,649,940.

11. Frequent flyer programme

Frequent Flyer Programme:

	31 December 2018	31 December 2017
Current liability	$ 3,340,000	$ 2,840,000

Frequent flyer programme

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

During the year ended 31 December 2018, frequent flyer revenue recognised, that had been included in the contract liability balance at the beginning of the period, amounted to $2,023,000.

12. Share capital

	31 December 2018	31 December 2017
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 year ended 31 December 2018, the Government, as part of its addressing of the Shareholder deficiency in Cayman Airways, contributed $15,000,000 (2017: $16,250,000) in equity injections (Note 21). Pursuant to these transactions, the Company intends, in the future, to issue 12,600,000 (2017: 13,650,000) ordinary shares of CI$1 each to the Government, corresponding to the capital injections.

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 31 December, 2018 and 2017, 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 31 December 2018, an amount of $104,815,746 (2017: $89,815,746) is shown on the Consolidated Statement of Financial Position, which represents subscriptions for shares not yet issued.

(Expressed in United States dollars)

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 (2017: 10 positions). Total remuneration earned by key management during the year ended 31 December 2018 and 18-month period ended 31 December 2017 is shown below. Total remuneration for the period includes medical and pension contribution, acting allowances and severance pay. There were no salary advances or loans issued to key management during the period (2017: $Nil).

	Year ended 31 December, 2018	18-Month Period ended 31 December, 2017
Salaries and other short-term employee benefits	$1,771,524	$2,484,947

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, 7, 12, 16 and 17). 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 31 December 2018, the Company made $1,100,659 (2017: $1,538,710) in pension contributions which is included in other staff costs in the Consolidated Statement of Comprehensive Income.

(Expressed in United States dollars)

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 31 December 2018, the Company made payments under these operating leases of $4,987,306 (2017: $6,650,683) which are included within the aircraft rentals and other operating expenses.

Year ended 31 December 2018:

	Aircraft & Engines	Premises	Total
Operating lease payments	$ 4,515,265	$ 479,712	$ 4,994,977

18-Month Period ended 31 December 2017:

	Aircraft & Engines	Premises	Total
Operating lease payments	$ 5,849,838	$ 800,845	$ 6,650,683

Minimum lease commitments outstanding at the end of the period pursuant to all lease agreements entered in are as follows as at 31 December 2018:

	Aircraft & Engines	Premises	Total
2019	$ 5,577,640	$ 246,577	$ 5,824,217
2020 to 2023	14,612,000	276,498	14,888,498
2024 and beyond	-	-	-
Total	$ 20,189,640	$ 523,075	$ 20,712,715

As at 31 December 2017:

	Aircraft & Engines	Premises	Total
2018	$ 3,177,972	$ 253,025	$ 3,430,997
2019 to 2022	15,974,270	959	15,975,229
2023 and beyond	-	-	-
Total	$ 19,152,242	$ 253,984	$ 19,406,226

The Company has entered into lease agreements in connection with the leasing of aircrafts. Pursuant to the lease agreements, the Company advanced a number of refundable security deposits to a total value of $3,561,450 (2017: $550,000) 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 charges. There are no balances overdue as at 31 December 2018 (2017: $Nil).

Effective 30 June 2016 the Company entered into various new lease arrangements in relation to multiple Boeing 737-8Max aircrafts. The aircrafts are expected to be delivered and become operational between November 2018 and September 2020, respectively. Certain leases have options for extension.

(Expressed in United States dollars)

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 31 December 2018, the Government paid Output Payments to the Company totalling $23,231,857 (2017: $29,398,821) 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 period 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 2018 and 2017, 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 monthly in equal instalments.

17. Major Engine Maintenance

During the 18-month period ended 31 December 2017 the Company incurred a major maintenance event resulting in the immediate repair and replacement of an aircraft engine. At December 31, 2017, the Company had provided for the estimated cost of the repair of the engine (Note 9).

As a result of this unplanned maintenance event, the Government provided funds in the amount of $2,976,190 (CI$2,500,000) with an obligation set upon the Company that this amount be used to fund the unforeseen and significant expenses associated with shipment, installation, lease of a temporary replacement engine, removal, shipping, overhaul repairs and reinstallation of the damaged engine.

At 31 December 2017, the Company recognized an amount of $2,100,000 of grant income (Note 22) received from Government, to match expenses incurred during the period within maintenance, materials and repairs included within the Consolidated Statement of Comprehensive Income. Grant income amounting to $876,190 was deferred at 31 December 2017 to match expected expenses to be in incurred during 2018 related to the event.

In addition, the Company entered into an agreement with a third party to prorate the direct repair costs incurred, resulting in the Company recognising a receivable amounting to $3,691,864 in respect of this agreement as the expected recovery of funds relating to this event.

During the year ended 31 December 2018 the repair of the aircraft engine was completed and the provision and deferred grant income was released to match the expenses incurred. Further, the third party settlement of agreed upon costs was performed in line with expectations.

18. 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 31 December, 2018 and 2017, substantially all of the operating cash at bank is placed with two (2017: two) financial institutions, being RBC Royal Bank (Cayman) Limited and Butterfield Bank (Cayman) Limited, 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 of 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 75% (2017: 64%). 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.

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

(Expressed in United States dollars)

18. 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 8, the Company has long-term debt which is 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 income (and shareholders' deficit) to reasonably possible changes in interest rates for the overdraft and long-term debt:

	2018	2017
+ 1.00%	(210,844)	(238,000)
- 1.00%	210,844	238,000

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 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 seeking additional financing as required from Government as and when the need arises.

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 31 December 2018:

	< 1 year	>1 < 5 Years	5 years +	Total
Cash outflows				
Bank overdraft	4,569,740	-	-	4,569,740
Accounts payable and accrued exp.	26,480,180	-	-	26,480,180
Loans payable	5,527,325	15,557,050	-	21,084,375
Interest payments on loans	706,267	819,505	-	1,525,772
Operating lease payments	5,824,217	14,888,498	-	20,712,715
Total cash outflows	$ 43,107,729	$ 31,265,053	$ -	$ 74,372,782

(Expressed in United States dollars)

18. Financial instruments risk (continued)

Liquidity risk (continued)

As at 31 December 2017:

	1 year	>1 < 5 Years	5 years +	Total
Cash outflows				
Bank overdraft	1,394,018	-	-	1,394,018
Accounts payable and accrued exp.	35,440,248	-	-	35,440,248
Loans payable	2,831,154	20,968,846	-	23,800,000
Interest payments on loans	638,235	964,624	-	1,602,859
Operating lease payments	3,430,997	15,975,229	-	19,406,226
Major maintenance provision*	931,110	-	-	931,110
Total cash outflows	$ 44,665,762	$ 37,908,699	$ -	$ 82,574,461

*Major maintenance provision expected cash outflow in the above analysis is included net of expected recoveries and advance payment.

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.

19. 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).

20. 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.

21. 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 (CI$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 31 December 2018, in addition to the monthly payments of $505,952 (CI$425,000) the Government has paid an additional $8,928,571 (CI$7,500,000) (2017: $7,142,864 (CI$6,000,000)) to the Company totalling $15,000,000 (2017: $16,250,000) in equity injections for the period.

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

22. 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.

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.

23. Certain significant estimates (continued)

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 9). 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 programme
As outlined in Note 11, the frequent flyer programme 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 and grant income
The Company accounts for the Output Payments and grant income as a government grant using the income approach in accordance with IAS 20. The arrangement disclosed in Note 16 and 17 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 and grant income received are recognised in the Consolidated Statement of Comprehensive Income as income and are not capital in nature.

24. 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.

25. Subsequent Events

In March 2019, the Company received a second 737 Max aircraft, which has been grounded due to the Federal Aviation Administration grounding of all Boeing 737 MAX aircrafts. Our fleet includes two Boeing 737 Max aircrafts with an additional two aircrafts on order to be subsequently delivered. The Company's flight operations are still being serviced by the existing fleet. In addition, the Company has entered into operating lease agreements for the use of additional aircrafts on an as needed basis, to continue to meet performance obligations. No financial impact as a result of the 737 MAX grounding has been quantified, as the impact to operations has not been substantial to date. Subsequent to the grounding, management reached an agreement with the lessor to receive funding sufficient to completely cover all rental costs related to the aircrafts for the remaining duration of the grounding. Management of the Company continues to closely monitor all developments on the 737 Max aircrafts.

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